

# **Mongolia Growth Group Ltd.**

Condensed Interim Consolidated Financial  
Statements  
(Unaudited)  
For the three and six months ended  
**June 30, 2018 and 2017**  
(Expressed in Canadian dollars)

# Mongolia Growth Group Ltd.

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

As at June 30, 2018

(expressed in Canadian dollars)

	June 30, 2018 \$	December 31, 2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash (note 5)	466,065	1,640,771
Marketable securities (note 6)	3,825,305	2,816,624
Other assets (note 7)	101,991	406,019
	<u>4,393,361</u>	<u>4,863,414</u>
<b>Non-current assets</b>		
Investment properties (note 8)	24,039,467	22,887,521
Property and equipment (note 9)	1,679,087	1,654,896
	<u>25,718,554</u>	<u>24,542,417</u>
<b>Total assets</b>	<b><u>30,111,915</u></b>	<b><u>29,405,831</u></b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities	446,293	507,534
Income taxes payable	6,391	9,543
	<u>452,684</u>	<u>517,077</u>
<b>Non-current liabilities</b>		
Deferred income tax liability	521,216	502,426
Long term debt (note 10)	663,441	629,748
	<u>1,184,657</u>	<u>1,132,174</u>
<b>Total liabilities</b>	<b><u>1,637,341</u></b>	<b><u>1,649,251</u></b>
<b>Equity</b>		
Share capital (note 11)	53,696,177	53,751,473
Contributed surplus	6,849,976	6,849,976
Accumulated other comprehensive loss	(12,168,700)	(13,086,274)
Deficit	(19,902,879)	(19,758,595)
	<u>28,474,574</u>	<u>27,756,580</u>
<b>Total equity</b>	<b><u>28,474,574</u></b>	<b><u>27,756,580</u></b>
<b>Total equity and liabilities</b>	<b><u>30,111,915</u></b>	<b><u>29,405,831</u></b>

Commitment and contingencies (note 14)

**Approved by the Board of Directors**

\_\_\_\_\_  
Jim Dwyer

\_\_\_\_\_  
Director

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Harris Kupperman

\_\_\_\_\_  
Director

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

# Mongolia Growth Group Ltd.

## Condensed Interim Consolidated Statements of Operations

(Unaudited)

**For the three and six month period ended June 30**

(expressed in Canadian dollars)

	For the three months ended June 30		For the six months ended June 30	
	2018 \$	2017 \$	2018 \$	2017 \$
<b>Revenue</b>				
Rental income	347,058	380,072	693,535	764,652
Loss on disposal of investment property	-	(51,446)	-	(51,446)
Other revenue	9,993	9,726	20,264	26,224
<b>Total revenue</b>	<b>357,051</b>	<b>338,352</b>	<b>713,799</b>	<b>739,430</b>
<b>Expenses</b>				
Salaries and wages	124,886	184,151	252,296	547,497
Other expenses (note 17)	317,950	241,634	624,242	443,393
Depreciation (note 9)	19,524	35,938	37,896	42,514
<b>Total expenses</b>	<b>462,360</b>	<b>461,723</b>	<b>914,434</b>	<b>1,033,404</b>
<b>Net investment income</b>	<b>6,977</b>	<b>2,127</b>	<b>9,560</b>	<b>2,476</b>
Unrealized loss on fair value adjustment on Investment Properties	-	(1,810,714)	-	(1,810,714)
Unrealized gain (loss) on short term investments (note 6)	37,004	(175,775)	(53,443)	(643,295)
Realized gain on short term investments (note 6)	241,399	22,066	215,784	22,066
Foreign currency loss	(25,597)	(69,793)	(43,615)	(78,267)
Finance costs	(21,537)	-	(41,037)	-
	<b>231,269</b>	<b>(2,034,216)</b>	<b>77,689</b>	<b>(2,510,210)</b>
<b>Net income (loss) before income taxes</b>	<b>132,937</b>	<b>(2,155,460)</b>	<b>(113,386)</b>	<b>(2,801,708)</b>
Income taxes	(4,266)	20,435	(30,898)	23,497
<b>Net income (loss) for the period</b>	<b>128,671</b>	<b>(2,135,025)</b>	<b>(144,284)</b>	<b>(2,778,211)</b>
<b>Net income (loss) per share (note 11)</b>				
Basic				
From net loss for the period	0.00	(0.06)	(0.00)	(0.08)
Diluted				
From net loss for the period	0.00	(0.06)	(0.00)	(0.08)

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

# Mongolia Growth Group Ltd.

## Condensed Interim Consolidated Statements of Comprehensive Loss

(Unaudited)

**For the three and six month period ended June 30**

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(expressed in Canadian dollars)

