

Mongolia Growth Group Ltd.

Condensed Interim Consolidated Financial
Statements

(Unaudited)

For the three and nine months ended

September 30, 2014 and 2013

(expressed in Canadian dollars)

Mongolia Growth Group Ltd.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(expressed in Canadian dollars)

	September 30, 2014 \$	December 31, 2013 \$
Assets		
Current assets		
Cash and cash equivalents	3,429,576	5,370,319
Other assets	4,259,424	4,046,491
	<u>7,689,000</u>	<u>9,416,810</u>
Non-current assets		
Other assets	-	1,645,125
Investment properties (note 7)	44,861,947	32,313,391
Property and equipment (note 8)	2,972,938	3,915,692
	<u>55,523,885</u>	<u>47,291,018</u>
Total assets		
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	818,100	874,222
Income taxes payable	58,836	4,121
Long term debt – current portion (note 9)	623,145	-
	<u>1,500,081</u>	<u>878,343</u>
Non-current liabilities		
Long term debt (note 9)	2,711,026	-
Deferred income tax liability	1,618,987	1,090,117
	<u>5,830,094</u>	<u>1,968,460</u>
Total liabilities		
Equity (note 10)		
Share capital	53,789,459	52,204,394
Contributed surplus	5,283,756	4,423,914
Accumulated other comprehensive loss	(7,906,371)	(6,086,341)
Deficit	(1,473,053)	(5,219,409)
	<u>49,693,791</u>	<u>45,322,558</u>
Total equity		
Total equity and liabilities	<u>55,523,885</u>	<u>47,291,018</u>

Approved by the Board of Directors

“William Fleckenstein” Director “Jordan Calonego” Director

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

Mongolia Growth Group Ltd.

Condensed Interim Consolidated Statement of Operations

(Unaudited)

For the three and nine month period ended September 30 2014 and 2013

(expressed in Canadian dollars)

	For the three months ended September 30		For the nine months ended September 30	
	2014 \$	2013 \$ (Restated - note 6)	2014 \$	2013 \$ (Restated - note 6)
Revenue				
Rental income	420,621	407,104	1,364,896	1,253,001
Other revenue	4,166	45,083	237,308	46,537
Total revenue	424,787	452,187	1,602,204	1,299,538
Expenses				
Salaries and wages	347,683	284,645	972,251	937,863
Other expenses (note 15)	639,100	788,157	2,294,457	2,294,745
Share based payment	353,961	234,361	1,307,005	954,044
Depreciation	30,553	33,313	92,624	103,907
Total expenses	1,371,297	1,340,476	4,666,337	4,290,559
Net investment income	38,771	30,735	79,011	201,320
Unrealized gain on fair value adjustment on Investment Properties (note 7)	-	-	7,936,746	1,136,125
Impairment of other asset (note 6)	402,339	-	402,339	-
Finance expense (note 9)	179,041	-	192,822	-
Net income (loss) before income taxes	(1,489,119)	(857,554)	4,356,463	(1,653,576)
Provision for income taxes	(8,350)	(419)	(610,107)	(141,709)
Income (loss) from continuing operations	(1,497,469)	(857,973)	3,746,356	(1,795,285)
Income from discontinued operations (note 6)	-	753,952	-	403,456
Net Income (loss) for the period	(1,497,469)	(104,021)	3,746,356	(1,391,829)
Net Income (loss) per share				
Basic				
From continuing operations	(0.04)	(0.03)	0.11	(0.06)
From discontinued operations	-	0.02	-	0.02
From net income (loss) for the period	(0.04)	-	0.11	(0.04)
Diluted				
From continuing operations	(0.04)	(0.03)	0.10	(0.06)
From discontinued operations	-	0.02	-	0.02
From net income (loss) for the period	(0.04)	-	0.10	(0.04)

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

Mongolia Growth Group Ltd.

