

# MONGOLIA GROWTH GROUP LTD.

Unaudited Condensed Interim Consolidated Financial Statements

**First Quarter**

ended March 31, 2011

Expressed in Canadian Dollars

**The accompanying unaudited condensed interim consolidated financial statements have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.**

**Mongolia Growth Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statement of**  
**Financial Position**

Expressed in Canadian Dollars

March 31, 2011

	March 31, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents (Note 5)	\$ 8,518,840	\$ 138,201	\$ 382,776
Marketable securities (Note 6)	1,144,323	-	-
Accounts Receivable	19,175	16,741	6,905
Prepaid expenses	12,758	1,905	-
	<u>9,695,096</u>	<u>156,847</u>	<u>389,681</u>
<b>Non-current assets</b>			
Deferred financing costs	-	-	15,410
Property, Plant and Equipment (Note 7)	658,752	-	-
	<u>658,752</u>	<u>-</u>	<u>15,410</u>
	<u>\$ 10,353,848</u>	<u>\$ 156,847</u>	<u>\$ 405,091</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 76,661	\$ 9,677	\$ 10,075
Payments received prior to subscription (Note 8)	5,807,501	-	-
	<u>5,884,162</u>	<u>9,677</u>	<u>10,075</u>
<b>Shareholders' Equity</b>			
Share capital (Note 9)	4,813,134	438,547	438,547
Contributed surplus (note 9)	47,872	47,872	47,872
Deficit	(391,320)	(339,249)	(91,403)
	<u>4,469,686</u>	<u>147,170</u>	<u>395,016</u>
	<u>\$ 10,353,848</u>	<u>\$ 156,847</u>	<u>\$ 405,091</u>

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

**Mongolia Growth Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statement of Net Loss,**  
**Comprehensive Loss and Deficit**

Expressed in Canadian Dollars

For the three months ended March 31, 2011

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
<b>Interest and other income</b>	<b>\$ 20,555</b>	<b>\$ 228</b>
<b>Expenses</b>		
Depreciation	1,662	-
Foreign exchange loss	10,008	-
General and administrative	17,861	3,708
Insurance	2,125	2,625
Interest and bank charges	377	87
Professional fees	138,176	-
	<b>170,209</b>	<b>6,420</b>
<b>Net loss for the period</b>	<b>(149,654)</b>	<b>(6,192)</b>
<b>Other comprehensive income</b>		
Unrealized gain on marketable securities	97,583	-
<b>Total comprehensive loss for the period</b>	<b>(52,071)</b>	<b>(6,192)</b>
<b>Deficit, beginning of period</b>	<b>(339,249)</b>	<b>(91,403)</b>
<b>Deficit, end of period</b>	<b>\$ (391,320)</b>	<b>\$ (97,595)</b>
<b>Net loss per share</b>		
Basic	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
Diluted	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>

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

**Mongolia Growth Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statement of**  
**Changes in Equity**

Expressed in Canadian Dollars  
For the three months ended March 31, 2011

	Share capital	Contributed surplus	Accumulated other comprehensive gain	Deficit	Total
<b>Balance at January 1, 2010</b>	\$ 438,547	\$ 47,872	-	\$ (91,403)	\$ 395,016
Loss for the period	-	-	-	(6,192)	(6,192)
<b>Balance at March 31, 2010</b>	\$ 438,547	\$ 47,872	-	\$ (97,595)	\$ 388,824
<b>Balance at January 1, 2011</b>	\$ 438,547	\$ 47,872	-	\$ (339,249)	\$ (147,170)
Loss for the period				(149,654)	(149,654)
Share capital issued	4,611,252	-	-	-	4,611,252
Share issue costs	(236,665)				(236,665)
Marketable securities			97,583		97,583
	\$ 4,813,134	\$ 47,872	\$ 97,583	\$ (488,903)	\$ 4,469,686

