

# **Mongolia Growth Group Ltd.**

Condensed Interim Consolidated Financial  
Statements

(Unaudited)

For the three and six months ended

**June 30, 2013 and 2012**

(expressed in Canadian dollars)

# Mongolia Growth Group Ltd.

## Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(expressed in Canadian dollars)

	June 30, 2013 \$	December 31, 2012 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	5,989,396	8,702,253
Investments and marketable securities	4,237,578	3,992,547
Other assets	3,663,150	2,471,498
Reinsurance assets	283,376	684,285
Deferred acquisition expenses	87,845	93,175
	<u>14,261,345</u>	<u>15,943,758</u>
<b>Non-current assets</b>		
Investment properties (note 5)	33,543,531	30,786,742
Property and equipment (note 6)	4,638,361	4,576,031
	<u>52,443,237</u>	<u>51,306,531</u>
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities	1,064,543	996,314
Income taxes payable	99,560	92,107
Insurance contract liabilities	2,617,966	2,300,604
	<u>3,782,069</u>	<u>3,389,025</u>
<b>Non-current liabilities</b>		
Deferred income tax liability	732,285	613,946
	<u>4,514,354</u>	<u>4,002,971</u>
<b>Total liabilities</b>		
<b>Equity (note 7)</b>		
Share capital	52,204,394	51,681,818
Contributed surplus	3,918,462	3,214,195
Accumulated other comprehensive loss	(1,842,319)	(2,528,607)
Retained deficit	(6,351,654)	(5,063,846)
	<u>47,928,883</u>	<u>47,303,560</u>
<b>Total equity</b>		
<b>Total equity and liabilities</b>	<u>52,443,237</u>	<u>51,306,531</u>

### Approved by the Board of Directors

Signed "Bill Fleckenstein"

Director

Signed "Paul Sweeney"

Director

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

# Mongolia Growth Group Ltd.

## Condensed Interim Consolidated Statement of Operations

(Unaudited)

For the three and six month period ended June 30, 2013 and 2012

(expressed in Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>Revenue</b>				
Net premiums earned	321,565	118,682	663,682	190,665
Rental income	431,512	383,920	845,897	767,024
Other revenue	18,112	68,870	38,086	83,665
Total revenue	771,189	571,472	1,547,665	1,041,354
<b>Expenses</b>				
Salaries and wages	631,406	250,263	1,023,185	443,569
Other expenses (note 12)	1,220,631	616,915	2,234,315	1,274,400
Share based payment	306,369	390,199	933,243	780,398
Depreciation	47,133	23,890	93,003	41,233
Total expense	2,205,539	1,281,267	4,283,746	2,539,600
<b>Net investment income</b>	232,571	215,013	485,718	353,515
<b>Unrealized gain on fair value adjustment on investment properties (note 5)</b>	-	-	1,136,125	-
<b>Net loss before income taxes</b>	(1,201,779)	(494,782)	(1,114,238)	(1,144,731)
<b>Provision for income taxes</b>	(21,695)	-	(173,570)	-
<b>Net loss for the period</b>	(1,223,474)	(494,782)	(1,287,808)	(1,144,731)
<b>Net loss per share</b>				
Basic	(0.04)	(0.01)	(0.04)	(0.03)
Diluted	(0.04)	(0.01)	(0.04)	(0.03)

The accompanying notes are an integral part of these financial statements

## **Mongolia Growth Group Ltd.**

### Condensed Interim Consolidated Statement of Comprehensive loss

(Unaudited)

**For the three and six month period ended June 30, 2013 and 2012**

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(expressed in Canadian dollars)

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>Net loss for the period</b>	(1,223,474)	(494,782)	(1,287,808)	(1,144,731)
<b>Other comprehensive loss - net of taxes</b>				
Unrealized gains (losses) on translation of financial statement operations with Mongolian MNT functional currency to Canadian dollar reporting currency	287,897	(707,390)	686,288	(268,647)
<b>Total Comprehensive loss</b>	<u>(935,577)</u>	<u>(1,202,172)</u>	<u>(601,520)</u>	<u>(1,413,378)</u>

The accompanying notes are an integral part of these financial statements

# Mongolia Growth Group Ltd.

## Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited)