Condensed Interim Consolidated Statement of Comprehensive Income (Loss)

(Unaudited)

For the three and nine month period ended September 30 2014 and 2013

(expressed in Canadian dollars)

	For the three months ended September 30		For the nine months ended September 30	
	2014 \$	2013 \$ (Restated - note 6)	2014 \$	2013 \$ (Restated - note 6)
Net income (loss) for the period	(1,497,469)	(104,021)	3,746,356	(1,391,829)
Other comprehensive loss				
Items that may be subsequently reclassified to income or loss				
Unrealized gain (loss) on translation of financial statement operations with Mongolian MNT functional currency to Canadian dollar reporting currency - continuing operations	2,003,584	(5,629,303)	(1,820,030)	(4,916,364)
Unrealized loss on translation of financial statement operations with Mongolian MNT functional currency to Canadian dollar reporting currency - discontinued operations	-	(382,611)	-	(409,262)
Total comprehensive income (loss)	<u>506,115</u>	<u>(6,115,935)</u>	<u>1,926,326</u>	<u>(6,717,455)</u>

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

Mongolia Growth Group Ltd.

Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited)

For the nine month period ended September 30 2014 and 2013

(expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance at January 1, 2013	51,681,818	3,214,195	(2,528,607)	(5,063,846)	47,303,560
Net loss for the period	-	-	-	(1,391,829)	(1,391,829)
Other comprehensive income	-	-	(5,325,626)	-	(5,325,626)
	51,681,818	3,214,195	(7,854,233)	(6,455,675)	40,586,105
Share capital issued	522,576	(228,976)	-	-	293,600
Share based payment	-	1,199,529	-	-	1,199,529
Balance at September 30, 2013	52,204,394	4,184,748	(7,854,233)	(6,455,675)	42,079,234

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance at January 1, 2014	52,204,394	4,423,914	(6,086,341)	(5,219,409)	45,322,558
Net income for the period	-	-	-	3,746,356	3,746,356
Other comprehensive loss	-	-	(1,820,030)	-	(1,820,030)
	52,204,394	4,423,914	(7,906,371)	(1,473,053)	47,248,884
Share capital issued	1,585,065	(647,165)	-	-	937,900
Share based payment	-	1,507,007	-	-	1,507,007
Balance at September 30, 2014	53,789,459	5,283,756	(7,906,371)	(1,473,053)	49,693,791

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

Mongolia Growth Group Ltd.

Interim Consolidated Statement of Cash Flows

(Unaudited)

For the nine month period ended September 30 2014 and 2013

(expressed in Canadian dollars)

	September 30, 2014 \$	September 30, 2013 \$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	3,746,356	(1,391,829)
Items not affecting cash		
Depreciation of property and equipment	92,624	137,274
Share based payment	1,307,005	1,199,529
Deferred taxes	594,066	23,243
Realized gain on disposal of investment properties (note 7)	(196,528)	(21,102)
Impairment of other asset (note 6)	402,339	-
Non cash finance expense	2,688	-
Unrealized gain on fair value adjustment on investment properties (note 7)	(7,936,746)	(1,136,125)
	(1,988,196)	(1,189,010)
Net change in non-cash working capital balances (note 13)	52,380	(348,351)
	(1,935,816)	(1,537,361)
Financing activities		
Proceeds from share issuance	937,900	293,600
Proceeds from long term debt, net of finance costs	3,300,192	-
Repayment of long term debt	(22,027)	-
	4,216,065	293,600
Investing activities		
Purchase of investments	-	(820,880)
Disposition of investments	223,978	1,536,422
Net acquisition of property and equipment (note 8)	(9,309)	(104,744)
Net acquisition of investment properties (note 7)	(4,178,501)	(1,219,244)
	(3,963,832)	(608,446)
Effect of exchange rates on cash	(257,160)	(186,428)
Decrease in cash and cash equivalents	(1,940,743)	(2,038,635)
Cash and cash equivalents - Beginning of period	5,370,319	8,702,253
Cash and cash equivalents - End of period	3,429,576	6,663,618

