Consolidated Financial Statements
[Expressed in United States dollars]

Khot Infrastructure Holdings, Ltd.

(Formerly Undur Tolgoi Minerals Inc.)
For the years ended December 31, 2014 and 2013

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For the years ended December 31, 2014 and 2013

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Management's Responsibility for Financial Reporting

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

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

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

"Donald Padgett"
President and Chief Executive Officer

"Sabino Di Paola"
Chief Financial Officer

April 27, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Khot Infrastructure Holdings, Ltd.

We have audited the accompanying consolidated financial statements of **Khot Infrastructure Holdings, Ltd.**, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, 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.** as at December 31, 2014 and 2013, 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 27, 2015

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, 2014		As at December 31, 2013
Assets					
Current assets:					
Cash and cash equivalents	5	**$**	**1,069,037**	$	1,870,806
Accounts receivable	6		**384,927**		165,101
Prepayment			**17,683**		37,416
Total current assets			**1,471,647**		2,073,323
Non-current assets					
Property, plant and equipment	7		**18,744**		2,630
Long term receivable	6		**41,403**		-
Investments	8		**125,530**		125,000
Total non-current assets			**185,677**		127,630
Total assets		**$**	**1,657,324**	$	2,200,953
Liabilities and shareholders' equity					
Current liabilities:					
Accounts payable and accrued liabilities		**$**	**171,940**	$	236,607
Loan and interest payable	10 & 17		**455,515**		-
Road repair provisions	11		**42,821**		-
Total current liabilities			**670,276**		239,421
Shareholders' equity					
Share capital	12		**7,983,250**		7,983,250
Other reserves			**1,117,128**		852,792
Deficit			**(8,025,888)**		(6,867,436)
			1,074,490		1,968,606
Non Controlling Interests			**(87,442)**		(4,260)
Total Equity			**987,048**		1,964,346
Total liabilities and shareholders' equity		**$**	**1,657,324**	$	2,200,953
Contingencies	19				
Events after the reporting date	23				

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 27, 2015, 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, 2014**	Year ended December 31, 2013
Revenues			
Construction revenue	14	**$ 1,176,693**	$ -
Cost of sales	15	**(1,232,775)**	-
Gross margin		**(56,082)**	-
Other income			
Rental income		**32,715**	-
Interest and other income		**17,709**	22,036
		50,424	22,036
Expenses			
Management fees	17	**126,323**	162,681
Promotion & investor conference		**65,784**	169,160
Regulatory, exchange, AGM, press release and transfer agent fees		**20,772**	26,465
Professional fees		**116,784**	217,172
Finance costs		**4,220**	2,746
Depreciation	7	**4,207**	444
Impairment of exploration and evaluation assets	9	**-**	594,261
Bad debt expense	17	**152,200**	8,486
Stock bases compensation	12	**300,977**	-
Foreign exchange loss		**40,106**	122,803
Other expenses	16	**393,070**	205,959
		1,224,443	1,510,177
Loss before income tax		**(1,230,101)**	(1,488,141)
Income tax expense	18	**-**	-
Consolidated loss after income tax expense		**$ (1,230,101)**	$ (1,488,141)
Other comprehensive loss			
Exchange difference on translating foreign operations		**48,174**	20,295
Total comprehensive loss for the year		**$ (1,278,275)**	$ (1,508,436)
Net loss attributed to:			
Equity holders of the parent		**$ (1,158,452)**	$ (1,481,833)
Non-controlling interests		**(71,649)**	(6,308)
		$ (1,230,101)	$ (1,488,141)
Total comprehensive loss attributed to:			
Equity holders of the parent		**$ (1,195,093)**	$ (1,501,965)
Non-controlling interests		**(83,182)**	(6,471)
		$ (1,278,275)	$ (1,508,436)
Loss per common share:			
Basic and diluted		**$ (0.02)**	$ (0.02)
Weighted average number of common shares outstanding:			
Basic and diluted		**64,351,484**	59,810,762

The notes to the 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, 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 year	-	-	(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**
Total comprehensive loss for the year	-	-	(36,641)	-	(1,158,452)	(1,195,093)	(83,182)	(1,278,275)
Issuance of stock options	-	-	-	300,977	-	300,977	-	300,977
Balance at December 31, 2014	**64,351,484**	**$ 7,983,250**	**$ (95,821)**	**$ 1,212,949**	**$ (8,025,888)**	**$ 1,074,490**	**$ (87,442)**	**$ 987,048**

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

Khot Infrastructure Holdings, Ltd.