**For the six month period ended June 30, 2013 and 2012**

(expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Retained earnings (deficit) \$	Total \$
<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 period	-	-	-	(1,144,731)	(1,144,731)
Other comprehensive income	-	-	(268,647)	-	(268,647)
	51,681,818	1,846,475	(1,510,084)	(134,827)	51,883,382
Share based payment	-	780,398	-	-	780,398
<b>Balance at June 30, 2012</b>	<b>51,681,818</b>	<b>2,626,873</b>	<b>(1,510,084)</b>	<b>(134,827)</b>	<b>52,663,780</b>

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Retained deficit \$	Total \$
<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 period	-	-	-	(1,287,808)	(1,287,808)
Other comprehensive income	-	-	686,288	-	686,288
	51,681,818	3,214,195	(1,842,319)	(6,351,654)	46,702,040
Share capital issued	522,576	(228,976)	-	-	293,600
Share based payment	-	933,243	-	-	933,243
<b>Balance at June 30, 2013</b>	<b>52,204,394</b>	<b>3,918,462</b>	<b>(1,842,319)</b>	<b>(6,351,654)</b>	<b>47,928,883</b>

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

# Mongolia Growth Group Ltd.

## Condensed Interim Consolidated Statement of Cash Flows

(Unaudited)

For the six month period ended June 30, 2013 and 2012

(expressed in Canadian dollars)

	June 30, 2013 \$	June 30, 2012 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	(1,287,808)	(1,144,731)
Items not affecting cash		
Depreciation of property and equipment	93,003	41,233
Share based payment	933,243	780,398
Deferred taxes	118,339	-
Realized (gain) loss on disposal of investment properties (note 5)	13,794	(70,973)
Unrealized gain on fair value adjustment on investment properties (note 5)	(1,136,125)	-
	(1,265,554)	(394,073)
Net change in non-cash working capital balances (note 10)	(390,852)	(2,082,798)
	(1,656,406)	(2,476,871)
<b>Financing activities</b>		
Proceeds from share issuance	293,600	-
	293,600	-
<b>Investing activities</b>		
Purchase of investments	(701,023)	(2,387,668)
Disposition of investments	505,962	396,159
Net acquisition of property and equipment (note 6)	(102,859)	(105,763)
Net acquisition of investment properties (note 5)	(1,211,273)	(6,099,866)
	(1,509,193)	(8,197,138)
<b>Effect of exchange rates on cash</b>	159,142	(1,387,529)
<b>Decrease in cash and cash equivalents</b>	(2,712,857)	(12,061,538)
<b>Cash and cash equivalents - Beginning of period</b>	8,702,253	20,078,948
<b>Cash and cash equivalents - End of period</b>	5,989,396	8,017,410

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

# **Mongolia Growth Group Ltd.**

## **Notes to Condensed Interim Consolidated Financial Statements**

(Unaudited)

**June 30, 2013**

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(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, 700-2<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 706 - 34 Cumberland St. N., Thunder Bay, Ontario, P7A 4L3, Canada. The Company also has a business office for the Mongolian investment property and insurance companies in the Mandal Building on Seoul Street, across from the Russian Embassy, Ulaanbaatar, Mongolia.

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

- Big Sky Capital LLC and its subsidiaries own investment properties which are located in Ulaanbaatar, Mongolia and are held for the purpose of generating rental revenue, capital appreciation or both;
- Mandal General Insurance LLC offers insurance products in Mongolia covering all common general insurance types. The Company's main lines of business are motor insurance, including voluntary motor third party liability, property, accident medical and travel and liability insurance;
- The MGG Corporate office is located in Thunder Bay, Canada and administers the financial resources, investment portfolio, corporate reporting and legal functions of the Company.
- The Company's property division experiences a little bit of 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 locations as much as they would in the other seasons.

### **2 Basis of presentation**

These unaudited condensed interim consolidated financial statements for the period ending June 30, 2013 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, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

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

These condensed interim consolidated financial statements were approved by the Board of Directors of the Company for issue on August 26, 2013.

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2013**

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(expressed in Canadian dollars)

### **3 Significant accounting policies**

These financial statements are based on the accounting policies consistent with those disclosed in note 3 of the 2012 annual consolidated financial statements except for the adoption of new standards and interpretations effective as of January 1, 2013. The Company has adopted for the first time IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, and IFRS 13 Fair Value Measurement effective January 1, 2013. The adoption of these standards had no material impact on the condensed interim unaudited consolidated financial statements.

