

**MONGOLIA**  
GROWTH GROUP



2013 Annual Report

## Table of Contents

|   |              |
|---|--------------|
| <b>Letter from the Chairman .....</b>             | <b>3 pg</b>  |
| <b>Management Discussion &amp; Analysis .....</b> | <b>4 pg</b>  |
| <b>Consolidated Financial Statements .....</b>    | <b>25 pg</b> |
| <b>Corporate Information .....</b>                | <b>83 pg</b> |



### **Mongolia Growth Group Ltd.**

Mongolia Growth Group Ltd. (MGG) is a leading publicly traded property investment and development company in Ulaanbaatar, Mongolia. MGG owns an extensive property portfolio, in diversified segments of the market, with an emphasis on institutional-grade commercial assets.

MGG undertakes its own property acquisitions, develops brownfield land assets and repositions outdated properties, relying on in-house services for all facets of both the investment portfolio and development side of the business. In addition, MGG acts as a full-service third party provider for institutional clients and tailors transactions covering acquisition-to-suit, build-to-suit, as well as refurbish-to-suit, for property owners and major tenants.

# MONGOLIA GROWTH GROUP LTD.

## To The Shareholders of Mongolia Growth Group;

2013 was another successful year for your company. Over the past year, we have;

- Listed MGG on the TSX Venture exchange in order to increase the visibility and profile of the company
- Re-directed MGG's corporate strategy allowing the company to become a pure-play Property Investment and Development Company
- Continued to hire more advanced senior staff to keep in line with the degree of progress and advancement MGG is making
- Disposed of 6 non-core assets in order to re-focus the company on institutional quality assets that provide better yields and are more efficient to manage, and;
- In early 2014, hired a highly experienced real estate CEO, Paul Byrne, to be the new CEO of MGG to take the company to a more significant level in the future.

These advancements build on our accomplishments from prior years. Since we launched MGG, we have successfully;

- Created the only institutional property management team in Mongolia with the capability to serve the unique needs of other institutional property investors
- Created one of the most respected property brands in Mongolia
- Acquired an irreplaceable collection of high-street retail and boutique office assets in the downtown of Ulaanbaatar
- Acquired an extensive downtown development pipeline of projects to fuel our growth in the future, and;
- Raised \$51.5 million to pursue our investment objectives.

As we look forward to our fourth year in business, we see our corporate strategy evolving with the appointment of Paul Byrne as CEO. Paul brings a unique perspective to our business, including nearly three decades of experience at the senior levels of some of the largest property groups in the world. Paul also brings a new corporate vision involving better capital efficiency and substantially better returns on capital, as we migrate the business into two forms of value creation, with firstly continuing to manage our assets to secondly managing other investor's assets.

We remain focused on improving the strength of the Corporation's cash flow. However, we believe that investing heavily in the business at this formative stage of our development will prove much more lucrative than focusing on short term profitability. The infrastructure that we have put in place over the past three years will differentiate our business from competitors and power our growth in future years.

In summary, we have high expectations for 2014 and trust that you are impressed by our continued accomplishments over the past three years.

I want to finish by thanking everyone who has contributed to making this company so successful. Most importantly I would like to thank our many hardworking staff members, the executives that have led the growth of our business, and lastly, our shareholders who have entrusted us with their hard-earned capital.

Sincerely,



Harris Kupperman  
*Executive Chairman*

# MONGOLIA GROWTH GROUP LTD.

## Management Discussion & Analysis December 31, 2013

The management of Mongolia Growth Group Ltd. (“MGG” or “the Corporation”) presents the Corporation’s management discussion and analysis for the year ended December 31, 2013 (the “MD&A”), compared with the year ended December 31, 2012. As of January 1, 2011, the Corporation adopted International Financial Reporting Standards (“IFRS”). This MD&A provides an overall discussion, followed by analyses of the performance of the Corporation’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, 2014 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 Corporation for the year ended December 31, 2013 and December 31, 2012 together with all of the notes, risk factors and information contained therein, available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Non-IFRS Financial Measures

This MD&A makes reference to earnings before interest, taxes, depreciation and amortization (“EBITDA”). 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 Corporation’s specific capital structure, and also excludes entity specific tax expense. 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 Corporation 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 Corporation’s management may make estimates and have opinions that form the basis for the forward-looking statements. The Corporation assumes no obligation to update such statements if circumstances, management’s estimates, or opinions change.

## Section 1 – Overview

### Financial and Operational Overview

On December 20, 2013, the Corporation disposed of its insurance subsidiary, Mandal General Insurance LLC (“Mandal”) for total proceeds of \$3,669,951. This disposition will allow Management to focus on the core property business which comprises the majority of the Corporation’s assets and operations.

During the year the Corporation renewed several leases at significantly higher rates in Mongolian Tögrög terms. Unfortunately, increased renewal rates were offset by a decline in the Mongolian Tögrög, which resulted in the Corporation’s rental revenue increasing by only 5% over the previous year. The Corporation’s occupancy rates continue to improve with high and secondary street retail space being almost fully occupied during the majority of the year, and a 100% high street retail occupancy and a 94.1% secondary street retail occupancy at December 31, 2013.

The Corporation had an unrealized fair value adjustment gain at the end of the year of \$3,845,521 versus a fair value adjustment loss of \$2,697,212 during the prior year.

The Corporation had a net loss from Continuing Operations of \$250,574 or a net loss of \$0.01 per share (EPS) versus a net loss of \$4,931,975 or a net loss of \$0.14 (EPS) in 2012 (restated).

The Corporation continues to dispose of non-core assets to streamline the portfolio and dispose of smaller and underperforming assets. It is anticipated that proceeds from sales will be reinvested in higher quality institutional assets with better net-yield profiles. During the year, the Corporation disposed of 6 properties worth \$921,126 at a loss of \$17,906. As of December 31, 2013, the Corporation had 16 investment properties classified as available for sale.

The Mongolian Tögrög continued to depreciate throughout the year, depreciating 11.5% versus the Canadian Dollar over the course of 2013.

### Economic Overview

The Mongolian real estate sector has benefitted from the significant local economic growth. The majority of this recent growth is attributable to the mining and construction booms 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. In addition, an increase in other industries, particularly tourism and agriculture have helped to grow the economy. The positive impact of improving consumer and business confidence has further led to a substantial increase in the gross production of the local economy.

During the first half of 2013, uncertainties due to the presidential election, a reduction in Chinese demand for coal and an unsure environment for mining and foreign investment led to a decrease in the rate at which the Mongolian economy grew. Economic growth accelerated in the second half of 2013 following the successful re-election of President Elbegdorj, the repeal of the Strategic Entities Foreign Investment Law (SEFIL) and an increased focus on attracting foreign investment. This growth has continued into 2014 and the local economy appears to be quite robust, with the exception of certain industries related to coal mining and its supply chain.

During the second quarter of 2013, the government announced a program to offer 8% mortgages on certain conforming apartments. As consumers refinance their properties, it has created a stimulating effect on the economy. Loans outstanding in the banking industry also increased substantially during 2013, rising 54.3%. From December 31, 2012 to December 31, 2013, the National Consumer Price Index increased 12.3%.

The Mongolian economy continues to grow according to data from The National Statistics Office of Mongolia (“NSO”) with estimates of full year 2013 growth of 11.7%. The growth rate has been sustained in part by the spending from

the Chinggis Bond, which has been directed towards investment in roads, as well as manufacturing and construction sector developments. The Chinggis Bond is a US \$1.5 billion bond offering, consisting of 5-year and 10-year bonds, listed on international debt markets.

The Mongolian Tögrög has fluctuated significantly over the past two years. In 2012, the average exchange rate between the Tögrög and the Canadian Dollar was approximately 1,360 MNT/CAD for the year, whereas during 2013, the Tögrög reached a low of over 1,649 Tögrög per Canadian Dollar and averaged 1,467 per Canadian Dollar. Management would like to note that in general, most commercial property transactions in Ulaanbaatar are negotiated for in US Dollars and recent declines in the Tögrög to US Dollar exchange rate have not had a noticeable impact on the prices of property assets, in US Dollar terms. In addition, in times of currency volatility, Mongolians have tended to prefer to acquire property assets to protect their savings.

It is anticipated that the economy will remain strong, despite concerns over commodity price volatility and questions over when phase 2 of the Oyu Tolgoi mine will begin construction.

## **Property Overview**

The general property market continues to be influenced by improvement in the overall Mongolian economy. During 2012, the Mongolian Central Bank raised interest rates and reserve requirements amongst banks leading to a slowdown in terms of overall price appreciation. This led to increases in capitalization rates as rental rates continued to increase. During the second quarter of 2013, the Mongolian Central Bank lowered interest rates which resulted in increases in property prices, and as of today, prices in finished structures, land and land-like assets in the downtown area are at or above prices seen at the peak in the early summer of 2012.

Outside of the downtown of Ulaanbaatar, a noticeable increase in building activity has saturated certain markets and led to a decline in prices. In addition, there has been a recent increase in office construction activity that will likely lead to future saturation in the office market. Management cautions shareholders that property prices have historically been, and continue to be, very volatile.

It should also be noted that the recent initiation of 8% mortgages for certain conforming apartments has led to a sizable increase in conforming apartment prices and strong increases in the value of land assets that are suitable for building apartments.

Management expects continued high demand for well-located retail space, with a lower demand level for office space. However, demand for office space continues to improve with the strength of economy.

## Section 2- Executing the Strategy

### Core Business

MGG's property division experienced slower growth in assets than it has in prior years. During the past three years, Management and employees have worked hard to aggressively build up the infrastructure needed to manage this division. Management believes it has a very strong team in place to lead the Corporation into its next phase of growth.

Due to the rapid growth of the Mongolian economy and a shortage of high quality rental locations, property rents have increased rapidly, particularly in office and prime retail locations. The Corporation has recently signed a number of leases at rates substantially higher than previous rates indicating a sizable increase in current market rates compared to prior rates. In order to benefit from increasing rental rates, the Corporation maintains most leases on short durations (with a view to re-lease at a higher rate) and includes rent escalation clauses in most of its leases with tenants that occupy the property for over one year in duration.

MGG's real estate subsidiary plans on further expansion via the investment of additional capital into income producing and redevelopment properties in Ulaanbaatar. The Corporation's plan is contingent on procuring further funds for investment and on finding suitable investment targets which meet MGG's stringent investment criteria.

Since inception, MGG has acquired a number of redevelopment properties. To date the Corporation has also remodeled, rebuilt and completed additions on properties. It is Management's intent to begin de novo property developments on Corporation owned sites. MGG's intent is to remain a substantial owner of the properties, post-completion.

### Portfolio

Mongolia Growth Group's properties are located in Downtown and the Central Business District of Ulaanbaatar. Within the financial statements, MGG classifies properties in each of the following categories; Investment Properties, Property and equipment, and Other Assets/Prepaid Deposits.

#### *Investment Properties*

Investment Properties includes properties held to earn rental revenue, for capital appreciation, and/or for redevelopment. Investment Properties are initially valued at fair value, which is the purchase price plus any directly attributable expenditures. Investment Properties are subsequently valued at fair value, which reflects market conditions at the date of the statement of financial position.

The following table represents properties classified as Investment Properties, as of December 31, 2013;

|                           | 2013            |                       |        | 2012            |                       |        |
|---------------------------|-----------------|-----------------------|--------|-----------------|-----------------------|--------|
|                           | # of Properties | Value at Dec 31, 2013 | SqM    | # of Properties | Value at Dec 31, 2012 | SqM    |
| Residential               | 10              | 1,378,377             | -      | 13              | 1,697,443             | -      |
| Office                    | 4               | 5,310,481             | 2,727  | 5               | 5,074,258             | 2,976  |
| Retail - high street      | 25              | 11,497,733            | 4,625  | 23              | 7,608,983             | 3,778  |
| Retail - secondary street | 18              | 4,560,486             | 2,183  | 18              | 3,993,254             | 2,284  |
| Land and Redevelopment    | 6               | 9,566,314             | 11,540 | 6               | 12,412,804            | 11,540 |
| Total                     | 63              | 2,313,391             | 21,075 | 65              | 30,786,742            | 20,578 |

## Property and Equipment

Properties are classified as Property and Equipment if the Corporation occupies more than 10% of the property. Properties classified as Property and Equipment are measured at cost less accumulated depreciation, less any accumulated impairment losses. All repairs and maintenance costs to these properties are charged to the consolidated statement of operations during the period in which they occur unless eligible for capitalization. The Corporation's Headquarters, purchased in October 2011, falls within this category.

The following table represents properties classified as Property and Equipment, as of December 31, 2013;

|                           | 2013            |                                |       | 2012            |                                   |       |
|---------------------------|-----------------|--------------------------------|-------|-----------------|-----------------------------------|-------|
|                           | # of Properties | Net Book Value<br>Dec 31, 2013 | SqM   | # of Properties | Net Book Value at<br>Dec 31, 2012 | SqM   |
| Residential               | 4               | 591,557                        | -     | 4               | 724,792                           | -     |
| Office                    | 1               | 2,567,260                      | 1,300 | 1               | 3,143,369                         | 1,300 |
| Retail - high street      | 1               | 510,728                        | 134   | 1               | 262,558                           | 134   |
| Retail - secondary street | -               | -                              | -     | -               | -                                 | -     |
| Land and Redevelopment    | -               | -                              | -     | -               | -                                 | -     |
| Total                     | 6               | 3,669,545                      | 1,434 | 6               | 4,130,719                         | 1,434 |

## Other Assets/ Prepaid Deposits

Investment property purchases where the Corporation has paid either the full or partial purchase proceeds to the seller, but the Corporation has not yet received the official land or building title from the Mongolian Property office, are recorded at cost as Prepaid Deposits on Investment Properties and classified within other assets.