(Formerly Undur Tolgoi Minerals Inc.)

Consolidated Statements of Cash Flows

(expressed in United States dollars)		**Year ended December 31, 2014**		Year ended December 31, 2013
Cash flow from operating activities				
Loss for the year	**$**	**(1,230,101)**	$	(1,488,141)
Adjustments to reconcile loss to net cash used in operating activities:				
Stock option expense		**300,977**		-
Bad debt expense		**152,200**		8,486
Increase in provisions		**42,821**		-
Impairment of exploration and evaluation assets		**-**		594,261
Unrealized foreign exchange		**(19,973)**		29,868
Depreciation		**4,207**		444
Change in non-cash working capital balances:				
Accounts receivable		**(372,026)**		77,850
Accounts payable and accrued liabilities		**(64,667)**		(2,814)
Prepayments		**19,733**		11,270
Total cash used in operating activities		**(1,166,829)**		(768,776)
Cash flows from investing activities				
Acqusition of interest in Anya-1		**-**		(125,000)
Acqusition of investments		**(530)**		-
Cash realized on acquisition of subsidiaries		**-**		103,158
Purchase of property and equipment		**(20,462)**		-
Changes in Long term receivable		**(41,403)**		-
Investment in exploration and evaluation assets		**-**		(75,925)
Total cash used in investing activities		**(62,395)**		(97,767)
Cash flows from financing activities				
Net proceeds from loans		**455,515**		-
Repayment of loans		**-**		-
Total cash provided by financing activities	**$**	**455,515**	$	-
Effect of foreign exchange on cash	**$**	**(28,060)**	$	(52,607)
Total decrease in cash during the year	**$**	**(801,769)**	$	(919,150)
Cash and cash equivalents - Beginning of the year		**1,870,806**		2,789,956
Cash and cash equivalents - End of the year	**$**	**1,069,037**	$	1,870,806
Cash interest payments made during the year	**$**	**7,840**	$	-

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

1. CORPORATE INFORMATION

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

On December 18, 2013, Undur Tolgoi Minerals Inc. completed the continuance from the laws of the Province of British Columbia to the laws of the British Virgin Islands. Effective on January 7, 2014, the Company changed its name from Undur Tolgoi Minerals Inc. to Khot Infrastructure Holdings, Ltd. to have its name reflect the Company's new focus on cash generating, non-resource infrastructure projects within Mongolia.

The Company continues to be a reporting issuer with 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

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors on April 27th, 2015.

(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 December 31, 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 consolidated statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intracompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

The subsidiaries of the Company at December 31, 2014 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 International LLC	Mongolia	75%	Infrastructure development
Ashid Munkhiin Zam LLC	Mongolia	75%	Infrastructure development

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combinations

Business combinations are accounted for using the acquisition method. For each business combination at the acquisition date, the Company recognizes at fair value all of the identifiable assets acquired, the liabilities assumed, the non-controlling interest in the acquiree and the aggregate of the consideration transferred, including any contingent consideration to be transferred. When the fair value of the consideration transferred and the amount recognized for non-controlling interest exceeds the net amount of the identifiable assets acquired and the liabilities assumed measured at fair value (the “net identifiable assets”), the difference is treated as goodwill. After initial recognition, goodwill is measured at its initial cost from the acquisition date, less any accumulated impairment losses. Goodwill is reviewed annually for impairment or when there is an indication of potential impairment. If the fair value of the Company’s share of the net identifiable assets exceeds the fair value of the consideration transferred and non-controlling interest at the acquisition date, the difference is immediately recognized in comprehensive income (loss). If the business combination is achieved in stages, the acquisition date fair value of the previously held interest in the acquiree is re-measured to fair value as at the acquisition date through net income (loss). The Company does not currently have goodwill.

Acquisition costs are expensed as incurred in comprehensive income (loss). Costs associated with the issuance of equity are charged to the relevant account within equity.

(c) Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange at the reporting date. All differences are taken to the consolidated statement of comprehensive loss in the period in which they arise.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction. Non-monetary items measured at a revalued amount in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Exchange differences resulting from the settlement of such transactions and from the re-measurement of monetary items at year-end exchange rates are recognized in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments

i) Financial Assets

Initial Recognition and Measurement

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

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

The Company's financial assets include cash, accounts receivables, long-term 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (continued)

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

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

ii) Financial Liabilities

Initial Recognition and Measurement

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (continued)

The Company's financial liabilities include accounts payable, loan and interest payable and accrued liabilities and are classified as other financial liabilities subsequently measured at amortized cost.

