Consolidated Annual Financial Statements
[Expressed in United States dollars]

Khot Infrastructure Holdings, Ltd.

(Formerly Undur Tolgoi Minerals Inc.)
For the years ended December 31, 2013 and 2012

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For the years ended December 31, 2013 and 2012

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Management’s Responsibility for Financial Reporting

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

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

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

“Donald Padgett”	“Sabino Di Paola”
President and Chief Executive Officer	Chief Financial Officer

April 21, 2014

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Khot Infrastructure Holdings, Ltd. (formerly Undur Tolgoi Minerals Inc.).

We have audited the accompanying consolidated financial statements of **Khot Infrastructure Holdings, Ltd. (formerly Undur Tolgoi Minerals Inc.)**, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in 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.

Auditors' 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 auditors' 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 auditors consider 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. (formerly Undur Tolgoi Minerals Inc.)** as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Vancouver, Canada,
April 21, 2014.

Chartered Accountants

Khot Infrastructure Holdings, Ltd.
(Formerly Undur Tolgoi Minerals Inc.)
Consolidated Statements of Financial Position

(expressed in United States dollars)

	Notes	As at December 31, 2013	As at December 31, 2012
Assets			
Current assets:			
Cash and cash equivalents	6	$ 1,870,806	$ 2,789,956
Accounts receivable	7	165,101	242,950
Prepayment		37,416	48,686
Total current assets		2,073,323	3,081,592
Non-current assets			
Property, plant and equipment		2,630	346
Investments	9	125,000	-
Exploration and evaluation assets	8	-	539,413
Total non-current assets		127,630	539,759
Total assets		$ 2,200,953	$ 3,621,351
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable and accrued liabilities	13	$ 236,607	$ 239,421
Shareholders' equity			
Share capital	10	7,983,250	7,894,609
Other reserves	10	852,792	872,924
Deficit		(6,867,436)	(5,385,603)
		1,968,606	3,381,930
Non Controlling Interests		(4,260)	-
Total Equity		1,964,346	3,381,930
Total liabilities and shareholders' equity		$ 2,200,953	$ 3,621,351
Contingencies	15		

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

These audited consolidated financial statements were approved and authorized for issue by the Board of Directors on April 21, 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.)
Consolidated Statements of Comprehensive Loss

(expressed in United States dollars)

	Notes		Year ended December 31, 2013		Year ended December 31, 2012
Expenses					
Management fees	13	**$**	**162,681**	$	184,187
Promotion & investor conference			**169,160**		65,031
Regulatory, exchange, AGM, press release and transfer agent fees			**26,465**		24,914
Professional fees			**217,172**		260,357
Finance costs			**2,746**		3,431
Depreciation			**444**		351
Write-off of exploration and evaluation assets	8		**594,261**		-
Other expenses	11		**205,959**		329,732
			1,378,888		868,003
Interest income			**22,036**		3,487
Foreign exchange (loss)/gain			**(131,289)**		78,857
			(109,253)		82,344
Loss before income tax			**1,488,141**		785,659
Income tax expense			**-**		**-**
Consolidated loss after income tax expense		**$**	**1,488,141**	$	785,659
Other comprehensive (income) loss					
Other comprehensive (income) loss to be reclassified toprofit or loss in subsequent periods:					
Exchange difference on translating foreign operations			**20,295**		34,033
Total comprehensive loss for the year		**$**	**1,508,436**	$	819,692
Net loss attributed to:					
Equity holders of the parent		**$**	**1,481,833**	$	785,659
Non-controlling interests		**$**	**6,308**	$	-
		$	**1,488,141**	$	785,659
Total comprehensive loss attributed to:					
Equity holders of the parent		**$**	**1,501,965**	$	819,692
Non-controlling interests		**$**	**6,471**	$	-
		$	**1,508,436**	$	819,692
Loss per common share:					
Basic and diluted		**$**	**(0.02)**	$	(0.01)
Weighted average number of common shares outstanding:					
Basic and diluted			**59,810,762**		58,987,848

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

Khot Infrastructure Holdings, Ltd.

(Formerly Undur Tolgoi Minerals Inc.)