The following table represents properties classified as Prepaid Deposits on Investment Properties, as of December 31, 2013;

|                           | 2013            |                       |       | 2012            |                       |       |
|---------------------------|-----------------|-----------------------|-------|-----------------|-----------------------|-------|
|                           | # of Properties | Value at Dec 31, 2013 | SqM   | # of Properties | Value at Dec 31, 2012 | SqM   |
| Residential               | -               | -                     | -     | -               | -                     | -     |
| Office                    | -               | -                     | -     | -               | -                     | -     |
| Retail - high street      | 1               | 908,222               | 379   | 1               | 954,759               | 379   |
| Retail - secondary street | -               | -                     | -     | -               | -                     | -     |
| Land and Redevelopment    | 5*              | 950,860               | 1,708 | 2*              | 671,481               | 1,580 |
| Total                     | 6               | 1,859,082             | 2,087 | 3               | 1,626,240             | 1,959 |

\* These land assets are part of the land packages outlined in the Investment Properties section and are not standalone land packages.



## Occupancy Rates

A summary of MGG's property portfolio occupancy rates is set forth in the following table:

|                            | Dec 31st, 2013  | Dec 31st, 2012  |
|----------------------------|-----------------|-----------------|
|                            | Occupancy Rate* | Occupancy Rate* |
| Retail – High Streets      | 100%            | 100%            |
| Retail – Secondary Streets | 94.1%           | 95.2%           |
| Office                     | 66.1%           | 84.3%           |
| Residential                | 100%            | 95.6%           |
| Weighted Average**         | 93.8%           | 97.7%           |

\* Occupancy rates are calculated on a per meter basis;

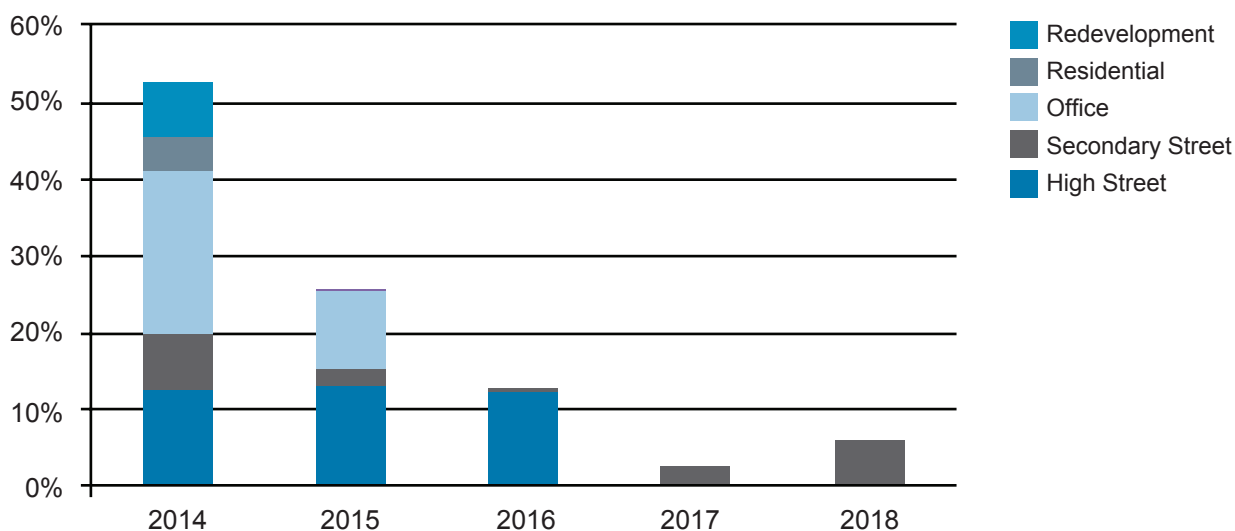
\*\* Weighted Average is calculated based on total meters available for lease

As disposable income levels continue to rise, demand for retail space has been strong, especially on high streets. Demand for office space decreased significantly throughout the year as several foreign companies downsized their operations. The Corporation's office occupancy rates were negatively impacted at the end of the year by the downsizing of a major local tenant previously occupying an entire office building. Retail occupancy rates for both high and secondary streets remain very strong as disposable income per capita continues to increase.

## Leasing Schedule

In order to reduce the Corporation's exposure to currency fluctuations and inflation, the Corporation targets shorter lease durations with most tenants. Management's experience is that this practice is in line with the local industry standards with the expectation that when MGG leases expire, existing tenants are offered the first right to re-lease the space at then prevailing market rates.

A summary of the Corporation's lease expirations by asset class is presented in the chart below:



The weighted average remaining lease term decreased slightly to 17.7 months at December 31st 2013, from 18.4 months at December 31st 2012.

It is Management's belief that many existing leases are at rates that are below current prevailing market rates. Furthermore, recent renewals have seen sizable increases in lease rates from prior rates as presented in the chart below.

## Most Recent Retail Lease Signings

| Lease Type                    | Lease Renewal Date | SqM | Old Price Per Meter (Mongolian Tögrög) | New Price Per Meter (Mongolian Tögrög) | Percent Increase |
|-------------------------------|--------------------|-----|--|--|------------------|
| High Street Retail Lease      | October 2013       | 135 | 21,984                                 | 47,051                                 | 114%             |
| Secondary Street Retail Lease | October 2013       | 161 | 14,075                                 | 19,705                                 | 40%              |
| High Street Retail Lease      | November 2013      | 183 | 18,670                                 | 39,830                                 | 113%             |
| Secondary Street Retail Lease | January 2014       | 199 | 16,902                                 | 31,978                                 | 89%              |
| High Street Retail Lease      | February 2014      | 206 | 16,019                                 | 35,232                                 | 120%             |

## Section 3- Results of Operations

### Selected Annual Financial Information (CAD)

|   | Year ended<br>December 31 2013 | Year ended<br>December 31 2012 (Restated)* | Year ended<br>December 31 2011 (Restated)* |
|---|--------------------------------|--|--|
| Revenue and other income  | 1,727,373                      | 1,582,460                                  | 511,525                                    |
| <b>Income</b>   |                                |  |  |
| Income/ (loss) from continuing operations attributable to equity holders of the Corporation | (250,574)                      | (4,931,975)                                | 2,717,206                                  |
| Net Income/ (loss) attributable to equity holders of the Corporation                        | (155,563)                      | (6,073,750)                                | 1,349,153                                  |
| Comprehensive income/ (loss) attributable to equity holders of the corporation              | (3,713,297)                    | (7,360,920)                                | 107,716                                    |
| <b>Basic earnings per share ("EPS") (in CAD)</b>  |                                |  |  |
| Earnings/ (loss) from continuing operations   | (0.01)                         | (0.14)                                     | 0.11                                       |
| Earnings/ (loss) from discontinued operations   | 0.00                           | (0.03)                                     | (0.05)                                     |
| Net income/ (loss)  | (0.01)                         | (0.17)                                     | 0.06                                       |
| <b>Diluted EPS (in CAD)</b>   |                                |  |  |
| Earnings/ (loss) from continuing operations   | (0.01)                         | (0.14)                                     | 0.11                                       |
| Earnings/ (loss) from discontinued operations   | 0.00                           | (0.03)                                     | (0.05)                                     |
| Net Income/ (loss)  | (0.01)                         | (0.17)                                     | 0.06                                       |
| <b>Balance Sheet</b>  |                                |  |  |
| Total Assets  | 47,291,018                     | 51,306,531                                 | 55,336,889                                 |
| Financial liabilities   | 878,343                        | 3,389,025                                  | 2,040,129                                  |
| Total Equity  | 45,322,558                     | 47,303,560                                 | 53,296,760                                 |
| Shares Outstanding at year end  | 34,303,352                     | 34,143,352                                 | 34,143,352                                 |
| Book Value per share  | 1.32                           | 1.38                                       | 1.56                                       |

\*Excludes operations of Mandal previously included in Continuing Operations. Mandal was disposed of on December 20, 2013.

### Revenue from Investment Properties

For the year end December 31, 2013, Revenue from Investment Properties reached \$1,650,895 versus \$1,572,603 in the prior year. This increase was attributable to higher prevailing market lease rates, reduced vacancy, and offset by a decline in the Mongolian Tögrög along with certain tenants vacating properties that are now in the 'held for sale' category.

### Revenue from Discontinued Operations

Revenues from Mandal increased substantially from \$672,183 in 2012 to \$2,239,230 in 2013 as Mandal substantially increased premiums. Although improvements were seen in the insurance business, the Management of MGG decided

to focus on the core operations of the Corporation, which is real estate, leading to the disposition of the insurance business to UMC Capital LLC on December 20, 2013.

## **Revenue from Other Sources**

Revenue from other sources consists of late fees and other income. For the year ending December 31, 2013, revenues from other sources totaled \$76,478 compared to \$9,857 for the year ending December 31, 2012.

## **Fair Value Adjustment on Investment Properties**

As elected under IFRS, the Corporation's investment portfolio is subsequently measured at fair value in the Corporation's financial statements. As of December 31, 2013, the Corporation had 87% of its Investment Properties Portfolio valued by either an international valuation firm or by Management. The remaining 13% was held at cost or its 2012 fair value. Out of the properties carried at fair value at December 31, 2013, 67% of the portfolio was valued by an international valuation firm while the remaining 33% was valued internally by Management. For the year ended December 31, 2013, the fair value adjustment to investment properties was a gain of \$3,845,521 compared to a loss of \$2,697,212 for the same period in 2012. Retail properties saw a substantial increase in value, while office buildings declined moderately in value. The Corporation's residential properties, land and redevelopment assets declined slightly.

## **Property Operating Expenses**

Property Operating Expenses consist of repairs and maintenance, bad debts, utilities, salaries and land and property taxes. For the year ending December 31, 2013 the property operating expenses were \$1,398,184 compared to \$987,407 during the same period in 2012, representing an increase of 41%. This increase is mainly attributed to hiring of several senior employees.

## **Expenses from Discontinued Operations**

Expenses from the Corporation's former insurance subsidiary increased significantly during the year. The increase was primarily due to an increased claims reserves as well as an increase in salaries.

## **Corporate Expenses**

Corporate expenses includes senior management's compensation, share-based costs, leasing and marketing costs, listing fees, professional fees, technology, travel and administrative costs.

For the year ending December 31, 2013 general and administration expenses increased to \$3,680,336 from \$2,090,543 in 2012. The majority of this increase was due to one-time expenses outlined below.

## **One-Time Expenses**

During the year, there were a number of one-time expenses incurred. Most of these expenses were incurred in the form of professional fees associated with three large initiatives.

Expenses of \$414,943 were incurred during the beginning of 2013 (2012- Nil) due to a transaction with a public company that did not materialize.

Expenses of \$ 68,944 were incurred in early 2013 (2012- \$252,309) during the changing of the Corporation's listing from the Canadian National Stock Exchange to the TSX Venture Exchange in early 2013.

Lastly, expenses of \$ 148,122 were incurred in 2013 (\$18,302) during the disposal of Mandal, the Corporation's former insurance subsidiary.

At this time, management does not foresee any significant one-time expenses during 2014, with the exception of recruitment fees for the Corporation's Chief Executive Officer and expenses associated with the relocation of the Corporation's corporate office.

## **Currency**

The Mongolian Tögrög has fluctuated significantly over the past three years. The Mongolian Tögrög has depreciated 6.8%, 5.1%, 11.5% in 2011, 2012 and 2013 respectively versus the Canadian Dollar. The fluctuation in the currency is reflected in the Corporation's financial statements, most notably in the investment property portfolio as it is the largest item on the balance sheet. Note 5 in the financial statements discloses the foreign exchange adjustment which flows through the investment property classification during each period. As at December 31, 2013 the Corporation recognized a significant foreign exchange adjustment loss of \$3,612,981 to its investment property portfolio due to the 11.5% depreciation of the local currency during the year. Management would like to note that in general, most commercial properties in Ulaanbaatar are negotiated for in US Dollars and recent declines in the Tögrög to US Dollar exchange rate have not had a noticeable impact on the prices of property assets in US Dollar terms.

## **Operating Profit (Loss) from Continuing Operations**

The property business of MGG generated an Operating loss or EBITDA loss of \$62,762 during 2013 year (2012 – loss of \$341,756) and reported investment income of \$237,672 during the year (2012- \$282,114). This improvement is the result of increased rental revenue offset by an increase in property taxes and a decline in the local currency.

The Corporation's corporate overheads contributed to an Operating loss or EBITDA loss of \$3,670,607, during 2013 (2012 – \$2,080,919). The majority of this loss was incurred due to increased legal and audit fees and other expenses associated with the general corporate activity of the Corporation. In addition, the Corporation had substantial one-time expenses. These expenses are not expected to be recurring.

In total the Corporation's continuing operations reported an Operating loss or EBITDA loss of \$3,733,371 during 2013 (2012 – loss of \$2,422,665) and generated interest income of \$ 239,055 (2012 - \$288,859) during the year.

## **Operating Profit from Discontinued Operations**

MGG's insurance business generated an Operating loss or EBITDA loss of \$711,146 during 2013 (2012 – loss of \$1,625,616) and investment income of \$543,045 during 2013 (2012 - \$575,454). The majority of this improvement is due to an increase in net premiums earned and continuing investment income offset by an increase in claims reserves and sizable expenses associated with building the Mandal brand.

## **Net Income**

For the year ended December 31, 2013, the Corporation incurred a net loss of \$155,563 compared to a net loss of \$6,073,750 for the year ended December 31, 2012. This improvement is attributed to the unrealized gain on fair value adjustment on investment properties of \$3,845,521 during the year versus the unrealized loss of \$2,697,212 from the

prior year. The gain was offset by an increase in operating expenses incurred during the year of \$5,598,618 (2012 –\$4,142,165).

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

### **Gain on Disposal of Discontinued Operations**

On December 20th 2013, the Corporation sold its 100% stake in Mandal to UMC Capital LLC for proceeds of \$3,669,951. Cash consideration of \$458,101 was paid upon closing of the transaction, with the remaining \$3,211,850 to be paid in instalments over an 18 month period. The Corporation realized a gain of \$1,185,327 on the sale or \$359,252 after currency translations.

## Section 4 - Financial Condition

### Cash Flow

Mongolia Growth Group's primary sources of capital are cash generated from operating, financing and investing activities. Management expects to meet all of the Corporation's obligations through current cash and cash equivalents along with cash flows from operations.