(e) Property, plant and equipment

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

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

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

Furniture and fixtures	10 years	Straight line
Computers	3 years	Straight line

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

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

(f) Impairment of non-financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Cash and cash equivalents

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

(h) Provisions, contingent liabilities and contingent assets

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

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

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

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

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

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

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) 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.

(j) Share-based payment transactions

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

All goods and services received in exchange for the grant of any share-based payments are measured at the fair values of the goods and services received. If the fair value of the goods and services are not determinable, the share-based payments is valued based upon the share price on 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 recognized in prior periods if share options ultimately exercised are different to that estimated on vesting. Share-based payment expense incorporates an expected forfeiture rate.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Share-based payment transactions (continued)

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

Options issued to key management and employees

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

Options issued to service providers

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

(k) Seasonality

The construction industry in Mongolia is seasonal in nature for companies like KOT who do a significant portion of their work outdoors, particularly road construction. As a result, less work is performed in the winter and early spring months than in the summer and fall months. Therefore, results in any one quarter are not necessarily indicative of results in any other quarter, or for the year as a whole.

(l) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. The Company has concluded that it is the principal in all of its revenue arrangements.

Construction contracts

The Company principally operates fixed price contracts. If the outcome of such a contract can be reliably measured, revenue associated with the construction contract is recognized by reference to the stage of completion of the contract activity at period end (the percentage of completion method).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Revenue Recognition (continued)

The outcome of a construction contract can be estimated reliably when:

- the total contract revenue can be measured reliably;
- it is probable that the economic benefits associated with the contract will flow to the entity;
- the costs to complete the contract and the stage of completion can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.
- When the outcome of a construction contract cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue (as defined below) multiplied by the actual completion rate based on the proportion of total contract costs (as defined below) incurred to date and the estimated costs to complete.

Contract revenue - Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue, and they can be reliably measured.

Contract costs - Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance that is directly related to the contract.

The Company's contracts are typically negotiated for the construction of a single asset or a group of assets which are closely interrelated or interdependent in terms of their design, technology and function. In certain circumstances, the percentage of completion method is applied to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

Assets covered by a single contract are treated separately when:

- the separate proposals have been submitted for each asset
- each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset
- the costs and revenues of each asset can be identified

A group of contracts are treated as a single construction contract when:

- the group of contracts is negotiated as a single package; the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin
- the contracts are performed concurrently or in a continuous sequence

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Revenue Recognition (continued)

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available for-sale, interest income or expense is recorded using the Effective Interest Method (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in interest and other income in the statement of profit or loss and other comprehensive income.

Rental income

Revenues from leases classified as operating leases are recognized as earned over the term of the lease on a straight-line basis.

(m) Contracts receivable

Construction contracts with clients generally provide that billing must be done periodically in accordance with the extent of work carried out under the contracts. Contracts receivable arise principally from the invoicing of the work in accordance with the contractual terms.

Holdbacks on contracts receivable represent the amounts retained by the project owner as per milestones established in the contract.

(n) Work in progress and deferred revenues

Work in progress represents revenues earned and cost incurred under the percentage-of-completion method, which have not been billed. Deferred revenues represent amounts billed on contracts in excess of the revenues allowed to be recognized under the percentage-of-completion method on those contracts.

(o) Construction costs

Construction costs are expensed as incurred unless they result in an asset related to future contract activity. Construction costs include all expenses that relate directly to execution of the specific contract, including site labour and site supervision, direct materials, subcontractor costs, equipment rentals, depreciation, design and technical assistance, and warranty claims. Construction costs also include overheads that can be attributed to the project in a systematic and consistent manner, general insurance, bonding costs, and staff costs relating to project management. Construction costs also include expenditures for services which are specifically recoverable from the customer under the terms of the contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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 are 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, its Mongolian subsidiary and Khot Infrastructure Holdings, Ltd. 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.

(q) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income taxes (continued)

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income taxes (continued)

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.

(r) 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.