Consolidated Statements of Changes in Equity

(expressed in United States dollars)

	Number of common shares (#)	Share Capital	Reserves: Foreign currency translation reserve	Reserves: Share based payment reserve	Deficit	Attributable to Equity Holders of the Parent	Non - Controlling Interest	Shareholders' equity
Balance at December 31, 2011	**58,987,848**	**$ 7,894,609**	**$ (5,015)**	**$ 911,972**	**$ (4,599,944)**	**$ 4,201,622**	**$ -**	**$ 4,201,622**
Net loss and total comprehensive loss for the period	-	-	-	-	(785,659)	(785,659)	-	(785,659)
Cumulative translation adjustment	-	-	(34,033)	-	-	(34,033)	-	(34,033)
Balance at December 31, 2012	**58,987,848**	**$ 7,894,609**	**$ (39,048)**	**$ 911,972**	**$ (5,385,603)**	**$ 3,381,930**	**$ -**	**$ 3,381,930**
Acqusition of GHH and AMZ	5,363,636	88,641				88,641	2,211	90,852
Total comprehensive loss for the period	-	-	(20,132)	-	(1,481,833)	(1,501,965)	(6,471)	(1,508,436)
Balance at December 31, 2013	**64,351,484**	**$ 7,983,250**	**$ (59,180)**	**$ 911,972**	**$ (6,867,436)**	**$ 1,968,606**	**$ (4,260)**	**$ 1,964,346**

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

Khot Infrastructure Holdings, Ltd.
(Formerly Undur Tolgoi Minerals Inc.)
Consolidated Statements of Cash Flow3

(expressed in United States dollars)		**Year ended December 31 2013**		Year ended December 31 2012
Cash flow from operating activities				
Loss for the year	**$**	**(1,488,141)**	$	(785,659)
Adjustments to reconcile loss to net cash used in operating activities:				
Unrealized foreign exchange		**29,868**		(78,857)
Loss on receivables		**8,486**		
Write-off of exploration and evaluation assets		**594,261**		-
Depreciation		**444**		351
Change in non-cash working capital balances:				
Accounts receivable		**77,850**		(150,332)
Accounts payable and accrued liabilities		**(2,814)**		(215,346)
Prepaids		**11,270**		(46,046)
Total cash used in operating activities		**(768,776)**		(1,275,889)
Cash flows from investing activities				
Acquisition of interest in Anya-1	**$**	**(125,000)**	**$**	**-**
Cash realized on acquisition of subsidiaries	**$**	**103,158**	**$**	**-**
Investment in exploration and evaluation assets		**(75,925)**		(458,583)
Total cash (used in)/generated from investing activities	**$**	**(97,767)**	$	(458,583)
Cash flows from financing activities				
Due to related party	**$**	**-**	$	(45,939)
Total cash (used in)/generated from financing activities	**$**	**-**	$	(45,939)
Effect of foreign exchange on cash	**$**	**(52,607)**	$	44,930
Total (decrease)/increase in cash during the year	**$**	**(919,150)**	$	(1,735,481)
Cash and cash equivalents - Beginning of year		**2,789,956**		4,525,437
Cash and cash equivalents - End of year	**$**	**1,870,806**	$	2,789,956

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

1. CORPORATE INFORMATION

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

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2. BASIS OF PREPARATION

(a) Statement of compliance

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

The preparation of the consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgements in applying the Company's accounting policies. The areas involving a higher degree of judgements 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 issuance by the Board of Directors on April 21, 2014.

(b) Basis of measurement and functional currency

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.

[Expressed in United States dollars]

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013.

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

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

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

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

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

The subsidiaries of the Company at December 31, 2013 and their principal activities are described below:

Name of subsidiary	Place of incorporation	Ownership interest	Principal activity
Natalya-1 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 LLC	Mongolia	75%	Infrastructure development

(b) Business combinations

Business combinations are accounted for using the acquisition method. For each business combination at the acquisition date, the Company recognizes at fair value all of the identifiable assets acquired, the liabilities assumed, the non-controlling interest in the acquiree and the aggregate of the consideration transferred, including any contingent consideration to be transferred. When the fair value of the consideration transferred and the amount recognized for non-controlling interest exceeds the net amount of the identifiable assets acquired and the liabilities assumed measured at fair value (the “net identifiable assets”), the difference is treated as goodwill. After initial recognition, goodwill is measured at its initial cost from the acquisition date, less any accumulated impairment losses. Goodwill is reviewed annually for impairment or when there is an indication of potential impairment. If the fair value of the Company’s share of the net identifiable assets exceeds the fair value of the consideration transferred and non-controlling interest at the acquisition date, the difference is immediately recognized in net 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 net income (loss). Costs associated with the issuance of equity are charged to the relevant account within equity.