The following table provides an overview of the Corporation's cash flows from operating, financing and investing activities for the year ended December 31, 2013 and 2012.

| Net change in cash related to:       | For the year ending , Dec 31, 2013 | Dec 31, 2012 |
|--------------------------------------|------------------------------------|--------------|
| Operating                            | (1,730,356)                        | (3,815,647)  |
| Investing                            | (1,012,196)                        | (7,305,785)  |
| Financing                            | 293,600                            | -            |
| Effects of exchange rates on cash    | (883,086)                          | (255,263)    |
| Net change in cash during the period | (3,332,038)                        | (11,376,695) |

Overall, cash outflows during 2013 were significantly lower than the previous year with net outflows in operating, investing, and financing each lower than the previous year. The changes in components of cash flows for the year ended December 31, 2013 compared to the year ended 2012 were the result of the following factors:

- Operating—Operating cash outflows for the year ended 2013 decreased mainly due to changes in non-working capital items.
- Investing—Investing cash outflows for the year ended 2013 decreased due to significantly lower net acquisition (\$715,915) of properties in comparison to the previous year (C\$6,896,289).
- Financing—Financing cash inflows for the year ended 2013 increased over 2012 as the Corporation generated cash through the exercise of 160,000 options (2012 – nil).

To date, Mongolia Growth Group Ltd has been able to meet all of its capital and other cash requirements from its internal sources of cash. As at December 31, 2013, the Corporation had approximately \$5,370,215 in cash and cash equivalents along with \$3,211,850 owed to it by UMC Capital LLC.

### Total Assets

As of December 31, 2013, the Corporation had \$ 9,416,810 in Current Assets primarily held in cash and cash equivalents (2012 –\$15,943,758).

The majority of the Corporation's assets are classified as Non-Current Assets, mainly Investment Properties. Investment Properties are carried at Fair Market Value and increased throughout the year by way of acquisitions and the appreciation of the portfolio during the year.

In 2013, assets classified as Investment Properties increased to \$32,313,391 from \$ 30,786,742 the year prior primarily due to an increase in unrealized fair value adjustment. Property and Equipment remained fairly stable as assets classified in this category are valued at their cost base.

Lastly, as part of the agreement to sell Mandal to UMC Capital LLC, proceeds of \$3,211,850 are to be paid to the Corporation by UMC in installments over an 18 month period. These are classified on the balance sheet as Receivable

from UMC, under Other Assets. There were no receivables in relation to this transaction in 2012, as Mandal was disposed of on December 20, 2013.

## Total Financial Liabilities

As of December 31, 2013, the Corporation had current liabilities of \$878,343, consisting of payables and accrued liabilities. In December 31, 2012, current liabilities were significantly higher at \$3,389,025 as they also included insurance contract liabilities of \$2,300,604, which are no longer on the Corporation's balance sheet for 2013 due to the disposal of the insurance business.

As of December 31, 2013, the Corporation had no long term debt outstanding, as such the only non-current liability on the balance sheet is deferred income taxes. Deferred tax liabilities were \$1,909,117 in 2013 (2012 - \$613,946).

## Total Equity

The equity of the Corporation consists of one class of common shares.

| Outstanding                  | as at Dec 31, 2013 | As of Dec 31, 2012 |
|------------------------------|--------------------|--------------------|
| Common shares                | 34,303,352         | 34,143,352         |
| Options to buy common shares | 1,957,000          | 1,782,000          |



## Options Outstanding

At December 31, 2013, the Corporation had 1,324,500 options that were exercisable (December 31, 2012 – 358,000).

The Chart below shows the historical option grants and options outstanding as of December 31, 2013.

| Option Price | Granted   | Forfeited | Cancelled | Exercised | Total Options Outstanding | Options Exercisable | Options Non-Exercisable |
|--------------|-----------|-----------|-----------|-----------|---------------------------|---------------------|-------------------------|
| 1.64         | 100,000   |           |           | -40,000   | 60,000                    | 60,000              |                         |
| 1.75         | 300,000   |           |           |           | 300,000                   | 300,000             |                         |
| 1.90         | 200,000   |           |           | -120,000  | 80,000                    | 80,000              |                         |
| 4.20         | 900,000   | -233,000  | -65,000   |           | 602,000                   | 537,000             | 65,000                  |
| 4.77         | 175,000   | -25,000   |           |           | 150,000                   | 130,000             | 20,000                  |
| 4.25         | 150,000   | -50,000   |           |           | 100,000                   | 50,000              | 50,000                  |
| 4.00         | 190,000   |           |           |           | 190,000                   | 42,500              | 147,500                 |
| 4.13         | 475,000   |           |           |           | 475,000                   | 125,000             | 350,000                 |
| Total        | 2,490,000 | -308,000  | -65,000   | -160,000  | 1,957,000                 | 1,324,500           | 632,500                 |

## Acquisitions and Dispositions

During the year, the Corporation acquired 7 properties for a total of \$2,328,453 of which \$644,002 was classified as prepaid deposits as of December 31, 2013. During the same time, the Corporation disposed of 6 properties worth \$921,126. These acquisitions and disposals are consistent with the Corporation's strategy of streamlining its investment property portfolio.

## Off-Balance Sheet Items

As of December 31, 2013, the Corporation had no off-balance sheet items.

## Events Subsequent to Year End

The Corporation purchased a large property (2,008 square meters) for a total cost of USD\$5,852,000. This purchase will be funded through the exchange of 2 assets with a year end fair value of USD\$1,202,000, and cash considerations of USD\$4,650,000. The Corporation took possession of the new property on February 17, 2014. As of April 30, 2014, USD\$2,650,000 has been paid to the seller; The remaining USD\$2,000,000 is due in two further installments. As of April 30, 2014, USD\$2,650,000 has been paid to the seller and the remaining USD\$2,000,000 is due in two further installments. In order to fund the remaining cost of this purchase, the Corporation is in the process of securing USD\$3,000,000 of financing through a commercial bank in Mongolia which bears interest between 12-15% and is reviewed annually by the bank. This loan is subject to an underwriting fee of USD\$15,000 and a standby fee of 0.2% per month.

The Corporation sold 5 investment properties with a fair value of approximately \$357,000 for cash proceeds of approximately \$347,500. The loss since December 31, 2013 is attributed to the currency depreciation in the Mongolian Tögrög. In addition, the Corporation also disposed of two properties at a fair value of \$1,194,029 in the transaction mentioned above.

The Corporation hired a new CEO, Paul Byrne. The former CEO, Harris Kupperman was appointed as Executive Chairman. The CFO, Matthew Aiken, resigned and our Financial Controller, Talha Siddiqui was appointed as Interim CFO.

## Section 5 - Quarterly Information

### Quarterly Results

The following table is a summary of select quarterly information over the previous eight quarters:

|                                 | Q4 2013    | Q3 2013    | Q2 2013     | Q1 2013    | Q4 2012     | Q3 2012    | Q2 2012    | Q1 2012    |
|---------------------------------|------------|------------|-------------|------------|-------------|------------|------------|------------|
| Revenue *                       | 427,836    | 452,185    | 421,599     | 425,753    | 271,113     | 455,234    | 458,215    | 397,898    |
| Net income (loss) *             | 1,449,697  | (825,693)  | (1,127,918) | 253,340    | (3,810,138) | (235,006)  | (575,889)  | (310,942)  |
| Income (loss) per common share* | 0.04       | (0.02)     | (0.03)      | 0.01       | (0.11)      | (0.01)     | (0.02)     | (0.01)     |
| Total Assets                    | 47,291,018 | 47,988,406 | 52,443,237  | 52,859,111 | 51,306,531  | 52,048,976 | 56,058,108 | 55,783,296 |
| Weighted Average Shares         | 34,303,352 | 34,246,026 | 34,245,230  | 34,170,019 | 34,143,352  | 34,143,352 | 34,143,352 | 34,143,352 |
| Ending Shares                   | 34,303,352 | 34,303,352 | 34,303,352  | 34,173,352 | 34,143,352  | 34,143,352 | 34,143,352 | 34,143,352 |

\* These numbers have been restated to reflect the continuing operations of the Corporation.

### Property

During the fourth quarter, MGG's real estate subsidiary earned rental income of \$397,894, compared to rental income of \$397,810 during the same quarter of the previous year. While rental income increased a considerable amount since the previous year in local currency terms, this increase was offset by a 11.5% decrease in the Mongolian Tögrög versus the Canadian Dollar during the year.

During the fourth quarter of 2013, this subsidiary also earned net investment income of \$36,736 (Q4 2012 - \$124,477) on its investment portfolio and \$237,672 for the year ending December 31, 2013. The decrease in net investment income is attributable to a decrease in investment and marketable securities as the Corporation continues to deploy its cash into building its property portfolio.

MGG's investment property portfolio increased to \$32,313,391 during the year due to an unrealized fair value Adjustment of \$3,845,521. Management anticipates that the Corporation's investment portfolio will continue to increase in the future.

### Discontinued Operations

For the period from January 1, 2013 up to December 20, 2013 (the date at which the Corporation disposed of Mandal General Insurance LLC, "Mandal"), the insurance subsidiary earned net premiums of \$1,873,666 as compared to \$628,424 for the year ending December 31, 2012. Mandal earned net premiums of \$314,070 for the period from October 1, 2013 to December 20, 2013 as compared to \$330,734 earned in the fourth quarter of 2012. The large increase in the Mandal's net earned premium mainly relates to the fact that it was in the early stages of operations in 2012 as it had just begun to write policies in late 2011. This subsidiary has also earned net investment income of \$112,437 for the period from October 1, 2013, to December 20, as compared to \$140,712 for the fourth quarter in 2012.

## Corporate

Quarterly expenses related to corporate operations totaled \$1,025,256 (Q4 2012 - \$738,228). The increase over the 4th quarter of 2012, was primarily due to compensation of \$300,000 awarded to the Board of Directors in the form of options and cash. No compensation was awarded to the Directors in 2012. Other significant expenses incurred during the quarter were legal and professional of \$334,960 (2012- \$321,435), audit fees of \$111,738 (2012 - \$204,517) and salaries of \$94,617 (2012 - \$77,476).

## Section 6– Critical Estimates

### 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 judgments 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 Corporation. An external appraiser estimates the fair value of the majority of the Investment Properties annually, the remainder are appraised internally by Management. 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 Corporation 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, 2013, the unrealized gain on fair value adjustment was a gain of \$3,845,521 (loss of \$2,697,212 – 2012). During the first quarter of 2013, there was a fair value adjustment gain of \$1,136,125 relating to a property that was not available for use at year end and thus was recorded at the lower of cost and market, but adjusted during the first quarter of 2013 as the property became available for use. During the second and third quarters of 2013, there were no fair value adjustments done as it was determined by Management that the prices of the Corporation's property portfolio were relatively stable. The remaining \$2,709,396 gain was adjusted during the 4th quarter of 2013.

#### 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 Corporation. 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 options and future forfeiture rates. For the year ending December 31, 2013, the cost of the share based payments (excluding the expense attributed to Mandal) totaled \$931,783 (2012 - \$1,114,552).

#### Operating Environment of the Corporation

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 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 Corporation.

## **Assets and Liabilities Held for Sale**

The Corporation makes judgments in determining whether certain non-current assets or group of assets and liabilities meet the specified criteria under IFRS for classification as held for sale. At December 31,

2013, the Corporation has identified 16 investment properties which meet the specified criteria and has accounted for them as assets held for sale.

## **Deferred Tax Assets**

Deferred tax assets are recognized to the extent that it is probable that deductible temporary differences will reverse in the foreseeable future and there will be sufficient future taxable profits against which the deductible temporary differences can be utilized. The Corporation reviews the carrying amount of deferred tax assets at the end of each reporting period which is reduced to the extent that it is no longer probable that deferred tax assets recognized will be recovered, or increased to the extent that sufficient future taxable profit will be available to allow all or part of a previously unrecognized deferred tax asset to be recovered. Estimates of future taxable income are based on forecasted cash flows from operations, available tax planning opportunities and expected timing of reversals of taxable temporary differences.

## Section 7–Risk Management

### Credit risk

The Corporation'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 Corporation's credit risk consisted of institutional deposits. The majority of the funds invested are held in reputable Canadian or Mongolian banks. The Corporation is in the early stages of development and is continually improving its policies regarding monitoring its credit risk.

The Corporation is exposed to credit risk as an owner of real estate in which tenants may become unable to pay contracted rents. The Corporation mitigates this risk by carrying out due diligence on significant tenants. The Corporation's properties are diversified across residential and commercial classes. Historically, bad debts have not been a substantial expense for the Corporation.

### Liquidity risk

The Corporation does not believe its current maturity profile 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, 2013.

As at December 31, 2013, MGG had working capital of \$8,538,167 (2012- \$12,554,733) comprised of cash and cash equivalents, investments and marketable securities, other assets, net of trade and accrued liabilities, income taxes payable. Management considers the funds on hand to be sufficient to meet its ongoing obligations.

### Currency risk

The Corporation owns properties located in Mongolia and collects rental revenue in Mongolian Tögrög, and is therefore subject to foreign currency fluctuations that may impact its financial position and results. Changes in the Mongolian Tögrög, U.S. dollar and Canadian dollar foreign currency exchange rates impact the fair value of securities denominated in Mongolian Tögrög and in U.S. dollars.

### Economic Volatility and Uncertainty

Over the past few years, economic volatility and uncertainty around the world has contributed to dramatically restricted access to capital and reduced capital markets activity for more speculative businesses. The Corporation's management believes that the Corporation 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, political extremism, and other similarly detrimental scenarios which could materially harm the Corporation.

While inflation levels during the last year are no longer above the 14% levels as they were during 2012, during the past year, inflation has remained at an elevated level compared to many mature economies. As reported by the National Statistics Office, year over year inflation was 12.5% in December, 12% in November, 10.8% in October and 9.9% in September. The Bank of Mongolia is working hard to ensure stability. At the end of the year the Government has agreed to reduce spending to keep government budgets within the cap set by the Fiscal Stability Law.

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 Corporation's operations.