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

**Mongolia Growth Group Ltd.**  
**Unaudited Condensed Interim Consolidated Statement of Cash Flows**

Expressed in Canadian Dollars  
For the three months ended March 31, 2011

	March 31, 2011	March 31, 2010
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss for the period	\$ (149,654)	\$ (6,192)
Adjustment to reconcile loss to net cash used in operating activities:		
Depreciation	1,662	-
Interest income	(6,741)	-
Changes in non-cash working capital (Note 12)	53,698	(13,159)
	(101,035)	(19,351)
<b>Cash flows from financing activities</b>		
Proceeds from share issuance	4,611,252	-
Cost of issue of shares	(236,665)	-
Payments received prior to subscription	5,807,501	-
Deferred financing charges	-	(36,114)
Changes in non-cash working capital (Note 12)	-	6,000
	10,182,088	(30,114)
<b>Cash flows from investing activities</b>		
Purchase of short term marketable securities	(1,040,000)	-
Acquisition of property, plant and equipment	(660,414)	-
	(1,700,414)	-
Increase (decrease) in cash during the period	8,380,639	(49,465)
Cash, beginning of period	138,201	382,776
Cash, end of period	\$ 8,518,840	\$ 333,311

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

# Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Expressed in Canadian Dollars

For the three month period ended March 31, 2011

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## 1. Corporate Information

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

The Company is registered in Alberta, Canada, with its registered address at 1400, 700-2<sup>nd</sup> Street W, Calgary, Alberta, Canada. The Company's corporate office and principal place of business is 706 – 34 Cumberland St. N., Thunder Bay, Ontario, Canada. The Company also has a business office for Mongolian operations at the corner of Chinggis Ave. and Seoul St. in Ulaanbaatar, Mongolia.

## 2. Basis of presentation

### a) Statement of compliance

The consolidated financial statements of the Company for the year-ending December 31, 2011 will be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP"). These condensed interim consolidated financial statements for the three month period ended March 31, 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting, and as they are part of the Company's first IFRS annual reporting period, IFRS 1 First-time adoption of International Financial Reporting Standards has been applied.

These condensed interim consolidated financial statements should be read in conjunction with the Company's 2010 annual financial statements and the explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 13.

# Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

**Expressed in Canadian Dollars  
For the three month period ended March 31, 2011**

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## **b) Basis of measurement**

The condensed interim consolidated financial statements are presented in Canadian dollars, which represents the Company's functional currency.

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

## **3. Summary of significant accounting policies**

### **a) Foreign currency translation**

The Company's financial statements are presented in Canadian dollars, which represents the functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of operations.

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

The assets and liabilities of self-sustaining foreign operations are translated at period end exchange rates, and revenues and expenses are translated at monthly average exchange rates. Differences arising from these foreign currency translations are recorded in shareholders' equity as accumulated other comprehensive income until they are realized by a reduction in the investment.

### **b) Cash and cash equivalents**

Cash and cash equivalents include cash at bank 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. Cash and cash equivalents are classified as financial assets held-for-trading purposes.

# Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Expressed in Canadian Dollars

For the three month period ended March 31, 2011

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## c) Property, Plant and Equipment

### Recognition and Measurement

On initial recognition, property, plant 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. The corresponding liability is recognized within provisions.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

### Depreciation

Depreciation is recognized in profit or loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	Straight line over 25 – 40 Years
Furniture and Fixtures	Straight line over 5 Years
Office Equipment	Straight line over 5 Years
Vehicles	Straight line over 5 Years

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

## d) Financial Instruments

### Financial assets

Financial assets are classified as into one of the following categories based 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:

### 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 fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried 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. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.



# Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

**Expressed in Canadian Dollars**

**For the three month period ended March 31, 2011**

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## **Held-for-trading**

This category is comprised of cash and certain investments in equity and debt instruments. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.