(s) Segmented reporting

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

During the year ended December 31, 2014, the Company operated in one reportable operating segment, which was infrastructure development in Mongolia. During the year ended December 31, 2013, the Company operated in two reportable operating segments, which included the acquisition, exploration, and development of exploration and evaluation assets in Mongolia and infrastructure development in Mongolia. The Company had abandoned its mineral exploration segment in late 2013 and operated solely in infrastructure development by December 31, 2013.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) are capitalized as part of the cost of the respective asset. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalized borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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:

- Amendments to IFRS 10 — *Consolidated Financial Statements - Investment Entities*
- Amendments to IFRS 12 — *Disclosure of Interests in Other Entities - Investment Entities*
- Amendments to IAS 27 — *Separate Financial Statements - Investment Entities*
- Amendments to IAS 32 — *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
- Amendments to IAS 36 — *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to IAS 39 — *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- IFRIC 21 — *Levies*
- Annual Improvements (2010-2012 cycle) — *Amendments to a number of IFRSs issued in December 2013*
- Annual Improvements (2011-2013 cycle) — *Amendments to a number of IFRSs issued in December 2013*

The adoption of the above standards and interpretations did not result in significant changes to accounting policies and did not have any effect on the financial performance or position of the Company.

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

- IFRS 9 (Final version) — *Financial Instruments* [3]
- Amendments to IFRS 10 — *Consolidated Financial Statements - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [2]
- Amendments to IFRS 11 — *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* [2]
- IFRS 14 — *Regulatory Deferral Accounts* [2]
- IFRS 15 — *Revenue from Contracts with Customers* [3]
- Amendments to IAS 16 — *Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization* [2]
- Amendments to IAS 16 — *Property, Plant and Equipment - Bearer Plants* [2]
- Amendments to IAS 19 — *Employee Benefits - Defined Benefit Plans: Employee Contributions* [1]
- Amendments to IAS 27 — *Separate Financial Statements - Equity Method in Separate Financial Statements* [2]
- Amendments to IAS 28 — *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [2]
- Amendments to IAS 38 — *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* [2]
- IFRIC 15 — *Agreements for the Construction of Real Estate* [1]

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Standards, amendments and interpretations (continued)

- Annual Improvements (2012-2014 cycle) — *Amendments to a number of IFRSs issued in December 2013* [1]

[1] Effective for annual periods beginning on or after 1 January 2015
[2] Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2018

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4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Significant management judgements

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

Contract revenue

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

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

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

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

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

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

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

Impairment of assets

The Company assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

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.

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

These consolidated financial statements have been prepared on a basis which assumes the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. This assessment is based upon planned actions that may or may not occur for a number of reasons including the Company's own resources and external market conditions.

As at December 31, 2014, the Company had a working capital surplus of $801,371 (December 2013 - $1,836,716), including $1,069,037 (December 2013 - $1,870,806) in cash and cash equivalents. The Company is actively seeking to obtain new 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.

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.

Allowance for doubtful accounts

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

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

During the year ended December 31, 2014, the Company recorded an allowance for doubtful accounts of $152,200 (2013 - $Nil). There were no recoveries of doubtful accounts during the years ended December 31, 2014 and 2013.

[Expressed in United States dollars]

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

Share-based payments

The estimation of share-based payment costs requires the selection of an appropriate valuation model and data and consideration as to the volatility of the Company's own share price, the 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 12).

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described above. Balances subject to estimation uncertainty are presented on the face of the statements. Refer to notes 6, 7, 8, 9 and 11 for carrying values of significant assets, liabilities and equity items that are subject to estimation uncertainty. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	December 31, 2014 $	December 31, 2013 $
Cash in banks	**1,069,037**	1,870,806

As at December 31, 2014, Canadian Dollars, CAD$105,252 (CAD$1,769,957 – December 31, 2013), and Mongolian Tugrik, MNT 951,527,275 (MNT 15,859,698 – December 31, 2013) was included in the cash of the Company. These amounts are translated into USD using the closing exchange rates on December 31, 2014.

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

6. ACCOUNTS RECEIVABLE AND LONG TERM RECEIVABLE

Accounts receivable

	December 31, 2014 $	December 31, 2013 $
Trade receivables	**378,621**	-
Sales tax receivable	**-**	10,086
Other receivables	**6,306**	-
Recovery of administrative expenses	**-**	155,015
	384,927	165,101

[Expressed in United States dollars]

6. ACCOUNTS RECEIVABLE AND LONG TERM RECEIVABLE (Continued)

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

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.