## **Risks and Uncertainties**

The Corporation, as part of its operations, carries financial instruments consisting of cash and cash equivalents, investments and marketable securities, accounts receivable, and trade payables and accrued liabilities. It is Management's opinion that the Corporation 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.

Certain members of parliament have recently asked to re-negotiate the agreement that exists between the government of Mongolia and Turquoise Hill regarding the current tax stability agreement. There can be no certainty if any changes to the agreement will be reached and how it will impact the investment climate or future GDP growth of Mongolia.

Beginning in 2011, the Corporation purchased apartment units in a knowingly condemned building with the intent that through control of the homeowner's association the Corporation can procure a long-term lease on the land underlying the building. The process of exerting control over a homeowner's association in order to develop the underlying land plot is an extensive legal process, is complicated, lacks precedent and is a generally risky proposition. The Corporation currently owns 50 of the 51 apartments in the building, has an agreement with the last owner to exchange his unit for space in any future building and has applied to the city for the respective land use permissions.

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](http://www.sedar.com).

## **Financial Instruments**

The Corporation's financial instruments consist of cash and cash equivalents, investments and marketable securities, accounts receivable and trade and accrued payables. The Corporation is subject to interest risk as it earns interest income from its cash deposits. It is Management's opinion that the Corporation 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 certain Financial Instruments of the Corporation as they are held in Mongolian Tögrög. For further discussion of financial instrument risks, see the Insurance and Financial Risk Management note.

## **Internal Controls over Financial Reporting**

Changes in securities laws no longer require the Chief Executive Officer 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 IFRS.

Instead, an optional form of certification has been made available to junior reporting issuers and has been used by the Corporation's certifying officers for the December 31, 2013 annual filings. The new certification reflects what the Corporation considers to be a more appropriate level of CEO and CFO certification given the size and nature of the Corporation's operations. This certification requires the certifying officers to state that:

- (i) they have reviewed the interim MD&A and consolidated financial statements;
- (ii) 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 interim MD&A and consolidated financial statements;
- (iii) based on their knowledge, the interim filings, together with the other financial information included in the interim filings, fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation as of the date and for the periods presented in the filings.

## **Recent Accounting Pronouncements**

IFRS 9 – Financial Instruments introduces new requirements for classifying and measuring financial assets and financial liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 also introduced additional changes related to financial liabilities.

The IASB also recently introduced amendments to IFRS related to hedge accounting. The Standard is not applicable until annual periods beginning on or after January 1, 2015, but is available for early adoption.

In November 2013, the IASB issued three amendments affecting IFRS 9, IAS 7 and IAS 39. The first amendment sets out new hedge accounting requirements. The second amendment allows entities to apply the accounting for changes from own credit risk in isolation without applying the other requirements of IFRS 9. The third amendment removes the mandatory effective date of IFRS 9 from January 1, 2015 to a new date that will be determined when IFRS 9 is closer to completion.

## **Additional Information**

Additional information relating to Mongolia Growth Group Ltd., including its interim financial statements, is available on SEDAR at [www.sedar.com](http://www.sedar.com).



**Mongolia Growth Group Ltd.**  
**Consolidated Financial Statements**

**December 31, 2013**  
**(expressed in Canadian dollars)**



April 30, 2014

## **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 statement of financial position as at December 31, 2013 and 2012, and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the years then ended, 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mongolia Growth Group Ltd. and its subsidiaries as at December 31, 2013 and 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

#### **Chartered Accountants**

---

*PricewaterhouseCoopers LLP  
One Lombard Place, Suite 2300, Winnipeg, Manitoba, Canada R3B 0X6  
T: +1 204 926 2400, F: +1 204 944 1020*

iPwC1 refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Mongolia Growth Group Ltd.**  
Consolidated Statements of Financial Position  
As at December 31

(expressed in Canadian dollars)

|  | 2013<br>\$  | 2012<br>\$  |
|--|-------------|-------------|
| <b>Assets</b>                                    |             |             |
| <b>Current assets</b>                            |             |             |
| Cash and cash equivalents (note 6)               | 5,370,215   | 8,702,253   |
| Investments and marketable securities (note 7)   | 104         | 3,992,547   |
| Other assets (note 8)                            | 4,046,491   | 2,471,498   |
| Reinsurance assets (note 9)                      | -           | 684,285     |
| Deferred acquisition expenses (note 10)          | -           | 93,175      |
|  | 9,416,810   | 15,943,758  |
| <b>Non-current assets</b>                        |             |             |
| Other assets (note 8)                            | 1,645,125   | -           |
| Investment properties (note 11)                  | 32,313,391  | 30,786,742  |
| Property and equipment (note 12)                 | 3,915,692   | 4,576,031   |
|  | 47,291,018  | 51,306,531  |
| <b>Liabilities</b>                               |             |             |
| <b>Current liabilities</b>                       |             |             |
| Trade payables and accrued liabilities (note 13) | 874,222     | 996,314     |
| Income taxes payable (note 14)                   | 4,121       | 92,107      |
| Insurance contract liabilities (note 15)         | -           | 2,300,604   |
|  | 878,343     | 3,389,025   |
| <b>Non-current liabilities</b>                   |             |             |
| Deferred income tax liability (note 14)          | 1,090,117   | 613,946     |
|  | 1,968,460   | 4,002,971   |
| <b>Equity</b>                                    |             |             |
| Share capital (note 16)                          | 52,204,394  | 51,681,818  |
| Contributed surplus                              | 4,423,914   | 3,214,195   |
| Accumulated other comprehensive loss             | (6,086,341) | (2,528,607) |
| Deficit  | (5,219,409) | (5,063,846) |
|  | 45,322,558  | 47,303,560  |
| <b>Total equity</b>                              | 45,322,558  | 47,303,560  |
| <b>Total equity and liabilities</b>              | 47,291,018  | 51,306,531  |

**Commitments and contingencies** (note 20)

**Approved by the Board of Directors**

“Jordan Calonego” \_\_\_\_\_ Director “William Fleckenstein” \_\_\_\_\_ 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

(expressed in Canadian dollars)

|   | 2013<br>\$       | 2012<br>\$<br>(Restated -<br>note 5) |
|---|------------------|--------------------------------------|
| <b>Revenue</b>  |                  |                                      |
| Rental income   | 1,650,895        | 1,572,603                            |
| Other revenue   | 76,478           | 9,857                                |
|   | <u>1,727,373</u> | <u>1,582,460</u>                     |
| <b>Expenses</b>   |                  |                                      |
| Salaries and wages  | 1,202,117        | 553,434                              |
| Other expenses (note 23)  | 3,326,841        | 2,337,138                            |
| Share based payment (note 16)   | 931,783          | 1,114,552                            |
| Depreciation (note 12)  | 137,877          | 137,041                              |
|   | <u>5,598,618</u> | <u>4,142,165</u>                     |
| <b>Operating loss</b>   | (3,871,245)      | (2,559,705)                          |
| <b>Net investment income</b> (note 7)   | 239,055          | 288,859                              |
| <b>Unrealized gain (loss) on fair value adjustment on investment properties</b> (note 11) | 3,845,521        | (2,697,212)                          |
| <b>Net income (loss) before income taxes</b>  | 213,331          | (4,968,058)                          |
| <b>Provision for (recovery of) income taxes</b> (note 14)                                 | 463,905          | (36,083)                             |
| <b>Loss from continuing operations</b>  | (250,574)        | (4,931,975)                          |
| <b>Income (loss) from discontinued operations - net of tax</b> (note 5)                   | 95,011           | (1,141,775)                          |
| <b>Net loss for the year</b>  | <u>(155,563)</u> | <u>(6,073,750)</u>                   |
| <b>Net income (loss) per share</b> (note 16)  |                  |                                      |
| Basic   |                  |                                      |
| From continuing operations  | \$(0.01)         | \$(0.14)                             |
| From discontinued operations  | 0.00             | (0.03)                               |
| From net loss for the year  | (0.01)           | (0.17)                               |
| Diluted   |                  |                                      |
| From continuing operations  | (0.01)           | (0.14)                               |
| From discontinued operations  | 0.00             | (0.03)                               |
| From net loss for the year  | (0.01)           | (0.17)                               |

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

**Mongolia Growth Group Ltd.**  
**Consolidated Statements of Comprehensive Loss**  
**For the years ended December 31**

---

(expressed in Canadian dollars)

|   | <b>2013</b><br>\$  | <b>2012</b><br>\$<br>(Restated -<br>note 5) |
|---|--------------------|---|
| <b>Net loss for the year</b>  | (155,563)          | (6,073,750)                                 |
| <b>Other comprehensive loss</b>   |                    |   |
| Items that may be subsequently reclassified to income or loss   |                    |   |
| Unrealized losses on translation of financial statement operations<br>with Mongolian MNT functional currency to Canadian dollar<br>reporting currency - continuing operations                                 | (4,383,809)        | (1,029,246)                                 |
| Realized losses (unrealized losses) on translation of financial<br>statement operations with Mongolian MNT functional currency<br>to Canadian dollar reporting currency - discontinued operations<br>(note 5) | 826,075            | (257,924)                                   |
| <b>Total comprehensive loss</b>   | <u>(3,713,297)</u> | <u>(7,360,920)</u>                          |

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**

(expressed in Canadian dollars)

|                                     | Share capital<br>\$ | Contributed<br>surplus<br>\$ | Accumulated<br>other<br>comprehensive<br>loss<br>\$ | Retained<br>earnings<br>(deficit)<br>\$ | Total<br>\$       |
|-------------------------------------|---------------------|------------------------------|---|---|-------------------|
| <b>Balance at January 1, 2012</b>   | 51,681,818          | 1,846,475                    | (1,241,437)   | 1,009,904                               | 53,296,760        |
| Net loss for the year               | -                   | -                            | -   | (6,073,750)                             | (6,073,750)       |
| Other comprehensive loss            | -                   | -                            | (1,287,170)   | -                                       | (1,287,170)       |
|                                     | 51,681,818          | 1,846,475                    | (2,528,607)   | (5,063,846)                             | 45,935,840        |
| Share based payments                | -                   | 1,367,720                    | -   | -                                       | 1,367,720         |
| <b>Balance at December 31, 2012</b> | <b>51,681,818</b>   | <b>3,214,195</b>             | <b>(2,528,607)</b>                                  | <b>(5,063,846)</b>                      | <b>47,303,560</b> |
| <b>Balance at January 1, 2013</b>   | 51,681,818          | 3,214,195                    | (2,528,607)   | (5,063,846)                             | 47,303,560        |
| Net loss for the year               | -                   | -                            | -   | (155,563)                               | (155,563)         |
| Other comprehensive loss            | -                   | -                            | (3,557,734)   | -                                       | (3,557,734)       |
|                                     | 51,681,818          | 3,214,195                    | (6,086,341)   | (5,219,409)                             | 43,590,263        |
| Share based payments                | -                   | 1,438,695                    | -   | -                                       | 1,438,695         |
| Share capital issued (note 16)      | 522,576             | (228,976)                    | -   | -                                       | 293,600           |
| <b>Balance at December 31, 2013</b> | <b>52,204,394</b>   | <b>4,423,914</b>             | <b>(6,086,341)</b>                                  | <b>(5,219,409)</b>                      | <b>45,322,558</b> |

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

(expressed in Canadian dollars)

|  | 2013<br>\$  | 2012<br>\$   |
|--|-------------|--------------|
| <b>Cash provided by (used in)</b>  |             |              |
| <b>Operating activities</b>  |             |              |
| Net loss for the year  | (155,563)   | (6,073,750)  |
| Items not affecting cash   |             |              |
| Share based payments (note 16)   | 1,438,695   | 1,367,720    |
| Deferred taxes (note 14)   | 423,418     | (187,727)    |
| Depreciation of property and equipment (note 12)                                   | 178,148     | 170,890      |
| Realized loss on disposal of property and equipment                                | 6,307       | 24,913       |
| Realized loss (gain) on disposal of investment properties (note 11)                | 17,906      | (12,768)     |
| Unrealized loss (gain) on fair value adjustment on investment properties (note 11) | (3,845,521) | 2,697,212    |
| Realized gain on disposal of subsidiary (note 5)                                   | (359,252)   | -            |
|  | (2,295,862) | (2,013,510)  |
| Net change in non-cash working capital balances (note 21)                          | 565,506     | (1,802,137)  |
|  | (1,730,356) | (3,815,647)  |
| <b>Financing activities</b>  |             |              |
| Proceeds from share issuance (note 16)   | 293,600     | -            |
| <b>Investing activities</b>  |             |              |
| Purchase of investments  | -           | (3,068,667)  |
| Disposition of investments   | -           | 3,092,881    |
| Net acquisition of property and equipment  | (131,773)   | (433,710)    |
| Net acquisition of investment properties   | (715,915)   | (6,896,289)  |
| Proceeds on disposal of subsidiary - net of cash disposed (note 5)                 | (164,508)   | -            |
|  | (1,012,196) | (7,305,785)  |
| <b>Effect of exchange rates on cash</b>  | (883,086)   | (255,263)    |
| <b>Decrease in cash and cash equivalents</b>                                       | (3,332,038) | (11,376,695) |
| <b>Cash and cash equivalents - Beginning of year</b>                               | 8,702,253   | 20,078,948   |
| <b>Cash and cash equivalents - End of year</b>                                     | 5,370,215   | 8,702,253    |
| Income taxes paid  | 184,342     | 122,902      |

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

# Mongolia Growth Group Ltd.

## Notes to Consolidated Financial Statements

December 31, 2013

---

(expressed in Canadian dollars)

### 1 Corporate information

Mongolia Growth Group Ltd. (MGG or the Company) was incorporated in Alberta on December 17, 2007, and is a real estate investment and development company participating in the growth of the Mongolian economy through the ownership of commercial investment property assets in Ulaanbaatar, Mongolia.

The Company's common shares were previously listed on the Canadian National Stock Exchange (CNSX). On January 9, 2013, the Company filed an application for the de-listing of the common shares from the CNSX and filed an application for the listing of common shares on the TSXV. The Company is now listed on the TSXV, having the symbol YAK.