#### **a) Accounting standards and amendments issued but not yet adopted**

The following is an overview of accounting standard changes that the Company will be required to adopt in future years.

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

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

##### ***IFRS 9 - "Financial Instruments"***

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

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

The IASB recently issued an amendment to this standard that delays the effective date from accounting periods beginning on or after January 1, 2013 to January 1, 2015. The amendment also modifies the relief from restating prior periods. As part of this relief, the IASB published an amendment to IFRS 7 to require



# **Mongolia Growth Group Ltd.**

## **Notes to Condensed Interim Consolidated Financial Statements**

(Unaudited)

**June 30, 2013**

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(expressed in Canadian dollars)

additional disclosure on transition from IAS 39 to IFRS 9. The Company continues to monitor developments in this area.

### ***IAS 1 - "Presentation of Financial Statements"***

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

### ***IAS 32 - "Financial Instruments Presentation"***

In December 2011, the IASB amended IAS 32 "Financial Instruments: Presentation" clarifying the requirements for offsetting financial assets and financial liabilities. Currently, IAS 32 requires an entity to offset a financial asset and financial liability only when the entity currently has a legally enforceable right to offset and intends to settle on a net basis or realize the asset and settle the liability simultaneously. The amendment clarifies that the right of offset must be available today and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency, or bankruptcy. The amended disclosures require more extensive disclosure than are currently required under IFRS. The disclosures focus on quantitative information regarding financial instruments that are offset in the statement of financial position, as well as financial instruments that are subject to master netting or similar arrangements whether they are offset or not. Changes to IAS 32 are retrospectively applied with an effective date of annual periods beginning on or after January 1, 2014.

## **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:

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2013**

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(expressed in Canadian dollars)

- 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, 2012. Changes in assumptions about these factors could materially affect the carrying value of investment properties.
- Valuation of insurance contract liabilities - The estimate of the ultimate liability arising from claims made under insurance contracts is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice. Further information on methodology of the calculation and assumptions involved in estimating insurance contract liabilities including sensitivity analysis are disclosed in note 14 of the annual financial statements for the year ended December 31, 2012.
- Accuracy of share based compensation expense - The estimate of the ultimate expense arising from share based compensation plans is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the share based compensation expense recorded by the Company. The ultimate expense is estimated by using a number of key assumptions such as the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the expected life of the option and future forfeiture rates. Further information on key assumptions including sensitivity analysis is included in note 15 of the annual financial statements for the year ended December 31, 2012.
- 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 Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2013

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(expressed in Canadian dollars)

### 5 Investment properties

	June 30, 2013 \$	December 31, 2012 \$
Balance - beginning of period	30,786,742	26,166,286
Additions		
Acquisitions	1,273,758	8,190,935
Capital expenditures	122,461	374,890
Transfer from property and equipment	-	140,251
Disposals	(184,946)	(1,656,768)
Unrealized fair value adjustment	1,136,125	(1,490,336)
Foreign exchange adjustments	409,391	(938,516)
	<hr/>	<hr/>
Balance - end of period	33,543,531	30,786,742

As of June 30, 2013, included in investment properties are investment properties actively being marketed for sale that are to be disposed without redevelopment with a fair value of \$1,529,650 (December 31, 2012 - \$775,559).

The proceeds from the sale of investment properties were \$171,152 (June 30, 2012 - \$825,104). The assets and liabilities associated with the properties were derecognized and a loss on sale of investment property in the amount of \$13,794 (June 30, 2012 – gain of \$70,973) was recorded.

During the period ending June 30, 2013, the Company completed renovations on one of its investment properties which was purchased in the prior year but was not available for use at December 31, 2012 as the building was still under renovations. At year end this property was recorded at cost in the Company's annual consolidated financial statements. During the previous quarter, the renovations were completed, and the property became available for use and began leasing space to tenants. A formal valuation was completed on the property in early 2013 and this has resulted in the unrealized gain on fair value adjustment on investment properties during the six month period ending June 30, 2013.