On December 31, 2014, management assessed that the collectability of the recovery of administration expenses receivables from entities with common directors in respect of reimbursement of costs was unlikely and recorded an allowance for doubtful accounts of $152,200 (December 31, 2013 - $NIL).

Long term receivable

	December 31, 2014 $	December 31, 2013 $
Long term receivable	**41,403**	-

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

7. PROPERTY, PLANT, AND EQUIPMENT

At December 31, 2014	**Furniture and Fixtures** $	**Software** $	**Computers** $	**Total** $
Cost				
At January 1, 2014	201	403	2,270	2,874
Additions	12,329	-	8,133	20,462
Effect of changes in foreign exchange rates	(12)	(24)	(136)	(172)
At December 31, 2014	**12,518**	**379**	**10,267**	**23,164**
Accumulated depreciation				
At January 1, 2014	5	38	201	244
Depreciation	1,004	117	3,086	4,207
Effect of changes in foreign exchange rates	(1)	(5)	(27)	(33)
At December 31, 2014	**1,008**	**150**	**3,261**	**4,418**
Net book value				
At December 31, 2014	**11,510**	**229**	**7,006**	**18,744**

[Expressed in United States dollars]

7. PROPERTY, PLANT, AND EQUIPMENT (Continued)

At December 31, 2013	**Furniture and Fixtures $**	**Software $**	**Computers $**	**Total $**
Cost				
At January 1, 2013	-	-	-	-
Additions	201	403	2,270	2,874
At December 31, 2013	**201**	**403**	**2,270**	**2,874**
Accumulated depreciation				
At 1 January 2013	-	-	-	-
Depreciation	5	38	201	244
At December 31, 2013	**5**	**38**	**201**	**244**
Net book value				
At December 31, 2013	**196**	**365**	**2,069**	**2,630**

8. INVESTMENTS

On May 31, 2013, the Company announced that it had reached a definitive agreement and subscribed 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, 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:

	December 31, 2014 $	December 31, 2013 $
Investment in Anya-2 Sarl	**125,000**	125,000
Other investments	**530**	-
	125,530	125,000

[Expressed in United States dollars]

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

Exploration and evaluation assets consist of the following:

	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, 2014 and 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 on the Undur Tolgoi property.

There were no exploration expenditures incurred in the year ended December 31, 2014.

10. LOAN AND INTEREST PAYABLE

	December 31, 2014	December 31, 2013
	$	$
Unsecured loan from HBOil JSC	**455,515**	-

During the year the Company obtained unsecured loans facilities totaling 450,000 from HBOil JSC (note 17) to fund its road construction work. The loans bear interest at 6% per annum and is payable together with the loan principal on 28 February 2015. The loan was subsequently extended to May 28, 2015.

[Expressed in United States dollars]

11. ROAD REPAIR PROVISION

	Total $
Balance, January 1, 2014	-
Additions made to the provision	**42,821**
Amounts used	**-**
Unused amounts reversed	**-**
Balance, December 31, 2014	**42,821**

Road repair obligations relate to the remaining costs to complete the road constructions contract recognized in the current year, as a result of current years' recognition of the expected loss resulting from the overall contract.

During the year the management estimated that potential road repair costs under the completed Darkhan road construction contract was $42,821 as at December 31, 2014 (2013 - $Nil).

12. 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, 2014, and 2013, there were 64,351,484 common shares outstanding.

Common share issuances

Fiscal 2014

There were no common shares issued during the year ended December 31, 2014.

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 75% of the share capital of AMZ, a Mongolian company.

[Expressed in United States dollars]

12. 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 above the closing market price on the day immediately preceding the date of grant. The term of options is determined by the Board of Directors and is typically three or five years with a maximum term of 10 years. Options issued to consultants who perform investor relations activities will be subject to a vesting schedule whereby no more than 25% of the options granted may vest in any three month period. The maximum number of options authorized for issue shall be 10% of the outstanding shares in issue at the date of the option grant.

The following table provides detailed information about stock options outstanding as at December 31, 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	1.93	3,675,000	-
January 8, 2019	$ 0.25	2,300,000	4.02	2,300,000	-
Total		**5,975,000**	**2.74**	**5,975,000**	

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.

Option pricing models require the inputs of highly subjective assumptions including the expected price volatility. Changes to the subjective input assumptions can materially affect the fair value estimate and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's share options.