MGG has one wholly-owned subsidiary at December 31, 2013, Mongolia Barbados Corp. Mongolia Barbados Corp. owns the wholly-owned subsidiaries Mongolia Fidelity Holding Corp., including 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, Oceanus LLC, and Tchoupitoulos LLC (together "the investment property operations"). 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, Oceanus LLC, and Tchoupitoulos LLC at this time.

Prior to December 20, 2013, through the Company's wholly-owned subsidiary, Mandal General Insurance, the Company offered insurance products in Mongolia covering all common general insurance types. The Company's main lines of business were motor insurance, including voluntary motor third party liability, property, accident medical and travel and liability insurance. Mandal General Insurance was disposed of on December 20, 2013 and was therefore not a part of the Company as at December 31, 2013 (see note 5).

The Company is registered in Alberta, Canada, with its Head Office at its registered address at 1400, 700-2<sup>nd</sup> 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 100 King Street West, Suite 5600, Toronto, Ontario, M5X 1C9, Canada. The Company also has a business office for the Mongolian investment property operations at the corner of Chinggis Ave. and Seoul St. in Ulaanbaatar, Mongolia.

At December 31, 2013, the Company is organized into two 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, and/or redevelopment; and
- The MGG Corporate office is located in Toronto, Canada and administers the financial resources, investment portfolio and corporate reporting and legal functions of the Company.



# **Mongolia Growth Group Ltd.**

## **Notes to Consolidated Financial Statements**

### **December 31, 2013**

---

(expressed in Canadian dollars)

## **2 Basis of presentation**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The significant accounting policies used in the preparation of these consolidated financial statements are summarized in note 3.

The consolidated financial statements, 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, 2014.

## **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) financial assets 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 consolidated financial statements include the accounts of MGG and its wholly-owned subsidiaries. Subsidiaries are entities controlled by MGG. Control exists when MGG is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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. Upon the disposal of a subsidiary, amounts previously recognized in other comprehensive income in respect of that entity, are reclassified to income or loss.

(expressed in Canadian dollars)

**c) Financial instruments**

***Financial assets***

Financial assets are classified into one of the following categories: AFS, fair-value through profit or loss (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.

(expressed in Canadian dollars)

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.

***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 assets or liabilities 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, and/or for redevelopment. 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 the Company 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.

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.

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.

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, 2013 on the majority of investment properties 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. The remaining investment properties' fair value was calculated by management and was performed by qualified individuals with recent experience in the locations and categories of the investment properties valued.

# Mongolia Growth Group Ltd.

## Notes to Consolidated Financial Statements

December 31, 2013

---

(expressed in Canadian dollars)

Overall, the external appraisal firm performed valuations on 67% (2012 - 61%) of the total carrying value of investment properties and management valued the remaining 33% (2012 - 39%). The carrying value of the investment properties that were valued at December 31, 2013 agree to the valuation reports by the external appraisal firm and management.

Investment property purchases where the Company has paid either the full or partial purchase proceeds to the seller, but the Company has not yet received the official land or building title from the Mongolian Property office are recorded at the lower of cost and fair value as Prepaid deposits on investment properties and classified within other assets.

### 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.

### 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.

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

(expressed in Canadian dollars)

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).

# Mongolia Growth Group Ltd.

## Notes to Consolidated Financial Statements

December 31, 2013

---

(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 include 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 premiums earned.

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 policy holders. 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. 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.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
**December 31, 2013**

---

(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.

# Mongolia Growth Group Ltd.

## Notes to Consolidated Financial Statements

December 31, 2013

---

(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.

#### ***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.

# **Mongolia Growth Group Ltd.**

## **Notes to Consolidated Financial Statements**

### **December 31, 2013**

---

(expressed in Canadian dollars)

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 changes in 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.

#### **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.

# Mongolia Growth Group Ltd.

## Notes to Consolidated Financial Statements

December 31, 2013

---

(expressed in Canadian dollars)

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. Additionally, the Company will at times grant restricted stock of the Company under the terms of the Restricted Stock Award Plan. Restrictions on such shares are removed as the vesting conditions are met. For restricted shares, the holder is entitled to all dividend payments during the vesting period. 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.

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 fair value.

The fair value of stock options granted is measured using the Black-Scholes option pricing model. The fair value of restricted shares granted is measured using the market price of the Company's shares.

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) Discontinued operations**

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

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.

# Mongolia Growth Group Ltd.

## Notes to Consolidated Financial Statements

December 31, 2013

---

(expressed in Canadian dollars)

### **r) Earnings (loss) per share**

For both continuing and discontinued operations, 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.

### **s) 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 (up until December 20, 2013) and corporate.

### **t) 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.

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.

### **u) 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.

(expressed in Canadian dollars)

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.

**v) Changes in accounting policies**

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

***IFRS 7 - Financial Instruments: Disclosures***

IFRS 7 was amended by the IASB in December 2011 and requires entities to provide disclosures related to offsetting financial assets and liabilities. The amendment was effective for annual periods beginning on or after January 1, 2013. This amendment did not result in a material impact on the consolidated financial statements.

***IFRS 10, Consolidated Financial Statements***

IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

***IFRS 11, Joint Arrangements and IAS 28R, Investments in Associates and Joint Ventures***

IFRS 11, Joint Arrangements, supersedes IAS 31, Interests in Joint Ventures, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, Investments in Associates and Joint Ventures (amended in 2011). The standards did not affect the Company as it did not have any investment in associates or joint arrangements.

(expressed in Canadian dollars)

***IFRS 12, Disclosure of Interests in Other Entities***

IFRS 12, Disclosure in Other Entities, establishes disclosure requirements for interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and the risks associated with, an entity's interest in other entities. IFRS 12 replaces the previous disclosure requirements included in IAS 27 – Consolidated and Separate Financial Statements, IAS 31 – Joint Ventures and IAS 28 – Investment in Associates. The adoption of this standard affected disclosures but did not have an impact on the recognized amounts or measurements in the consolidated financial statements.

***IFRS 13, Fair Value Measurement***

IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis.

The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments.

***IAS 1 Amendment, Presentation of Items of Other Comprehensive Income***

These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to net earnings and those that will not be reclassified. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

**w) Accounting standards issued but not yet effective**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014 or later and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Company are set out below. The Company does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.



(expressed in Canadian dollars)

***IFRS 9 – Financial Instruments***

IFRS 9 – Financial Instruments introduces new requirements for classifying and measuring financial assets and financial liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 also introduced additional changes related to financial liabilities.

The IASB also recently introduced amendments to IFRS related to hedge accounting. The Standard is not applicable until annual periods beginning on or after January 1, 2015, but is available for early adoption. In November 2013, the IASB issued three amendments affecting IFRS 9, IAS 7 and IAS 39. The first amendment sets out new hedge accounting requirements. The second amendment allows entities to apply the accounting for changes from own credit risk in isolation without applying the other requirements of IFRS 9. The third amendment removes the mandatory effective date of IFRS 9 from January 1, 2015 to a new date that will be determined when IFRS 9 is closer to completion.

***IAS 39 – Financial Instruments: Recognition and Measurement***

IAS 39, Financial Instruments: Recognition and Measurement, was amended to clarify that hedge accounting should be continued when a derivative financial instrument designated as a hedging instrument is replaced from one counterparty to a central counterparty or an entity acting in that capacity and certain conditions are met. The amendment is effective for annual periods beginning on or after January 1, 2014 with early application permitted.

***IFRIC 21 – Levies***

IFRIC 21, Levies, sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when a liability should be recognized. The interpretation is effective for annual periods beginning on or after January 1, 2014 with earlier application permitted.

**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.

# Mongolia Growth Group Ltd.

## Notes to Consolidated Financial Statements

### December 31, 2013

---

(expressed in Canadian dollars)

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 the majority 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 11. Changes in assumptions about these factors could materially affect the carrying value of investment properties.
- 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 16.
- 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.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

---

(expressed in Canadian dollars)

**5 Disposal of subsidiary**

During the year ended December 31, 2013, the Company disposed of its interest in Mandal General Insurance LLC (Mandal). The Company held 100% of the shares of Mandal with net assets at the date of disposal of \$2,484,624.

As part of this transaction, the Company filed a formal application with the Financial Regulatory Commission (FRC) of Mongolia to seek permission for disposal of Mandal, which was granted. The deal was closed on December 20, 2013 with the Company selling its stake to UMC Capital LLC (UMC) for consideration of \$3,669,951. Cash consideration of \$458,101 was paid at the date of closing with the remaining \$3,211,850 (US\$3,019,460) due in instalments over an 18 month period.

Mandal was not considered as discontinued operations or classified as held for sale as at December 31, 2012. Therefore, the comparative income statement has been restated to show these operations separately from the continuing operations. Management committed to a plan to sell this segment due to a strategic decision to place greater focus on the Company's core operation, being investment properties.

Income (loss) attributable to discontinued operations was as follows:

|  | 2013<br>\$       | 2012<br>\$         |
|--|------------------|--------------------|
| Net premiums earned (note 15)                  | 1,873,666        | 628,424            |
| Other revenue                                  | 365,564          | 43,759             |
|  | <u>2,239,230</u> | <u>672,183</u>     |
| Salaries and wages                             | 773,611          | 481,541            |
| Other expenses                                 | 1,669,853        | 1,562,090          |
| Share based payment                            | 506,912          | 253,168            |
| Depreciation                                   | 40,271           | 33,849             |
|  | <u>2,990,647</u> | <u>2,330,648</u>   |
| Net investment income                          | <u>543,045</u>   | <u>574,454</u>     |
|  | (208,372)        | (1,084,011)        |
| Gain on disposal of subsidiary                 |                  |                    |
| Realized loss on foreign currency translations | (826,075)        | -                  |
| Gain on disposal of net assets                 | <u>1,185,327</u> | -                  |
|  | <u>359,252</u>   | -                  |
|  | 150,880          | (1,084,011)        |
| Provision for income taxes                     | <u>55,869</u>    | <u>57,764</u>      |
| Income (loss) for the period                   | <u>95,011</u>    | <u>(1,141,775)</u> |

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

Cash flows from (used in) discontinued operations:

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
|   | \$          | \$          |
| Net cash from operating activities      | 741,355     | 1,040,391   |
| Net cash used from investing activities | (581,018)   | (1,596,277) |
|   | <hr/>       | <hr/>       |
| Net effect on cash flows                | 160,337     | (555,886)   |
|   | <hr/>       | <hr/>       |

**6 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:

|          | <b>2013</b> | <b>2012</b> |
|----------|-------------|-------------|
|          | \$          | \$          |
| Barbados | 22,784      | 39,443      |
| Canada   | 2,110,032   | 1,515,119   |
| Mongolia | 3,237,399   | 7,147,691   |
|          | <hr/>       | <hr/>       |
|          | 5,370,215   | 8,702,253   |
|          | <hr/>       | <hr/>       |

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

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 was as follows:

|                                 | <b>2013</b> | <b>2012</b> |
|---------------------------------|-------------|-------------|
|                                 | \$          | \$          |
| Cash on hand                    | 10,822      | 10,146      |
| A or A+ rated                   | 2,109,532   | 1,550,838   |
| -B or B+ rated                  | 3,198,387   | 6,981,315   |
| Unrated                         | 51,474      | 159,954     |
|                                 | <hr/>       | <hr/>       |
| Total cash and cash equivalents | 5,370,215   | 8,702,253   |
|                                 | <hr/>       | <hr/>       |

The unrated balance relates to one (2012 - five) commercial banks in Mongolia, which have not been rated by any rating agency and one (2012 - one) private bank in Barbados which is also unrated.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

**7 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:

|                               |   |                                       |  | <b>2013</b>                        |
|-------------------------------|---|---------------------------------------|--|------------------------------------|
|                               | <b>Classified as<br/>loans and<br/>receivables<br/>\$</b> | <b>Designated<br/>as FVTPL<br/>\$</b> | <b>Total<br/>carrying<br/>value<br/>\$</b> | <b>Total fair<br/>value<br/>\$</b> |
| Money market fund<br>Barbados | -   | 104                                   | -  | 104                                |
|                               |   |                                       |  | <b>2012</b>                        |
|                               | <b>Classified as<br/>loans and<br/>receivables<br/>\$</b> | <b>Designated<br/>as FVTPL<br/>\$</b> | <b>Total<br/>carrying<br/>value<br/>\$</b> | <b>Total fair<br/>value<br/>\$</b> |
| Money market fund<br>Barbados | -   | 100                                   | 100  | 100                                |
| Term deposits<br>Mongolia     | 3,992,447   | -                                     | 3,992,447                                  | 3,992,447                          |
|                               | <b>3,992,447</b>  | <b>100</b>                            | <b>3,992,547</b>                           | <b>3,992,547</b>                   |

Deposits with Mongolian banks are denominated in Mongolian National Tögrögs and are placed with commercial banks operating in Mongolia. The Company had no deposits bearing fixed interest rates at December 31, 2013 (2012 - 13.8% to 16.2%).

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

---

(expressed in Canadian dollars)

**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:

|                   | <b>2013</b>    |
|-------------------|----------------|
|                   | <b>Level 1</b> |
|                   | <b>\$</b>      |
|                   | <b>Total</b>   |
|                   | <b>\$</b>      |
| FVTPL             |                |
| Money market fund | 104            |
|                   | <b>104</b>     |
|                   | <b>2012</b>    |
|                   | <b>Level 1</b> |
|                   | <b>\$</b>      |
| FVTPL             |                |
| Money market fund | 100            |
|                   | <b>100</b>     |

The Company has not adjusted the quoted price for any instruments included in Level 1. There are no investments that meet the Level 2 or 3 fair value measurement criteria. No investments were transferred between levels in 2013 and 2012.