(c) Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling 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.

(d) Financial instruments

i) Financial Assets

<u>Initial Recognition and Measurement</u>

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 recognised 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 recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash, accounts receivables and investments.

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 and accounts receivable 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 Anya-2, which falls into this category of financial instruments.

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

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

<u>Impairment of financial assets</u>

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

Objective evidence of impairment could include:

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

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

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available feature 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

<u>Initial Recognition and Measurement</u>

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.

The Company's financial liabilities include accounts payable and accrued liabilities.

(e) **Mineral exploration properties and exploration and evaluation assets**

Mineral exploration properties include the cost of acquiring mining rights. Exploration and evaluation assets include expenses directly related to the exploration and evaluation activities. These costs are capitalized as intangible assets and are carried at cost less any impairment loss recognized.

Costs incurred before the legal right to undertake exploration and evaluation activities on a project was acquired, are expensed in the consolidated statement of comprehensive income/(loss).

Mining rights and expenses related to exploration and evaluation activities are capitalized on a property by property basis pending determination of the technical feasibility and commercial viability of the project. No amortization is recognized during the exploration and evaluation phase. Costs capitalized include drilling, project consulting, geophysical, geological and geochemical studies, as well as other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource.

Whenever a project is considered no longer viable or is abandoned, the capitalized amounts are written down to fair value less cost of disposal.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, mining rights and expenses related to exploration and evaluation activities of the related mining property are transferred to mining assets under construction. Before the reclassification, mineral exploration properties and exploration and evaluation assets are tested for impairment and any impairment loss is recognized in profit or loss before reclassification.

Upon transfer of exploration and evaluation assets into mining assets under construction, all subsequent expenditures on the construction, installation or completion of infrastructure facilities are capitalized with mining assets under construction. After the development stage, all assets included in mining assets under construction are transferred to mining assets and amortized over the expected productive lives of the assets.

Although the Company has taken steps to verify title to the mining properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the validity of the Company's title. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

As at December 31, 2013, the Company has fully impaired its mineral exploration property and exploration and evaluation asset.

(f) Property, plant and equipment

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

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

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

Computers	3 years	Straight line

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

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

(g) Impairment of non-financial assets

Impairment assessment and testing is done at the level of a cash generating unit (“CGU”). The Company considers each mineral property to be a separate CGU, and therefore assesses for indicators of impairment individually for each mineral property.

The Company assesses non-financial assets including mineral property assets and exploration 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 net income (loss).

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

(h) Cash and cash equivalents

Cash and cash equivalents include cash in interest-bearing accounts with high credit quality financial institutions, and an original maturity of three months or less.

(i) Provisions, contingent liabilities and contingent assets

General

Provisions are recognised 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 recognised 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 recognised 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.

<u>Rehabilitation and environmental provision</u>

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized in the carrying amount of the asset at the start of each project as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The Company had no material provisions as at December 31, 2013, and December 31, 2012.

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 is party to litigation and potential litigation, the outcome of which is not determinable. It is in management’s opinion that these matters will not 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.

(j) Share capital and reserves

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

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

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

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

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

(k) Share-based payment transactions

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

All goods and services received in exchange for the grant of any share-based payments are measured at the fair values of the goods and services received. If the Fair value of the goods and services are not determinable, the share-based payments was be valued based upon the share price on grant 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 recognised 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 recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised 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 recognised for the award is recognised 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 the profit or loss or capitalized as an exploration and evaluation asset, depending on the nature of the payment with a corresponding credit to share-based payment reserve in equity over the period in which performance and/or service conditions are fulfilled. At the same time, upon exercise of a stock option, the proceeds received net of any directly attributable transaction costs are recorded as capital stock. The accumulated charges related to the share options recorded in share-based payment reserve are then transferred to share capital.

Options Issued to key management and employees

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

Options Issued to service providers

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

(l) Employee benefits

Short term benefits

Wages, salaries and other salary related expenses are recognized as an expense in the year in which the associated services are rendered by the employees of the Company. Short term accumulated compensated absences such as paid annual leave are recognized when services rendered by employees that increase their entitlement to future compensated absences and short term non-accumulated compensated absences such as sick leave are recognized when absences occur.

