MONGOLIA GROWTH GROUP

Table of Contents

Letter from CEO .... 3 pg

Letter to New Shareholders .... 4 pg

Management Discussion & Analysis .... 6 pg

Independent Auditor's Report .... 22 pg

Consolidated Financial Statements .... 23 pg

Corporate Information .... 79 pg

Mongolia Growth Group Ltd. is a holding company owning subsidiaries engaged in the businesses of real estate leasing, and property and casualty insurance. The company's real estate holdings are held in various limited liability companies in Mongolia. The company's insurance subsidiary is licensed in Mongolia to underwrite retail and commercial lines of business, under the name Mandal General Daatgal LLC.

Operational decisions for MGG subsidiary businesses are made by managers at each business unit. Investment and capital allocation decisions are made by Mongolia Growth Group's CEO, Harris Kupperman, in consultation with the holding company's management and board of directors.

To The Shareholders of Mongolia Growth Group;

2011 was a very successful year for your company. On February 2,2011, present management took control of your company and redirected the strategy to focus on the rapidly growing economy of Mongolia. Prior to that, the company was virtually without cash or a purpose. Since current management took over, we have;

- Crystallized the strategy to focus on property and insurance
- Grown from 2 employees to approximately 60 to date
- Raised CDN $51.5 million to pursue the companies investment objectives
- Acquired investment property in Ulaanbaatar with an approximate value of $26 million
- Seen monthly rental revenues increase rapidly
- Obtained insurance license for Mandal General Insurance, MGG's insurance company
- Laid the groundwork for substantial growth in future years

As we look forward to our second year in business, we see our strategy slowly evolving. Though we always prefer to purchase well-constructed buildings in the downtown, we increasingly find this to be a less than ideal strategy for us as investors. Prices in Ulaanbaatar are rapidly increasing, which substantially lowers the investment return potential of many existing structures. Much more importantly to us, we find that a lot of the existing construction is of a poor quality. We feel strongly that we can build better, safer and more aesthetically pleasing buildings if we were to dedicate resources to it. Jordan and I are conservative investors, we intend to start slowly, rather than rushing off into construction—however, we see it as almost inevitable that if we are going to grow this company intelligently, we will have to own top quality buildings. Fortunately, we have spent much of the past year purchasing older structures that are strategically situated in areas that make them ideal for redevelopment.

From a corporate governance standpoint, we have made a promise to provide you with absolute transparency and confidence that our numbers are accurate. PWC has completed our 2011 audit and we hired a credible valuation firm to do our year end property valuation report. Using these two professional firms has substantially increased our operating costs. We find this to be a very unfortunate but necessary expense. I hope that you will agree. As always, we are committed to doing everything in a manner that is as shareholder friendly as possible.

Outside of these two sizable expenses, we have done everything possible to keep our costs down. I should point out that neither Jordan, I, nor any of our board members, receive compensation for their time. We are here because of our investment in MGG, not because of our desire for a job.

We have high expectations for 2012 and hope that you are impressed with our accomplishments in 2011. I want to finish by thanking everyone who has helped to make our first year so successful.

Sincerely,

Harris Kupperman

To The New Shareholders Of Mongolia Growth Group Ltd.

I would like to welcome you as co-investors with me in this venture. I have set out to do something unique in business, gain leverage to the growth in a nation's economy. Before we proceed as co-investors, I would like to tell you a bit about how we got here and give you the broad principles that will guide us in this venture.

How We Got Here

I never set out to be CEO of a public company. Instead, in August 2010, I went to Mongolia with the goal of finding appropriate investments for my hedge fund. While there, I learned of two unique facts; the Mongolian economy is far more robust than I had ever imagined and there was no suitable way to gain investment exposure to that economy. Unable to find an ideal way to invest in Mongolia, I have instead set out to build my own diversified entity.

I did this to satisfy my own investment desires and those of some close friends who have now joined the company. I view Mongolia Growth Group Ltd. as a personal investment, of which I also happen to be the CEO. I intend to do what is in the company's best interest. Minority shareholders are co-investors and free to increase or decrease their exposure as they see fit.

Broad Principles That Guide Us

Although our form is corporate, our attitude is partnership.As investors in small companies for over a decade, Jordan Calonego (our COO) and I have repeatedly been disgusted to learn that as a company grows, shareholders get a disproportionate share of that growth. Instead, through salary and stock options, management effectively loots their own company at the expense of minority shareholders. After having derided this practice as investors, it would be hypocritical of us to then partake of it ourselves. Jordan and I will not receive any salary, stock options, restricted shares, bonus or any other form of compensation that would not be available to minority shareholders. We only ask that our expenses of managing this business be reimbursed. As sizable shareholders, we are working for ourselves. If we are successful, capital appreciation will be compensation enough. We will not take unfair advantage of the responsibility and capital entrusted to us.

We Eat Our Own Cooking

We are strong believers in the growth of the Mongolian economy. Mongolia Growth Group Ltd. only exists because we wanted a way to invest in Mongolia. We wouldn't invite you along on a venture that we wouldn't put our own capital into first. We have made sizable initial investments in Mongolia Growth Group Ltd. It is our intention to purchase additional shares to gain increased exposure to the Mongolian economy. We anticipate that over time, our investment in this company will become a significant portion of our net worth. We cannot promise you results, but we can promise you that when we inevitably make mistakes, our own financial fortunes will suffer alongside yours.

We Measure Business Success Only In Terms Of Intrinsic Value Per Share

We have no interest in building the biggest Mongolian company or anything else of that sort. Our decision to forgo compensation ensures that we gain no benefit from doing such a thing. Ego and prestige do not guide this venture. Rather, we prefer to focus on profits, returns on capital and increase in intrinsic value per share as measures of performance. If we can increase per share value, then we have done our job well.

We Will Not Sacrifice Long Term Gains For Short Term Purposes

Our goal is to gain long-term exposure to the growth in the Mongolian economy. We will not partake of short-term maneuvers just to report accounting gains. Unrealized capital appreciation does not flow through the income statement. If one investment has a 40% return on capital, but 75% of that return is expressed as capital appreciation and only 25% of that return is reportable income, we would prefer that to one that produces a 30% return which is all reportable income.

Traditional Metrics May Reveal Relatively Little About True Value Creation

We will report to you the earnings of our businesses as required by securities regulators; however we feel that these are seriously limited in evaluating the success of our businesses. Growing businesses often need to spend money to make money. Many companies choose to grow more slowly or cut back on expenditures so that they can report earnings to their shareholders. Our goal is to build long term value and ignore the short term accounting effects caused by such an approach. We will focus your attention on the individual businesses and leave it to you to determine how to value our motley assortment of assets. This will be made particularly difficult as we anticipate that a healthy portion of the total increase in value for Mongolia Growth Group Ltd. will take the form of unrealized capital appreciation in certain assets like real estate.

We Value Transparency

We want to give you all the relevant information needed to make judgments about how well we are running our businesses. We will report to you the successes AND FAILURES of our businesses. We will do it in a way that should make it easy to understand and evaluate the nuances that go into the reported numbers. As an investor, I have found that reported numbers only tell part of the story—the reason for those numbers is often much more important. We will try to save you the hassle of trying to decipher what the numbers mean. The lone exception is our securities portfolio—for obvious reasons—where we will only disclose what securities laws require us to disclose.

We Intend To Be Overcapitalized

Mongolia is an emerging economy with repeated boom-bust cycles. We do not want to be at the mercy of these cycles, rather we want financial flexibility to take advantage of them. It is impossible to time the busts. Rather, we want to always have more capital than needed for our businesses and to use debt sparingly. In the short run, this may depress our returns on equity. In the long run, we feel that this is the only way to intelligently navigate the growth of the Mongolian economy. We intend for this company to be a sizable portion of our net worth—we refuse to chance it on the vagaries of economic cycles.

Conclusion

In summary, we want to create what we could not find in Mongolia; a way to invest significant capital in a company with transparent management, honest and audited accounting and the assurance that as investors our interests are fully aligned with those of management. A public vehicle should hopefully afford us the ability to rapidly raise capital as opportunities present themselves, but also to allow liquidity for investors when necessary. We want to be the company that we wish existed when we went to Mongolia in August 2010.

Thank you for your investment with us. We take the responsibility as management-owners seriously and are committed to making this a successful venture.

Sincerely,
Harris Kupperman
Chairman & CEO
Mongolia Growth Group Ltd.

MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis
December 31, 2011

The management of Mongolia Growth Group Ltd. (“MGG” or “the Company”) presents the Company’s management discussion and analysis for the year ended December 31, 2011 (the “MD&A”), compared with the year ended December 31, 2010. As of January 1st, 2011, the Company adopted International Financial Reporting Standards (“IFRS”). This MD&A provides an overall discussion, followed by analyses of the performance of the Company’s major reportable segments. The reporting and presentation currency in the consolidated financial statements and in this discussion and analysis is the Canadian dollar, unless otherwise noted.

This MD&A is dated April 30, 2012 and incorporates all relevant information and considerations to that date.

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2011 and December 31, 2010 together with all of the notes, risk factors and information contained therein, available on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

This MD&A makes reference to earnings before interest, taxes, depreciation and amortization (“EBITDA”) and book value per share. MGG uses EBITDA as a measure of the performance of its operating subsidiaries as it excludes depreciation and interest charges, which are a function of the company’s specific capital structure, and also excludes entity specific tax expense. MGG uses book value per share as a measure of the performance of the Company as a whole. Book value per share is measured by dividing shareholders’ equity at the date of the statement of financial position by the number of common shares of the Company (“Common Shares”) outstanding at that date. MGG’s method of determining these amounts may differ from other companies’ methods and, accordingly, these amounts may not be comparable to measures used by other companies. These amounts are not performance measures as defined under IFRS and should not be considered either in isolation of, or as a substitute for, net earnings prepared in accordance with IFRS. The Company refers to “Funds used in operations”, “operating losses” and “re-valuation of investment properties” within this analysis. “Funds used in operations” is computed by calculating the cash flow from operations before changes to non-cash working capital from operations.

Forward Looking Statements

This MD&A contains forward-looking statements relating to future events. In some cases, forward-looking statements can be identified by words such as “anticipate”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “should”, “believe”, or similar expressions. These statements represent management’s best projections but undue reliance should not be placed upon them as they are derived from numerous assumptions. These assumptions are subject to known and unknown risks and uncertainties, including the “Risks and Uncertainties” as discussed herein. Actual performance and financial results will differ from any projections of future performance or results expressed or implied by such forward looking statements and the difference may be material.

Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. From time to time, the Company’s management may make estimates and have opinions that form the basis for the forward-looking statements. The Company assumes no obligation to update such statements if circumstances, management’s estimates or opinions change.

Overall Performance

Mongolia Growth Group Ltd. is a Canadian holding company that invests in both the real estate and financial services industries. MGG is presently engaged in the business of: (i) the ownership of residential, retail and office investment properties; (ii) the management of investment properties; (iii) the repair, construction and development of investment properties; (iv) the underwriting of property and casualty insurance risks; and (v) the sales of property and casualty insurance.

Property

In all its investment property operations, MGG strives to provide the highest quality locations to tenants, which augments their accommodations, business sales, or office environment. MGG's strategy is to acquire the best located properties in Mongolia, to repair and redevelop as needed, then to lease the properties to the tenant which benefits most from their location and quality.

The Company's property portfolio has grown through acquisition. As acquisitions are integrated into the MGG model, the Company's ability to offer a unique product, multi-unit retail platforms, or large format office space has led to relationships with some of the largest and best run businesses operating in Mongolia. The Company believes doing so will add value to local firms that can benefit from such unique offerings, and will lead to excess profitability to the company, vis-à-vis above market rental yields.

As the Mongolian consumer has benefited from an increase in gross and disposable income, the tenancies of the Company's investment properties have been able to support increased rents. This market improvement in the rental business has supported company results as most re-let properties have seen double-digit increases in rents and a commensurate increase in property valuation due to a slow contraction in the market capitalization rate of investment properties in Mongolia. The general property market continues to be influenced by improvement in the overall Mongolian economy. Certain locations have seen a smaller increase in rental rates, generally at the mid-to-low end of the commercial property market or the high-end of the residential market, while higher end commercial properties and lower-end residential properties have seen more substantial increases in both rents and valuations.

The Company believes that increases in the nominal gross domestic product will lead to further increases in both the rental rates and valuations of properties in Mongolia. MGG's property division should benefit from such increases in the nominal gross domestic product due to the operational leverage inherent in a property business with relatively fixed operating costs. It is expected that the majority of the organic growth in the revenue of the property division going forward should accrue to the Company's bottom line due to such embedded operating leverage.

Insurance

The Company's insurance subsidiary (Mandal General Insurance or "Mandal") began underwriting in the fourth quarter of the year. The underwriting capacity and knowledge of the insurance subsidiary was acquired vis-à-vis the initial overfunding of the company in relation to its risks, and by the hiring of individuals that had previously obtained insurance experience in both Mongolia and abroad. The sales process for the insurance company is longer term in nature. Retail sales at the insurance company have substantially lagged commercial sales, which are much larger in nature and are infrequent in occurrence.

As the Mongolian consumer and business market becomes larger and more understanding of the inherent benefits of insurance, the market will grow substantially. According to the Financial Regulatory Commission ("FRC"), over the past five years, nationwide underwriting has grown at over 20% per annum. Due to the small nature of the insurance market, and the newness of our insurance subsidiary as an entrant in the market, the insurance subsidiary's primary focus has been on business systems development, product development, brand awareness, and marketing.

Similar to the foundation of the Company's property business, Mandal has hired staff and incurred expenses that lead to a high level of operational leverage. Many divisions of the insurance operation would not be required to expend further resources even given a substantial increase in premiums written. The largest expense within the insurance business in the future should be reserving, but at the present juncture, it happens to be the recognition of the cost of employee and consultant stock options. Employee stock option expense as a percentage of costs should decrease over time in the event that revenues increase.

Economic Outlook

As mentioned earlier, both markets that the Company operates in, the real estate and insurance industries, have benefited from the tremendous economic growth achieved in Mongolia over the last few years. The majority of this recent growth is attributable to the mining and construction boom taking place in Mongolia, mainly resulting from the opening of the Oyu Tolgoi and Tavan Tolgoi deposits located in the Gobi desert. The associated infrastructure requirements for these projects have also served to strengthen the local economy. The positive impact of improving

consumer and business confidence has further led to a substantive increase in the gross production of the local economy. Given the current lack of sufficient real estate space for domestic and international tenants, and the insurance underwriting capacity within the insurance industry in Mongolia, there is room for much further expansion in the amount of business to be done in both industries, and likely increases in the profitability of these industries.

Risks and Uncertainties

The Company, as part of its operations, carries financial instruments consisting of cash and cash equivalents, investments and marketable securities, accounts receivable, and trade and accrued payables. It is Management's opinion that the Company is not exposed to significant credit, interest, or currency risks arising from these financial instruments except as otherwise disclosed in the notes to the consolidated financial statements.

The Company's insurance subsidiary, Mandal General Insurance, is in breach of an FRC solvency limit requirement that stipulates that underwriters must maintain short-term investments equal to or greater than share capital (FRC Order No. 211). For an insurance company with normalized reserves, the invested capital in reserves would usually prove sufficient to satisfy this ratio. Since Mandal General Insurance was recently established, and due to losses in its first year of operation, the firm is in breach of this covenant. However, Mandal's ratios for other covenants are far in excess of minimum requirements due to the firm's substantial equity in relation to its reserves and underwriting premiums. The Company has been proactively working with FRC to comply with this regulation. Given the significant level of initial capital contributed to this company and based on discussions with the FRC management does not believe that there will be sanctions related to this breach. Mandal has also requested that FRC adopt more internationally accepted regulations, like underwriting limits and capital limits in relation to reserving.