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2013**

(expressed in Canadian dollars)

### 6 Property and equipment

					<b>2012</b>
	<b>Furniture and fixtures \$</b>	<b>Equipment \$</b>	<b>Vehicles \$</b>	<b>Buildings \$</b>	<b>Total \$</b>
<b>December 31</b>					
Cost	138,890	125,737	268,351	4,238,707	4,771,685
Accumulated depreciation	17,606	37,970	32,090	107,988	195,654
<b>Net book value</b>	<b>121,284</b>	<b>87,767</b>	<b>236,261</b>	<b>4,130,719</b>	<b>4,576,031</b>
<b>2013</b>					
	<b>Furniture and fixtures \$</b>	<b>Equipment \$</b>	<b>Vehicles \$</b>	<b>Buildings \$</b>	<b>Total \$</b>
<b>Cost</b>					
<b>At January 1</b>	138,890	125,737	268,351	4,238,707	4,771,685
Additions	11,839	23,900	-	67,120	102,859
Foreign exchange adjustment	1,617	1,265	3,203	50,739	56,824
<b>At June 30</b>	<b>152,346</b>	<b>150,902</b>	<b>271,554</b>	<b>4,356,566</b>	<b>4,931,368</b>
<b>2013</b>					
	<b>Furniture and fixtures \$</b>	<b>Equipment \$</b>	<b>Vehicles \$</b>	<b>Buildings \$</b>	<b>Total \$</b>
<b>Accumulated depreciation</b>					
<b>At January 1</b>	17,606	37,970	32,090	107,988	195,654
Depreciation	5,068	19,448	14,723	53,764	93,003
Foreign exchange adjustment	470	295	553	3,032	4,350
<b>At June 30</b>	<b>23,144</b>	<b>57,713</b>	<b>47,366</b>	<b>164,784</b>	<b>293,007</b>
<b>Net book value at June 30</b>	<b>129,202</b>	<b>93,189</b>	<b>224,188</b>	<b>4,191,782</b>	<b>4,638,361</b>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2013

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(expressed in Canadian dollars)

### 7 Equity

#### Stock options

A summary of the Company's options as at June 30, 2013 and December 31, 2012 and changes during the periods then ended follows:

	June 30, 2013	Weighted average exercise price \$	December 31, 2012	Weighted average exercise price \$
Balance, beginning of period	1,782,000	3.40	1,697,000	3.36
Options cancelled	(2,500)	4.25	(5,000)	4.25
Options granted	475,000	4.13	190,000	4.00
Options forfeited	(7,500)	4.25	(100,000)	4.36
Options exercised	(160,000)	1.84	-	
Balance, end of the year	2,087,000	3.68	1,782,000	3.40
Exercisable	831,000	3.78	358,000	2.94
Weighted remaining average life (years)		4.11		3.84

In 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.

On March 1, 2013, the Company issued 350,000 five year stock options at a price of \$4.13 per share and 125,000 three year stock options at a price of \$4.13.

On May 9, 2013, the Company's Board of Directors approved the Restricted Stock Award ("RSA") plan as presented and moved that it be voted on at the Company's annual general meeting on June 7, 2013. A RSA is a grant of Company stock in which the recipient's rights in the stock are restricted until the shares vest. Once the vesting requirements are met, an employee owns the shares outright and may treat them as they would any other stock in their account. The Company may choose to grant RSA's to employees, directors or consultants of the Corporation. The principal purpose of the plan is to promote a proprietary interest in the Company by Participants and to encourage such persons to remain in the employ or service of the Company and put forth maximum efforts for the success of the affairs of Mongolia Growth Group Ltd., and the business of its entities.

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2013**

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(expressed in Canadian dollars)

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

	June 30, 2013 \$	December 31, 2012 \$
Weighted average number of shares – basic	34,245,230	34,143,352
Effect of dilutive stock options	1,929,541	1,738,913
Weighted average number of shares – diluted	<u>36,174,771</u>	<u>35,882,265</u>

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.