[Expressed in United States dollars]

12. SHARE CAPITAL (continued)

Stock option activity is as follows:

	Number	Weighted- Average exercise price	Expiry
Outstanding, December 31, 2012	4,525,000	0.25	December 6, 2016
Granted/Canceled /Exercised	-	-	
Outstanding, December 31, 2013	4,525,000	0.25	December 6, 2016
Granted	2,300,000	0.25	January 8, 2019
Forfeited	(850,000)	0.25	December 6, 2016
Outstanding, December 31, 2014	**5,975,000**	**0.25**	December 6, 2016

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.

During the year ended December 31, 2014, 850,000 stock options were canceled. The options had an exercise price of $0.25 and were set to expire on December 6, 2016.

The weighted average fair value of each option granted during the year ended December 31, 2014, was estimated at $0.13 using the Black Scholes option pricing model with the following weighted average assumptions:

Average share price at date of grant	$ 0.14
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 since the change in business to infrastructure development, as well as the historical volatility of comparative companies in the road construction industry for the expected term of the options. No special features inherent to the options granted were incorporated into measurement of fair value.

[Expressed in United States dollars]

12. SHARE CAPITAL (continued)

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, 2014 $	As at December 31, 2013 $
Balance, beginning of year	**911,972**	911,972
Stock-based compensation	**300,977**	-
Balance, end of the year	**1,212,949**	911,972

13. 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.

14. CONSTRUCTION REVENUE

The Company's activities are predominantly in one industry segment, namely road construction service, and its properties are all situated in Mongolia. Revenue is mainly generated from customers under the control of the Mongolian government and domiciled in Mongolia. The Company did not generate any revenue in the prior year.

[Expressed in United States dollars]

15. COST OF SALES

	December 31, 2014 $	December 31, 2013 $
Materials used	**792,564**	–
Rental expenses of machineries	**214,423**	–
Salaries, wages and bonuses	**58,653**	–
Transportation	**34,085**	–
Interest expense (Note 17)	**8,080**	
Contributions to social and health insurance fund	**7,625**	–
Other expenses	**117,345**	–
	1,232,775	–

16. OTHER EXPENSES

	December 31, 2014 $	December 31, 2013 $
Rent	**-**	37,888
Phone, utilities, supplies and other	**1,779**	4,923
Website, internet and printing	**2,388**	1,048
Contractor fees, salary and source deductions	**206,433**	74,776
Travel	**48,811**	41,901
Other expenses	**117,321**	27,480
Insurance	**16,338**	17,943
	393,070	205,959

[Expressed in United States dollars]

17. 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 Chief Operating Officer. Key management remuneration includes the following:

	Year ended December 31, 2014	2013
Short-term Key management benefits	$	$
Compensation including salary	**129,824**	92,531
Long-term Key management benefits		
Share based payments	**209,375**	-
Total remuneration	**339,199**	92,531

1) Management fees include $59,369 ($59,257 – 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 December 31, 2014, $Nil ($1,487 – 2013) payables were due to Don Padgett.

2) Professional fees include $51,955 ($33,274 – 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 December 31, 2014, accounts payable of $Nil ($993 – 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 December 31, 2014, $NIL ($NIL – 2013) payable were due to Erdembileg Jugdernamjil.

4) During the year ended December 31, 2014, consulting fees of $3,500 ($Nil – 2013) were paid to one of the non-executive directors for services in assistance with potential business opportunities.

Transactions with related companies and directors

As at December 31, 2014, receivables include $NIL (December 31, 2013 - $155,018) receivable from entities with common directors in respect of reimbursement of costs. During the year ended December 31, 2014, the Company recognized an allowance for bad debt on the related party receivable of $152,200 (December 2013 - $8,486). As at December 31, 2014, accounts payable of $NIL (December 31, 2013 - $NIL) were due to the related company.

[Expressed in United States dollars]

17. RELATED PARTY TRANSACTIONS (Continued)

Borrowings from HBOil JSC

	December 31, 2014	December 31, 2013
	$	$
Balance, beginning of the year	**–**	–
Additions	**630,000**	–
Repayment	**(192,000)**	
Interest expense	**7,000**	–
Translation difference	**10,515**	–
Balance, end of the year	**455,515**	–

Borrowings from Herlen Onon Tuul LLC

	December 31, 2014	December 31, 2013
	$	$
Balance, beginning of the year	**–**	–
Additions	**18,500**	–
Repayment	**(19,383)**	
Interest expense	**840**	–
Translation difference	**43**	–
Balance, end of the year	–	–

Both HBOIL JSC and Herlen Onon Tuul LLC have a significant shareholder in common with Khot Infrastructure Holdings Ltd.