Further information related to Mongolia Growth Group Ltd. and the risks and uncertainties of MGG is filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be reviewed at www.sedar.com.

Selected Annual Financial Information

	Year ended **December 31 2011**	Year ended **December 31 2010**	Year ended **December 31 2009**
Revenue and other income	589,311	1,385	2,533
Income			
Income (loss) from continuing operations attributable to equity holders of the Company *	1,349,153	-247,846	-49,445
Net Income (loss) attributable to equity holders of the Company	1,349,153	-247,846	-49,445
Comprehensive income (loss) attributable to equity holders of the Company	107,716	-247,846	-49,445
Basic earnings per share ("EPS") (in dollars)			
Earnings (loss) from continuing operations	0.06	-0.10	-0.01
Net income (loss)	0.06	-0.10	-0.01
Diluted EPS (in dollars)			
Earnings (loss) from continuing operations	0.05	-0.10	-0.01
Net Income (loss)	0.05	-0.10	-0.01
Balance Sheet			
Total Assets	55,336,889	156,847	405,091
Financial liabilities	2,040,129	9,677	10,075
Total Equity	53,296,760	147,170	395,016
Shares Outstanding at year end	34,143,352	2,964,300	3,514,300
Book Value per share	1.56	0.05	0.13

Results of Operations

As of December 31, 2011, MGG's operations continued to focus on the rapid growth of the Mongolian economy. As part of its corporate strategy of aggressive growth, the Company has continued to purchase rentable property, obtained an insurance license and participated in activities consistent with raising capital.

Revenues

MGG's consolidated revenues for the year ended December 31, 2011 increased to $589,311, from immaterial revenues during the year ended December 31, 2010. The majority of the increase in revenue is attributable to investments made during fiscal 2011, using funds raised in financings throughout the year.

The Company's investment property business contributed the majority of the revenue for 2011, $495,242. This division was founded in 2011, and as such, no comparable figures are available for 2010.

The Company's insurance business contributed $77,786 of net earned revenue in 2011. This division was founded in 2011, and as such, no comparable figures are available for 2010.

Expenses

Total expenses for 2011 increased to $3,809,334, from $248,999 in 2010. The largest increase in expenses is attributed to share based compensation which relates to options issued to employees and consultants during the year. Secondarily, operating expenses increased to $1,584,692 due to increases in operations and general expenses. As the company had no business operations in 2010, increases in expenses were a result of the implementation of the businesses of the Company.

Operating Profit (Loss)

The property business of MGG incurred an Operating or EBITDA loss before fair value adjustment of $571,440 in 2011. The majority of this loss is attributed to an increase in expenses associated with building a property management team, along with the fact that investment properties were purchased throughout the course of the year and did not earn income for the entire year. The EBITDA including the fair value adjustment is income of $5,169,479. This business line did not exist in 2010, and as such, comparable figures are not available.

MGG's insurance business incurred an Operating or EBITDA loss of $1,579,031 in 2011. The majority of this loss is due to the IFRS treatment of stock option expenses of $1,087,493 at the operating business level. This business line did not exist in 2010, and as such, comparable figures are not available.

The Company's corporate overhead contributed to an Operating or EBITDA loss of $1,698,605 during 2011. The majority of this loss was incurred in legal expenses and other corporate expenses associated with the general corporate activity of the Company, as well as its portion of the share based payments. During 2010, the Company only had a corporate operation. This operation incurred a loss of $247,846 during 2010.

Fair Value Changes in Investment Property and Financial Assets

As the Company incurred no impairments to its December 31st, 2011 investment and marketable securities portfolio fair value changes were only recognized with respect to MGG's investment property portfolio. The Company had the majority of its investment property portfolio valuated by an external independent valuation professional who is deemed to be a qualified appraiser holding a recognized, relevant, professional qualification and who has recent experience in the locations and categories of the investment properties valued.

The majority of the Company's investment and marketable securities portfolio is held in non-market quoted assets which are held in callable short-term and mid-term paper of investment grade financial institutions in Mongolia. These investments are held within the Company's insurance subsidiary and are held due to the statutory requirements of the subsidiary's primary regulator, FRC.

Net Income

For the year ended December 31, 2011, the Company earned net income of $1,349,153, compared to a net loss of $247,846 for the year ended December 31, 2010. This year's favourable result is a product of the previously discussed unrealized gain on fair value of investment properties of $5,740,919 offset by operating losses within the property and insurance businesses and losses in corporate.

Management cautions investors that this property portfolio gain is a non-cash accounting entry caused by an increase in the fair value of our rentable real estate portfolio. This gain is not indicative of an increase in liquid assets on the statement of financial position.

In the first quarter of 2012, MGG's property division has produced positive operating cash flow; however this is insufficient to cover corporate expenses, and insurance expenses. Management anticipates that this cash flow will increase substantially in future quarters as vacant properties become occupied, rents are renewed at higher rates, and expenses remain fairly constant.

Management cautions investors that the Company is primarily focused on increasing shareholder value on a per share basis. This means that operationally management is more concerned with asset appreciation at the expense of short-term cash flow. Management expects this to be the case for the foreseeable future.

Summary of Quarterly Results

The following table provides selected financial information for the eight most recently completed quarters.

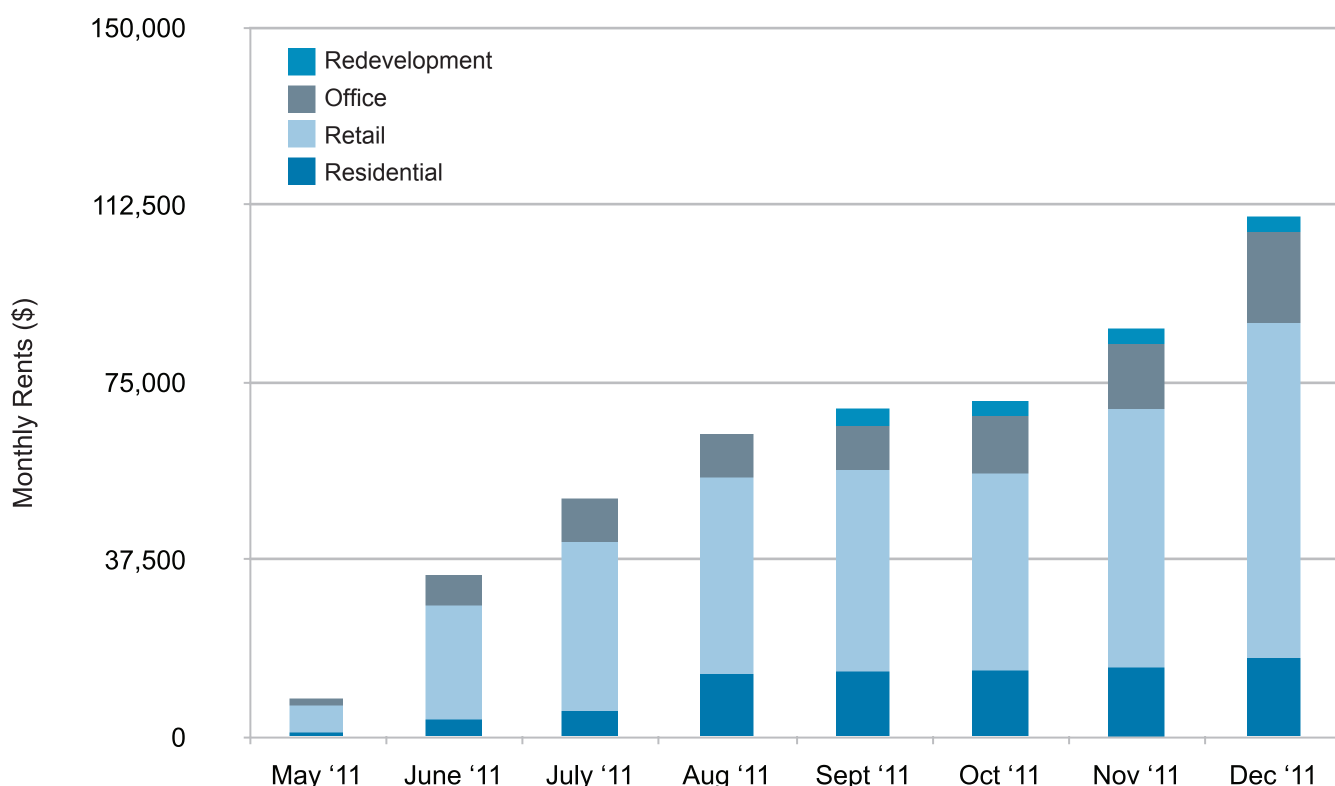
Quarterly Consolidated Financial Information

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenue	360,914	186,134	42,263	-	456	439	262	228
Net income (loss)	2,794,533	-820,149	-485,585	-139,646	28,881	-259,734	-10,731	-6,192
Income (loss) per common share	0.11	-0.03	-0.02	-	-	-0.07	-	-
Total Assets	55,336,889	36,439,544	36,250,423	10,353,848	156,847	303,628	403,956	404,764
Weighted Average Shares	23,902,851	21,814,422	16,617,951	10,184,185	3,239,300	3,514,300	3,514,300	3,514,300
Ending Shares	34,143,352	30,297,168	30,297,198	14,167,571	2,964,300	3,514,300	3,514,300	3,514,300

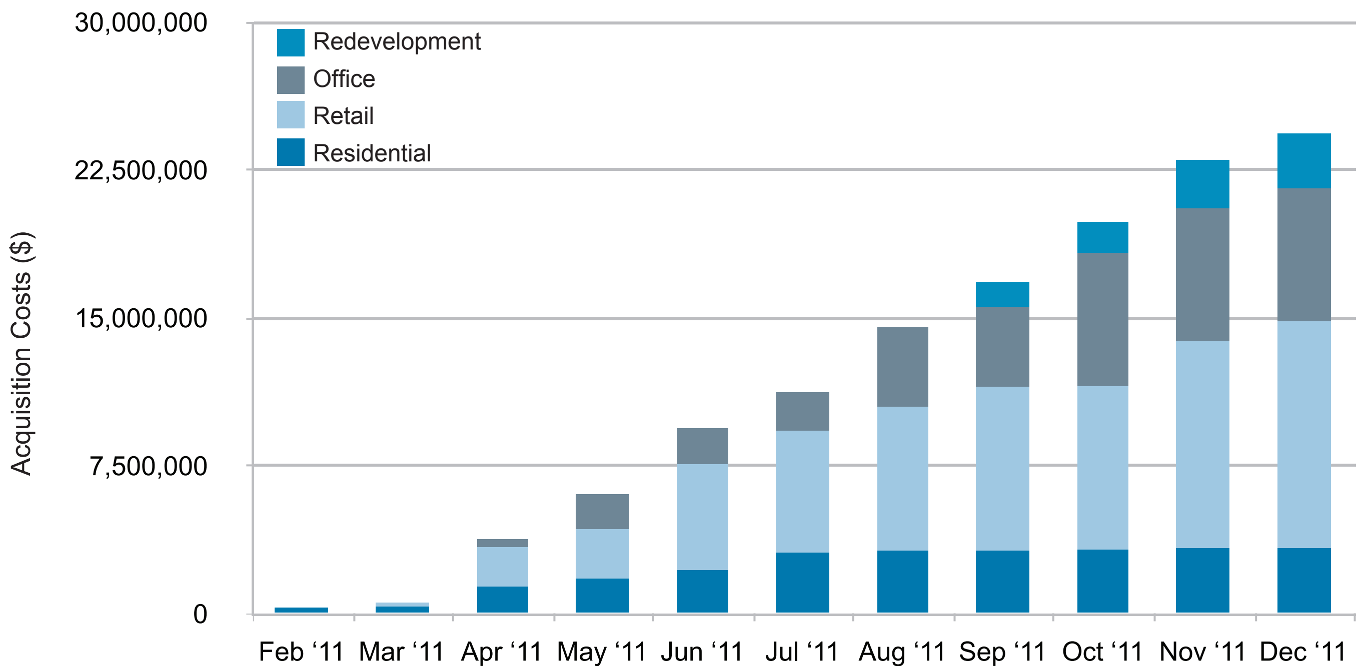
The Company grew during 2011 due to increases in equity capital, which funded the founding of both MGG's property and insurance businesses.

MGG's revenue grew phenomenally during 2011, with Q4 consolidated revenue increasing to $360,914, compared to Q3 consolidated revenue of $186,134, an increase of 93%. The change is mainly due an increase in rental income generated by the properties purchased in the quarter as well as a full quarter's worth of insurance sales as no sales were made in earlier quarters.

The following chart describes the Company's monthly revenue in its property portfolio operations throughout 2011:



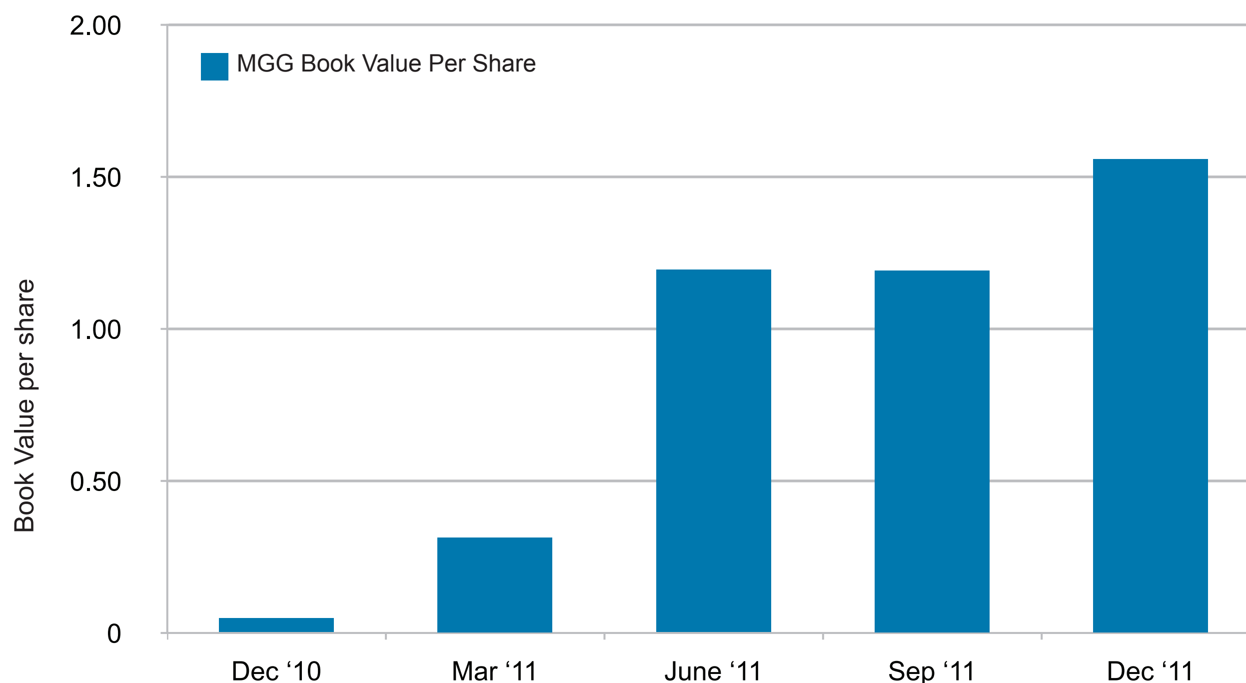
The following chart describes the Company's month end property portfolio value, by property type, at cost, throughout 2011. Note that this chart includes both properties classified as investment properties as well as those classified under property and equipment:



Acquisition Costs were translated from Mongolian Tögrög into Canadian dollars at the December 31, 2011 rate of 1347.63

MGG's book value grew substantially during the fourth quarter, due to the Company's $ 15,000,000 December financing and the unrealized gain on fair value on investment properties. Over the course of the past year, the majority of the increase in book value is a result of the Company raising equity capital at a premium to book value.