	<b>For the three months ended June 30</b>		<b>For the six months ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Net gain (loss) for the period</b>	128,671	(2,135,025)	(144,284)	(2,778,211)
<b>Other comprehensive income (loss)</b>				
Items that may be subsequently reclassified to income or loss				
Unrealized gains (losses) on translation of financial statement operations with Mongolian Tögrög functional currency to Canadian dollar reporting currency	<u>(76,247)</u>	<u>535,895</u>	<u>917,574</u>	<u>847,785</u>
<b>Total comprehensive income (loss)</b>	<b><u>52,424</u></b>	<b><u>(1,599,130)</u></b>	<b><u>773,290</u></b>	<b><u>(1,930,426)</u></b>

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 six month period ended June 30

(expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
<b>Balance at January 1, 2017</b>	54,130,373	6,849,976	(11,786,528)	(16,661,381)	32,532,440
Net loss for the period	-	-	-	(2,778,211)	(2,778,211)
Other comprehensive income	-	-	847,785	-	847,785
	<u>54,130,373</u>	<u>6,849,976</u>	<u>(10,938,743)</u>	<u>(19,439,592)</u>	<u>30,602,014</u>
Share repurchase	(149,713)	-	-	-	(149,713)
<b>Balance at June 30, 2017</b>	<b><u>53,980,660</u></b>	<b><u>6,849,976</u></b>	<b><u>(10,938,743)</u></b>	<b><u>(19,439,592)</u></b>	<b><u>30,452,301</u></b>

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
<b>Balance at January 1, 2018</b>	53,751,473	6,849,976	(13,086,274)	(19,758,595)	27,756,580
Net loss for the period	-	-	-	(144,284)	(144,284)
Other comprehensive income	-	-	917,574	-	917,574
	<u>53,751,473</u>	<u>6,849,976</u>	<u>(12,168,700)</u>	<u>(19,902,879)</u>	<u>28,592,870</u>
Share repurchase	(55,296)	-	-	-	(55,296)
<b>Balance at June 30, 2018</b>	<b><u>53,696,177</u></b>	<b><u>6,849,976</u></b>	<b><u>(12,168,700)</u></b>	<b><u>(19,902,879)</u></b>	<b><u>28,474,574</u></b>

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

# Mongolia Growth Group Ltd.

## Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

For the six month period ended June 30

(expressed in Canadian dollars)

	<b>June 30, 2018</b>	<b>June 30, 2017</b>
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period	(144,284)	(2,778,211)
Items not affecting cash		
Depreciation (note 9)	37,896	42,514
Deferred taxes	18,790	(51,632)
Bad debt write off	-	963
Realized loss on disposal of investment properties	-	51,446
Realized loss on disposal of property and equipment	511	-
Unrealized loss (gain) on marketable securities (note 6)	53,443	(22,066)
Unrealized loss on fair value adjustment of investment properties	-	1,810,714
Realized loss (gain) on marketable securities	(215,784)	643,295
	<b>(249,428)</b>	<b>(302,977)</b>
Net change in non-cash working capital balances (note 15)	(81,332)	(1,034,961)
	<b>(330,760)</b>	<b>(1,337,938)</b>
<b>Financing activities</b>		
Share repurchase (note 11)	(55,296)	(149,713)
	<b>(55,296)</b>	<b>(149,713)</b>
<b>Investing activities</b>		
Net purchase of marketable securities (note 6)	(887,363)	(766,038)
Disposal of investment properties (note 8)	-	1,361,583
Disposal of property and equipment (note 9)	-	(286)
	<b>(887,363)</b>	<b>595,259</b>
<b>Effect of exchange rates on cash</b>	98,713	228,776
<b>Decrease in cash</b>	(1,174,706)	(663,616)
<b>Cash - Beginning of period</b>	1,640,771	1,881,487
<b>Cash - End of period</b>	<b>466,065</b>	<b>1,217,871</b>

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, 2018**

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(expressed in Canadian dollars)

### **1 Corporate Information**

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

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

MGG has one wholly-owned subsidiary at June 30, 2018, Mongolia (Barbados) Corp. Mongolia (Barbados) Corp. owns the wholly-owned subsidiaries MGG Properties LLC and Big Sky Capital LLC. Big Sky Capital LLC owns the wholly-owned subsidiaries, Carrollton LLC, Biggie Industries LLC, Orpheus LLC, Endymion LLC, Zulu LLC, Crescent City LLC, and Oceanus LLC (together "the investment property operations"). The investment property operations are conducted in Big Sky Capital LLC and its subsidiaries. No active business operations occur in Oceanus LLC at this time. MGG's marketable securities are currently held in a brokerage account owned by Mongolia (Barbados) Corp.

The Company is registered in Alberta, Canada, with its Head Office at its registered and records address at Centennial Place, East Tower, 1900, 520 - 3rd Avenue S.W. Calgary, Alberta, Canada T2P 0R3. The Company's Canadian headquarters are located at 100 King Street West, Suite 5600, Toronto, Ontario, M5X 1C9, Canada. The Company's Mongolian investment property operations are based out of its office located at the MGG Properties Building on Seoul St. in Ulaanbaatar, Mongolia.