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

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

1 Corporate information

The accompanying unaudited condensed interim consolidated financial statements are of Mongolia Growth Group Ltd. (the Company). The Company is registered in Alberta, Canada, with its Head Office at its registered address at 1400, 700-2nd Street W, Calgary, Alberta, Canada. The Company is domiciled out of the Company's corporate office and principal place of business which is located at 100 King Street West, Suite 5600, Toronto, Ontario, M5X 1C9, Canada. The Company also has a business office for the Mongolian investment property in the Mandal Building on Seoul Street, Ulaanbaatar, Mongolia.

At September 30, 2014, 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, corporate reporting and legal functions of the Company.

2 Basis of presentation

These unaudited condensed interim consolidated financial statements for the period ending September 30, 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB.

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, revenue, and expenses during the applicable reporting periods. Critical accounting estimates and judgments are described in Note 4.

The interim condensed consolidated financial statements are prepared under the historical-cost convention, except certain financial instruments and investment properties are measured at their fair value.

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

The Company's property division experiences some seasonality with higher turnovers of rental contracts in the spring, summer and fall months. Due to the harsh winters experienced in Mongolia, tenants typically do not move or change location at this time as much as they would in the other seasons.

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

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September 30, 2014

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These condensed interim consolidated financial statements were approved for issue by the Board of Directors of the Company on November 25, 2014.

3 Significant accounting policies

The significant accounting policies are unchanged from those set out in the Company's 2013 annual consolidated financial statements except for the adoption of amendments described in Note 5. These policies have been applied to all periods presented in these condensed interim consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

4 Significant accounting estimates and judgements

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

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

Significant estimates made in the preparation of these condensed interim 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 10 of the annual financial statements for the year ended December 31, 2013. Changes in assumptions about these factors could materially affect the carrying value of investment properties.

Mongolia Growth Group Ltd.

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- 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 of the annual financial statements for the year ended December 31, 2013.
- Operating environment of the Company - Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. The tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes. The future economic performance of Mongolia is tied to the continuing demand from China and continuing high global prices for commodities as well as being dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Mongolia together with tax, legal, regulatory and political developments. Management is unable to predict all developments that could have an impact on the Mongolian economy and consequently what effect, if any, they could have on the future financial position of the Company.

5 New accounting standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014 or later. Those standards applicable to periods beginning after January 1, 2014 have not been applied in preparing these consolidated financial statements. Those new standards and amendments applicable to annual periods beginning January 1, 2014 have been adopted and there has been no impact on the consolidated financial statements as a result. Those which are relevant to the Company are set out below. The Company does not plan to adopt any standards early and is continuing to evaluate the impact of such standards.

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 was effective for annual periods beginning on or after January 1, 2014.

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

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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 was effective for annual periods beginning on or after January 1, 2014.

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued IFRS 9, “*Financial Instruments*” (“IFRS 9”) to replace International Accounting Standard 39, “*Financial Instruments: Recognition and Measurement*”. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.

IFRS 15 – Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, “*Revenue from Contracts with Customers*” (“IFRS 15”), a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures, IFRS 15 supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Company beginning on January 1, 2017, with earlier adoption permitted. The Company is assessing the impact of adopting this standard on its financial statements.

6 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 transaction 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 a further \$223,978 received on September 30, 2014. During the quarter, the Company amended the original payment terms in order to realise full payment of the receivable outstanding by November 30, 2014. As a result, the Company negotiated a discount on the consideration receivable of \$402,339. This amount has been recorded as an expense during the period ended September 30, 2014. The remaining \$2,743,771 is due by November 30, 2014. The amount receivable of \$2,743,771 includes an unrealised gain on foreign currency translation of \$158,238.

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.