The following chart demonstrates book value per share at the end of each quarter of 2011:



Corporate expenses have continued to increase as well, due to the substantial operating expenses involved in running a public company as well as the expenses related to operating a rapidly growing business. Year end expenses related to Corporate operations totaled $1,698,603, of which $420,310 were related to share based payments. Management believes that cash corporate expenses have come close to normalizing at current levels.

Property

Quarterly property revenue increased by $266,845 or 17%, over Q3/2011. This increase was caused by an approximate $4,885,000 or 25% increase in portfolio assets. In addition, vacancies decreased substantially. This was due to the integration of newly acquired properties into the property rental pool, and more aggressive marketing of the portfolio.

The property division's overhead expenses have increased rapidly over the past quarters. This is due to the rapid growth of the management team and infrastructure. We expect the property overhead expenses to normalize at current levels.

At the individual property level, Management has initiated a program to examine spending and evaluate ways to reduce costs. However, spending in aggregate is expected to continue to increase as the investment property portfolio grows.

MGG's property portfolio has increased to cost base of $20,425,367 at year end taking into consideration the foreign currency translation. This is a $4,885,000 increase or 25% increase over Q3/2011. In addition, at year end, investment properties were valued by an external independent valuation professional which resulted in an unrealized fair value adjustment of $5,740,919 to a year-end valuation of $26,166,286. The Company anticipates that the investment portfolio will continue to increase in value in the future.

Insurance

Q4/2011 represents the Company's first complete quarter of operations since policies were approved by FRC. During the 4th quarter, MGG's insurance subsidiary wrote $391,702 in gross premiums and paid $10,683 in reinsurance

premiums, for net written premiums of $381,019. After the deduction of unearned premiums, Mandal earned net premium of $77,786 during the quarter. This subsidiary has also earned net investment income of $247,470 on its investment portfolio. Since this subsidiary incurred no revenue prior to the 4th quarter, there are no previous quarter comparables.

The insurance subsidiary has spent aggressively to develop the Mandal brand name through advertising. The Company expects this marketing spending to increase substantially in the future—especially as the Company begins to sell government mandated auto liability products. The management team at Mandal continues to explore ways to leverage marketing spend through creative partnerships.

Reorganization Transaction

On December 1st 2010, Mongolia Growth Group Ltd. announced the signing of an agreement that Harris Kupperman and Jordan Calonego planned to purchase 320,500 common shares of the Corporation on a post-consolidated basis from the founding board members. The transaction was completed on February 2, 2011. The Corporation also completed the following transactions on February 2, 2011, which were approved by the shareholders at the annual and special meeting of shareholders on January 17, 2011:

- A private placement of the Corporation which raised gross proceeds of $4,611,253 from the sale of 12,685,452 common shares on a post-consolidated basis;
- The filing of articles of amendment renaming the Corporation "Mongolia Growth Group Ltd." and consolidating the common shares of the Corporation at a ratio of 1:2;
- The filing of an application for the de-listing of the common shares from the NEX board of the TSXV and an application for the listing of the common shares on the CNSX; and
- The appointment of Paulo Bilezikjian, Jordan Calonego, Bill Fleckenstein, Harris Kupperman and Paul Sweeney as the new directors of the Corporation.

Liquidity

As at December 31, 2011, MGG had working capital of $21,059,481 comprised of cash and cash equivalents, investments and marketable securities, other assets, reinsurance assets, deferred acquisition expenses, net of trade and accrued liabilities, income taxes payable and insurance contract liabilities. Management considers the funds on hand to be sufficient to meet its ongoing obligations.

Related Party Transactions

Related party transactions for fiscal 2011 were as follows:

- Borrowing obtained and paid back to related parties ($137,330). This transaction was between MGG and Praetorian Capital Management LLC, a company controlled by MGG`s CEO. Praetorian paid the initial start-up and formation expenses of MGG and its subsidiaries. These expenses were reimbursed to Praetorian without interest
- Payment of rental expense ($29,100). This transaction was between Mandal and UMC Holding LLC, a company which is owned by a director of Mandal. The Company paid rent earlier in the year to UMC Holding LLC.

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS required management to make assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The critical estimates made in the preparation of the consolidated financial statements include the following:

- Fair value of investment properties - The estimate of fair value of investment properties is the most critical accounting estimate to the Company. An external appraiser estimates the fair value of investment properties annually. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value of investment properties represents an estimate of the price that would be made in an arm's length transaction between knowledgeable, willing parties. The Company operates in the emerging real estate market of Mongolia, which given its current economic and industry conditions, has an increased inherent risk given the lack of reliable and comparable market information. At December 31, 2011, the unrealized fair value adjustment was $5,740,919.

- Valuation of insurance contract liabilities - The estimate of the ultimate liability arising from claims made under insurance contracts is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice. At December 31, 2011, the insurance contract liabilities totaled $361,820.

- Accuracy of share based compensation expense - The estimate of the ultimate expense arising from share based compensation plans is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the share based compensation expense recorded by the Company. The ultimate expense is estimated by using a number of key assumptions such as the expected volatility of the share price, the dividends expected on the shares, the riskfree interest rate for the expected life of the option and future forfeiture rates. For the year ending December 31, 2011 the cost of the share based payments totaled $1,798,603.

- Operating environment of the Company - Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. The tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes. The future economic performance of Mongolia is tied to the continuing demand from China and continuing high global prices for commodities as well as being dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Mongolia together with tax, legal, regulatory and political developments. Management is unable to predict all developments that could have an impact on the Mongolian economy and consequently what effect, if any, they could have on the future financial position of the Company.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, investments and marketable securities, accounts receivable and trade and accrued payables. The Company is subject to interest risk as it earns interest income from its cash deposits. It is management's opinion that the Company is not exposed to significant credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values. Management believes that there are material currency risks associated to the majority of the Financial Instruments of the Company as they are held in Mongolian Tögrög. For further discussion of financial instrument risks, see the Insurance and Financial Risk Management note.

Changes in Accounting Policies

The consolidated financial statements of the Company were prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB). For all periods up to and including the period ended December 31, 2010, the Company prepared its financial statements in accordance with Part V PreChangeover Accounting Standards, of the Canadian Institute of Chartered Accountants Handbook, Canadian generally accepted accounting principles (Canadian GAAP). Explanations of the impact of the transition to IFRS as of December 31, 2010 and January 1, 2010 on the financial position, financial performance and cash flows can be found in note 23 of the financial statements.

The Company in 2010 was a Company in Canada with no operations. With the simplistic nature of the Company in the previous year, IFRS did not result in any change to the Company`s reported financial position at January 1,

2010 or December 31, 2010, results of operations and cash flows for the year ended December 31, 2010, thus no reconciliation information was presented.

Capital Risk Management

The Company's objective when managing capital is to ensure the Company is capitalized in a manner which provides a strong financial position for its shareholders.

The Company's capital structure includes equity and working capital. In managing its capital structure, the Company considers future investment and acquisition opportunities, potential credit available and potential issuances of new equity. The Company's objective is to maintain a flexible capital structure that will allow it to execute its stated business. Upon acquiring investment properties and operating businesses, the Company will strive to balance its proportion of debt and equity within its capital structure in accordance with the needs of the continuing business. The Company may, from time to time, issue shares and adjust its spending to manage current and projected proportions as deemed appropriate.

The method used by the Company to monitor its capital is based on an assessment of the Company's working capital position relative to its projected obligations. At December 31, 2011, the Company's working capital was $21,059,481 (2010 - $147,170) and the Company had no debt.

Off-Balance Sheet Items

As at December 31, 2011, the Company has no off-balance sheet items.

Financial Risk Management

Credit risk

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio. For the year, most of the Company's investments consisted of institutional deposits. The majority of the funds invested are held in reputable Barbadian, Canadian or Mongolian banks. The Company is in the early stages of development and is continually improving its policies regarding monitoring its credit risk.

The Company is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. The Company mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The Company's properties are diversified across residential and commercial classes.

Amounts due from policy holders are short-term in nature and are not subject to material credit risk.

Liquidity risk

As at December 31, 2011, the Company does not believe the current maturity profile of the Company lends itself to any material liquidity risk, taking into account the level of cash and cash equivalents, investments and marketable securities as at December 31, 2011. The Company does not have material liabilities that can be called unexpectedly at the demand of a client.

Currency risk

The Company owns properties located in Mongolia and marketable securities in Mongolia and Barbados, and is therefore subject to foreign currency fluctuations that may impact its financial position and results. Changes in the Mongolian Tögrög and U.S. to Canadian dollar foreign currency exchange rate impact the fair value of securities denominated in Mongolian Tögrög and in U.S. dollars. The Mongolian operations hold their investments in Mongolian Tögrög denominated securities and the Canadian operations hold securities denominated in Canadian and U.S. dollars.

The approximate impact of an increase of 10% in the Mongolian Tögrög against the Canadian dollar would increase the Other Comprehensive Income ("OCI")of the Company by $3,581,255. The approximate impact of a decrease of 10% in the Mongolian Tögrög against the Canadian dollar would decrease OCI of the Company by $3,581,255.

The approximate impact of an increase of 10% in the U.S. dollar against the Canadian dollar would increase net income of the Company by $367,962.

Internal Controls over Financial Reporting

Changes in securities laws no longer require the Chief Executive Offier and Chief Financial Officer of junior reporting issuers to certify that they have designed internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards.

Instead, an optional form of certification has been made available to junior reporting issuers and has been used by the Company's certifying officers for the December 31, 2011 annual filings. The new certification reflects what the Company considers to be a more appropriate level of CEO and CFO certification given the size and nature of the Company's operations. This certification requires the certifying officers to state that:

1. they have reviewed the annual MD&A and consolidated financial statements;

2. they have determined that there is no untrue statement of a material fact, or any omission of material fact required to be stated which would make a statement or its omission misleading in light of the circumstances under which it was made within the annual MD&A and consolidated financial statements;

3. based on their knowledge, the annual filings, together with the other financial information included in the annual filings, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of the date and for the periods presented in the filings.

Strategy

MGG separates its operations into three reporting segments for ease of management oversight. These segments are property, insurance, and corporate.

MGG's business has dramatically changed over the course of 2011. Therefore, at all three reporting segments, the Company's focus has been on hiring key employees, implementing reporting systems, and setting the Company up for continued growth in the future. The most difficult challenge that the Company has encountered is finding skilled employees, given the growth experienced during 2011. The growth in employees has moderated now that the majority of key positions are filled. The Company plans to spend more time and energy on training employees, rather than hiring many new employees, as the Company grows in the near future.

At corporate, Management has been somewhat surprised by the substantial costs involved in being a public company—especially as senior corporate employees receive either no salary, or substantially below market salaries. To offset this, Management is exploring ways to increase the interest earned on cash balances through more active management. From a cost perspective, the Company has made progress in building up the needed infrastructure and will likely not be required to increase expense levels much beyond current levels for the next stage of the Company's growth.

Property

MGG's property division continues to exhibit rapid growth in assets. Management and employees have worked hard to aggressively build up the infrastructure needed to manage this division. For most of the year, staffing has lagged behind the needs of this division. The property business is now adequately staffed for a substantially larger portfolio and there is no anticipation that management expenses will increase materially on a nominal level, more so they are likely to decline as a percentage of revenues.

Due to the rapid growth of the Mongolian economy and a shortage of high quality rental locations, property rents are increasing rapidly, particularly in office and prime retail location. When leases have been reviewed, many of them are at rates that are substantially below market rents. These leases should reset over the short-term and should substantially increase revenues if rental rates stay current.

MGG's property investment subsidiary plans on further expanding via the investment of additional capital into income producing and redevelopment properties in Ulaanbaatar. The Company's plan is contingent on procuring further funds for investment and on finding suitable investment targets which reach MGG's stringent investment criteria.

Insurance

The Company's insurance subsidiary, Mandal Daatgal ("Mandal"), received its insurance license on June 2, 2011 and began to aggressively target customers in October 2011. To date, it has focused its operations on both the retail and corporate market. The focus with Mandal is to underwrite conservatively so that all policy holders are confident that insureds will be paid on all legitimate claims. More importantly, through the use of reinsurance, Mandal attempts to ensure that it can cover losses due to rare catastrophic events.

The Company's expectation is that the insurance company will incur operating losses for at least the next year. Anticipated losses will likely be caused by the sizable costs of marketing and growing the business, against insufficient earned premium revenue. Some of these losses will be offset by the insurance company's investment portfolio. It is expected that the investment portfolio will grow as the company increases sales and the associated reserves.

On September 15, 2011 Mandal partnered with Mongol Post, the postal service of Mongolia, to distribute insurance products within Ulaanbaatar. Mandal has begun training and licensing postal representatives with the intention to roll out insurance sales through this channel during 2012. Mandal hopes to use this relationship to eventually sell insurance products across all of Mongolia.

On November 6, 2011 the government of Mongolia passed a law making auto liability insurance mandatory. This law came into effect on January 1, 2012. Management sees this as a sizable new market to address and are looking forward to pursuing these new customers.

Outlook

The Mongolian economy continues to be one of the best performing economies globally based on data from The National Statistics Office of Mongolia ("NSO") – December 2011 edition, with preliminary estimates of annualized nominal Q4 GDP growth of 27.8%. The Mongolian Consumer Price Index increased 2% during the month of December 2011, and 10.2% between December 2010 and December 2011, based on data from the NSO. This growth is being funded by Foreign Direct Investment inflows to a number of sizable mining projects along with re-investment of earnings from existing projects. Outside of the mining sector, the consumer economy is growing at a phenomenal rate, demonstrated by a more than doubling of the import of automobiles into Mongolia, in 2011 from 2010. There are also substantial increases in investment demand for infrastructure including real estate.

MGG has been a beneficiary of these trends in both its property and insurance operations. In its property operation, the property portfolio has increased substantially in value. This increase in market value is caused by higher market rents and increased availability of credit which is allowing some investors to borrow money through mortgages.

As Mongolians see a higher standard of living, they will want to protect their valuables. Additionally, corporations are beginning to understand the necessity of using insurance to avoid business volatility. These two trends have been important in seeing the Company's insurance subsidiary, Mandal Daatgal, grow since inception in June of 2011.

It is widely anticipated that 2012 will be another year of strong GDP growth for Mongolia which should bode well for the Company.

Economic Volatility and Uncertainty

The past economic volatility and uncertainty in Canada and around the world has contributed to dramatically restricted access to capital and reduced capital markets activity. The Company's management believes that the Company has sufficient resources to carry on its business and remain a going concern.