**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 was as follows:

|                | <b>2013</b> | <b>2012</b>      |
|----------------|-------------|------------------|
|                | <b>\$</b>   | <b>\$</b>        |
| -B or B+ rated | -           | 1,445,637        |
| Unrated        | 104         | 2,546,910        |
|                | <b>104</b>  | <b>3,992,547</b> |

The unrated balance relates to one commercial bank (2012 - three) in Mongolia, which have not been rated by any rating agency and one (2012 - one) private bank in Barbados which is also unrated.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

**d) Maturity schedule of fixed-term investments**

|                               | <b>2013</b>             |
|-------------------------------|-------------------------|
|                               | <b>One year or less</b> |
|                               | <b>\$</b>               |
|                               | <b>Total</b>            |
|                               | <b>\$</b>               |
| Money market fund<br>Barbados | 104                     |
|                               | <b>104</b>              |
|                               | <b>2012</b>             |
|                               | <b>One year or less</b> |
|                               | <b>\$</b>               |
|                               | <b>Total</b>            |
|                               | <b>\$</b>               |
| Money market fund<br>Barbados | 100                     |
| Term deposits<br>Mongolia     | 3,992,447               |
|                               | <b>3,992,447</b>        |
|                               | <b>3,992,547</b>        |
|                               | <b>3,992,547</b>        |

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 2012. Although these investments are classified as long-term, they are callable at any time.

**e) Net investment income**

|                                     | <b>2013</b>    | <b>2012</b>                |
|-------------------------------------|----------------|----------------------------|
|                                     | <b>\$</b>      | <b>\$</b>                  |
|                                     |                | <b>(Restated - note 5)</b> |
| Interest income                     |                |                            |
| Term deposits and money market fund | 231,200        | 273,161                    |
| Cash and cash equivalents           | 8,389          | 16,401                     |
|                                     | <b>239,589</b> | <b>289,562</b>             |
| Investment expense                  | (534)          | (703)                      |
|                                     | <b>239,055</b> | <b>288,859</b>             |

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

---

(expressed in Canadian dollars)

**8 Other assets**

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
|  | <b>\$</b>   | <b>\$</b>   |
| Amounts due from policyholder              | -           | 222,011     |
| Accounts receivable                        | 138,714     | 255,628     |
| Prepaid expenses                           | 481,970     | 367,619     |
| Prepaid deposits on investment properties  | 1,859,082   | 1,626,240   |
| Consideration receivable from UMC (note 5) | 3,211,850   | -           |
|  | <hr/>       | <hr/>       |
|  | 5,691,616   | 2,471,498   |
| Less: Non-current portion of other assets  | (1,645,125) | -           |
|  | <hr/>       | <hr/>       |
|  | 4,046,491   | 2,471,498   |
|  | <hr/>       | <hr/>       |

Total consideration receivable from UMC at December 31, 2013 is \$3,211,850 (note 5). Of this amount, \$1,645,125 is not receivable until 2015. The amount receivable from UMC is collateralized by real property of UMC and the common shares of Mandal. All other assets are considered current.

**9 Reinsurance assets**

|  | <b>2012</b> |
|--|-------------|
|  | <b>\$</b>   |
| Reinsurers' share of provision for unearned premiums | 261,853     |
| Reinsurers' share of loss provision                  | 422,432     |
|  | <hr/>       |
|  | 684,285     |
|  | <hr/>       |

The entire balance of reinsurance assets is considered to be current.



**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

---

(expressed in Canadian dollars)

**10 Deferred acquisition expenses**

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

|                                 | <b>2013</b> | <b>2012</b> |
|---------------------------------|-------------|-------------|
|                                 | <b>\$</b>   | <b>\$</b>   |
| Carrying amount at January 1    | 93,175      | 15,175      |
| Acquisition expenses deferred   | 166,130     | 119,251     |
| Acquisition expenses amortized  | (154,476)   | (40,857)    |
| Foreign exchange adjustment     | (16,244)    | (394)       |
| Disposal of subsidiary (note 5) | (88,585)    | -           |
|                                 | <hr/>       | <hr/>       |
| At December 31                  | -           | 93,175      |
|                                 | <hr/>       | <hr/>       |

The Company did not have any commission income from reinsurance during the period.

**11 Investment properties**

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
|   | <b>\$</b>   | <b>\$</b>   |
| Balance - beginning of period                   | 30,786,742  | 26,166,286  |
| Additions                                       |             |             |
| Acquisitions                                    | 1,684,451   | 8,190,935   |
| Capital expenditures                            | 131,137     | 374,890     |
| Transfer from property and equipment            | 204,995     | 140,251     |
| Disposals                                       | (921,126)   | (1,656,768) |
| Unrealized fair value adjustment <sup>(1)</sup> | 4,040,173   | (1,490,336) |
| Foreign exchange adjustments                    | (3,612,981) | (938,516)   |
|   | <hr/>       | <hr/>       |
| Balance - end of period                         | 32,313,391  | 30,786,742  |
|   | <hr/>       | <hr/>       |

- i) Unrealized gain (loss) on fair value adjustment on investment properties recorded in the consolidated statement of operations includes an impairment provision of \$194,652 (2012 - \$1,206,876) for investment properties classified as prepaid deposits.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

---

(expressed in Canadian dollars)

Investment properties by major category are as follows:

|                              | 2013<br>\$ | 2012<br>\$ |
|------------------------------|------------|------------|
| Residential                  | 1,378,377  | 1,697,443  |
| Office                       | 5,310,481  | 5,074,258  |
| Retail                       | 16,058,219 | 11,602,237 |
| Land and redevelopment sites | 9,566,314  | 12,412,804 |
|                              | 32,313,391 | 30,786,742 |

Included in investment properties are properties actively being marketed for sale that are to be disposed of without redevelopment with a fair value of \$2,883,050 (2012 - \$775,559). During the year, the Company sold investment properties for gross proceeds of \$961,079 (2012 - 1,669,536). A loss (gain) of \$17,906 (2012 - (\$12,768)) on these transactions has been recorded in other revenue on the consolidated statement of operations.

Investment properties with an aggregate fair value of \$21,718,639 (2012 - \$18,819,566) at December 31, 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, 2013 and 2012 agrees to the valuations reported by the external appraiser.

The Company determined the fair value of investment properties using the income approach and the sales comparison 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 current rent and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future rent in light of current conditions 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 this method, year one income is stabilized and capped at a rate deemed appropriate for each investment property.

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.

The entire portfolio of investment properties has been valued using the income approach, the sales comparison approach or a combination thereof.

Under the fair value hierarchy, the fair value of the Company's investment properties is considered a level three, as defined in note 3.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
**December 31, 2013**

(expressed in Canadian dollars)

The key valuation assumptions for commercial investment properties are as follows:

|                     | <b>2013</b>    |                |                         |
|---------------------|----------------|----------------|-------------------------|
|                     | <b>Maximum</b> | <b>Minimum</b> | <b>Weighted-average</b> |
| Capitalization rate | 11.5%          | 7.5%           | 9.5%                    |
|                     | <b>2012</b>    |                |                         |
|                     | <b>Maximum</b> | <b>Minimum</b> | <b>Weighted-average</b> |
| Capitalization rate | 14.2%          | 7.6%           | 10.8%                   |

The following sensitivity table outlines the impact of an 0.25% change in the weighted average capitalization rate on investment properties at December 31, 2013:

|                     | <b>Change to fair value if<br/>capitalize rate increased 0.25%</b> | <b>Change to fair value if<br/>capitalization rate decreases<br/>0.25%</b> |
|---------------------|--|--|
| Commercial property | (596,633)  | 628,883  |

Additional valuation assumptions include the rental revenue per square meter, grade quality of the property and comparable market data. Changes to these assumptions could have a material impact on the fair value of the Company's investment properties.

Investment properties include land held under operating leases with an aggregate fair value of \$295,262 (2012 - \$582,705) at December 31.

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

|                       | <b>2013</b>      | <b>2012</b>      |
|-----------------------|------------------|------------------|
|                       | <b>\$</b>        | <b>\$</b>        |
| Less than 1 year      | 1,358,772        | 2,011,716        |
| Between 1 and 5 years | 1,264,909        | 2,011,052        |
|                       | <u>2,623,681</u> | <u>4,022,768</u> |

Direct operating expenses arising from investment properties that generated rental income during the year was \$1,130,285 (2012 - \$764,440). Direct operating expenses arising from investment properties that did not generate rental income during the year was \$267,899 (2012 - \$222,967).

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

**12 Property and equipment**

|  | <b>2013</b>                              |                         |                        |                         |                     |
|--|--|-------------------------|------------------------|-------------------------|---------------------|
|  | <b>Furniture<br/>and fixtures<br/>\$</b> | <b>Equipment<br/>\$</b> | <b>Vehicles<br/>\$</b> | <b>Buildings<br/>\$</b> | <b>Total<br/>\$</b> |
| <b>Cost</b>                              |  |                         |                        |                         |                     |
| <b>At January 1</b>                      | 138,890                                  | 125,737                 | 268,351                | 4,238,707               | 4,771,685           |
| Additions                                | 14,215                                   | 95,231                  | 21,729                 | 67,120                  | 198,295             |
| Disposals                                | (68,237)                                 | (90,547)                | (132,985)              | -                       | (291,769)           |
| Transfers to investment<br>properties    | -  | -                       | -                      | (204,995)               | (204,995)           |
| Foreign exchange<br>adjustment           | (13,024)                                 | (18,676)                | (19,925)               | (237,081)               | (288,706)           |
| <b>At December 31</b>                    | <b>71,844</b>                            | <b>111,745</b>          | <b>137,170</b>         | <b>3,863,751</b>        | <b>4,184,510</b>    |
| <b>Accumulated depreciation</b>          |  |                         |                        |                         |                     |
| <b>At January 1</b>                      | 17,606                                   | 37,970                  | 32,090                 | 107,988                 | 195,654             |
| Depreciation                             | 12,650                                   | 43,813                  | 24,200                 | 97,485                  | 178,148             |
| Disposals                                | (10,740)                                 | (41,688)                | (23,775)               | -                       | (76,203)            |
| Foreign exchange<br>adjustment           | (2,643)                                  | (13,828)                | (1,043)                | (11,267)                | (28,781)            |
| <b>At December 31</b>                    | <b>16,873</b>                            | <b>26,267</b>           | <b>31,472</b>          | <b>194,206</b>          | <b>268,818</b>      |
| <b>Net book value at<br/>December 31</b> | <b>54,971</b>                            | <b>85,478</b>           | <b>105,698</b>         | <b>3,669,545</b>        | <b>3,915,692</b>    |

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

|                                      | <b>2012</b>                              |                         |                        |                         |                     |
|--------------------------------------|--|-------------------------|------------------------|-------------------------|---------------------|
|                                      | <b>Furniture<br/>and fixtures<br/>\$</b> | <b>Equipment<br/>\$</b> | <b>Vehicles<br/>\$</b> | <b>Buildings<br/>\$</b> | <b>Total<br/>\$</b> |
| <b>Cost</b>                          |  |                         |                        |                         |                     |
| <b>At January 1</b>                  | 109,122                                  | 81,605                  | 234,039                | 4,241,393               | 4,666,159           |
| Additions                            | 66,104                                   | 55,517                  | 36,666                 | 275,423                 | 433,710             |
| Disposals                            | (35,996)                                 | (4,012)                 | -                      | -                       | (40,008)            |
| Transfer to investment<br>properties | -  | -                       | -                      | (140,251)               | (140,251)           |
| Foreign exchange<br>adjustment       | (340)                                    | (7,373)                 | (2,354)                | (137,858)               | (147,925)           |
| <b>At December 31</b>                | <b>138,890</b>                           | <b>125,737</b>          | <b>268,351</b>         | <b>4,238,707</b>        | <b>4,771,685</b>    |

|  | <b>2012</b>                              |                         |                        |                         |                     |
|--|--|-------------------------|------------------------|-------------------------|---------------------|
|  | <b>Furniture<br/>and fixtures<br/>\$</b> | <b>Equipment<br/>\$</b> | <b>Vehicles<br/>\$</b> | <b>Buildings<br/>\$</b> | <b>Total<br/>\$</b> |
| <b>Accumulated<br/>depreciation</b>      |  |                         |                        |                         |                     |
| <b>At January 1</b>                      | 5,780                                    | 9,926                   | 8,618                  | 17,825                  | 42,149              |
| Depreciation                             | 16,508                                   | 30,744                  | 23,859                 | 99,779                  | 170,890             |
| Disposals                                | (4,460)                                  | (1,159)                 | -                      | (9,476)                 | (15,095)            |
| Foreign exchange<br>adjustment           | (222)                                    | (1,541)                 | (387)                  | (140)                   | (2,290)             |
| <b>At December 31</b>                    | <b>17,606</b>                            | <b>37,970</b>           | <b>32,090</b>          | <b>107,988</b>          | <b>195,654</b>      |
| <b>Net book value at<br/>December 31</b> | <b>121,284</b>                           | <b>87,767</b>           | <b>236,261</b>         | <b>4,130,719</b>        | <b>4,576,031</b>    |

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

**13 Trade payables and accrued liabilities**

|                              | <b>2013</b>    | <b>2012</b>    |
|------------------------------|----------------|----------------|
|                              | \$             | \$             |
| Trade and accrued payables   | 650,337        | 833,349        |
| Premiums received in advance | -              | 4,949          |
| Security deposit             | 145,315        | 130,084        |
| Unearned revenue             | 78,570         | 27,932         |
|                              | <u>874,222</u> | <u>996,314</u> |

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

**14 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:

|  | <b>2013</b>    | <b>2012</b>     |
|--|----------------|-----------------|
|  | \$             | \$              |
| Net income (loss) before income taxes                            | 213,331        | (4,968,058)     |
| Combined statutory tax rate                                      | 26.5%          | 26.5%           |
| Tax payable (recoverable) based on statutory tax rate            | 56,533         | (1,316,535)     |
| Effect of:   |                |                 |
| Permanent differences  | 175,406        | 189,128         |
| Tax rate variances of foreign subsidiaries                       | (465,218)      | 923,247         |
| Deferred tax assets not recognized                               | 683,715        | 303,697         |
| Other  | 13,469         | (135,620)       |
|  | <u>463,905</u> | <u>(36,083)</u> |
| Provision for (recovery of) income taxes                         |                |                 |
| Current  | 40,487         | 151,644         |
| Deferred   | 423,418        | (187,727)       |
| Provision for (recovery of) income taxes - continuing operations | 463,905        | (36,083)        |
| Provision for income taxes - discontinued operations             | 55,869         | 57,764          |
|  | <u>519,774</u> | <u>21,681</u>   |

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

---

(expressed in Canadian dollars)

**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 are \$520,000 (2012 - \$1,861,000) of non-capital loss carry-forwards 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 \$5,419,472 (2012 - \$2,953,429) of non-capital losses relating to the Canadian entity.