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

Income attributable to discontinued operations was as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2014 \$	2013 \$	2014 \$	2013 \$
Net premiums earned	-	895,914	-	1,559,596
Other revenue	-	31,458	-	68,090
	-	927,372	-	1,627,686
Salaries and wages	-	204,869	-	574,835
Other expenses	-	29,394	-	757,122
Share based payment	-	31,925	-	245,485
Depreciation	-	10,958	-	33,367
	-	277,146	-	1,610,809
Net investment income	-	115,475	-	430,608
	-	765,701	-	447,485
Provision for income taxes	-	(11,749)	-	(44,029)
Income for the period	-	753,952	-	403,456

Cash flows from (used in) discontinued operations:

	For the nine months ended September 30	
	2014 \$	2013 \$
Net cash from operating activities	-	1,326,781
Net cash used in investing activities	-	(130,098)
Net effect on cash flows	-	1,196,683

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

7 Investment properties

	September 30, 2014 \$	December 31, 2013 \$
Balance - beginning of period	32,313,391	30,786,742
Acquisitions	8,538,930	1,684,451
Capital expenditures	194,038	131,137
Transfer from property and equipment	689,054	204,995
Transfer from prepaid deposits	722,572	-
Transfer from other assets	307,390	-
Disposals	(4,041,968)	(921,126)
Unrealized fair value adjustment	7,936,746	4,040,173
Foreign exchange adjustments	(1,798,206)	(3,612,981)
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Balance - end of period	44,861,947	32,313,391

In February 2014, the Company purchased a property for \$6,465,868, in a transaction which involved consideration of \$5,137,820 in cash and two properties valued at \$1,328,048. The two properties included in the consideration paid were recorded at a value of \$1,186,163 prior to their disposal resulting in a gain on sale of \$141,885. Of these two properties sold, \$1,036,182 was classified as Investment properties and the remaining \$149,981 as other assets as of December 31, 2013.

In June 2014, the Company entered into a swap transaction to buy a redevelopment asset adjacent to the asset purchased during February 2014 in order to increase the size of the total redevelopment asset. The property was purchased for consideration of \$1,799,357. The consideration for this purchase included one redevelopment asset carried at a fair value of \$1,003,439 and \$795,918 in cash.

In addition to the three properties disposed of, as discussed above, a further fifteen investment properties were sold for cash consideration of \$2,058,004, resulting in net gains on disposal of \$45,137.

During the nine month period ended September 30, 2014, the Company recorded a \$7,936,746 (2013 - \$1,136,125) unrealized fair value gain on its investment properties. The majority of this unrealized gain (\$6,112,423) was recorded in June 2014 as the Company obtained the full land title for one of its redevelopment assets previously held at cost. This holding comprises of 52 separate property titles.

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

As at September 30, 2014, investment properties include properties being actively marketed for sale that are to be disposed without redevelopment with a fair value of \$1,676,120 (December 31, 2013 - \$2,883,050).

During the nine month period September 30, 2014, management applied its judgment to calculate the fair value of investment properties using the income approach and the sales comparable approach, which are generally accepted appraisal methodologies.

8 Property and equipment

					2013
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
December 31					
Cost	71,844	111,745	137,170	3,863,751	4,184,510
Accumulated depreciation	16,873	26,267	31,472	194,206	268,818
Net book value	54,971	85,478	105,698	3,669,545	3,915,692
<hr/>					
					2014
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
Cost					
At January 1	71,844	111,745	137,170	3,863,751	4,184,510
Additions	1,440	17,354	-	-	18,794
Disposals	-	-	(14,128)	-	(14,128)
Transfers	-	-	-	(738,823)	(738,823)
Foreign exchange adjustment	(4,232)	(6,583)	(8,080)	(167,325)	(186,220)
At September 30	69,052	122,516	114,962	2,957,603	3,264,133