### **8 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.

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

	June 30, 2013 \$	June 30, 2012 \$
Salaries and other short-term employee benefits	195,218	90,000
Share-based payments	376,450	231,022
	<u>571,668</u>	<u>321,022</u>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2013**

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(expressed in Canadian dollars)

### 9 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.

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

### 10 Supplementary cash flow information

	June 30, 2013	June 30, 2012
	\$	\$
Changes in non-working capital arising from		
Other assets	(1,148,772)	(3,370,789)
Trade and other payables and accrued liabilities	63,134	1,267,711
Reinsurance assets	404,270	3,041
Deferred acquisition expense	6,367	3,846
Income tax payable	(2,351)	16,342
Insurance contract liabilities	286,500	(2,949)
	<hr/>	<hr/>
Changes in non-cash working capital from operating activities	(390,852)	(2,082,798)

# **Mongolia Growth Group Ltd.**

## **Notes to Condensed Interim Consolidated Financial Statements**

(Unaudited)

**June 30, 2013**

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(expressed in Canadian dollars)

### **11 Segment information**

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

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

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

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



# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2013

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(expressed in Canadian dollars)

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

	<b>Six months ended June 30, 2013</b>			
	<b>Investment property \$</b>	<b>Insurance \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
Rental income	845,897	-	-	845,897
Property operating expenses	(471,671)	-	-	(471,671)
Unrealized gain on fair value adjustment on investment properties	1,136,125	-	-	1,136,125
Net premiums earned	-	663,682	-	663,682
Claims and insurance benefits incurred	-	(495,560)	-	(495,560)
Share based payment	(270,206)	(213,560)	(449,477)	(933,243)
Other expenses	(101,557)	(602,134)	(1,586,578)	(2,290,269)
Depreciation	(65,655)	(22,409)	(4,939)	(93,003)
Net investment income	170,629	315,133	(44)	485,718
Loss on disposal of investment property	(13,794)	-	-	(13,794)
Other revenue	14,248	36,632	1,000	51,880
Net income (loss) before income taxes	1,244,016	(318,216)	(2,040,038)	(1,114,238)

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2013**

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(expressed in Canadian dollars)

	<b>Three months ended June 30, 2013</b>			
	<b>Investment property \$</b>	<b>Insurance \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
<b>Rental income</b>	431,512	-	-	431,512
<b>Property operating expenses</b>	(227,625)	-	-	(227,625)
<b>Net premiums earned</b>	-	321,565	-	321,565
<b>Claims and insurance benefits incurred</b>	-	(272,070)	-	(272,070)
<b>Share based payment</b>	(133,374)	(39,013)	(133,982)	(306,369)
<b>Other expenses</b>	(48,862)	(314,743)	(988,737)	(1,352,342)
<b>Depreciation</b>	(33,078)	(11,539)	(2,516)	(47,133)
<b>Net investment income</b>	72,832	159,938	(199)	232,571
<b>Loss on disposal of investment property</b>	(16,309)	-	-	(16,309)
<b>Other revenue</b>	6,395	28,026	-	34,421
<b>Net income (loss) before income taxes</b>	51,491	(127,836)	(1,125,434)	(1,201,779)

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2013

(expressed in Canadian dollars)

	<b>Six months ended June 30, 2012</b>			
	<b>Investment property \$</b>	<b>Insurance \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
Rental income	767,024	-	-	767,024
Property operating expenses	(456,747)	-	-	(456,747)
Net premiums earned	-	190,665	-	190,665
Claims and insurance benefits incurred	-	(37,528)	-	(37,528)
Share based payment	(268,580)	(271,788)	(240,030)	(780,398)
Other expenses	(151,166)	(415,214)	(657,314)	(1,223,694)
Depreciation	(24,085)	(14,755)	(2,393)	(41,233)
Net investment income	61,337	286,808	5,370	353,515
Gain on disposal of investment property	70,973	-	-	70,973
Other revenue	3,322	9,370	-	12,692
Net income (loss) before income taxes	2,078	(252,442)	(894,367)	(1,144,731)

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2013

(expressed in Canadian dollars)