The losses expire as follows:

| Year of expiry | Non-capital loss<br>\$ |
|----------------|------------------------|
| 2028           | 8,572                  |
| 2029           | 75,387                 |
| 2030           | 275,393                |
| 2031           | 933,914                |
| 2032           | 1,660,163              |
| 2033           | 2,466,043              |

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.

Components of the deferred tax liabilities are as follows:

|                             | 2013<br>\$ | 2012<br>\$ |
|-----------------------------|------------|------------|
| Deferred tax liabilities    |            |            |
| Investment properties       | 1,090,117  | 557,903    |
| Investment in related party | -          | 56,043     |
|                             | 1,090,117  | 613,946    |

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

---

(expressed in Canadian dollars)

**15 Insurance contract liabilities**

a) Insurance contract liabilities consist of:

|                                | <b>2012</b>  |                                       |                   |
|--------------------------------|--|---------------------------------------|-------------------|
|                                | <b>Insurance<br/>contract<br/>liabilities<br/>\$</b> | <b>Reinsurers'<br/>portion<br/>\$</b> | <b>Net<br/>\$</b> |
| Property and casualty          |  |                                       |                   |
| Unearned premiums              | 1,031,176  | (261,853)                             | 769,323           |
| Unpaid claims                  | 1,269,428  | (422,432)                             | 846,996           |
| Insurance contract liabilities | <u>2,300,604</u>                                     | <u>(684,285)</u>                      | <u>1,616,319</u>  |
| Current                        | 2,300,604  | (684,285)                             | 1,616,319         |
| Non-current                    | -  | -                                     | -                 |
| Insurance contract liabilities | <u>2,300,604</u>                                     | <u>(684,285)</u>                      | <u>1,616,319</u>  |



**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

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

|                                 | <b>2013</b>  |                                       |                   |
|---------------------------------|--|---------------------------------------|-------------------|
|                                 | <b>Insurance<br/>contract<br/>liabilities<br/>\$</b> | <b>Reinsurers'<br/>portion<br/>\$</b> | <b>Net<br/>\$</b> |
| <b>At January 1</b>             | 1,031,176  | (261,853)                             | 769,323           |
| Gross premiums written          | 3,350,871  | (1,127,799)                           | 2,223,072         |
| Premiums earned                 | (2,190,168)  | 316,502                               | (1,873,666)       |
| Disposal of subsidiary (note 5) | (2,191,879)  | 1,073,150                             | (1,118,729)       |
| <b>At December 31</b>           | -  | -                                     | -                 |
|                                 | <b>2012</b>  |                                       |                   |
|                                 | <b>Insurance<br/>contract<br/>liabilities<br/>\$</b> | <b>Reinsurers'<br/>portion<br/>\$</b> | <b>Net<br/>\$</b> |
| <b>At January 1</b>             | 310,993  | (7,760)                               | 303,233           |
| Gross premiums written          | 2,004,415  | (889,222)                             | 1,115,193         |
| Premiums earned                 | (1,263,553)  | 635,129                               | (628,424)         |
| Foreign currency adjustment     | (20,679)   | -                                     | (20,679)          |
| <b>At December 31</b>           | 1,031,176  | (261,853)                             | 769,323           |

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

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

**c) Property and casualty unpaid claims**

|  | <b>Gross unpaid<br/>claims<br/>\$</b> | <b>Reinsurers'<br/>portion<br/>\$</b> | <b>2012<br/>Net<br/>\$</b> |
|--|---------------------------------------|---------------------------------------|----------------------------|
| Provision for reported claims undiscounted | 1,152,238                             | (373,011)                             | 779,227                    |
| Effect of discounting and PFADs            | 117,190                               | (49,421)                              | 67,769                     |
|  | <b>1,269,428</b>                      | <b>(422,432)</b>                      | <b>846,996</b>             |

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.

The loss ratios used in the calculations are as follows:

|                        | <b>2012<br/>%</b> |
|------------------------|-------------------|
| Accident insurance     | 70                |
| Automobile insurance   | 55                |
| Property insurance     | 60                |
| Drivers' insurance     | 115               |
| Liability insurance    | 60                |
| Construction insurance | 60                |
| Cargo insurance        | 60                |
| Finance insurance      | 720               |
| Aviation               | 60                |

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

---

(expressed in Canadian dollars)

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 1% and then again at 0.5% to allow a margin for adverse deviations in the interest rate. To recognize the uncertainty inherent in determining unpaid claim amounts, the Company includes provision for 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 consist of:**

|                               | 2013<br>\$  | 2012<br>\$ |
|-------------------------------|-------------|------------|
| Gross premiums written        | 3,350,871   | 2,004,415  |
| Premiums ceded                | (1,127,799) | (889,222)  |
| Increase in unearned premiums | -           | (769,323)  |
| Foreign exchange adjustment   | (349,406)   | 282,554    |
|                               | <hr/>       | <hr/>      |
| Net premiums earned           | 1,873,666   | 628,424    |
|                               | <hr/>       | <hr/>      |

**16 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<br>shares | Amount<br>\$ |
|----------------------------|---------------------|--------------|
| Balance, December 31, 2012 | 34,143,352          | 51,681,818   |
|                            | <hr/>               | <hr/>        |
| Options exercised          | 160,000             | 522,576      |
|                            | <hr/>               | <hr/>        |
| Balance, December 31, 2013 | 34,303,352          | 52,204,394   |
|                            | <hr/>               | <hr/>        |

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

**c) Stock options**

|  | Number of<br>options | Weighted<br>average<br>exercise<br>price<br>\$ |
|--|----------------------|--|
| Balance, December 31, 2011                   | 1,697,000            | 3.36   |
| Cancelled - prior share based payment plan   | (5,000)              | (4.25)   |
| Granted                                      | 190,000              | 4.00   |
| Forfeited - current share based payment plan | (100,000)            | (4.36)   |
|  | <hr/>                |  |
| December 31, 2012                            | 1,782,000            | 3.40   |
|  | <hr/>                |  |
| Balance, December 31, 2012                   | 1,782,000            | 3.40   |
| Granted                                      | 475,000              | 4.13   |
| Cancelled - current share based payment plan | (65,000)             | 4.20   |
| Exercised                                    | (160,000)            | (1.84)   |
| Forfeited - current share based payment plan | (75,000)             | (4.21)   |
|  | <hr/>                |  |
| December 31, 2013                            | 1,957,000            | 3.76   |

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, 2013, the Company had 1,473,335 (2012 - 1,632,335) common shares available for the granting of future options under the new plan. The Company does not have any cash-settled transactions.

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. 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. The options were fully vested and were exercisable at any time prior to their expiry on October 9, 2013.

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. 500,000 of these options vest and become exercisable on March 9, 2014 and are exercisable up until their expiry on March 9, 2021. 100,000 of these options vest and become exercisable on March 9, 2013 up until their expiry on March 9, 2014. On May 16, 2012, the Company approved a Board resolution that allowed for 200,000 of the options to vest immediately at a modified price of \$1.90 per share for each option issued.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
**December 31, 2013**

---

(expressed in Canadian dollars)

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 December 20, 2013, 300,000 of these options with an exercise price of \$1.64 were modified to have an exercise price of \$1.75 and the expiration date of these same options was changed to June 17, 2015.

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.

On March 23, 2012, 190,000 options were granted to employees. These options allow the holder to acquire common shares at a price of \$4.00 per share for each option exercised. 170,000 of these options vest in four equal annual tranches each year over four years and expire on March 23, 2017. Of these options 20,000 shall vest and become exercisable on March 23, 2014 and expire on March 23, 2017.

On March 1, 2013, 475,000 options were granted to employees and consultants of the Company. These options allow the holder to acquire common shares at a price of \$4.13 per share for each option exercised. 350,000 of these options vest over two years and expire on March 1, 2018, 125,000 of these options vested and became exercisable immediately and expire on March 1, 2016.

On December 20, 2013, the Company disposed of its investment in Mandal General Insurance resulting in the immediate vesting of 143,000 options. The options became exercisable immediately and expire on January 20, 2014. None of these options were exercised at December 31, 2013.

At year end, the Company had 1,324,500 options that were exercisable (2012 - 358,000).

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

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

|   | December 31,<br>2013 | Weighted<br>average<br>exercise price<br>\$ | December 31,<br>2012 | Weighted<br>average<br>exercise price<br>\$ |
|---|----------------------|---|----------------------|---|
| Balance, beginning of the year          | 1,782,000            | 3.40  | 1,697,000            | 3.36  |
| Options cancelled                       | (65,000)             | 4.20  | (5,000)              | 4.25  |
| Options granted                         | 475,000              | 4.13  | 190,000              | 4.00  |
| Options exercised                       | (160,000)            | 1.84  | -                    | -   |
| Options forfeited                       | (75,000)             | 4.21  | (100,000)            | 4.36  |
| Balance, end of the year                | <u>1,957,000</u>     | <u>3.76</u>                                 | <u>1,782,000</u>     | <u>3.40</u>                                 |
| Exercisable                             | <u>1,324,500</u>     | <u>3.44</u>                                 | <u>358,000</u>       | <u>2.94</u>                                 |
| Weighted remaining average life (years) |                      | <u>3.55</u>                                 |                      | <u>3.84</u>                                 |

During the period, 120,000 options were exercised at a price of \$1.90 for total cash proceeds of \$228,000 and 40,000 options were exercised at a price of \$1.64 for total cash proceeds of \$65,600.

The fair value associated with the options issued during the period was calculated using the Black-Scholes model for options valuation, assuming volatility of 90% (2012: 90%) on the underlying units, risk free interest rates of 1.21% - 1.95% 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 TSXV 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 thirty-five 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 for the options issued in the current year would decrease net income of the Company by \$51,954. The approximate impact of a decrease of 10% in the volatility assumption would increase net income of the Company by \$56,843.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

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

| <b>Options outstanding 2013</b> |  |   |                                       |
|---------------------------------|--|---|---------------------------------------|
| <b>Number outstanding</b>       | <b>Weighted average remaining life (years)</b> | <b>Weighted average exercise price \$</b> | <b>Weighted average at grant date</b> |
| 360,000                         | 6.02   | 1.73                                      | 1.78                                  |
| 80,000                          | 7.19   | 1.90                                      | 1.78                                  |
| 602,000                         | 1.24   | 4.20                                      | 4.04                                  |
| 150,000                         | 2.69   | 4.77                                      | 4.70                                  |
| 100,000                         | 2.92   | 4.25                                      | 4.14                                  |
| 190,000                         | 3.23   | 4.00                                      | 4.00                                  |
| 475,000                         | 3.96   | 4.13                                      | 4.13                                  |
| <b>1,957,000</b>                | <b>3.55</b>                                    | <b>3.76</b>                               | <b>3.55</b>                           |
| <b>Options outstanding 2012</b> |  |   |                                       |
| <b>Number outstanding</b>       | <b>Weighted average remaining life (years)</b> | <b>Weighted average exercise price \$</b> | <b>Weighted average at grant date</b> |
| 400,000                         | 6.50   | 1.64                                      | 1.78                                  |
| 200,000                         | 8.25   | 1.90                                      | 1.78                                  |
| 722,000                         | 3.33   | 4.20                                      | 4.04                                  |
| 150,000                         | 3.67   | 4.77                                      | 4.70                                  |
| 120,000                         | 3.92   | 4.25                                      | 4.14                                  |
| 190,000                         | 4.33   | 4.00                                      | 4.00                                  |
| <b>1,782,000</b>                | <b>3.84</b>                                    | <b>3.40</b>                               | <b>3.35</b>                           |

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

---

(expressed in Canadian dollars)

**d) Restricted shares**

The Company has granted restricted stock of the Company to certain individuals under the terms of the Restricted Stock Award Plan of the Company. Restrictions on such shares are removed as vesting conditions are met.

The number of restricted shares granted under the Restricted Stock Award Plan was as follows:

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
| Restricted shares outstanding - beginning of year | -           | -           |
| Granted during the year                           | 91,179      | -           |
|   | <hr/>       | <hr/>       |
| Restricted shares outstanding - end of year       | 91,179      | -           |
|   | <hr/>       | <hr/>       |

The fair value of the restricted shares granted during the 2013 year was \$212,447 at the time of the grant (weighted average grant price of \$2.33 per share) and was based on the market price of the Company's shares at that time.

During the 2013 year, the Company recorded net compensation expense of \$2,384 for the Restricted Share Plan within the share based payment expenses.

**e) Earnings per share**

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

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
|   | \$          | \$          |
| Weighted average number of shares - basic   | 34,256,557  | 34,143,352  |
| Effect of dilutive stock options            | 440,000     | 1,738,913   |
|   | <hr/>       | <hr/>       |
| Weighted average number of shares - diluted | 34,696,557  | 35,882,265  |
|   | <hr/>       | <hr/>       |

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.



**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
**December 31, 2013**

---

(expressed in Canadian dollars)

**17 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, 2013, the Company's working capital was \$8,538,467 (2012 - \$12,554,733) and the Company had no debt.

|                     | <b>2013</b>      | <b>2012</b>       |
|---------------------|------------------|-------------------|
|                     | <b>\$</b>        | <b>\$</b>         |
| Current assets      | 9,416,810        | 15,943,758        |
| Current liabilities | 878,343          | 3,389,025         |
|                     | <hr/>            | <hr/>             |
| Working capital     | <b>8,538,467</b> | <b>12,554,733</b> |

**18 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 Company is no longer exposed to risks resulting from insurance contracts and the related claims as the Company has disposed of their insurance operations effective December 20, 2013 (note 5).

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

---

(expressed in Canadian dollars)

**Catastrophe risk**

The Company obtained insurance on buildings and all permanent fixtures totalling approximately \$27,000,000.