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

	2014				
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
Accumulated depreciation					
At January 1	16,873	26,267	31,472	194,206	268,818
Depreciation	4,666	26,227	8,739	52,992	92,624
Disposals	-	-	(4,643)	-	(4,643)
Transfers	-	-	-	(49,769)	(49,769)
Foreign exchange adjustment	(994)	(1,547)	(1,854)	(11,440)	(15,835)
At September 30	20,545	50,947	33,714	185,989	291,195
Net book value at September 30	48,507	71,569	81,248	2,771,614	2,972,938

9 Long term debt

	September 30, 2014 \$	December 31, 2013 \$
Current	623,145	-
Non-current	2,711,026	-
	3,334,171	-

During fiscal 2014, the Company obtained \$3,316,200 (US\$3,000,000) of financing through a commercial bank in Mongolia which bears interest between 13% and 15% and is reviewed annually by the bank.

The loan is secured against four of the Company's properties and is payable in a series of monthly instalments over a period of five years ending on May 16, 2019.

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(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

10 Equity

Common shares issued

The common shares issued during the period were completed through a private placement, the exercise of share options and the vesting of Restricted Stock Awards (“RSA”). The shares issued and proceeds raised were as follows:

	Number of shares issued	Amount \$
February 28, 2014	60,000	98,400
March 19, 2014	50,000	95,000
March 31, 2014	125,000	250,000
April 3, 2014	50,000	87,500
April 10, 2014	30,000	57,000
April 30, 2014	50,000	87,500
June 9, 2014	50,000	87,500
June 27, 2014	30,393	-
September 10, 2014	50,000	87,500
September 18, 2014	50,000	87,500
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	545,393	937,900

Stock options

A summary of the Company’s options as at September 30, 2014 and December 31, 2013 and changes during the periods then ended follows:

	September 30, 2014	Weighted average exercise price \$	December 31, 2013	Weighted average exercise price \$
Balance, beginning of period	1,957,000	3.76	1,782,000	3.40
Options cancelled	(297,000)	4.20	(65,000)	4.20
Options granted	1,163,000	1.90	475,000	4.13
Options forfeited	(325,000)	4.32	(75,000)	4.21
Options exercised	(390,000)	1.76	(160,000)	1.84
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Balance, end of the period	2,108,000	2.86	1,957,000	3.76
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Exercisable	1,392,750	3.07	1,324,500	3.44
Weighted remaining average life (years)		3.28		3.55

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During the period, 80,000 options were exercised at a price of \$1.90, 60,000 options were exercised at a price of \$1.64 and 250,000 options at a price of \$1.75 were exercised for total cash proceeds of \$687,900 (2013 – nil). In addition, 30,393 RSAs vested increasing the shares issued by the same amount.

During the same period, 325,000 options with a weighted average exercise price of \$4.32 were forfeited. In addition, 222,000 options with a weighted average exercise price of 4.20 were cancelled during this time. An additional 75,000 options with a weighted average exercise price of 4.20 expired and were cancelled during the period.

On March 3, 2014, the Company issued 1,128,000 five year stock options at a price of \$1.90 per share and 35,000 three year stock options at a price of \$1.90. Of these options issued, 192,000 were issued in satisfaction of approximately \$200,000 of directors fees which had been accrued at December 31, 2013.

Restricted Stock Awards

A summary of the Company's RSAs as at September 30, 2014 and December 31, 2013 and changes during the periods then ended follows:

	September 30, 2014	Weighted average exercise price \$	December 31, 2013	Weighted average exercise price \$
Balance, beginning of period	91,179	-	91,179	-
RSAs cancelled	(7,333)	-	-	-
RSAs vested	(30,393)	-	-	-
Balance, end of the period	53,453	-	91,179	-

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

Weighted Average Number of Shares

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

	September 30, 2014	December 31, 2013
	\$	\$
Weighted average number of shares – basic	34,587,024	34,256,557
Effect of dilutive stock options	1,213,000	440,000
Weighted average number of shares – diluted	<u>35,800,024</u>	<u>34,696,557</u>

Basic earnings (loss) per share are derived by dividing net income (loss) for the period 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.