The Company only has employees in Ashid Munkhiin Zam LLC and Novametal Resources LLC, its Mongolian, subsidiaries. The Company engages contractors to provide administrative services for Natalya-1 Sarl, Great Hoard Holdings Sarl, and Khot Infrastructure Holdings, Ltd. Contractor payments are expensed in the period in which services are provided by the contractors.

Defined contribution plans

As required by the law, companies in Mongolia make contributions to the government pension scheme, Social Security and Health Insurance Fund. Such contributions are recognized as an expense in the statement of comprehensive loss as incurred.

(m) Income taxes

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

Current income taxes

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

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

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 profit (loss).
- In respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venture 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 deductable 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 deductable temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, and at the time of the transaction, that affects neither the accounting profit nor taxable profit (loss).
- In respect of taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, deferred tax assets are recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized.

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

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

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

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

Sales tax

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

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

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

(n) 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.

(o) Segmented reporting

The Company operates in two reportable operating segments, which includes the acquisition, exploration, and development of exploration and evaluation assets in Mongolia and infrastructure development in Mongolia. As at December 31, 2013, the Company has abandoned its mineral exploration segment and operates solely in infrastructure development in 2014.

(p) Standards, amendments and interpretations

The Company has adopted the following accounting standards which became effective on January 1, 2013

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company’s financial position or performance.

IAS 19 Employee BenefitsThe amended standard introduces various changes in accounting and disclosure requirements for defined benefit plans. The amended standard also finalizes proposals on accounting for termination benefits; under the amended standard the termination benefits are recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”, that includes the payment of a termination benefit, and when the entity can no longer withdraw the offer of the termination benefit. The amendment has no impact on the Company’s financial position or performance.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to

determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The amendment has no impact on the Company's financial position or performance.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities —Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendment has no impact on the Company's financial position or performance.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The amendment affects presentation only and has no impact on the Company's financial position or performance.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The amendment has no impact on the Company's financial position or performance.

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

IFRS 9 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.

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.

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.

4. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

<u>Significant management judgements</u>

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

<u>Going concern</u>

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.

As at December 31, 2013, the Company had a working capital surplus of $1,836,716 (2012 - $2,482,171), including $1,870,806 (2012 - $2,789,956) in cash. The Company is actively seeking to obtain development contracts from the Mongolian Government.

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.

<u>Contingencies</u>

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

Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgements to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

Impairment of exploration and evaluation assets

Management determines at each reporting period whether there are any indicators of impairment. If there are indicators, the carrying value of the exploration and evaluation assets is compared to the recoverable amount to calculate the amount of impairment. If no indicators of impairment are identified, no impairment test is performed.

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgements and a number of estimates and interpretations in many cases.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or the cash-generating units must be estimated.

In assessing impairment, the Company must make estimates and assumptions regarding future circumstances, in particular, whether an economically viable extraction operation can be established, the probability that the expense will be recovered from either future exploration or sale when the activities have not reached a stage that permits a reasonable assessment of the existence of reserves, the Company's capacity to obtain financial resources necessary to complete the evaluation and development and to renew permits. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

As at December 31, 2013, the Company has changed its business focus from mineral exploration to infrastructure development. As a result of the change in business the Company has withdrawn its application to extend its 100% interest in the Undur Tolgoi license which expired on October 13, 2013. As a result of the change in business, management wrote-off the deferred exploration costs of $594,261 relating to the license.

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

[Expressed in United States dollars]

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 10).

Estimates and assumptions

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

5. ACQUISITION OF GREAT HOARD HOLDINGS S.A.R.L

On November 6, 2013, the Company acquired the issued shares of Great Hoard Holdings, a private limited liability corporation existing under the laws of Luxembourg from its shareholder, Firebird Mongolia, through the issuance of 5,363,636 common shares. At the time of this transaction, Firebird Mongolia was Great Hoard Holdings' sole shareholder. Great Hoard Holdings owns 75% of the issued shares of Ashid Monkhiin Zam LLC, a limited liability corporation existing under the laws of Mongolia.