MGG holds the majority of its assets, investments and operations in the nation of Mongolia. Mongolia is presently experiencing drastic changes in its fast growing economy. Economic volatility and uncertainty in Mongolia could result in inflation, hyperinflation, economic stagnation, strife, political extremism, and other similarly detrimental scenarios which would materially harm the Company.

Substantial risk and uncertainty exists due to the level of economic growth in Mongolia. According to the Bank of Mongolia, money supply (M2) increased 37.3% during 2011. Loans outstanding in the banking industry also increased substantially during 2011, rising 72.8%. Such changes in money supply and lending may be warranted due to the growth of the local economy. However, historical economic disequilibrium of such magnitude in other nations has frequently led to hyperinflation, unstable economic conditions, hardship and strife.

Depending on the requirements of MGG's businesses, additional funds may be required to be raised in the capital markets and there is no guarantee that sufficient funds raised will be available to complete a financing required to augment the Company's operations.

Events Subsequent to Year End

Subsequent to year end, MGG purchased $4,900,000 worth of properties.

190,000 5-year Options were issued to MGG's employees in the property business on March 23 2012 at a price of $4.00 per share.

Mandal has sold a sizable bankers blanket bond with Khan Bank, the largest bank in Mongolia based on branch count. This transaction was 100% reinsured by syndicates of the Society of Lloyd's. Mandal also received a special permit to write auto liability coverages on April 18, 2012.

Finally, MGG announced that for the month of March, it was cash flow positive and, excluding one-time events, expects to be cash flow positive going forward.

Outstanding Share Data

As at December 31, 2011, the Company had 34,143,352 common shares issued and outstanding. As at December 31, 2011, 11,420,000 of the Company's common shares, or approximately 33.5% of the issued and outstanding shares, were directly or indirectly controlled by the Company's directors and officers. As of December 31, 2011, the Company had 600,000 stock options outstanding with an exercise price of $1.64 per share (500,000 have an expiry date of March 9, 2021 and 100,000 have an expiry date of March 9, 2014). The Company also had 772,000 stock options outstanding with an exercise price of $4.20 per share, (at issuance, 825,000 had an expiry date of April 25th 2016 and 75,000 had an expiration date of April 25th 2014, of theses a total of 128,000 were forfeited during the year). In addition, the Company had 175,000 options with an expiry date of September 7, 2016 and an exercise price of $4.77. Furthermore, the Company had 150,000 options with an expiry date of December 2, 2016 and an exercise price of $4.25.

At period-end, the Company had nil options that were exercisable (2010-296,430)

Outstanding	as at December 31, 2011
Common shares	34,143,352
Options to buy common shares	1,697,000

Additional Information

Additional information relating to Mongolia Growth Group Ltd., including its audited financial statements, is available on SEDAR at www.sedar.com.

Mongolia Growth Group Ltd.

Consolidated Financial Statements
December 31, 2011
(expressed in Canadian dollars)

April 30, 2012

Independent Auditor's Report

To the Shareholders of
Mongolia Growth Group Ltd.

We have audited the accompanying consolidated financial statements of Mongolia Growth Group Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mongolia Growth Group Ltd. and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Mongolia Growth Group Ltd.

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents (note 5)	20,078,948	138,201	382,776
Investments and marketable securities (note 6)	2,569,778	-	-
Other assets (note 7)	427,949	18,646	6,905
Reinsurance assets (note 8)	7,760	-	-
Deferred acquisition expenses (note 9)	15,175	-	-
	23,099,610	156,847	389,681
Non-current assets			
Investments and marketable securities (note 6)	1,446,983	-	-
Investment properties (note 10)	26,166,286	-	-
Deferred share issuance costs	-	-	15,410
Property and equipment (note 11)	4,624,010	-	-
Total assets	55,336,889	156,847	405,091
Liabilities			
Trade and accrued liabilities (note 12)	859,213	9,677	10,075
Income taxes payable (note 13)	819,096	-	-
Insurance contract liabilities (note 14)	361,820	-	-
Total liabilities	2,040,129	9,677	10,075
Equity			
Share capital (note 15)	51,681,818	438,547	438,547
Contributed surplus	1,846,475	47,872	47,872
Accumulated other comprehensive loss	(1,241,437)	-	-
Retained earnings (deficit)	1,009,904	(339,249)	(91,403)
Total equity	53,296,760	147,170	395,016
Total equity and liabilities	55,336,889	156,847	405,091

Approved by the Board of Directors

Signed *"Paul Sweeney"* Director   Signed *"Paulo Bilezikjian"* Director

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

Mongolia Growth Group Ltd.

Consolidated Statements of Operations

For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Revenue		
Net premiums earned (note 14)	77,786	-
Rental income	495,242	-
Other revenue	16,283	-
Total revenue	589,311	-
Expenses		
Salaries and wages	376,460	-
Other expenses (note 22)	1,584,692	248,899
Share based payment	1,798,603	-
Depreciation (note 11)	45,757	-
Financing charges	3,822	-
Total expense	3,809,334	248,899
Net investment income (loss) (note 6)	(344,246)	1,153
Unrealized gain on fair value adjustment on investment properties (note 10)	5,740,919	-
Net income (loss) for the year before income taxes	2,176,650	(247,846)
Provision for income taxes (note 13)	(827,497)	-
Net income (loss) for the year	1,349,153	(247,846)
Net income (loss) per share (note 15)		
Basic	$0.06	$(0.10)
Diluted	$0.05	$(0.10)

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

Mongolia Growth Group Ltd.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Net income (loss) for the year	1,349,153	(247,846)
Other comprehensive loss - net of taxes		
Unrealized losses on translation of financial statement operations with Mongolian MNT functional currency to Canadian dollar reporting currency	(1,241,437)	-
Total comprehensive income (loss)	107,716	(247,846)

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

Mongolia Growth Group Ltd.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

	Share capital $	Contributed surplus $	Accumulated other comprehensive loss $	Retained earnings (deficit) $	Total $
Balance at January 1, 2010	438,547	47,872	-	(91,403)	395,016
Net loss for the year	-	-	-	(247,846)	(247,846)
Balance at December 31, 2010	438,547	47,872	-	(339,249)	147,170
Balance at January 1, 2011	438,547	47,872	-	(339,249)	147,170
Net income for the year	-	-	-	1,349,153	1,349,153
Other comprehensive income	-	-	(1,241,437)	-	(1,241,437)
	438,547	47,872	(1,241,437)	1,009,904	254,886
Share based payment	-	1,798,603			1,798,603
Share capital issued (note 15)	51,571,284		-	-	51,571,284
Share issue costs (note 15)	(328,013)	-	-	-	(328,013)
Balance at December 31, 2011	51,681,818	1,846,475	(1,241,437)	1,009,904	53,296,760

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

Mongolia Growth Group Ltd.

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	1,349,153	(247,846)
Items not affecting cash		
Net realized loss on sale of financial assets (note 6)	592,277	-
Depreciation of property and equipment (note 11)	45,757	-
Share based payment	1,798,603	-
Unrealized gain on fair value adjustment on investment properties (note 10)	(5,740,919)	-
Non-cash financing charges	-	15,410
	(1,955,129)	(232,436)
Net change in non-cash working capital balances (note 20)	1,598,214	(12,139)
	(356,915)	(244,575)
Financing activities		
Proceeds from share issuance (note 15)	51,571,284	-
Cost of issue of shares (note 15)	(328,013)	-
	51,243,271	-
Investing activities		
Purchase of investments	(48,706,825)	-
Disposition of investments	44,097,787	-
Net acquisition of property and equipment	(4,666,159)	-
Acquisition of investment properties	(20,425,367)	-
	(29,700,564)	-
Effect of exchange rates on cash	(1,245,045)	-
Increase (decrease) in cash and cash equivalents	19,940,747	(244,575)
Cash and cash equivalents - Beginning of year	138,201	382,776
Cash and cash equivalents - End of year	20,078,948	138,201
Income taxes paid	-	-

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

(expressed in Canadian dollars)

1 Corporate information

Mongolia Growth Group Ltd. (formerly Summus Capital Corp.) (MGG or the Company) was incorporated in Alberta on December 17, 2007, and is an early stage real estate and financial conglomerate, focusing its operations in the emerging economy of Mongolia. On February 2, 2011, present management of the Company purchased 320,500 common shares of the corporation formerly known as Summus Capital Corp. (Summus), from the founding management. The Company also filed articles of amendment renaming the Corporation "Mongolia Growth Group Ltd.", cancelled all stock options and consolidated the common shares of the corporation at a ratio of 1:2; as well as filed an application for the de-listing of the common shares from the NEX board of the TSXV and filed an application for the listing of common shares on the Canadian National Stock Exchange (CNSX). The Company is now listed on the CNSX, having the symbol YAK.

MGG has two wholly-owned subsidiaries, Mongolia Barbados Corp. and Mandal General Insurance LLC. Mongolia Barbados Corp. owns the wholly-owned subsidiaries Mongolia Fidelity Holding Corp., its wholly-owned subsidiary Mandal Universal LLC and Big Sky Capital LLC. Big Sky Capital LLC owns the wholly-owned subsidiaries Chaos LLC, Carrollton LLC, Biggie Industries LLC, Orpheus LLC, Endymion LLC, Zulu LLC, Crescent City LLC and Babylon LLC (together "the investment property operations"). The insurance operations are conducted in Mandal General Insurance LLC and the investment property operations are conducted in Big Sky Capital LLC and its subsidiaries. No active business operations occur in Mongolia Barbados Corp., Mongolia Fidelity Holding Corp. Mandal Universal LLC, Crescent City LLC, Chaos LLC and Babylon LLC at this time.

Both the investment property operations and the insurance operations are in their first year of operations. As at December 31, 2010, the Company had no business or assets other than cash and non-cash working capital.

The Company is registered in Alberta, Canada, with its Head Office at its registered address at 1400, 700-2nd Street W, Calgary, Alberta, Canada. The Company is domiciled out of the Company's corporate office and principal place of business which is located at 706 - 34 Cumberland St. N., Thunder Bay, Ontario, P7A 4L3, Canada. The Company also has a business office for the Mongolian investment property and insurance companies at the corner of Chinggis Ave. and Seoul St. in Ulaanbaatar, Mongolia.

The Company is organized into three business units based on the business operations:

- Big Sky Capital LLC and its subsidiaries own investment properties which are located in Ulaanbaatar, Mongolia and are held for the purpose of generating rental revenue, capital appreciation or both;

- Mandal General Insurance offers insurance products in Mongolia covering all common general insurance types. The Company's main lines of business are motor insurance, including voluntary motor third party liability, property, accident medical and travel and liability insurance;

- The MGG Corporate office is located in Thunder Bay, Canada and administers the financial resources, investment portfolio and corporate reporting and legal functions of the Company.

(expressed in Canadian dollars)

2 Basis of presentation and adoption of International Financial Reporting Standards (IFRS)

The consolidated financial statements of the Company have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB). For all periods up to and including the period ended December 31, 2010, the Company prepared its financial statements in accordance with Part V Pre-Changeover Accounting Standards, of the Canadian Institute of Chartered Accountants Handbook, Canadian generally accepted accounting principles (Canadian GAAP). Canadian GAAP differs in some areas from IFRS and as such, in preparing these financial statements, the Company has amended certain accounting policies previously applied in the Canadian GAAP financial statements. Explanations of the impact of the transition to IFRS as of December 31, 2010 and January 1, 2010 on the financial position, financial performance and cash flows can be found in note 23.

The consolidated financial statements' values, including the notes to the consolidated financial statements, are presented in Canadian dollars ($) which is the Company's presentation currency and the functional currency of the parent company. The functional currency of the Company's operating subsidiaries is the Mongolian National Tögrög (MNT).

These consolidated financial statements were approved by the Board of Directors of the Company for issue on April 30, 2012.

3 Significant accounting policies

a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and available-for-sale (AFS) with the exception of insurance contract liabilities which are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy of fair value) as explained throughout this note.

b) Basis of consolidation

These financial statements include the assets, liabilities, equity, revenues, expenses and cash flows of MGG and its wholly-owned subsidiaries. Subsidiaries are entities controlled by MGG. Control exists when MGG has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of the subsidiaries are prepared for the same reporting year as MGG, using consistent accounting policies. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(expressed in Canadian dollars)

c) Financial instruments

Financial assets

Financial assets are classified into one of the following categories: AFS, FVTPL, or loans and receivables. The classification depends on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

i) Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated in this category or do not fit into any other category. AFS financial assets are initially measured at fair value on the consolidated statement of financial position from the trade date. Subsequent to initial recognition, AFS financial assets are carried at fair value with changes in fair values recorded, net of income taxes, in other comprehensive income (OCI) until the AFS financial asset is disposed of or has become impaired. When the AFS financial asset is disposed of or has become impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income (AOCI) are transferred to the consolidated statement of operations.

ii) Fair value through profit or loss

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. FVTPL instruments are carried at fair value in the consolidated statement of financial position with changes in fair value recorded in the consolidated statement of operations.

iii) Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specific date or dates, or on demand. They are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

(expressed in Canadian dollars)

Impairment on financial assets

All financial assets other than FVTPL instruments are assessed for impairment at each reporting date. The Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

AFS debt instruments

An AFS debt security would be identified as impaired when there is objective evidence suggesting that timely collection of the contractual principal or interest is no longer reasonably assured. This may result from a breach of contract by the issuer, such as a default or delinquency in interest or principal payments, or evidence that the issuer is in significant financial difficulty. Impairment is recognized through net income or loss in the consolidated statement of operations. Subsequent declines in value continue to be recorded through net income or loss in the consolidated statement of operations. Impairment losses previously recorded through net income or loss in the consolidated statement of operations are to be reversed if the fair value subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized.

AFS equity instruments

Objective evidence of impairment exists if there has been a significant or prolonged decline in the fair value of the investment below its cost or if there is a significant adverse change in the technological, market, economic, political or legal environment in which the issuer operates or the issuer is experiencing financial difficulties.

The accounting for an impairment that is recognized in net income or loss in the consolidated statement of operations is the same as described for AFS debt securities above with the exception that impairment losses previously recognized in net income or loss in the consolidated statement of operations cannot be subsequently reversed until the instrument is disposed of. Any subsequent increase in value is recorded in OCI.

Financial liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and are comprised of trade payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade payables and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured and are usually paid within 30 days of recognition.

(expressed in Canadian dollars)

Fair value of financial instruments

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Financial assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1 fair value measurements are those derived from unadjusted quoted prices in an active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly (i.e., as price) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

The Company has implemented the following classifications:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

- The Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of investments. The size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities. Assets measured at fair value and classified as Level 1 include cash and cash equivalents, and investments and marketable securities. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Assets measured at fair value and classified as Level 2 include investments and marketable securities. Fair value is based on or derived from market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

(expressed in Canadian dollars)

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

- Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as instruments for which the determination of estimated fair value requires significant management judgement or estimation.

d) Investment properties

Investment properties include properties held to earn rental revenue, for capital appreciation or both. Investment properties are initially measured at fair value which is the purchase price plus any directly attributable expenditures. Investment properties are subsequently measured at fair value, which reflects market conditions at the date of the statement of financial position. Gains or losses arising from changes in the fair value of investment properties are recognized in the consolidated statement of operations in the year they arise. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to MGG and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of operations during the financial period in which they occur. Substantially all of the Company's income properties and properties under development are investment properties.