## **Available-for-sale investments**

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in accumulated other comprehensive loss/income. Where there is a significant prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

Purchases and sales of available-for-sale financial assets are recognized on a trade date basis. On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to profit or loss.

## **Impairment on financial assets**

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.

## **Financial liabilities**

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

Trade and other payables 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.

# Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

**Expressed in Canadian Dollars**

**For the three month period ended March 31, 2011**

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## **e) Income Taxes**

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred taxation is provided on all qualifying temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

## **f) Share capital**

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

Incremental costs directly attributed to the issue of new shares are shown in equity as a reduction, net of tax, from the proceeds.

## **Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. This assumes that the proceeds obtained upon the exercise of options would be used to purchase common shares at the average market price during the period.

Basic loss per share is calculated using the weighted average number of shares outstanding during the period.

**Expressed in Canadian Dollars**

**For the three month period ended March 31, 2011**

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**g) Stock based compensation**

The fair value of stock options granted is determined using the Black-Scholes option pricing method. This value is expensed over the period of vesting where the stock options are granted to employees or contractors. 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. The Company does not incorporate an estimated forfeitures rate for stock options that will not vest, but instead accounts for forfeitures as a change in estimate in the period in which they occur. In the event that vested stock options expire without being exercised, previously recorded compensation costs associated with such options are not reversed.

**h) Share issue and deferred financing costs**

Costs directly identifiable with the raising of capital will be charged against the related share issue. 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.

**i) New standards and pronouncements**

The following new standards, amendments and interpretations, that have not been early adopted in these interim financial statements, will or may have an effect on the Company's future results and financial positions:

- **IFRS 9 Financial Instruments**  
IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investments.

# Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Expressed in Canadian Dollars

For the three month period ended March 31, 2011

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#### 4. Significant accounting estimates and judgements

The Company makes 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 comprehensive income 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.

The more significant areas requiring the use of management estimates and assumptions relates to determining the provision for income taxes.

#### 5. Cash and cash equivalents

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

#### 6. Marketable securities

The Company holds a 186 day non-redeemable GIC with the Royal Bank of Canada in the amount of \$40,000, earning interest at 1.1% per annum as well as other investments which consist of common shares of marketable securities with no fixed maturity dates or coupon rates. The fair value of the listed investments has been determined directly by reference to published price quotations in an active market.

# Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Expressed in Canadian Dollars

For the three month period ended March 31, 2011

## 7. Property, Plant and Equipment

	Buildings	Furniture and fixtures	Office equipment	Vehicles	Total
<b>Cost</b>					
<b>Balance at December 31, 2010</b>	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	618,405	3,397	2,957	35,655	660,414
Disposals	-	-	-	-	-
<b>Balance at March 31, 2011</b>	<b>\$ 618,405</b>	<b>\$ 3,397</b>	<b>\$ 2,957</b>	<b>\$ 35,655</b>	<b>\$ 660,414</b>
<b>Depreciation and impairment losses</b>					
<b>Balance at December 31, 2010</b>	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation for the period	1,288	28	49	297	1,662
Impairment loss	-	-	-	-	-
Disposals	-	-	-	-	-
<b>Balance at March 31, 2011</b>	<b>\$ 1,288</b>	<b>\$ 28</b>	<b>\$ 49</b>	<b>\$ 297</b>	<b>\$ 1,662</b>
<b>Carrying amounts</b>					
<b>At December 31, 2010</b>	\$ -	\$ -	\$ -	\$ -	\$ -
<b>At March 31, 2011</b>	<b>\$ 617,117</b>	<b>\$ 3,369</b>	<b>\$ 2,908</b>	<b>\$ 35,358</b>	<b>\$ 658,752</b>

The impairment assessment of the Company's Property, Plant and Equipment resulted in no provisions for impairment. The capital assets were purchased in March 2011, thus one month's amortization was taken on the assets.