	<b>Three months ended June 30, 2012</b>			
	<b>Investment property \$</b>	<b>Insurance \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
<b>Rental income</b>	383,920	-	-	383,920
<b>Property operating expenses</b>	(279,559)	-	-	(279,559)
<b>Net premiums earned</b>	-	118,682	-	118,682
<b>Claims and insurance benefits incurred</b>	-	(15,096)	-	(15,096)
<b>Share based payment</b>	(134,290)	(135,894)	(120,015)	(390,199)
<b>Other expenses</b>	(111,625)	(37,614)	(423,284)	(572,523)
<b>Depreciation</b>	(15,285)	(8,605)	-	(23,890)
<b>Net investment income</b>	61,337	150,264	3,412	215,013
<b>Gain on disposal of investment property</b>	70,973	-	-	70,973
<b>Other revenue</b>	(11,473)	9,370	-	(2,103)
<b>Net income (loss) before income taxes</b>	(36,002)	81,107	(539,887)	(494,782)

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2013**

(expressed in Canadian dollars)

	<b>June 30, 2013</b>			
	<b>Investment property \$</b>	<b>Insurance \$</b>	<b>Corporate \$</b>	<b>Consolidated \$</b>
<b>Total assets</b>	46,086,424	5,898,777	458,036	52,443,237
Property and equipment	4,389,323	224,876	24,162	4,638,361
Investment properties	33,543,531	-	-	33,543,531
<b>Period Expenditures</b>				
Property and equipment	67,536	33,126	2,197	102,859
Investment properties	1,211,273	-	-	1,211,273

	<b>June 30, 2012</b>			
	<b>Investment property \$</b>	<b>Insurance \$</b>	<b>Corporate \$</b>	<b>Consolidated \$</b>
<b>Total assets</b>	46,746,656	4,830,667	4,480,785	56,058,108
Property and equipment	4,808,255	223,682	33,457	5,065,394
Investment properties	33,131,976	-	-	33,131,976
<b>Period Expenditures</b>				
Property and equipment	8,157	96,137	1,469	105,763
Investment properties	6,099,886	-	-	6,099,886

	<b>Revenue</b>		<b>Property and equipment</b>		<b>Investment property</b>	
	<b>June 30, 2013 \$</b>	<b>June 30, 2012 \$</b>	<b>June 30, 2013 \$</b>	<b>June 30, 2012 \$</b>	<b>June 30, 2013 \$</b>	<b>June 30, 2012 \$</b>
Canada	1,000	-	24,162	33,457	-	-
Mongolia	1,546,665	1,041,354	4,614,199	5,031,937	33,543,531	33,131,976
	<b>1,547,665</b>	<b>1,041,354</b>	<b>4,638,361</b>	<b>5,065,394</b>	<b>33,543,531</b>	<b>33,131,976</b>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2013

(expressed in Canadian dollars)

### 12 Other expenses

	Three months ended		Six months ended	
	2013	June 30, 2012	2013	June 30, 2012
	\$	\$	\$	\$
Professional fees	493,324	217,367	913,283	357,494
Travel	84,298	89,943	140,002	132,885
Advertising	68,848	74,156	145,336	133,968
Net claims incurred	272,070	15,096	495,560	37,528
Land and property tax	68,688	61,983	126,248	89,510
Insurance	7,027	44,895	13,849	50,308
Utility expense	13,425	26,268	42,570	46,289
Other expenses	212,951	87,207	357,467	426,418
	1,220,631	616,915	2,234,315	1,274,400

### 13 Fair value hierarchy

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 condensed interim 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

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2013

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(expressed in Canadian dollars)

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.

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

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

	<u>June 30, 2013</u>	
	Level 1 \$	Total \$
FVTPL		
Money market fund	100	100
	<u>December 31, 2012</u>	
	Level 1 \$	Total \$
FVTPL		
Money market fund	100	100

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.

# **Mongolia Growth Group Ltd.**

## **Notes to Condensed Interim Consolidated Financial Statements**

(Unaudited)

**June 30, 2013**

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(expressed in Canadian dollars)

### **13 Subsequent events**

On August 12, 2013, the Company announced a non-brokered private placement offering up to 3,076,923 units of the Corporation at a purchase price of \$3.25 per unit on a best efforts basis, for gross proceeds of up to \$10,000,000. Each unit shall consist of one common share in the capital of the Corporation and one half of one common share purchase warrant of the Corporation. Each full warrant will be exercisable into one common share at a price of \$3.75 per common share. The placement is scheduled to close on September 13, 2013.

Subsequent to the period end the Company sold 2 investment properties with a fair value of approximately \$627,000 for cash proceeds of approximately \$640,000.