The fair value of investment properties was based on the nature, location and condition of the specific asset. The fair value is calculated at December 31, 2011 by an independent, professional, qualified appraisal firm, whose appraisers hold recognized relevant, professional qualifications and who have recent experience in the locations and categories of the investment properties valued.

Investment properties which were purchased after November 1, 2011 with a carrying value of 19% were not valued by the external appraisal firm as the carrying value was deemed to be a close approximation to the fair value at December 31, 2011. Overall, the external appraisal firm performed valuations on 81% of the total carrying value of investment properties. For investment properties valued by the appraiser, the carrying value of the investment properties that were valued at December 31, 2011 agree to the valuation report by the external appraisal firm.

Property held under an operating lease is not classified as investment properties. Instead, these leases are accounted for in accordance with Leases (IAS 17). However, certain land leases held under an operating lease are classified as investment properties when the definition of an investment property is met. At inception these leases are recognized at the lower of the fair value of the property and the present value of the minimum lease payments and an equivalent obligation is recognized as a lease liability.

(expressed in Canadian dollars)

Some properties may be partially occupied by the Company, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Company can be sold separately, the Company accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income, capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Company considers the owner-occupied portion as insignificant when the property is more than 90% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Company uses the size of the property measured in square metres.

e) Assets held for sale

Assets, or disposal groups comprising assets and liabilities, are categorized as held for sale at the point in time when the asset or disposal group is available for immediate sale, management has committed to a plan to sell and is actively locating a buyer at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one year period. Investment property that is to be disposed of without redevelopment has been determined to not have a change in use and continues to be recorded in investment property. Investment property that has evidence of commencement of redevelopment with a view to sell is transferred to assets held for sale. Investment properties are measured by the guidelines of IAS 40 - Investment Property. All other assets held for sale are stated at the lower of carrying amounts and fair value less selling costs. An asset that is subsequently reclassified as held and in use, with the exception of investment property measured under the fair value model, is measured at the lower of its recoverable amount and the carrying value that would have been recognized had the asset never been classified as held for sale.

The results of operations associated with disposal groups sold, or classified as held for sale, are reported separately as income or loss from discontinued operations

f) 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. The Company’s specific revenue recognition criteria are as follows:

i) Rental revenue

The Company has not transferred substantially all of the benefits and risk of ownership of its investment properties and, therefore, the Company accounts for leases with its tenants as operating leases. Rental revenue includes all amounts earned from tenants related to lease agreements including property tax and operating cost recoveries.

The Company reports minimum rental revenue on a straight-line basis, whereby the total amount of cash to be received under a lease is recognized into earnings in equal periodic amounts over the term of the lease.

(expressed in Canadian dollars)

Contingent rents are recognized as revenue in the period in which they are earned.

Amounts payable by tenants to terminate their lease prior to their contractual expiry date (lease cancellation fees) are included in rental revenue at the time of cancellation.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset. Tenant incentives are recognized as a reduction of rental revenue on a straight-line basis over the term of the lease.

ii) Insurance revenues

Revenue from insurance operations is comprised of net premiums earned.

Premiums written are deferred as unearned premiums and recognized in the consolidated statement of operations over the terms of the underlying policies on a pro rata basis. Premiums written are gross of any commissions and amounts ceded to reinsurers.

Premiums ceded on insurance contracts are recognized as a reduction of gross premiums when payable or on the date the policy is effective.

iii) Investment income

Investment income is recorded as it accrues using the effective interest method. Dividend income on shares is recorded on the ex-dividend date. Gains and losses are determined and recorded as at the trade date, and are calculated on the basis of average cost. The effective interest rate method is used to amortize premiums or discounts on the purchase of AFS bonds.

g) Product classification

Insurance contracts are those contracts where the Company has accepted significant insurance risk from another party (the policyholders) by agreeing to indemnify the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines if it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. All of the Company's insurance contracts are classified as insurance contracts as defined by IFRS.

Liability insurance contracts protect the Company’s customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers’ liability) and for customers (individuals and legal entities) who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

(expressed in Canadian dollars)

The Company's motor portfolio comprises both voluntary third party liability insurance (driver liability insurance) and motor insurance. Motor third party liability insurance covers bodily injury claims and property claims. Property damage under motor insurance, as well as bodily injury claims, are generally reported and settled within a short period of the accident occurring.

Property insurance ensures that Company's customers are paid compensation for the damage caused to their property or ensures their financial interests.

h) Claims and insurance benefits incurred

Gross claims and insurance benefits incurred include all claims and insurance benefits occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, reduced for the value of salvage and subrogation.

Reinsurance claims and insurance benefits are recognized when the related gross insurance claim is recognized according to the terms of the relevant reinsurance contracts.

i) Insurance contract liabilities

Insurance contract liabilities includes unearned premiums and unpaid claims. Unpaid claims are initially established by the case method as claims are reported. The estimates are regularly reviewed and updated as additional information on the estimated unpaid claims becomes known and any resulting adjustments are included in the consolidated statement of operations as incurred. Insurance contract liabilities are determined using accepted actuarial practices. The bases used for estimating the Company's insurance contract liabilities are described below:

Unearned premiums

Unearned premiums are calculated on a pro rata basis, from the unexpired portion of the premiums written and are recognized over the term of the insurance contract in Net premiums earned on the consolidated statement of operations.

At the end of each reporting period, a liability adequacy test is performed, in accordance with IFRS, to validate the adequacy of unearned premiums and deferred acquisition expenses. A premium deficiency would exist if unearned premiums are deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of deferred acquisition expenses to the extent that unearned premiums plus anticipated investment income is not considered adequate to cover all deferred acquisition expenses and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred acquisition expenses, a liability is accrued for the excess deficiency.

(expressed in Canadian dollars)

Unpaid claims

A provision is also made for management's calculation of factors affecting future development of unpaid claims including claims incurred but not reported (IBNR). IBNR is determined for each line of business under the expected loss method. Under the expected loss method, ultimate losses are based upon some prior measure of the anticipated losses as a percentage of earned premium. The expected loss ratios were based on Mongolian industry experience and the estimates used in setting the insurance subsidiary's premium rates. Estimates of salvage and subrogation recoveries are included in the estimated unpaid claims. The unpaid claims are discounted for the time value of money utilizing a discount rate based on the expected return of the investment portfolio and prevailing inflation rates that approximates the cash flow requirements of the unpaid claims. To recognize the uncertainty inherent in determining the unpaid claims amounts, the Company includes a Provision for Adverse Deviations (PFADs) relating to claim development and future investment income.

Reinsurance contracts held

The Company cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Company from its obligations to policyholders. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts. Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

The Company assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the consolidated statement of operations. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets.

Deferred acquisition expenses

Certain costs of acquiring and renewing insurance contracts, such as commissions and other acquisition costs, are deferred to the extent they are considered recoverable and are expensed in the accounting period, in which the related premiums are recognized as revenue.

(expressed in Canadian dollars)

j) Cash and cash equivalents

Cash and cash equivalents include cash at bank, deposits held at call with banks, other short-term bank deposits and highly liquid investments with an original term to maturity of three months or less at the date of purchase that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

k) Property and equipment

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in a manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses. All repairs and maintenance costs are charged to the consolidated statement of operations during the period in which they occur.

Depreciation is recognized in the consolidated statement of operations and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	Straight-line over 40 years
Furniture and fixtures	Straight-line over 5 to 10 years
Equipment	Straight-line over 1 to 5 years
Vehicles	Straight-line over 10 years

Impairment reviews are performed when there are indicators that the net recoverable amount of an asset may be less than the carrying value. The net recoverable amount is determined as the higher of an asset's fair value less cost to sell and value in use. Impairment is recognized in the consolidated statement of operations, when there is objective evidence that a loss event has occurred which has impaired future cash flows of an asset. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the consolidated statement of operations at that time.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations in the period the asset is derecognized.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(expressed in Canadian dollars)

l) Income taxes

Income taxes are comprised of both current and deferred taxes. Current tax and deferred tax are recognized in the statement of operations except to the extent that it relates to items recognized in OCI or directly in equity. In this case, the tax is recognized in OCI or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income and are measured at the amount expected to be recovered from or paid to the taxation authorities for the current and prior periods.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases for assets and liabilities and for certain carry-forward items, such as losses and tax credits not utilized from prior years. However, if the deferred income tax arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income, it is not accounted for.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where, in the opinion of management, it is probable that future taxable profit will be available against which the deferred tax asset can be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date the changes in tax laws and rates have been enacted or substantively enacted.

m) Foreign exchange transactions

Foreign currency transactions are translated at the rate of exchange in effect on the dates they occur.

Gains and losses arising as a result of foreign currency transactions are recognized in the current year consolidated statement of operations.

(expressed in Canadian dollars)

Translation of foreign operations

For the purpose of the consolidated financial statements, the results and financial position of the Mongolian operations are expressed in Canadian dollars, which is the functional currency of the parent, and the presentation currency of the consolidated financial statements.

The Company translates the assets, liabilities, income and expenses of its Mongolian operations which have a functional currency of MNT, to Canadian dollars on the following basis:

- Assets and liabilities are translated at the closing rate of exchange in effect at the consolidated statement of financial position date.
- Income and expense items are translated using the average rate for the month in which they occur, which is considered to be a reasonable approximation of actual rates.
- Equity items are translated at their historical rates.
- The translation adjustment from the use of different rates is included as a separate component of equity.

n) Comprehensive income

Comprehensive income consists of net income (loss) and OCI. OCI includes unrealized gains or losses on AFS financial assets, net of amounts reclassified to the statement of operations, and unrealized gains (losses) on the translation of financial statement operations with Mongolian MNT functional currency.

o) Share capital and deferred share issuance costs

Ordinary shares issued by the Company are classified as equity.

Costs directly identifiable with the raising of capital will be charged against the related share issue, net of any tax effect. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share issuance or charged to operations if the shares are not issued.

(expressed in Canadian dollars)

p) Share based payment

The Company offers share based payment plans for directors, executive management, key employees and other key service providers. The purpose of the share based payment plan is to enhance the ability of the Company to attract and retain Directors, executive management, key employees and other key service providers whose training, experience and ability will contribute to the effectiveness of the Company and to directly align their interests with the interests of shareholders.

The Company's share based payment plans provide for the granting of stock options to independent Directors, executive management, key employees and other key service providers. Each stock option entitles the participant to receive one common share and can only be settled with the issuance of common shares, and as a result, is deemed to be an equity-settled share based payment transaction. Share based payment expense is measured based on the fair market value of the Company's shares at the grant date. The associated compensation expense is recognized over the vesting period or service period, whichever is shorter based on the number of rewards that are expected to vest. Fair value of the goods and services received has been determined based on management's estimate of current market rates for those services that could be exchanged by independent willing third parties.

Share based payment arrangements to other key service providers in which the Company receives properties, goods or services as consideration for its own equity instruments are measured at the fair value of the properties, goods or services received. Fair value of the goods and services received has been determined based on management's estimate of current market rates for those services that could be exchanged by independent willing third parties. If the identifiable consideration received by the Company appears to be less than the fair value of the stock options granted, the Company will perform an assessment to determine if unidentifiable goods or services has been, or will be, received by the Company. The unidentifiable goods or services are then measured at the grant date.

The fair value of stock options granted is measured using the Black-Scholes option pricing model.

Agent options granted as compensation for the issuance of shares are charged to share issue costs.

Any consideration received upon the exercise of stock options is credited to common shares. In the event that vested stock options expire without being exercised, previously recorded compensation costs associated with such options are not reversed.

q) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share (EPS) data for its common shares. Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise share options.

(expressed in Canadian dollars)

r) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Chief Executive Officer. The Company is managed as three operating segments based on how information is produced internally for the purpose of making operating decisions. The segments are defined as investment property operations, insurance operations and corporate.

s) Leases

The Company has entered into Mongolian government land leases on some of its investment properties. The Company, as a lessee, has determined, based on an evaluation of the terms and conditions of the arrangements, that these land leases meet the definition of an investment property and has classified them as such. At inception, these leases are recognized at the lower of the fair value of the property and the present value of the minimum lease payments and an equivalent lease obligation is recognized.

The Company has entered into commercial and residential property leases on its investment properties. The Company as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains the significant risks and rewards of ownership of these properties and therefore accounts for these agreements as operating leases.

t) Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation 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. When the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense of any provision is recognized in the consolidated statement of operations 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 a borrowing cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(expressed in Canadian dollars)

u) Accounting standards and amendments issued but not yet adopted

The following is an overview of accounting standard changes that the Company will be required to adopt in future years. Except as noted for IFRS 7, IFRS 9, IAS 1 and IAS 12, the standards are applicable for periods beginning on or after January 1, 2013 with earlier adoption permitted.

IFRS 7 - “Financial Instruments: Disclosures”

IFRS 7 was amended by the IASB in October 2010, and requires entities to provide the disclosures for all transferred financial assets that are not recognized and for a continuing involvement in a transferred financial asset, existing at the reporting date, irrespective of when the related transfers transaction occurred. The amendment is effective for annual periods beginning on or after January 1, 2012. IFRS 7 was further amended by the IASB in December 2011. The amendment requires entities to provide disclosures related to offsetting financial assets and liabilities. The amendment is effective for annual periods beginning on or after January 1, 2014.

IFRS 9 - “Financial Instruments”

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 “Financial Instruments: Recognition and Measurement” for debt instruments with a new model only having two categories: amortized cost and fair value. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at FVTPL or at fair value through OCI. Where such equity instruments are measured at fair value through OCI that do not clearly represent a return of investment, the dividends are recognized in net income (loss) under net investment income; however, other gains and losses associated with such instruments remain in AOCI indefinitely.

Requirements for financial liabilities were added in October 2010 which largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at FVTPL would generally be recorded in OCI.

The IASB recently issued an amendment to this standard that delays the effective date from accounting periods beginning on or after January 1, 2013 to January 1, 2015. The amendment also modifies the relief from restating prior periods. As part of this relief, the IASB published an amendment to IFRS 7 to require additional disclosure on transition from IAS 39 to IFRS 9. The Company continues to monitor developments in this area.

IFRS 10 - “Consolidated Financial Statements”

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The Company is in the process of evaluating the impact of the new standard on the Company’s consolidated financial statements.

(expressed in Canadian dollars)

IFRS 11 - *"Joint Arrangements"*

IFRS 11 provides a new definition of joint arrangement focusing on the rights and obligations of the arrangement, rather than its legal form. The IFRS classifies joint arrangements into two types, joint operations and joint ventures. The Company is in the process of evaluating the impact of the new standard on the Company's consolidated financial statements.

IFRS 12 - "Disclosure of Interests in Other Entities"

IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows.

Early adoption of IFRS 12 is only permitted if IFRS 10, IFRS 11, IFRS 12 and the consequential amendments to IAS 17 and IAS 18 are adopted at the same time, with the exception of early adopting only the disclosure provision for IFRS 12 without the other new standards. The Company is in the process of evaluating the impact of the new standard on the Company's consolidated financial statements.

IFRS 13 - "Fair Value Measurement"

IFRS 13 provides a definition of fair value, a single framework for measuring fair value and disclosure requirements about fair value measurements. The Company is in the process of evaluating the impact of the new standard on the Company's consolidated financial statements.