11 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 key management \$100,000 with a fixed interest rate of 6% payable to the Company within six months from the loan date. The loan was fully repaid in February 2014.

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

	September 30, 2014	September 30, 2013
	\$	\$
Salaries and other short-term employee benefits	391,135	235,077
Share-based payments	826,578	426,446
	<u>1,217,713</u>	<u>661,523</u>

In addition to the above, during the period, the Company rented an office for total consideration of \$9,492 (2013- \$nil) from a company in which a director of the Company has a controlling interest.

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

12 Changes in commitments and contingencies

Contractual commitments

The Company owes \$441,633 in contractual commitments with regards to ongoing redevelopments of its property portfolio, which is to be paid over the next 6 months.

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 condensed interim 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.

13 Supplementary cash flow information

	September 30, 2014 \$	September 30, 2013 \$
Changes in non-working capital arising from		
Other assets	29,811	(1,672,980)
Trade payables and accrued liabilities	(35,302)	919,131
Reinsurance assets	-	(1,236,352)
Deferred acquisition expense	-	4,939
Income taxes payable	57,871	68,967
Insurance contract liabilities	-	1,567,944
	<hr/>	<hr/>
Changes in non-cash working capital from operating activities	52,380	(348,351)

Income taxes paid during the quarter were \$1,991 (2013- \$65,436).

14 Segment information

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

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

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

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September 30, 2014

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Corporate Operations administers the financial resources, investment portfolio, corporate reporting and legal functions of the Company. It comprises of investment income, corporate costs and other activities not specific to other reportable segments and is shown separately.

Prior to December 20, 2013, the Company's reportable segments also included Insurance Operations. Insurance Operations included general property and casualty insurance products in Mongolia. Insurance underwriting and claims handling functions were administered through Mandal General Insurance LLC. These operations were disposed of on December 20, 2013 (Note 6).

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

	Nine months ended September 30, 2014		
	Investment Property \$	Corporate \$	Total \$
Rental income	1,364,896	-	1,364,896
Property operating expenses	(1,345,954)	-	(1,345,954)
Unrealized gain on fair value adjustment on investment properties	7,936,746	-	7,936,746
Share based payment	(444,171)	(862,834)	(1,307,005)
Other expenses	(742,702)	(1,773,213)	(2,515,915)
Depreciation	(89,271)	(3,353)	(92,624)
Net investment income	66,855	12,156	79,011
Gain on disposal of investment properties	196,528	-	196,528
Other revenue	40,519	261	40,780
Net income (loss) before income taxes	6,983,446	(2,626,983)	4,356,463

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

	Three months ended September 30, 2014		
	Investment Property \$	Corporate \$	Total \$
Rental income	420,621	-	420,621
Property operating expenses	(468,932)	-	(468,932)
Unrealized gain on fair value adjustment on investment properties	-	-	-
Share based payment	(147,134)	(206,827)	(353,961)
Other expenses	(264,137)	(835,094)	(1,099,231)
Depreciation	(30,553)	-	(30,553)
Net investment income	34,545	4,226	38,771
Loss on disposal of investment properties	(5,511)	-	(5,511)
Other revenue	9,677	-	9,677
Net income (loss) before income taxes	(451,424)	(1,037,695)	(1,489,119)

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

	Nine months ended September 30, 2013			
	Investment property \$	Insurance \$	Corporate \$	Total \$
Rental income	1,253,001	-	-	1,253,001
Property operating expenses	(962,132)	-	-	(962,132)
Unrealized gain on fair value adjustment on investment properties	1,136,125	-	-	1,136,125
Net premiums earned	-	1,559,596	-	1,559,596
Claims and insurance benefits incurred	-	(460,394)	-	(460,394)
Share based payment	(399,975)	(245,485)	(554,069)	(1,199,529)
Other expenses	(176,543)	(871,563)	(2,093,933)	(3,142,039)
Depreciation	(96,829)	(33,367)	(7,078)	(137,274)
Net investment income	200,936	430,608	384	631,928
Gain on disposal of investment property	21,102	-	-	21,102
Other revenue	24,435	68,090	1,000	93,525
Net income (loss) before income taxes	1,000,120	447,485	(2,653,696)	(1,206,091)