## 8. Payment received prior to subscription

On March 21, 2011 the Company announced a non-brokered "commercially reasonable efforts" private placement offering of common shares to raise funds. The offering closed on April 8, 2011 (subsequent to the period end) however, prior to the period close, the Company received subscription payments in the amount of \$5,807,500.

# Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

**Expressed in Canadian Dollars**

**For the three month period ended March 31, 2011**

## 9. Share Capital and Contributed Surplus

### a) Authorized

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

### b) Common shares

The issued and outstanding common shares are as follows:

	Number of Shares	Amount
Balance, December 17, 2007	-	\$ -
Issued for cash	1,050,000	105,000
Balance, December 31, 2007	1,050,000	105,000
Issued for cash	2,464,300	487,860
Share issue costs	-	(154,313)
Balance, December 31, 2008 and December 31, 2009	3,514,300	438,547
Cancellation of shares	(550,000)	-
Balance, December 31, 2010	2,964,300	\$ 438,547
Consolidation of common shares (1:2)	(1,482,150)	-
Issued for cash	12,685,420	4,611,252
Share issue costs	-	(236,665)
Balance, March 31, 2011	14,167,570	\$ 4,813,134

### c) Contributed surplus

The following is a summary of changes in contributed surplus from December 31, 2010 to March 31, 2011:

	March 31, 2011	December 31, 2010
Opening balance	\$ 47,872	\$ 47,872
Charges during the period	-	-
Closing balance	\$ 47,872	\$ 47,872

## Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

**Expressed in Canadian Dollars**

**For the three month period ended March 31, 2011**

d) Stock options

	Number of Options	Weighted average exercise price
Balance, December 31, 2007	-	\$ -
Granted	351,428	0.20
Balance, December 31, 2008 and December 31, 2009	351,428	0.20
Cancelled	(54,998)	(0.20)
Balance, December 31, 2010	296,430	0.20
Cancelled	(296,430)	0.20
Granted	600,000	1.64
March 31, 2011	600,000	1.64

The Company has established a stock option plan ("the Plan") for the benefit of employees of and consultants to the Company. The Plan provides for the issuance of stock options in aggregate number of up to 10% of the Company's issued and outstanding shares.

Pursuant to the Company's stock option plan, 351,428 stock options were granted to directors and officers on October 9, 2008. These options allow the holder to acquire common shares at a price of \$0.20 per share for each option exercised. The options are fully vested and are exercisable at any time prior to their expiry on October 9, 2013. Concurrent with the cancellation of common shares of the Company, the Company also cancelled 54,998 of the stock options issued to its directors and officers. Subsequent to the period end, all outstanding options issued to Summus founders were cancelled. On March 9, 2011, 600,000 options were granted to consultants of the Company. These options allow the holder to acquire common shares at a price of \$1.64 per share for each option exercised. The options vest and become exercisable on March 9, 2014 and 500,000 are exercisable up until their expiry on March 9, 2021 and 100,000 expire earlier.

e) Per share amounts

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

	2011	2010
Weighted average number of shares - basic	10,184,185	3,514,300
Effect of dilutive stock options	-	-
Weighted average number of shares - diluted	10,184,185	3,514,300

# Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

Expressed in Canadian Dollars

For the three month period ended March 31, 2011

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## 10. Management of Capital Structure

The Company actively manages its capital structure with the objective of maximizing shareholder returns by minimizing the cost of capital. In order to achieve this objective, the Company must maintain a strong capital base.

The Company's capital structure includes shareholders' 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 capital is based on assessment of the Company's working capital position relative to its projected obligations. At March 31, 2011, the Company's working capital was \$3,810,935 and the Company held no debt.

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	<b>2011</b>	<b>2010</b>
Current assets	\$ 9,695,096	\$ 353,240
Current liabilities	5,884,161	15,940
Working capital	\$ 3,810,935	\$ 337,300

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**Expressed in Canadian Dollars  
For the three month period ended March 31, 2011**

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## **11. Financial instruments and risk management**

The Company, as part of its operations, carries financial instruments consisting of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant credit, interest, or currency risks arising from these financial instruments except as otherwise disclosed.