IAS 1 - "Presentation of Financial Statements"

IAS 1 was amended in 2011 to require earnings (loss) and OCI to be presented together either as a single statement of comprehensive income or separate income statement and statement of comprehensive income. The amendments also requires presentation of OCI based on whether or not the balance may subsequently be reclassified to net income, with the tax associated with each type of OCI based on whether or not the balance may subsequently be reclassified to net income (loss), with the tax associated with each type of OCI balance to be presented separately. IAS 1 amendments are to be applied for annual periods beginning on or after July 1, 2012 with earlier adoption permitted. The impact of the adoption of this standard on the components of the financial statements cannot be reasonably estimated at this time.

(expressed in Canadian dollars)

IAS 12 - "Income Taxes"

IAS 12 was amended to introduce an exception to the general measurement requirements of IAS 12 in respect to investment properties measured at fair value. These new amendments will be effective for the fiscal year beginning on or after January 1, 2012. The Company is in the process of evaluating the impact of the new standard on the Company's consolidated financial statements.

Currently the Company does not anticipate early adopting any of the future changes in accounting standards in advance of their mandatory effective date.

4 Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in net income (loss) in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant estimates made in the preparation of these consolidated financial statements include the following areas:

- Fair value of investment properties - The estimate of fair value of investment properties is the most critical accounting estimate to the Company. An external appraiser estimates the fair value of investment properties annually. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value of investment properties represents an estimate of the price that would be made in an arm's length transaction between knowledgeable, willing parties. The Company operates in the emerging real estate market of Mongolia, which given its current economic, political and industry conditions, gives rise to an increased inherent risk given the lack of reliable and comparable market information. The significant estimates underlying the fair value determination are disclosed in note 10. Changes in assumptions about these factors could affect the carrying value of investment properties.

- Valuation of insurance contract liabilities - The estimate of the ultimate liability arising from claims made under insurance contracts is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice. Further information on methodology of the calculation and assumptions involved in estimating insurance contract liabilities including sensitivity analysis are disclosed in note 14.

(expressed in Canadian dollars)

- Accuracy of share based compensation expense - The estimate of the ultimate expense arising from share based compensation plans is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the share based compensation expense recorded by the Company. The ultimate expense is estimated by using a number of key assumptions such as the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the expected life of the option and future forfeiture rates. Further information on key assumptions including sensitivity analysis is included in note 15.

- Operating environment of the Company - Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. The tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes. The future economic performance of Mongolia is tied to the continuing demand from China and continuing high global prices for commodities as well as being dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Mongolia together with tax, legal, regulatory and political developments. Management is unable to predict all developments that could have an impact on the Mongolian economy and consequently what effect, if any, they could have on the future financial position of the Company.

5 Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates. The component of cash and cash equivalents account currently consists only of cash amounts held in banks or on hand.

The following table discloses the geographical location of cash and cash equivalents:

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Barbados	1,867,474	-	-
Canada	15,298,986	138,201	382,776
Mongolia	2,912,488	-	-
	20,078,948	138,201	382,776

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Cash	19,145,052	138,201	382,776
Cash equivalents	933,896	-	-
	20,078,948	138,201	382,776

(expressed in Canadian dollars)

Cash and cash equivalents are not collateralized. All amounts are classified as neither past due and not impaired.

Term deposits with banks included in cash and cash equivalents have original maturities of less than three months and bear interest at a rate of 6.6% per annum. The settlement and term deposits are placed in commercial banks operating in Mongolia. The carrying amount of cash and cash equivalents approximates fair value.

The credit quality of cash and cash equivalents balances may be summarized based on Standard and Poor's ratings or equivalents of Moody's and/or Fitch ratings. The credit quality at December 31, 2011 was as follows:

	$
Cash on hand	3,016
A or A+ rated	17,160,922
-B or B+ rated	2,773,791
Unrated	141,219
Total cash and cash equivalents	20,078,948

The unrated balance relates to one commercial bank in Mongolia, which has not been rated by any rating agency and one private bank in Barbados which is also unrated.

6 Investments and marketable securities

a) Carrying and fair value of investments and marketable securities

The carrying and fair values of the Company's investment portfolio by financial instrument categories are as follows:

	December 31, 2011			
	Classified as loans and receivables $	Designated as FVTPL $	Total carrying value $	Total fair value $
Money market fund				
Barbados	-	511,253	511,253	511,253
Term deposits				
Canada	40,305	-	40,305	40,305
Mongolia	3,465,203	-	3,465,203	3,465,203
	3,505,508	511,253	4,016,761	4,016,761

There were no investments or marketable securities at December 31, 2010 and January 1, 2010.

(expressed in Canadian dollars)

Deposits with Mongolian banks are denominated in Mongolian National Tögrögs and are placed with four commercial banks operating in Mongolia. Deposits with Mongolian banks are neither past due nor impaired and are not collateralized. All deposits bear fixed interest rates ranging from 11% to 15.6%.

Deposits with financial institutions in Canada bear a fixed interest rate of 0.8%.

b) Fair value hierarchy

The Company has categorized its assets measured at fair value into the three-level fair value hierarchy as summarized below, based upon the priority of the inputs to the respective valuation technique as defined in note 3:

	December 31, 2011	
	Level 1 **$**	**Total** **$**
FVTPL		
Money market fund	511,253	511,253

The Company did not have any financial assets measured at fair value at December 31, 2010 and January 1, 2010.

The Company has not adjusted the quoted price for any instruments included in Level 2. There are no investments that meet the Level 2 or 3 fair value measurement criteria. No investments were transferred between levels in 2011 and 2010.

c) Credit quality of investments and marketable securities

The credit quality of investments and marketable securities may be summarized based on Standard and Poor's ratings or equivalents of Moody's and/or Fitch ratings. The credit quality at December 31, 2011 was as follows:

	$
A+ rated	40,305
-B or B+ rated	2,666,708
Unrated	1,309,748
	4,016,761

The unrated balance relates to one commercial bank in Mongolia, which has not been rated by any rating agency and one private bank in Barbados which is also unrated.

(expressed in Canadian dollars)

d) Maturity schedule of fixed-term investments

					December 31, 2011
	One year or less $	One to five years $	Five to ten years $	More than ten years $	Total $
Money market fund					
Barbados	511,253	-	-	-	511,253
Term deposits					
Canada	40,305	-	-	-	40,305
Mongolia	2,018,220	1,446,983	-	-	3,465,203
	2,569,778	1,446,983	-	-	4,016,761

The carrying amount of investments and marketable securities approximates fair value due to their short-term maturity. The carrying amount of the term deposits maturing in more than one year approximates their fair value as they were placed with the bank close to the end of fiscal 2011. Although these investments are classified as long-term, they are callable at any time.

e) Net investment income (loss)

	2011 $	2010 $
Net realized loss on sale of AFS financial assets	(592,277)	-
Interest income		
AFS term deposits and money market fund	252,946	-
Cash and cash equivalents	34,976	1,385
	(304,355)	1,385
Investment expense	(39,891)	-
Interest expense	-	(232)
	(39,891)	(232)
	(344,246)	1,153

f) Realized loss on sale of AFS financial assets

	2011 $	2010 $
Barbados AFS financial assets	(592,277)	-

(expressed in Canadian dollars)

7 Other assets

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Amounts due from policyholder	197,550	-	-
Accounts receivable	94,539	16,741	6,905
Prepaid expenses	135,860	1,905	-
	427,949	18,646	6,905

8 Reinsurance assets

	December 31, 2011 $
Reinsurers' share of provision for unearned premiums	7,760

The entire balance of reinsurance assets is considered to be current. There were no reinsurance assets at December 31, 2010 or January 1, 2010.

9 Deferred acquisition expenses

The movement in deferred acquisition expenses during the year was as follows:

	2011 $
Carrying amount at January 1	-
Acquisition expenses deferred	16,555
Acquisition expenses amortized	(1,379)
Foreign exchange adjustment	(1)
At December 31	15,175

The Company did not have any commission income from reinsurance during the period. There were no deferred acquisition expenses at December 31, 2010 or January 1, 2010.

(expressed in Canadian dollars)

10 Investment properties

	December 31, 2011 $
Balance - beginning of period	-
Additions	
Acquisitions[1]	21,621,505
Capital expenditures	819,698
Foreign currency translation	(2,015,836)
Unrealized fair value adjustment	5,740,919
Balance - end of period	26,166,286

(1) Acquisition of foreign investment properties have been translated to Canadian dollars at the historical exchange rate and adjusted to reflect the December 31, 2011 closing rate.

There were no investment properties at December 31, 2010 or January 1, 2010. Included in investment properties are properties actively being marketed for sale that are to be disposed of without redevelopment with a fair value of $1,757,511.

Investment properties within an aggregate fair value of $21,555,999 at December 31, 2011 were valued by an external independent valuation professional who is deemed to be qualified appraiser who holds a recognized, relevant, professional qualification and who has recent experience in the locations and categories of the investment properties valued. The carrying value of investment properties valued by the external appraiser at December 31, 2011 agrees to the valuations reported by the external appraiser.

The Company determined the fair value of investment properties using the sales comparison approach and the income approach, which are generally accepted appraisal methodologies.

Under the income approach, the methodology used was the direct capitalization approach which is based on rental income and yields. Rental incomes were based on actual rent adjusted for non-recoverable property costs. Yields were determined using data from real estate agencies, market reports and property location among other things in determining the appropriate assumptions.

Under the overall capitalization method, year one income is stabilized and capped at a rate deemed appropriate for each investment property. Commercial property has been fair valued under this approach.

The sales comparison approach analyzes all available information of sales of comparable properties that have recently taken place and adjusts the price to reflect differences in the property valued and sold. Residential property has been fair valued under this approach.

(expressed in Canadian dollars)

The key valuation assumptions for investment properties are as follows:

	December 31, 2011		
	Maximum	**Minimum**	**Weighted-average**
Capitalization rate	15.6%	7.6%	10.56%

Additional valuation assumptions include the rental revenue per square meter, grade quality of the property and comparable market data.

Investment properties held by the Company are leased out under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	December 31, 2011 $
Less than 1 year	688,026
Between 1 and 5 years	2,911,911
	3,599,937

Investment properties include land held under operating leases with an aggregate fair value of $3,670,841 at December 31, 2011.

Direct operating expenses arising from investment properties that generated rental income during the year was $623,615. Direct operating expenses arising from investment properties that did not generate rental income during the year was $13,892.

(expressed in Canadian dollars)

11 Property and equipment

					2011
	Furniture and fixtures $	Equipment $	Vehicles $	Buildings $	Total $
Cost					
At January 1	-	-	-	-	-
Additions	118,186	86,324	287,584	4,750,289	5,242,383
Disposals	-	-	(32,521)	-	(32,521)
Foreign exchange adjustment	(9,064)	(4,719)	(21,024)	(508,896)	(543,703)
At December 31	109,122	81,605	234,039	4,241,393	4,666,159

					2011
	Furniture and fixtures $	Equipment $	Vehicles $	Buildings $	Total $
Accumulated depreciation					
At January 1					
Depreciation	6,251	10,604	9,392	19,510	45,757
Foreign exchange adjustment	(471)	(678)	(774)	(1,685)	(3,608)
At December 31	5,780	9,926	8,618	17,825	42,149
Net book value at December 31	103,342	71,679	225,421	4,223,568	4,624,010

12 Trade and accrued liabilities

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade and accrued payables	688,808	9,677	10,075
Premiums received in advance	5,007	-	-
Security deposit	78,039	-	-
Unearned revenue	87,359	-	-
	859,213	9,677	10,075

The carrying amounts above reasonably approximate fair value at the balance sheet date. All trade and other payables are current.

(expressed in Canadian dollars)

13 Income taxes

a) Effective tax rate

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2011 $	2010 $
Net income (loss) before income taxes	2,176,650	(247,846)
Combined statutory tax rate	28.25%	28%
Tax payable based on statutory tax rate	614,904	(69,397)
Effect of:		
Permanent differences	142,573	-
Tax rate variances of foreign subsidiaries	(397,239)	-
Deferred tax assets not recognized	373,505	69,397
Other	93,754	-
	827,497	-
Provision for income taxes		
Current	827,497	-
Deferred	-	-
	827,497	-

b) Deferred income taxes

Differences between IFRS and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The Company did not recognize a deferred tax asset in these consolidated financial statements as there is uncertainty with regard to the recoverability of the asset for both the Canadian and Mongolian entities.

There were no deferred income tax assets or liabilities at December 31, 2010 or January 1, 2010.

There are $36,000 (2010 - nil) of non-capital loss carryforwards relating to the Mongolian entities that will expire in 2013. The Company also did not recognize deferred tax assets related to taxable temporary differences of $81,000. In accordance with Mongolian tax law, the taxable losses can be carried forward for two years and are deductible up to 50% of the taxable income of that year.

In accordance with Canadian tax law, the taxable losses can be forward twenty years. There are $1,293,266 (2010 - $359,352) of non-capital losses relating to the Canadian entity.

(expressed in Canadian dollars)

The losses expire as follows:

Non-capital loss $	Year of expiry
8,572	2028
75,387	2029
275,393	2030
933,914	2031

No future tax benefit has been recorded on these non-capital loss carry forwards as the timing for potential realization of these future benefits is uncertain.

14 Insurance contract liabilities

As the Company's insurance operations did not commence until fiscal 2011, there is no historical financial information disclosed related to insurance contract liabilities prior to January 1, 2011.

a) Insurance contract liabilities consist of:

			2011
	Insurance contract liabilities $	Reinsurers' portion $	Net $
Property and casualty			
Unearned premiums	310,993	(7,760)	303,233
Unpaid claims	50,827	-	50,827
Insurance contract liabilities	361,820	(7,760)	354,060
Current	361,820	(7,760)	354,060
Non-current	-	-	-
Insurance contract liabilities	361,820	(7,760)	354,060

(expressed in Canadian dollars)

b) The movements in unearned premiums for the year were:

	2011		
	Insurance contract liabilities $	**Reinsurers' portion $**	**Net $**
At January 1	-	-	-
Gross premiums written	391,702	(10,683)	381,019
Premiums earned	(80,709)	2,923	(77,786)
At December 31	310,993	(7,760)	303,233

Gross premiums written and premiums earned include respective instalment service charges.

c) Property and casualty unpaid claims

	2011		
	Gross unpaid claims $	**Reinsurers' portion $**	**Net $**
Provision for reported claims undiscounted	46,995	-	46,995
Effect of discounting	(3,627)	-	(3,627)
PFADs	7,459	-	7,459
	50,827	-	50,827

Management believes that the unpaid claims provision is appropriately established in the aggregate and is adequate to cover the ultimate net cost on a discounted basis. The determination of this provision, which includes unpaid claims, adjustment expenses and expected salvage and subrogation requires an assessment of future claims development. This assessment takes into account the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claims arise and the delay inherent in claims reporting. This provision is an estimate and as such is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. As the insurance company is at a start-up stage, there is no historical loss information available. As a result, the Company has calculated the unpaid claims provision based on the expected loss method. Under the expected loss method, ultimate losses are based upon some prior measure of the anticipated losses relative to some measure of exposure, which the Company has used earned premium. The expected loss ratios were based on Mongolian industry experience and expected loss ratios used in determining the Company's premium rates. Any such changes in assumptions will be reflected in the consolidated statement of operations for the period in which the change occurred.