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

	Three months ended September 30, 2013			
	Investment property \$	Insurance \$	Corporate \$	Total \$
Rental income	407,104	-	-	407,104
Property operating expenses	(490,461)	-	-	(490,461)
Net premiums earned	-	895,914	-	895,914
Claims and insurance benefits recovery	-	35,166	-	35,166
Share based payment	(129,769)	(31,925)	(104,592)	(266,286)
Other expenses	(74,986)	(269,429)	(507,355)	(851,770)
Depreciation	(31,174)	(10,958)	(2,139)	(44,271)
Net investment income	30,307	115,475	428	146,210
Gain on disposal of investment property	34,896	-	-	34,896
Other revenue	10,187	31,458	-	41,645
Net income (loss) before income taxes	(243,896)	765,701	(613,658)	(91,853)

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

	September 30, 2014		
	Investment property \$	Corporate \$	Consolidated \$
Total assets	52,224,338	3,299,547	55,523,885
Property and equipment	2,954,318	18,620	2,972,938
Investment properties	44,861,947	-	44,861,947
Period Expenditures			
Property and equipment	18,794	-	18,794
Investment properties	9,040,358	-	9,040,358

	September 30, 2013			
	Investment property \$	Insurance \$	Corporate \$	Consolidated \$
Total assets	38,145,254	7,771,757	2,071,395	47,988,406
Property and equipment	3,773,146	184,895	22,023	3,980,064
Investment properties	29,096,138	-	-	29,096,138
Period Net Expenditures				
Property and equipment	68,878	33,669	2,197	104,744
Investment properties	1,219,244	-	-	1,219,244

	<u>Revenue</u>		<u>Property and equipment</u>		<u>Investment property</u>	
	September 30, 2014 \$	September 30, 2013 \$	September 30, 2014 \$	September 30, 2013 \$	September 30, 2014 \$	September 30, 2013 \$
Canada	261	1,000	18,620	22,023	-	-
Mongolia	1,601,943	2,926,224	2,954,318	3,958,041	44,861,947	29,096,138
	<u>1,602,204</u>	<u>2,927,224</u>	<u>2,972,938</u>	<u>3,980,064</u>	<u>44,861,947</u>	<u>29,096,138</u>

Revenue in Mongolia for the nine months period ended September 30, 2013 includes \$1,627,686 from discontinued operations.

Mongolia Growth Group Ltd.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2014

(expressed in Canadian dollars)

15 Other expenses

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2014	2013	2014	2013
	\$	\$	\$	\$
		(Restated – note 6)		(Restated – note 6)
Professional fees	384,520	361,966	1,240,783	1,275,060
Travel	30,055	125,409	123,443	262,201
Advertising	22,354	2,345	123,366	14,872
Land and property tax	58,223	71,611	222,569	197,859
Insurance	18,644	7,026	51,958	20,875
Utility expense	43,312	9,752	103,892	50,640
Other expenses	81,992	210,048	428,446	473,238
	<u>639,100</u>	<u>788,157</u>	<u>2,294,457</u>	<u>2,294,745</u>

16 Subsequent events

On November 25, 2014, the Company received cash of US\$2,450,000, which represented the final installment on the amount receivable from UMC in relation to the disposal of Mandal (note 6). Additionally, on November 25, 2014, the Company paid a Mongolia commercial bank US\$2,482,926 which repaid in full both the accrued interest and principal outstanding on the long term debt (note 9).