**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.

|  | <b>2013</b>      | <b>2012</b>       |
|--|------------------|-------------------|
|  | \$               | \$                |
| Cash and cash equivalents  | 5,370,215        | 8,702,253         |
| Investments and marketable securities  | 104              | 3,992,547         |
| Amounts due from policyholders   | -                | 222,011           |
| Accounts receivable  | 3,350,564        | 255,628           |
| Reinsurance assets   | -                | 684,285           |
|  | <hr/>            | <hr/>             |
| Maximum credit risk exposure on the consolidated statement of financial position | <b>8,720,883</b> | <b>13,856,724</b> |

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.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
**December 31, 2013**

---

(expressed in Canadian dollars)

**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.

As at December 31, 2013, 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, 2013. 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:

|  | <b>December 31, 2013</b>           |                                    |                                    |
|--|------------------------------------|------------------------------------|------------------------------------|
|  | <b>One year or<br/>less<br/>\$</b> | <b>One to two<br/>years<br/>\$</b> | <b>No maturity<br/>date<br/>\$</b> |
| <b>Financial Assets</b>                |                                    |                                    |                                    |
| Cash and cash equivalents              | 5,370,215                          | -                                  | -                                  |
| Receivables                            | 1,705,439                          | 1,645,125                          | -                                  |
| Investments                            | 104                                | -                                  | -                                  |
|  | <u>7,075,758</u>                   | <u>1,645,125</u>                   | <u>-</u>                           |
| <b>Financial Liabilities</b>           |                                    |                                    |                                    |
| Trade payables and accrued liabilities | 874,222                            | -                                  | -                                  |
|  | <u>874,222</u>                     | <u>-</u>                           | <u>-</u>                           |

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

|  | December 31, 2012         |                           |                           |
|--|---------------------------|---------------------------|---------------------------|
|  | One year or<br>less<br>\$ | One to two<br>years<br>\$ | No maturity<br>date<br>\$ |
| <b>Financial Assets</b>                |                           |                           |                           |
| Cash and cash equivalents              | 8,702,253                 | -                         | -                         |
| Receivables                            | 255,628                   | -                         | -                         |
| Reinsurance assets                     | 684,285                   | -                         | -                         |
| Investments                            | 3,992,547                 | -                         | -                         |
|  | 13,634,713                | -                         | -                         |
| <b>Financial Liabilities</b>           |                           |                           |                           |
| Trade payables and accrued liabilities | 996,314                   | -                         | -                         |
| Insurance contract liabilities         | 2,300,604                 | -                         | -                         |
|  | 3,296,918                 | -                         | -                         |

**Market risk**

Market risk includes interest rate risk, currency risk and other price 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 nil (2012 - \$39,925). The approximate impact of a decrease of 100 basis points in interest rates would decrease net income of the Company by nil (2012 - \$39,925).

# Mongolia Growth Group Ltd.

## Notes to Consolidated Financial Statements

December 31, 2013

---

(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 and carries out related business operations in Mongolia, and is therefore subject to foreign currency fluctuations that may impact its financial position and results.

The approximate impact of an increase of 10% in the Mongolian Tögrög against the Canadian dollar would increase the OCI of the Company by \$4,267,566 (2012 - \$4,633,059). The approximate impact of a decrease of 10% in the Mongolian Tögrög against the Canadian dollar would decrease OCI of the Company by \$4,267,566 (2012 - \$4,633,059).

### 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.

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.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
**December 31, 2013**

---

(expressed in Canadian dollars)

**19 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.

On August 8, 2013, the Company loaned a member of the key management \$100,000 with a fixed interest rate of 6% payable back to the Company within six months from the loan date. The loan was outstanding as at December 31, 2013 and settled subsequent to year end.

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

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
|   | <b>\$</b>   | <b>\$</b>   |
| Salaries and other short-term employee benefits | 821,756     | 125,229     |
| Share-based payments                            | 341,049     | 456,717     |
|   | <hr/>       | <hr/>       |
|   | 1,162,805   | 581,946     |
|   | <hr/>       | <hr/>       |

**20 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.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
**December 31, 2013**

---

(expressed in Canadian dollars)

**21 Supplementary cash flow information**

|   | <b>2013</b> | <b>2012</b> |
|---|-------------|-------------|
|   | <b>\$</b>   | <b>\$</b>   |
| Changes in non-working capital arising from                   |             |             |
| Other assets  | 394,083     | (3,138,778) |
| Trade payables and accrued liabilities                        | 107,760     | 151,262     |
| Reinsurance assets  | -           | (691,198)   |
| Deferred acquisition expense                                  | -           | (80,066)    |
| Income tax payable  | 63,663      | (33,102)    |
| Insurance contract liabilities                                | -           | 1,989,745   |
|   | <hr/>       | <hr/>       |
| Changes in non-cash working capital from operating activities | 565,506     | (1,802,137) |

**22 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 redevelopment. 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. These operations were disposed of on December 20, 2013 (note 5).

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.

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
December 31, 2013

(expressed in Canadian dollars)

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

|   |                                       |                         |                         | <b>2013</b>         |
|---|---------------------------------------|-------------------------|-------------------------|---------------------|
|   | <b>Investment<br/>Property<br/>\$</b> | <b>Insurance<br/>\$</b> | <b>Corporate<br/>\$</b> | <b>Total<br/>\$</b> |
| Rental income   | 1,650,895                             | -                       | -                       | 1,650,895           |
| Property operating expenses   | (1,398,184)                           | -                       | -                       | (1,398,184)         |
| Unrealized gain on fair value<br>adjustment on<br>investment properties   | 3,845,521                             | -                       | -                       | 3,845,521           |
| Net premiums earned   | -                                     | 1,873,666               | -                       | 1,873,666           |
| Claims and insurance<br>benefits incurred                                 | -                                     | (1,063,379)             | -                       | (1,063,379)         |
| Share based payment   | (325,967)                             | (506,912)               | (605,816)               | (1,438,695)         |
| Other expenses  | (71,291)                              | (1,380,085)             | (3,065,792)             | (4,517,168)         |
| Depreciation  | (129,149)                             | (40,271)                | (8,728)                 | (178,148)           |
| Net investment income   | 237,672                               | 543,045                 | 1,383                   | 782,100             |
| Gain (loss) on disposal of<br>investment property                         | (17,906)                              | -                       | -                       | (17,906)            |
| Other revenue (expense)   | 99,691                                | 365,564                 | 1,001                   | 466,256             |
| Net income (loss) before<br>income taxes                                  | <u>3,891,282</u>                      | <u>(208,372)</u>        | <u>(3,677,952)</u>      | <u>4,958</u>        |
|   |                                       |                         |                         | <b>2012</b>         |
|   | <b>Investment<br/>Property<br/>\$</b> | <b>Insurance<br/>\$</b> | <b>Corporate<br/>\$</b> | <b>Total<br/>\$</b> |
| Rental income   | 1,572,603                             | -                       | -                       | 1,572,603           |
| Property operating expenses   | (987,407)                             | -                       | -                       | (987,407)           |
| Unrealized losses on fair<br>value adjustment on<br>investment properties | (2,697,212)                           | -                       | -                       | (2,697,212)         |
| Net premiums earned   | -                                     | 628,424                 | -                       | 628,424             |
| Claims and insurance<br>benefits incurred                                 | -                                     | (1,042,387)             | -                       | (1,042,387)         |
| Share based payment   | (643,857)                             | (253,168)               | (470,695)               | (1,367,720)         |
| Other expenses  | (275,993)                             | (1,001,244)             | (1,610,224)             | (2,887,461)         |
| Depreciation  | (127,417)                             | (33,849)                | (9,624)                 | (170,890)           |
| Net investment income   | 282,114                               | 574,454                 | 6,745                   | 863,313             |
| Gain on disposal of<br>investment property                                | 12,768                                | -                       | -                       | 12,768              |
| Other revenue (expense)   | (19,860)                              | 43,759                  | -                       | 23,899              |
| Net loss before income taxes  | <u>(2,884,261)</u>                    | <u>(1,084,011)</u>      | <u>(2,083,798)</u>      | <u>(6,052,070)</u>  |



**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
**December 31, 2013**

(expressed in Canadian dollars)

|   | <b>2013</b>                           |                         |                     |
|---|---------------------------------------|-------------------------|---------------------|
| <b>Balance as of<br/>December 31, 2013:</b> | <b>Investment<br/>Property<br/>\$</b> | <b>Corporate<br/>\$</b> | <b>Total<br/>\$</b> |
| <b>Total assets</b>                         | 41,819,097                            | 5,471,921               | 47,291,018          |
| Property and equipment                      | 3,893,719                             | 21,973                  | 3,915,692           |
| Investment properties                       | 32,313,391                            | -                       | 32,313,391          |
| Expenditures                                |                                       |                         |                     |
| Property and<br>equipment                   | 129,576                               | 2,197                   | 131,773             |
| Investment properties                       | 715,915                               | -                       | 715,915             |

|   | <b>2012</b>                           |                         |                         |                     |
|---|---------------------------------------|-------------------------|-------------------------|---------------------|
| <b>Balance as of<br/>December 31, 2012:</b> | <b>Investment<br/>Property<br/>\$</b> | <b>Insurance<br/>\$</b> | <b>Corporate<br/>\$</b> | <b>Total<br/>\$</b> |
| <b>Total assets</b>                         | 43,964,089                            | 5,758,399               | 1,584,043               | 51,306,531          |
| Property and equipment                      | 4,337,876                             | 211,250                 | 26,905                  | 4,576,031           |
| Investment properties                       | 30,786,742                            | -                       | -                       | 30,786,742          |
| Expenditures                                |                                       |                         |                         |                     |
| Property and<br>equipment                   | 318,096                               | 113,467                 | 2,147                   | 433,710             |
| Investment properties                       | 6,896,289                             | -                       | -                       | 6,896,289           |

|          | <b>Revenue</b>     |                    | <b>Property and<br/>equipment</b> |                    | <b>Investment property</b> |                    |
|----------|--------------------|--------------------|-----------------------------------|--------------------|----------------------------|--------------------|
|          | <b>2013<br/>\$</b> | <b>2012<br/>\$</b> | <b>2013<br/>\$</b>                | <b>2012<br/>\$</b> | <b>2013<br/>\$</b>         | <b>2012<br/>\$</b> |
| Canada   | 1,001              | -                  | 21,973                            | 26,905             | -                          | -                  |
| Mongolia | 3,919,375          | 2,237,694          | 3,893,719                         | 4,549,127          | 32,313,391                 | 30,786,742         |
|          | <u>3,920,376</u>   | <u>2,237,694</u>   | <u>3,915,692</u>                  | <u>4,576,032</u>   | <u>32,313,391</u>          | <u>30,786,742</u>  |

Revenue in Mongolia includes \$2,239,230 (2012 - \$672,183) from discontinued operations (note 5).

**Mongolia Growth Group Ltd.**  
Notes to Consolidated Financial Statements  
**December 31, 2013**

---

(expressed in Canadian dollars)

**23 Other expenses**

|                       | <b>2013</b>      | <b>2012</b>                    |
|-----------------------|------------------|--------------------------------|
|                       | <b>\$</b>        | <b>\$</b>                      |
|                       |                  | <b>(Restated -<br/>note 5)</b> |
| Professional fees     | 1,866,094        | 1,201,459                      |
| Travel                | 303,038          | 206,315                        |
| Advertising           | 21,118           | 16,003                         |
| Land and property tax | 254,404          | 209,501                        |
| Insurance             | 27,901           | 24,644                         |
| Utility expense       | 75,983           | 78,002                         |
| Other expenses        | 778,303          | 601,214                        |
|                       | <hr/>            |                                |
|                       | <b>3,326,841</b> | <b>2,337,138</b>               |
|                       |                  | <hr/>                          |

## Corporate Information

### Board of Directors

#### Harris Kupperman

*Executive Chairman of MGG  
Miami Beach, Florida, USA*

#### Paul J. Byrne

*CEO and President of MGG  
Dubai, UAE*

#### Jordan Calonego, CFA

*COO of MGG  
Thunder Bay, Ontario*

#### William Fleckenstein

*President of Fleckenstein  
Capital  
Seattle, Washington, USA*

#### Byambaa Losolsuren

*Partner at UMC Capital  
Ulaanbaatar, Mongolia*

#### John Shaw

*Chairman of Fitzsimons  
Redevelopment Authority  
Denver, Colorado*

#### Paul Sweeney

*Independent Business  
Consultant  
Vancouver, British Columbia*

### Officers

#### Harris Kupperman

*Executive Chairman*

#### Paul J. Byrne

*CEO and President of MGG*

#### Talha Siddiqui

*Interim Chief Financial Officer*

#### Jordan Calonego, CFA

*Chief Operating Officer,  
Corporate Secretary*

### Auditors

#### PricewaterhouseCoopers LLP

*Winnipeg, MB*

### Legal

#### Borden Ladner Gervais LLP

*Calgary, AB*

#### Blakes, Cassels & Graydon LLP

*Calgary, AB*

### Registrar and Transfer Agent

#### Olympia Trust

*2300 125 – 9th Ave SE Calgary,  
Alberta T2G0P6  
Tel: (403) 261-0900  
cssinquiries@olympiatruster.com*

### Share Listing

*TSX Venture exchange: YAK  
US Listing: MNGGF*

### Registered Office

*700 – 2nd Street SW, Suite 1400  
Calgary, AB T2P 4V5  
Canada*

### Executive Office

*100 King Street West, Suite 5600  
Toronto, Ontario, M5X 1C9, Canada  
Tel: (807) 346-8688  
Fax: (866) 468-9119  
info@mongoliagrowthgroup.com*

### Mongolian Office

*Sukhbaatar District, 2nd Khoroo  
5th Khoroolol – 14251  
Seoul St 7/1  
Ulaanbaatar, Mongolia  
Tel: 976 7711 0740  
info@mggproperties.com*



**Mongolia Growth Group Ltd.**

*100 King Street West Suite 5600 Toronto Ontario M5X 1C9, Canada*