### **Fair value**

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. The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities
- Level 2 fair value measurement are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data

The fair value of cash and cash equivalents is determined on level 1 inputs. The carrying amount of cash, accounts receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term maturities of these items.

### **Credit risk**

Credit risk is the risk that a third party might fail to fulfill its performance obligations under the terms of a financial instrument. For cash, cash equivalents and accounts receivable, credit risk is represented by the carrying amount on the balance sheet. The Company limits credit risk by entering into transactions with high credit-quality counterparties and monitoring the financial condition of counterparties. The Company evaluated its counterparty credit risk as at March 31, 2011, and is satisfied that the fair value of these financial assets approximates their book values.

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Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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## Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company has a planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its expansionary plans. The Company ensures there is sufficient cash to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. At March 31, 2011 the Company held cash and cash equivalents of \$8,518,840. The Company believes that the cash and cash equivalents at March 31, 2011, are sufficient to fund its currently planned operations in Mongolia.

## Interest rate risk

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. At March 31, 2011, the Company had cash balances and no interest-bearing debt, hence there is no interest risk arising from fluctuations in floating interest rates.

## Currency risk

Currency exchange rates are subject to fluctuation. While the Company's functional currency is the Canadian dollar, it does have cash and cash equivalents in United States dollars as well as Mongolian Togrog. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and trade accounts receivable to offset foreign currency payables where possible. Management relies on the natural hedge created by this matching process and thus has chosen not to otherwise hedge its foreign exchange risk.

## 12. Supplementary cash flow information

	2011	2010
Changes in non-working capital arising from:		
Accounts receivable	\$ (2,434)	\$ (1,399)
Prepaid expense	(10,853)	(11,625)
Accounts payable and accrued liabilities	66,985	5,865
Total changes in non-cash working capital	53,698	(7,159)
Amounts provided from financing activities	-	(6,000)
Changes in non-cash working capital from operating activities	\$ 53,698	\$ (13,159)

# Mongolia Growth Group Ltd.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

**Expressed in Canadian Dollars**  
**For the three month period ended March 31, 2011**

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## **13. Transition to IFRS**

For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with generally accepted accounting principles ("CDN GAAP"). The unaudited interim financial statements, for the three months ended March 31, 2011, is the first unaudited interim financial statement the Company has prepared in accordance with IFRS.

The accounting policies in Note 2 have been applied as follows:

- In preparing the unaudited interim financial statement for the three months ended March 31, 2011;
- The comparative information for the three months ended March 31, 2010;
- The balance sheet as at December 31, 2010; and
- The preparation of an opening IFRS balance sheet on the Transition Date, January 1, 2010.

In preparing the opening IFRS balance sheet, comparative information for the three months ended March 31, 2010 and the financial statements for the year ended December 31, 2010, the Company has reviewed amounts reported previously in financial statements prepared in accordance with CDN GAAP to ensure that they were consistent under IFRS.

## **14. Subsequent Events**

Subsequent to the period end, the following events occurred:

- a) The Company closed a non-brokered private placement. On April 8, 2011, the Company issued 11,257,923 common shares at a price of CDN \$1.32 per share for aggregate gross proceeds of \$14,860,458. Certain of the new directors and officers of the Company acquired 2,900,000 Common shares under this private placement.
- b) On May 24, 2011, the Company announced a private placement offering to raise gross proceeds of up to CDN \$20 million with a CDN \$15 million overallotment for aggregate proceeds of up to CDN \$35 million at a price per unit of CDN \$4.00 per share. Each unit will consist of a common share and a half warrant exercisable at CDN \$5.25.
- c) The Company has purchased approximately \$6 million in additional leasable real estate in Ulaanbaatar.