The net assets acquired had a fair value of $88,641, which is mainly comprised of working capital of Great Hoard Holdings and Ashid Monkhiin Zam LLC and a construction permit held by Ashid Monkhiin Zam LLC:

	$
Cash	103,158
Property, plant and equipment	2,719
Current liabilities	(15,025)
	90,852
Less non-controlling interest	(2,211)
Net assets acquired	88,641

The Company has accounted for the transaction as an asset acquisition under the scope of IFRS 2, Share Based Payments. Consideration consisted entirely of shares of the Company which were measured at the fair value of net assets acquired. The non-controlling interest was measured at 25% of the fair value of Ashid Monkhiin Zam LLC's net assets.

[Expressed in United States dollars]

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	December 31, 2013 $	December 31, 2012 $
Cash in banks	**1,870,806**	2,789,956

As at December 31, 2013, Canadian Dollars, CAD$1,769,957 (CAD$2,460,836 – December 31, 2012), and Mongolian Tugrik, MNT 15,859,698 (MNT 326,961,690 – December 31, 2012) was included in the cash of the Company. This amount has been translated into USD using the closing exchange rates on December 31, 2013.

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

7. ACCOUNTS RECEIVABLE

	December 31, 2013 $	December 31, 2012 $
Sales tax receivable	**10,086**	14,913
Other receivables	**-**	509
Recovery of administrative expenses (note 12)	**155,015**	227,528
	165,101	242,950

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.

8. EXPLORATION AND EVALUATION ASSETS

Ulaanbaatar, Mongolia

The Company, through its wholly owned subsidiary Novametal, owned a 100% interest in the Undur Tolgoi license granted by the Minerals Resources Authority of Mongolia ("ARAM"). The license was situated 700 kilometres south of Ulaanbaatar in the Khatanbulag sub-province of the Dornogobi province. The license covered 9,620 hectares and allows for the exploration of all minerals with the exception of uranium, petroleum, gas and water. The Company was exploring for gold and copper mineralization.

The license is subject to an annual licence rental payment of $1.50 per hectare, minimum expenditures on exploration of $1.50 per hectare, service fees of $500 per year and annual fees to local authorities of $500 per year. The Company must therefore spend at least $29,860 annually maintaining the licence.

The license was granted in October 2004 and transferred to Novametal in May 2010; it expired October 13, 2013.

[Expressed in United States dollars]

Exploration and evaluation assets consist of the following:

	Total $
Balance, January 1, 2012	**80,830**
Exploration costs incurred in the year	457,620
Effect of changes in foreign exchange rates	963
Balance, December 31, 2012	**539,413**

	Total $
Balance, January 1, 2013	**539,413**
Exploration costs incurred in the year	**75,659**
Write-off of exploration costs	**(594,261)**
Effect of changes in foreign exchange rates	**(20,811)**
Balance, December 31, 2013	**-**

On June 30, 2013, management made the decision to suspend further exploration on the Undur Tolgoi license. Due to the current economic conditions as well as the recent decrease in gold prices the Company has decided that at this time it would no longer be funding exploration on this project. As a result of the suspension of exploration activities, the Company has relinquished its exploration license to the Mongolia Government. As at December 31, 2013, the Company recorded an impairment of $594,261 (December 31, 2012 - $ NIL) on the Undur Tolgoi property.

9. 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 December 31, 2013, 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 as at December 31, 2013.

Investments:

	December 31, 2013 $	December 31, 2012 $
Investment in Anya-2 Sarl	**125,000**	-

[Expressed in United States dollars]

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, 2013, there were 64,351,484 (December 31, 2012 - 58,987,848) common shares outstanding.

Common share issuances

Fiscal 2013

On November 13, 2013, the Company issued 5,363,636 common shares to acquire, through its wholly owned British Virgin Island-registered subsidiary, Jucca Holdings Ltd., a 100% interest in GHH, a Luxembourg entity that holds a 75% of the share capital of AMZ, a Mongolian company.

Fiscal 2012

There were no common shares issued during the year ending December 31, 2012.

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 December 31, 2013.

Expiry Date	Exercise Price	Options Outstanding	Weighted Average Remaining contractual Life (years)	Options Vested	Options unvested
December 6, 2016	$ 0.25	4,525,000	2.93	4,525,000	-

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.

[Expressed in United States dollars]

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
Outstanding, December 31, 2011	4,975,000	0.25	December 6, 2016
Forfeited	(450,000)	0.25	December 6, 2016
Outstanding, December 31, 2012	4,525,000	0.25	December 6, 2016
Granted/Forfeited/exercised	-	-	
Outstanding, December 31, 2013	4,525,000	0.25	December 6, 2016

No stock options had been granted, exercised or expired during the year ended December 31, 2013.