(expressed in Canadian dollars)

The loss ratios used in the calculations are as follows:

	December 31, 2011
Accident insurance	70%
Automobile insurance	55%
Property insurance	60%
Drivers' insurance	70%
Liability insurance	60%
Construction insurance	60%
Cargo insurance	60%

This estimate does reflect the time value of money. In that respect, the Company determines the discount rate based upon the expected return of investments held in the portfolio that approximates the cash flow requirements of the unpaid claims. The discount rate applied was 3% and then again at 2% to allow a margin for adverse deviations in the interest rate (2010 - nil). To recognize the uncertainty inherent in determining unpaid claim amounts, the Company includes PFADs relating to claim development, reinsurance recoveries and future investment income. Margins for claims development used for calculating the provision for adverse deviation range from 10% to 15% depending on the line of business.

Significant estimates used in the valuation of insurance contract liabilities are the discount rate and the expected loss ratios. A change in the discount rate by 2% or in the expected loss ratios by 10% would not have a material impact.

d) Net premiums earned for the year ended December 31, 2011 consist of:

	$
Gross premiums written	391,702
Premiums ceded	(10,683)
Increase in unearned premiums	(303,233)
Net premiums earned	77,786

(expressed in Canadian dollars)

15 Share capital and contributed surplus

a) Authorized

The Company is authorized to issue an unlimited number of common and preferred shares.

b) Common shares

The issued and outstanding common shares are as follows:

	Number of shares	Amount $
Balance December 31, 2009	3,514,300	438,547
Cancellation of shares	(550,000)	-
Balance, December 31, 2010	2,964,300	438,547
Consolidation of common shares (1:2)	1,482,150	-
Issued for cash	32,661,202	51,571,284
Share issue costs	-	(328,013)
Balance, December 31, 2011	34,143,352	51,681,818

Escrowed shares

According to the exchange policy, 550,000 of the former company's (Summus) issued shares, representing all of the Company's initial public offering were held in escrow and would have been released over a period of up to three years from acceptance of the Company's Qualifying Transaction. As a result of Summus not completing its qualifying transaction on time in line with the TSX-V policies, Summus was required by the TSX to cancel the remaining escrowed shares of 550,000

(expressed in Canadian dollars)

Common shares issued

The common shares issued during the year were completed through a series of four private placements. The shares issued and proceeds raised were as follows:

	Number of shares issued	Amount $
February 2, 2011 [(1)]	12,685,452	4,611,253
April 8, 2011	11,257,923	14,860,458
June 22, 2011	4,871,673	17,099,573
December 23, 2011	3,846,154	15,000,000
	32,661,202	51,571,284

[(1)] 25,370,904 shares were issued on February 2, 2011. Following this private placement there was a 2:1 share consolidation.

c) Stock options

	Number of options	Weighted average exercise price $
Balance December 31, 2009	351,428	0.20
Cancelled	(54,998)	(0.20)
Balance, December 31, 2010	296,430	0.20
Cancelled - prior share based payment plan	(296,430)	0.20
Granted	1,825,000	3.42
Forfeited - current share based payment plan	(128,000)	4.20
December 31, 2011	1,697,000	3.36

The Company has established a share based payment plan (the “Plan”) to encourage ownership of its shares by key management personnel (directors and executive management), employees and other key service providers, and to provide compensation for certain services. The Plan provides for the issuance of stock options in an aggregate number of up to 10% of the Company’s issued and outstanding shares, calculated from time to time. At December 31, 2011, the Company had 1,717,335 (2010 - nil) common shares available for the granting of future options under the new plan. The Company does not have any cash-settled transactions.

(expressed in Canadian dollars)

Pursuant to the Company's previous stock option plan, 351,428 stock options were granted to directors and officers on October 9, 2008. These options allowed the holder to acquire common shares at a price of $0.20 per share for each option exercised. The options were fully vested and were exercisable at any time prior to their expiry on October 9, 2013. Concurrent with the cancellation of the common shares of the Company on February 2, 2011, the Company also cancelled 296,430 of the stock options issued to its directors and officers.

On March 9, 2011, 600,000 options were granted to consultants of the Company. These options allow the holder to acquire common shares at a price of $1.64 per share for each option exercised. The options vest and become exercisable on March 9, 2014 and 500,000 are exercisable up until their expiry on March 9, 2021 and 100,000 expire March 9, 2014.

On April 25, 2011, 900,000 options were granted to employees and consultants of the Company. These options allow the holder to acquire common shares at a price of $4.20 per share for each option exercised. 650,000 of these options vest in four equal annual tranches each year over four years and expire on April 25, 2016. 75,000 of these options shall vest on April 25, 2013 and expire April 25, 2014. 175,000 of these options shall vest on April 25, 2013 and expire April 25, 2016.

On September 7, 2011, 175,000 options were granted to employees and consultants of the Company. These options allow the holder to acquire common shares at a price of $4.77 per share for each option exercised. 55,000 of these options vest in four equal annual tranches each year over four years and expire on September 7, 2016. 120,000 of these options shall vest and become exercisable on September 7, 2013 and expire on September 7, 2016.

On December 2, 2011, 150,000 options were granted to employees. These options allow the holder to acquire common shares at a price of $4.25 per share for each option exercised. These options vest in four equal annual tranches each year over four years and expire on December 2, 2016.

At period-end, the Company had nil options that were exercisable (2010 - 296,430).

(expressed in Canadian dollars)

A summary of the Company's options as at December 31, 2011 and December 31, 2010 and changes during the periods then ended follows:

	December 31, 2011	Weighted average exercise price $	December 31, 2010 $	Weighted average exercise price $
Balance, beginning of the year	296,430	0.20	351,428	0.20
Options cancelled	(296,430)	(0.20)	-	-
Options granted	1,825,000	3.42	-	-
Options forfeited	(128,000)	(4.20)	(54,998)	0.20
Balance, end of the year	1,697,000	3.36	296,430	0.20
Exercisable	-		296,430	
Weighted remaining average life (years)		5.7		2.8

The fair value associated with the options issued was calculated using the Black-Scholes model for options valuation, assuming volatility of 90% on the underlying units, a risk free interest rate ranging from 1.44% to 2.9% depending on the date the options were granted and a forfeiture rate of nil based on the composition of the option holders. Share prices for the calculation were the closing price on the CNSX on the date of issue of the options. The Company has assumed the options will be exercised at the end of the term of the option.

Being a newly listed entity, the Company considered its historical share price over the last ten months. However, given the lack of sufficient information on historical volatility, it also considered historical volatility of similar entities following a comparable period in their lives.

The approximate impact of an increase of 10% in the volatility assumption would decrease net income of the Company by $200,000. The approximate impact of a decrease of 10% in the volatility assumption would increase net income of the Company by $200,000.

(expressed in Canadian dollars)

The following options were issued, outstanding and exercisable at December 31, 2011:

			Options outstanding
Number outstanding	Weighted average remaining life (years)	Weighted average exercise price $	Weighted average at grant date
600,000	8.08	1.64	1.78
772,000	4.33	4.20	4.04
175,000	4.67	4.77	4.70
150,000	4.92	4.25	4.14
1,697,000	5.7	3.36	3.32

The following table summarizes the shares used in calculating earnings (loss) per share:

	2011 $	2010 $
Weighted average number of shares - basic	23,902,851	2,964,300
Effect of dilutive stock options	1,101,214	-
Weighted average number of shares - diluted	25,004,065	2,964,300

Basic earnings (loss) per share are derived by dividing net income (loss) for the year by the weighted average number of common shares outstanding for the period. The effect of potentially dilutive securities is excluded if they are anti-dilutive.

There have been no significant capital transactions from the reporting date to the date of this filing which have had a material impact on earnings per share.

(expressed in Canadian dollars)

16 Management of capital structure

The Company's objective when managing capital is to ensure the Company is capitalized in a manner which provides a strong financial position for its shareholders.

The Company's capital structure includes equity and working capital. In managing its capital structure, the Company considers future investment and acquisition opportunities, potential credit available and potential issuances of new equity. The Company's objective is to maintain a flexible capital structure that will allow it to execute its stated business. Upon acquiring investment properties and operating businesses, the Company will strive to balance its proportion of debt and equity within its capital structure in accordance with the needs of the continuing business. The Company may, from time to time, issue shares and adjust its spending to manage current and projected proportions as deemed appropriate.

The method used by the Company to monitor its capital is based on an assessment of the Company's working capital position relative to its projected obligations. At December 31, 2011, the Company's working capital was $25,063,975 (2010 - $147,170) and the Company had no debt.

	2011 $	2010 $
Current assets	23,099,610	156,847
Current liabilities	2,040,129	9,677
Working capital	21,059,481	147,170

The Company's Mongolian insurance operations, Mandal General Insurance LLC, (Mandal) are regulated by the Mongolian insurance regulator, the Financial Regulatory Commission (FRC).

Mandal's objectives when managing capital are (i) to comply with capital requirements set by the Mongolian laws and FRC, and (ii) to safeguard Mandal's ability to continue as a going concern.

Insurance companies in Mongolia are subject to the following capital regulatory requirements prescribed by FRC:

- Compliance with the requirements to the minimal share capital set by FRC Order No.153 of June 25, 2009 "Order on approving minimum share capital requirement of general insurance company";

- Compliance with solvency ratio and solvency limit as set by FRC Order No. 211 of October 28, 2009 "Order on approving revised requirement on solvency ratio and limit calculations of general insurance company";

- Compliance with the requirements to the composition and structure of the assets as set by FRC Order No. 170 dating June 16, 2010 "Order on approving revised regulation on the requirement of capital allocation and investment of general insurance company".

(expressed in Canadian dollars)

Compliance with the above ratios is monitored by the Company on a quarterly basis with issuance of reports outlining their calculation reviewed and signed by the Chief Executive Officer of Mandal and submitted to FRC. As at December 31, 2011, Mandal complied with all aforementioned capital requirements except the solvency limit specified under FRC Order No. 211 of October 20, 2009 (note 19).

Mandal's share capital amount of $4,628,000 was above the regulatory minimum of $740 as stated in the Company Law and $740,000 in accordance with the minimum set by FRC.

17 Insurance and financial risk management

The Board of Directors ensures that management has put appropriate risk management processes in place. Through the Audit Committee, the Board oversees such risk management procedures and controls. Management provides updates to the Audit Committee on a quarterly basis with respect to risk management.

The principal risk the Company faces under insurance contracts is that actual claims or the timing thereof differ from expectations. This is influenced by the frequency of claims, severity of claims and subsequent development of long-term claims. Therefore the objective of the Company is to ensure sufficient reserves are available to cover these claims.

Insurance risk management

The Company principally issues the following types of property and casualty contracts: motor insurance, including voluntary motor-third party liability, property, accident and liability insurance.

The most significant risks that the Company must manage with respect to unpaid claims and other financial instruments are product and pricing, underwriting and liability, claim settlement, catastrophe and reinsurance, credit, market and liquidity risks.

Product and pricing risk

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. The Company prices its products by taking into account several factors including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate.

In some instances, the Company may choose to adjust prices to below what it feels is acceptable in order to maintain a competitive position. However, the Company attempts to maintain a pricing level that ensures it is able to produce an acceptable return.

(expressed in Canadian dollars)

Underwriting and liability risk

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the retention and transfer of risks, the reserving and adjudication of claims, and the management of contractual and non-contractual product options.

The Company has specific underwriting guidelines for declining to issue, terminating, or refusing to renew a contract for each line of business. The underwriting guidelines for risk eligibility are developed in cooperation between the Risk Management Committee, MGG corporate management team and underwriting staff and the underwriting department. These guidelines must be developed in consideration of jurisdictional underwriting rules and comply with evolving jurisdictional regulation on restricted criteria. The Company considers stability, fairness and the expectations of its existing and potential policyholders when making deliberate changes to its underwriting rules.

The Company establishes a line guide that is utilized to ensure that the limits of insurance for a particular risk do not exceed the Company's net retention or maximum written limits and the proper approval authority for the risk is obtained. Net retention is the maximum amount of insurance the Company will retain on a single exposure.

Possible accumulation of large claims in such lines as property insurance, liability insurance and others is the major factor that could have a significant impact on the Company's financial cash flows and performance indicators. Based on this, the Company chooses a risk management policy and reinsurance protection management policy, so as to minimize the impact of this factor.

The above risk exposure is mitigated by diversification across a portfolio of insurance. All risks insured relate to Mongolian customers. Of the two large policies written close to year end, the largest is reinsured beginning January 1, 2012.

Identification and responding to insurance operation risk is the responsibility of the Chief Risk Officer (CRO). The CRO has annual objectives and an annual plan agreed with the Company's Chief Executive Officer. This includes risk management activities on insurance underwriting, claim processing, IT infrastructure, re-insurance activities, and overall risk management activities of Mandal.

Mandal has approved policies on policy underwritings, claim processing, actuarial activity, reinsurance activities, and operation of a Risk Management Committee. These policies define the procedures and approval limits for policy underwriting and claim activities for Mandal.

(expressed in Canadian dollars)

The Risk Management Committee is responsible for analyzing tariffs and conditions of policies, loss ratios, reinsurance and profitability assessment, as well as making decisions on claims. The meetings of the Risk Management Committee are held on a regular basis. The activities of this Committee are overseen and approved by the Board of Directors, which is responsible for making final decisions on introduction of new insurance products, approving Mandal's policies and procedures and dealing with strategic or other significant issues facing the Mandal. All significant transactions exposing Mandal to insurance risk are monitored by the Board of Directors. All insurance policies with risk above MNT 5 billion need to be approved by the Board of Directors. Mandal has defined limits for signing insurance contracts in order to ensure identification and monitoring of significant exposures. All insurance contracts are signed by the Company's CEO.

An analysis of premiums and claims by line of business for the year ended December 31, 2011 is provided in the following table:

	Accident medical and travel insurance $	Property insurance $	Motor insurance $	Cargo insurance $	Construction insurance $	Driver's liability insurance $	General liability insurance $	Other insurance $	Total $
Gross premiums written	70	350	12,557	73	108,724	2,629	267,197	102	391,702
Premiums ceded	(10,683)	-	-	-	-	-	-	-	(10,683)
Net premiums written	(10,613)	350	12,557	73	108,724	2,629	267,197	102	381,019
Change in provision for unearned premiums, gross (note 14)	(70)	(242)	(8,824)	(67)	(98,001)	(2,058)	(201,631)	(100)	(310,993)
Change in reinsurer share in provision for unearned premiums (note 14)	7,760	-	-	-	-	-	-	-	7,760
Net premiums earned	(2,923)	108	3,733	6	10,723	571	65,566	2	77,786
Gross claims paid	-	-	(120)	-	-	(644)	-	-	(764)
Claims ceded	-	-	-	-	-	-	-	-	-
Net claims paid	-	-	(120)	-	-	(644)	-	-	(764)
Change in loss provision - net of reinsurance (note 14)	-	(73)	(1,530)	(4)	(7,279)	(575)	(41,366)	-	(50,827)
Net claims incurred	-	(73)	(1,650)	(4)	(7,279)	(1,219)	(41,366)	-	(51,591)

(expressed in Canadian dollars)

Claim settlement

Under an insurance agreement, the insured party must notify the insurance company of a loss incurred within a clearly defined time period, limited to three days, as stated in most of Mandal's insurance contracts and/or policies. This relatively short time limit represents a common practice in the Mongolian insurance market.

Claims settlement processes are carried out in accordance with Mandal's claims policy. Mandal has a special subdivision, which is responsible for claims settlement. This subdivision collects all necessary information about accidents (i.e. loss occurring events), performs registration of claims, evaluates possible exposure and proceeds with disbursement of claims within determined limits. Insurance claims are paid only upon provision to Mandal of all necessary documents supporting occurrence of an insurance event. The claims settlement subdivision is also responsible for raising subrogation claims, preparation of reports on claims paid and claims reported, which are submitted to insurance managers.