Promotion fees include $12,610 ($22,390 – 2013) 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, 2014, $ Nil ($11,195 – 2013) 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 13 for details on the acquisition.

All related party transactions, with the exception of the Berkh Uul JSC 1 bad debt recognized in current year, were within the normal course of operations and have been recorded at amounts agreed to by the transacting parties.

[Expressed in United States dollars]

18. 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, 2014 was 10% (December 31, 2013 – 10%), as the Company's operations are in Mongolia.

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

	December 31, 2014	December 31, 2013
Loss for the year before income taxes	**(1,230,101)**	(1,488,141)
Statutory tax rate	**10%**	10%
Expected income tax recovery	**(123,010)**	(148,814)
Non-deductible permanent differences	**5,889**	(4,316)
Change in enacted future tax rates	**-**	(30,274)
Difference in foreign tax rates	**86,871**	(123,021)
Deferred tax assets not recognized	**30,250**	85,137
Benefit of deferred tax asset expired	**-**	412,243
Change in estimates	**-**	(190,955)
Income tax expense (recovery)	**-**	-

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

The Company's operating subsidiaries are located in Mongolia. Mongolian corporate income tax uses the progressive rate scale of 10% and 25%. 10% applies to annual income of up to 3.0 billion MNT (USD $1,600,000 – 2014); and 25% applies to the amount in excess of 3.0 billion MNT.

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.

The Company also has non-capital losses carryforward of $402,130 in foreign subsidiaries that expire from 2015 to 2016.

As at December 31, 2014, a foreign subsidiary had cumulative deductible temporary differences of $26,165 ($Nil - 2013) for which no deferred tax asset has been recognized as the subsidiary does not believe it is probable that it will have profits available against which the temporary difference can be utilized.

[Expressed in United States dollars]

19. 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 30,000,000,000 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.

20. SEGMENT REPORTING

As at December 31, 2014, the Company had one reportable operating segment of infrastructure development. All of the Company's non-current assets are located in Mongolia and Luxembourg.

In the prior year the Company had two reportable operating segments, being that of acquisition and exploration and evaluation activities and infrastructure development.

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

	December 31, 2014	December 31, 2013
Property, plant and equipment	**$ 18,744**	$ 2,630
Investments	**530**	-
Long term receivable	**41,403**	-
	60,677	2,630

The Company has the following noncurrent assets located in Luxembourg:

	December 31, 2014	December 31, 2013
Investment in Anya-2	**$ 125,000**	$ 125,000

21. 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, 2014, totals $ 1,074,490 (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.

[Expressed in United States dollars]

21. CAPITAL MANAGEMENT (Continued)

The Company is dependent upon external financing to fund its activities. In order to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company to maintain flexibility while achieving the objectives stated above as well as supporting future business opportunities. To manage the capital structure the Company may adjust its operating expenditure plans, or issue new common shares.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's Management to sustain future development of the business.

There were no changes in the Company's approach to capital management for the years ended December 31, 2014 and 2013. The Company is not subject to externally imposed capital requirements or covenants.

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22. 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, 2014	December 31, 2013
	$	$
Available for sale investments	**125,530**	125,000
Current loans and receivables [2]	**1,453,964**	2,035,907
Long term loans and receivables	**41,403**	-
Loans Payable	**(455,515)**	-
Other financial liabilities [1]	**(214,761)**	(236,607)

[1] accounts payable and accrued liabilities and road repair provisions
[2]cash current and long term 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, 2014 and 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 deferred exploration assets of the operating company, considering the most recent exploration results, and geological assessments as at December 31, 2014, and as a result has been classified as a level 3.

[Expressed in United States dollars]

22. FINANCIAL RISK MANAGEMENT (Continued)

Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of risks including interest rate risk, credit risk, liquidity risk and commodity price risk. Reflecting the current stage of development of the Company's various projects, the Company's overall risk management program focuses on facilitating the Company's ability to continue as a going concern and seeks to minimize potential adverse effects on the Company's ability to execute its business plan. Risk management is the responsibility of the finance function. Material risks are identified and monitored and are discussed by senior management and with the Audit Committee and the Board of Directors.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's fixed rate current accounts in the bank and borrowings. As of the reporting date, the Company has not adopted sensitivity analysis to measure interest rate risk due principally to the fact that the Company has no floating rate financial assets and liabilities.