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.

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:

	As at December 31, 2013 $	As at December 31, 2012 $
Balance, beginning of year	**911,972**	911,972
Stock-based compensation	**-**	-
Balance, end of the year	**911,972**	911,972

[Expressed in United States dollars]

11. OTHER EXPENSES

	December 31, 2013 **$**	December 31, 2012 $
Rent	**37,888**	26,838
Phone, utilities, supplies and other	**4,923**	13,717
Website, internet and printing	**1,048**	7,333
Contractor fees	**74,776**	60,081
Travel	**41,901**	56,455
Other expenses	**27,480**	159,272
Insurance	**17,943**	6,036
Total	**205,959**	329,732

12. RECLASSIFICATIONS

Certain amounts in the prior years' financial statements have been reclassified to conform to the current period presentation.

13. 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:

	December 31, 2013	December 31, 2012
Short-term Key management benefits		
Compensation including bonuses	**$ 92,531**	$ 122,368
Long-term Key management benefits		
Share based payments	**-**	-
Total remuneration	**$ 92,531**	$ 122,368

1) Management fees include $59,257 ($59,691 – 2012) paid to Don Padgett, the Company's Chief Executive Officer. The Company has a consulting contract with Don Padgett whereby the company pays CAD$5,000 a month (January to August 2013) and $5,000 a month (September to December 2013) for management fees. As at December 31, 2013, $1,487 ($NIL – 2012) payable were due to Don Padgett.

2) Professional fees include $33,274 ($41,782 – 2012) 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 at December 31, 2013, accounts payable of $993 ($NIL – 2012) were due to Sabino Di Paola.

3) Management fees include $ nil ($20,895 – 2012) paid to Jimmie Wilde the Company's Chief Operating Officer. The Company has a consulting contract with Jimmie Wilde whereby the company advances GBP$15,000/month for services rendered. The Company is reimbursed for time that is incurred in respect of other director related companies. On April 1st 2013, Jimmie Wilde resigned as the Chief Operating Officer. As at December 31, 2013, no accounts payable were due to Jimmie Wilde.

<u>Transactions with related companies and directors</u>

As at December 31, 2013, receivables include $155,018 (December 31, 2012 - $227,528) receivable from entities with common directors in respect of reimbursement of costs. As at December 31, 2013, accounts payable of $NIL (December 31, 2012 - $16,866) were due to the related company.

Promotion fees include $22,390 ($nil – 2012) paid to Anthony Milewski, the Company's non-executive Director. The Company has a consulting contract with Anthony Milewski whereby the company pays $35,000 for three months of promotion services to the Company. As at December 31, 2013, $11,195 ($NIL – 2012) of prepaid expenditures were included from services owed by Anthony Milewski.

On November 6, 2013, the Company acquired Great Hoard Holdings SARL from the Company's major shareholder, Firebird Mongolia, through the issuance of 5,363,636 common share. Please refer to note 5 for details on the acquisition.

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

[Expressed in United States dollars]

14. 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, 2013 was 10% (December 31, 2012 – 10%), as the Company's operations are in Mongolia.

(a) The reconciliation of the Canadian statutory income tax rates to the effective tax rates are as follows:

	December 31, 2013	December 31, 2012
Loss for the year before income taxes	**(1,488,141)**	(785,659)
Statutory tax rate	**10%**	10%
Expected income tax recovery	**(148,814)**	(78,566)
Non-deductible permanent differences	**(4,316)**	12,502
Change in enacted future tax rates	**(30,274)**	-
Difference in foreign tax rates	**(123,021)**	(101,074)
Deferred tax assets not recognized	**85,137**	167,138
Benefit of deferred tax asset expired	**412,243**	-
Change in estimates	**(190,955)**	-
Income tax expense (recovery)	**-**	-

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. The British Virgin Islands statutory tax rate is 0%. As a result of the continuance outside of Canada, all of the loss carry forwards incurred by the Company in Canada have been deemed to have expired. As of December 31, 2013, the Company is no longer subject to Canadian income taxation.

As of December 31, 2012, KOT, was domiciled in Canada. The Canadian statutory Income tax rate of 25.0% is comprised of federal income tax at approximately 15.0% and provincial tax at approximately 10%.