Mandal has clearly defined limits related to claims approval and settlement process.

When a loss is claimed, Mandal notifies the relevant reinsurer on the loss claimed, if the insurance agreement was reinsured. Once Mandal pays the claim, it sends the payment documents to the reinsurer.

Mandal has reinsurance in force during the year to cede 100% of the risks associated with the accident medical and travel product line.

Claims development

The following table shows the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at the statement of financial position date, together with cumulative payments to date. The Company has elected to present its claims development on an accident year basis as this is consistent with how the business is managed. The Company has elected to translate claims payments using the average rate for the month in which they are paid, and estimated claims at the rate of exchange applicable at the end of each valuation year.

Catastrophe risk

During the year, the Company did not have insurance coverage related to its investment property portfolio or its buildings classified as own-use and recorded in property and equipment. Subsequent to year end, on March 3, 2012, the Company, through its insurance subsidiary, has obtained insurance on building and all permanent fixtures totalling approximately $25,000,000. Subsequent to issuing this policy, the Company's insurance subsidiary obtained a reinsurance agreement to cede 99% of the risk to Hannover Rc (90%) and People's Insurance Company of China (9%) related to this coverage.

(expressed in Canadian dollars)

The following table represents the development of claims on the gross and net basis as of December 31, 2011:

	2011 $	Total $
Accident year		
Estimate of cumulative incurred claims for the most recent year At end of accident year	47,759	47,759
Estimate of cumulative incurred claims for the most recent year	47,759	47,759
Cumulative payments to date	(764)	(764)
Insurance contract liabilities at December 31, 2011 (note 14)		46,995
Effect of discounting and PFADs on above		3,832
Total unpaid claims (note 14)		50,827

Credit risk

Credit risk is the risk of an unexpected financial loss to the Company if a third party fails to fulfill its performance obligations under the terms of a financial instrument. The Company's credit risk arises principally from the Company's cash and cash equivalents, investments and marketable securities and accounts receivable.

The following table summarizes the Company's maximum exposure to credit risk on the consolidated statement of financial position. The maximum credit exposure is the carrying value of the asset, net of any allowances for loss.

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Cash and cash equivalents	20,078,948	138,201	382,776
Investments and marketable securities	4,016,761	-	-
Amounts due from policyholders	197,550	-	-
Accounts receivable	94,539	16,741	6,905
Reinsurance assets	7,760	-	-
Maximum credit risk exposure on the consolidated statement of financial position	24,395,558	154,942	389,681

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio. For the year, most of the Company's investments consisted of institutional deposits. The majority of the funds invested are held in reputable Barbadian, Canadian or Mongolian banks. The Company is in the early stages of development and is continually improving its policies regarding monitoring its credit risk.

(expressed in Canadian dollars)

The Company is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. The Company mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The Company's properties are diversified across residential and commercial classes.

Amounts due from policy holders are short-term in nature and are not subject to material credit risk.

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial obligations without raising funds at unfavourable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business are met primarily by funds generated from operations, liquid investments and income and other returns received on investments. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and investment property operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

As at December 31, 2011, the Company does not believe the current maturity profile of the Company lends itself to any material liquidity risk, taking into account the level of cash and cash equivalents, investments and marketable securities as at December 31, 2011. The Company does not have material liabilities that can be called unexpectedly at the demand of a client.

The following table summarizes the undiscounted cash flows of financial assets and liabilities by contractual or expected maturity:

	December 31, 2011		
	One year or less $	One to two years $	No maturity date $
Financial Assets			
Cash and cash equivalents	20,078,948	-	-
Receivables	94,539	-	-
Reinsurance assets	7,760	-	-
Investments	2,569,778	1,446,983	-
	22,751,025	1,446,983	-
Financial Liabilities			
Trade payables and accrued liabilities	859,213	-	-
Insurance contract liabilities	361,820	-	-
	1,221,033	-	-

(expressed in Canadian dollars)

	December 31, 2010		
	One year or less $	One to two years $	No maturity date $
Financial Assets			
Cash and cash equivalents	138,201	-	-
Receivables	16,741	-	-
	154,942	-	-
Financial Liabilities			
Trade payables and accrued liabilities	9,677	-	-

Market risk

Market risk includes interest rate risk, currency risk and equity risk.

i) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on fixed income securities. Changes in interest rates will affect the fair value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. For investments classified as AFS, these increases and decreases in fixed income securities will result in corresponding increases and decreases in OCI until the securities are sold and any gain or loss is realized or the securities are written down to reflect an impairment loss. The primary technique for measuring interest rate risk related to fixed income securities is duration analysis.

The approximate impact of an increase of 100 basis points in interest rates would increase the net income of the Company by $40,167. The approximate impact of a decrease of 100 basis points in interest rates would decrease net income of the Company by $40,167.

Changes in interest rates also have an impact on the rate used to discount insurance contract liabilities. Consequently, changes in interest rates will affect the carrying value of the insurance contract liabilities. During periods of rising interest rates, the carrying value of insurance contract liabilities will generally decrease and profit will increase. During periods of declining interest rates the opposite is true. A change of 100 basis in interest rates points up or down would not have a material impact on the carrying value of insurance contract liabilities.

(expressed in Canadian dollars)

ii) Currency risk

Currency risk represents the risk that the Company incurs losses due to exposure to foreign currency fluctuations. The Company owns properties located in Mongolia and marketable securities in Mongolia and Barbados, and is therefore subject to foreign currency fluctuations that may impact its financial position and results. Changes in the Mongolian Tögrög and U.S. to Canadian dollar foreign currency exchange rate impact the fair value of securities denominated in Mongolian Tögrög and in U.S. dollars. The Mongolian operations hold their investments in Mongolian Tögrög denominated securities and the Canadian operations hold securities denominated in Canadian and U.S. dollars.

The approximate impact of an increase of 10% in the Mongolian Tögrög against the Canadian dollar would increase the OCI of the Company by $3,581,255. The approximate impact of a decrease of 10% in the Mongolian Tögrög against the Canadian dollar would decrease OCI of the Company by $3,581,255.

The approximate impact of an increase of 10% in the U.S. dollar against the Canadian dollar would increase net income of the Company by $367,962 (2010 - nil).

iii) Other price risk

Other price risk market fluctuation risk is where fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. As the Company does not have any equity investments, it does not have any exposure to equity risk.

Economic risk

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by tax authorities.

Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as Value added tax (VAT), corporate income tax, personal income tax and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

(expressed in Canadian dollars)

The Company's management believes that its interpretation of the relevant legislation is appropriate and the Company's tax positions will be sustained. Management believes that tax risks are remote at present.

Management performs regular re-assessments of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

18 Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Summary of significant transactions with related parties for the year ended December 31, 2011 are presented below:

	Praetorian Capital Management LLC $	UMC Holding LLC $
Borrowing obtained from and paid back to related parties	137,330	-
Payment of rental expense	-	29,100

Praetorian Capital Management LLC ("Praetorian") is a company controlled by the Company's CEO.

Praetorian paid the initial start-up and formation expenses of MGG and its subsidiaries. These expenses were reimbursed to Praetorian without interest.

The Company has paid rental payments to UMC Holding LLC which is owned by a director of one of the Company's subsidiaries.

Key management personnel of the Company include all directors and executive management. The summary of compensation for key management personnel is as follows:

	Expense $
Salaries and other short-term employee benefits	44,015
Share-based payments	267,452
	311,467

(expressed in Canadian dollars)

19 Contingent liabilities

From time to time and in the normal course of business, claims against the Company may be received. On the basis of management's assessments and professional legal advice, management is of the opinion that no material losses will be incurred and no provision or disclosure has been made in these consolidated financial statements.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law.

The Company is also subject to litigation arising in the normal course of conducting its insurance business. The Company is of the opinion that this litigation will not have a significant effect on the financial position, financial performance or cash flows of the Company.

The Company's Mongolian insurance operations, Mandal General Insurance LLC, is not in compliance with the solvency limit set by FRC Order No. 211.

The current deficit under this regulation for the solvency limit is approximately $483,000. As per Mongolian legislation, FRC has the right to take any corrective actions when an insurance company is not complying with the regulations including imposing a fine or even cancelling the insurance license. Management believes that Mandal is operating on a going concern basis and that no action will be taken by FRC that would materially impact the financial position of the Company or its ability to continue the operations. Management believes that cancelling the insurance licence due to the breach of this ratio is highly unlikely, as management informed the regulator about this issue and obtained verbal assurance that the Company would not be materially fined or that the insurance licence would be cancelled.

20 Supplementary cash flow information

	2011 $	2010 $
Changes in non-working capital arising from		
Other assets	(409,303)	(11,741)
Trade and other payables and accrued liabilities	849,536	(398)
Reinsurance assets	(7,760)	-
Deferred acquisition expense	(15,175)	-
Income tax payable	819,096	-
Insurance contract liabilities	361,820	-
Changes in non-cash working capital from operating activities	1,598,214	(12,139)

(expressed in Canadian dollars)

21 Segment information

The Company's operations are conducted in three reportable segments as Investment Property Operations, Insurance Operations and Corporate. The Company reports information about its operating segments based on the way management organizes and reports the segments within the organization for making operating decisions and evaluating performance.

Investment Property operations consist of commercial and residential investment property in Mongolia held for the purposes of rental revenue, capital appreciation or both. These properties are managed by Big Sky Capital LLC and its subsidiaries.

Insurance Operations includes general property and casualty insurance products in Mongolia. Insurance underwriting and claims handling functions are administered through Mandal General Insurance LLC.

Corporate administers financial resources and the corporate investment portfolio and is comprised of investment income, corporate costs and other activities not specific to other reportable segments and is shown separately.

(expressed in Canadian dollars)

The Company evaluates performance based on net income (loss) before income taxes.

				2011
	Investment Property **$**	**Insurance** **$**	**Corporate** **$**	**Total** **$**
Rental income	495,242	-	-	495,242
Property operating expenses	(637,507)	-	-	(637,507)
Unrealized gains on fair value adjustment on investment properties	5,740,919	-	-	5,740,919
Net premiums earned	-	77,786	-	77,786
Claims and insurance benefits incurred	-	(51,591)	-	(51,591)
Share based payment	(290,800)	(1,087,493)	(420,310)	(1,798,603)
Other expenses	(107,269)	(517,733)	(650,874)	(1,275,876)
Depreciation	(31,106)	(11,744)	(2,907)	(45,757)
Net investment income (loss)	32,796	247,470	(624,512)	(344,246)
Other revenue	16,823	-	-	16,283
Net income (loss) before income taxes	5,218,558	(1,343,305)	(1,698,603)	2,176,650

(expressed in Canadian dollars)

Given the corporate restructuring that occurred in fiscal 2011 and the fact that there were no active operating companies in fiscal 2010, no comparative information has been disclosed.

				2011
Balance as of December 31, 2011:	**Investment Property $**	**Insurance $**	**Corporate $**	**Consolidated $**
Total assets	32,726,312	4,852,712	17,757,865	55,336,889
Property and equipment	4,451,542	138,086	34,382	4,624,010
Investment properties	26,166,286	-	-	26,166,286
Expenditures				
Property and equipment	4,479,040	149,830	37,289	4,666,159
Investment properties	20,425,367 `	-	-	20,425,367

	Revenue		**Property and equipment**		**Investment property**	
	2011 $	**2010 $**	**2011 $**	**2010 $**	**2011 $**	**2010 $**
Barbados	-	-	-	-	-	-
Canada	-	-	-	-	-	-
Mongolia	589,311	-	-	-	26,166,286	-
	589,311	-	4,624,010	-	26,166,286	-

22 Other expenses

	2011 $	**2010 $**
Professional fees	492,953	216,598
Travel	106,341	-
Advertising	105,714	-
Net claims incurred	51,591	-
Other expenses	828,093	32,301
	1,584,692	248,899

(expressed in Canadian dollars)

23 Transition to IFRS

For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with predecessor Canadian generally accepted accounting principles (Part V - Pre-changeover Accounting Standards of the Canadian Institute of Chartered Accountants Handbook (Canadian GAAP)). The Company's consolidated financial statements for the year ended December 31, 2011 are the first set of financial statements that comply with IFRS.

The consolidated financial statements have been prepared in accordance with the significant accounting policies described in note 3. The Company has applied IFRS 1, First-time Adoption of International Financial Reporting Standards in preparing these financial statements. An explanation of how the transition from Canadian GAAP to Canadian generally accepted accounting principles as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants has impacted the Company's financial position, financial performance and cash flows is set out in the following notes.

IFRS 1 Exemptions

IFRS has been applied retrospectively, except for certain optional exemptions and mandatory exceptions from full retrospective application, as provided for by IFRS 1, as detailed below. Other options available under IFRS 1, which are not presented, are not material to the Company's business.

In preparing the opening IFRS balance sheet, comparative information for the year ended December 31, 2010 and the financial statements for the year ended December 31, 2011, the Company has reviewed amounts reported previously in the consolidated financial statements prepared in accordance with CDN GAAP to ensure that they were consistent under IFRS. The Company did not identify any material errors in its application of pre-transition Canadian GAAP.

Specifically, there were no differences between the Company's equity as reported under pre-transition CDN GAAP and IFRS at January 1, 2010 and December 31, 2010. Furthermore, there were no differences between the Company's comprehensive income under pre-transition CDN GAAP and IFRS at December 31, 2010 and no changes to items presented in the statement of cash flows.

IFRS 1 Elections and Exemptions

The Company has elected under IFRS 1 not to adopt retroactive application of IFRS 2 - share based payments to options issued prior to the date of transition. Under IFRS 1, a first time adopter is not required to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and that vested before the later of a) the date of transition to IFRS (January 1, 2010) and b) January 2005. As previously disclosed, the Company's initial stock option plan options were issued in October 2008 and vested immediately.

(expressed in Canadian dollars)

Reconciliations

IFRS 1 requires an entity to reconcile shareholders' equity, comprehensive income and cash flows to prior periods if adoption of IFRS has resulted in certain changes to the Company's reported financial position, results of operations and cash flows. As the transition to IFRS did not result in any change to the Company's reported financial position at January 1, 2010 or December 31, 2010, results of operations and cash flows for the year ended December 31, 2010, no reconciliation information has been presented.

Corporate Information

Board of Directors

Paulo Bilezikjian
Chief Investment Officer for Treviso Investments
Sao Paulo, Brazil

Jordan Calonego, CFA
COO of MGG
Thunder Bay, Ontario

William Fleckenstein
President of Fleckenstein Capital
Seattle, Washington, USA

Harris Kupperman
Chairman & CEO of MGG
Miami, Florida, USA

Byambaa Losolsuren
Partner at UMC Capital
Ulaanbaatar, Mongolia

Paul Sweeney
Independent Business Consultant
Surrey, British Columbia

Officers

Harris Kupperman
Chief Executive Officer

Matthew Aiken, CA
Chief Financial Officer

Jordan Calonego, CFA
Chief Operating Officer

Genevieve Walkden, MBA, CFP, CAIA
Vice President, Operations
Corporate Secretary

Auditors

PricewaterhouseCoopers LLP
Winnipeg, MB

Legal

Gowlings Lafleur Henderson LLP
Calgary, AB

Blakes, Cassels & Graydon LLP
Calgary, AB

Registrar and Transfer Agent

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