Credit risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise due to the failure of its customers and counterparties to fulfill their obligations on maturity periods or due to adverse market conditions. The Company's financial assets exposed to credit risk are primarily composed of cash, and accounts receivable (trade and other). Maximum exposure is equal to the carrying values of these assets. The Company's cash is held at several large financial institutions.

The Company's trade receivables are only with the Mongolian government and are recognized, creditworthy third parties. It is the Company's policy that governments who wishes to trade on credit terms subject to credit verification procedures. In 2014 Management has assessed that a related party receivable of $152,200 was determined to be uncollectable during the year and as such the Company recorded an allowance for bad debt in 2014 (2013 - $NIL).

As at December 31, 2014	**Neither past due nor impaired**		**Past due or**	
	High grade	**Standard grade**	**individually impaired**	**Total**
Cash and receivables:				
Cash and cash equivalents	1,069,037	–	–	1,069,037
Trade receivables	378,621	–	–	378,621
Others receivables	6,306	–	–	6,306
	1,453,964	–	–	1,453,964

22. FINANCIAL RISK MANAGEMENT (Continued)

As at December 31, 2013	**Neither past due nor impaired**		**Past due or**	
	High grade	**Standard grade**	**individually impaired**	**Total**
Cash and receivables:				
Cash and cash equivalents	1,870,806	–	–	1,870,806
Trade receivables	-	–	–	-
Others receivables	12,901	152,200	–	165,101
	1,883,707	152,200	–	2,035,907

None of the Company's financial assets are secured by collateral or other credit enhancements.

Liquidity risk

Liquidity risk encompasses the risk that the Company cannot meet its financial obligations. The Company actively manages its operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Company maintains sufficient levels of cash and cash equivalents to meet its working capital requirements. At December 31, 2014, the Company had a working capital of $801,371 [December 31, 2013 - 1,836,716]. All of the current accounts payable and accrued liabilities, loan and interest payable are due and payable within 90 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.

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

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

	December 31, 2014	December 31, 2013
	$	$
Cash	**161,269**	1,664,114
Accounts payable	**(66,989)**	(68,145)
	94,280	1,595,969

22. FINANCIAL RISK MANAGEMENT (Continued)

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

	December 31, 2014	December 31, 2013
	$	$
Cash	**504,120**	9,676
Accounts receivable (including long term receivables)	**426,330**	-
Accounts payable and provisions	**(98,420)**	(35,454)
	832,030	(25,778)

The following is the list of financial assets and liabilities held in Great British Pounds (presented in USD):

	December 31, 2014	December 31, 2013
	$	$
Accounts receivable	**-**	155,016

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

	December 31, 2014	December 31, 2013
	$	$
	Increase/ (Decrease)	Increase/ (Decrease)
Increase/(decrease) in foreign currency exchange rate (USD)		
+5%	**46,315**	86,260
-5%	**(46,315)**	(86,260)

23. EVENTS AFTER THE REPORTING DATE

On January 30, 2015, the Company dissolved its wholly owned subsidiary Novametal Resources LLC.

On April 8, 2015, the Company entered into a memorandum of understanding with a major foreign state owned entity to form a special purpose consortium which provides for joint participation in the bidding for all upcoming Mongolian road construction and repair concessions.

On April 14, 2015, the Company entered into consulting contracts with Mr. Vincent J. Marciano ("Marciano") and Mr. Scott Rose ("Rose") for the provision of investor relations and marketing services. The agreement between KHOT and Marciano provides for an initial term of one year, which may be terminated by either party with 30 days written notice after the expiration of the initial three month period. Marciano will receive a monthly fee of US$1,500 and will be granted 150,000 options. The agreement between KHOT and Rose shall be on a month to month basis with a 30 day termination notice. Rose will receive a monthly fee of CDN$2,500 and will be granted 150,000 options.

23. EVENTS AFTER THE REPORTING DATE (Continued)

The options are granted to each consultant at an exercise price of $0.10 per share until December 31, 2017 and shall vest in accordance with the agreement, Canadian Securities Exchange policies and the Company's stock option plan.