(b) Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits is dependent upon numerous factors, including the future profitability of operations in the jurisdiction in which the tax benefits arose. The Company did not recognize deferred tax assets for the following deductible temporary differences:

	December 31, 2013	December 31, 2012
Share issue costs	-	98,986
Restructuring fees	-	899,570
Loss carried forward	-	906,532
	-	1,905,088

As at December 31, 2013, the Company's net operating losses and other deductible temporary differences available to offset future taxable income in Canada have been deemed to have expired due to the Company's continuance to the British Virgin Islands on December 18, 2013.

The Company also has non-capital losses carryforward of $717,000 in foreign subsidiaries that expire from 2014 to 2015.

15. CONTINGENCIES

1) The Company has agreed to pay a bonus of $1,000,000 to SMDD, a shareholder of the Company if Novametal's exploration license is converted to a 30-year mining license. This bonus is contingent consideration for the transfer of the licence to Novametal. The license expired on October 13, 2013 and as such the Company is no longer obligated to pay the bonus.

2) Under a share subscription agreement entered into between SMDD and the Company, the Company agreed to grant SMDD additional shares at a price of US$0.50 per share, having an aggregate value not exceeding US$ 2,000,000 and up to an amount of 4,000,000 shares if a JORC compliant resource report is issued, indicating that the proven recoverable copper reserves exceeds 25,250,000 pounds. This share issuance is contingent consideration for the proven recoverable copper reserves on the licensed property held in Novametal. The license expired on October 13, 2013 and as such the Company is no longer obligated to issue the shares.

3) 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.

16. SEGMENT REPORTING

The Company had two reportable operating segments, being that of acquisition and exploration and evaluation activities and infrastructure development. All of the Company's non-current assets are located in Mongolia and Luxembourg.

The Company had two reportable operating segments, being that of acquisition and exploration and evaluation activities and 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 exploration and evaluation activities and infrastructure development activities:

[Expressed in United States dollars]

Exploration and evaluation	**December 31, 2013**	December 31, 2012
Property, plant and equipment	**$ -**	$ 346
Exploration and evaluation assets	**-**	539,413
Total	**$ -**	$ 539,759

Infrastructure development	**December 31, 2013**	December 31, 2012
Property, plant and equipment	**$ 2,630**	$ -

The Company has the following noncurrent assets located in Luxembourg

	December 31, 2013	December 31, 2012
Investment in Anya-2	**$ 125,000**	$ -

17. CAPITAL MANAGEMENT

The Company's capital structure has been defined by Management as being comprised of shareholders' equity, which comprises share capital and other components of equity and accumulated deficit, which at December 31, 2013, totals $ 1,968,606 (December 2012 - $ 3,381,930). 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 year ended December 31, 2013, and the year ended December 31, 2012. The Company is not subject to externally imposed capital requirements or covenants.

[Expressed in United States dollars]

18. FINANCIAL RISK MANAGEMENT

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

	December 31, 2013	December 31, 2012
	$	$
Available for sale investments	**125,000**	-
Loans and receivables [2]	**2,035,907**	3,017,993
Other financial liabilities [1]	**(236,607)**	(239,421)

[1] accounts payable and accrued liabilities
[2]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 December 31, 2013, and December 31, 2012, 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 December 31, 2013, 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.

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 December 31, 2013, the Company had a working capital of $1,836,716 [December 31, 2012 - 2,842,171]. 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.

19. EVENTS AFTER THE REPORTING DATE

On January 9, 2014, Mr. Anthony Milewski joined the board of directors effective January 1, 2014. In addition, the Company appointed Mr. Erdembileg Jugdernamjil to the position of Chief Operating Officer ("COO"), effective January 1, 2014, replacing Mr. Jimmie Wilde who has resigned as COO of the Company.

On January 7, 2014, the Company changed its name to "Khot Infrastructure Holdings, Ltd." to have its name better reflect the Company's new focus on cash generating, non-resource infrastructure projects within Mongolia.

On January 8, 2014, the Company granted 2,300,000 stock options to certain directors, senior officers, and consultants, exercisable for a period of five years ending on January 8, 2019, at an exercise price of $0.25

On January 27, 2014, Mr. Paul Rapello has tendered his resignation as a director of the Company, effective January 22, 2014.