At June 30, 2018, the Company is organized into two segments 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.

### **2 Basis of presentation**

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

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

# **Mongolia Growth Group Ltd.**

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

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(expressed in Canadian dollars)

### **2 Basis of presentation (continued)**

These consolidated financial statements were approved by the Board of Directors of the Company for issue on August 7, 2018.

### **3 Current Accounting Policy Changes**

The Company has adopted the following revised standards, along with any consequential amendments, effective January 1, 2018.

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

In accordance with this new standard, the Company adopted IFRS 15 using the modified retrospective method. In applying IFRS 15, the Company used the practical expedient that permits contracts which were completed prior to the transition date to not be assessed. As a result of adopting IFRS 15, there were no adjustments to the balance sheet as at January 1, 2018.

#### **IFRS 9 Financial Instruments**

IFRS 9, Financial Instruments, first issued in November 2009 with final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit and loss (FVTPL), fair value through OCI or amortized cost.

For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

IFRS 9 also introduces an expected loss impairment model for all financial assets not as at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.



# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

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(expressed in Canadian dollars)

### **3 Current Accounting Policy Changes (continued)**

Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018.

The Company has adopted IFRS 9, "Financial Instruments" ("IFRS 9"), effective January 1, 2018. As the Company has historically classified its marketable securities as FVTPL, the adoption of IFRS 9 has not resulted in adjustments to the balance sheet as at January 1, 2018.

#### **IAS 40 Investment Properties**

IAS 40, "Investment Properties" ("IAS 40"), was amended to clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The revised standard states that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

This amendment did not have an impact on the Company's condensed consolidated financial statements.

### **4 Significant accounting estimates and judgements**

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

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

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

- Fair value of investment properties - The estimate of fair value of investment properties is the most critical accounting estimate to the Company. An external appraiser estimates the fair value of the majority of investment properties annually. The remaining balance of investment properties was valued internally. 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. This fair value assumes that the Company is in possession of the property's land and property titles where applicable. Management judges that the Company has the appropriate titles for each of the properties classified as Investment Properties. Properties whereby the Company is not currently in possession of the appropriate titles but does not expect there to be issues in receiving the titles are classified as prepaid

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

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(expressed in Canadian dollars)

### **4 Significant accounting estimates and judgements (continued)**

deposits on investment properties. Properties whereby Management judges that the Company's titles are at risk, have been impaired to reflect the level of risk estimated by Management.

- 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 8 of the annual financial statements for the year ended December 31, 2017. Changes in assumptions about these factors could materially affect the carrying value of investment properties.
- Valuation of marketable securities and investments - The Company recognizes marketable securities and investments at fair value. Fair value is determined on the basis of market prices from independent sources, if available. If there is no market price, then the fair value is determined by using valuation models with inputs derived from observable market data where possible but where observable data is not available, judgment is required to establish fair values.
- 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 13 of the annual financial statements for the year ended December 31, 2017.
- 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 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.

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

- Judgement is required in determining whether an asset meets the criteria for classification as assets held for sale and or as discontinued operations in the consolidated financial statements. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the probability of the sale being completed within an expected time frame of

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

(expressed in Canadian dollars)

### 4 Significant accounting estimates and judgements (continued)

one year and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this financial position category as appropriate. On completion of the sale, management exercises judgement as to whether the sale qualifies as a discontinued operation.

- As at June 30, 2018 and 2017, Management has made the judgment that none of the Company's assets meet the criteria to be classified as held for sale. While this is due to a number of factors, a primary reason is that due to the conditions of the Mongolian economy and the lack of liquidity in the market, management was unable to conclude that the sale of any significant size asset could be considered highly probable.

### 5 Cash

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

The following table discloses the geographical location of cash:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	\$	\$
Barbados	1,484	79,034
Canada	133,903	946,834
Mongolia	330,678	614,903
	<b>466,065</b>	<b>1,640,771</b>

Cash is not collateralized, the carrying amount of cash approximates fair value.

### 6 Marketable Securities

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	\$	\$
<b>Common shares of public companies:</b>		
<b>Fair value - beginning of the year</b>	2,816,624	1,184,825
Net purchases	1,167,537	1,924,157
Foreign exchange (loss) gain	(41,023)	15,030
Unrealized loss	(53,443)	(371,197)
Realized gain	215,784	63,809
Margin borrowings	(280,174)	-
<b>Fair value - end of the year</b>	<b>3,825,305</b>	<b>2,816,624</b>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

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(expressed in Canadian dollars)

### 7 Other assets

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	\$	\$
Accounts receivable	116,583	147,421
less: Allowance for doubtful accounts	(51,297)	(49,448)
Prepaid expenses	36,705	22,756
Prepaid deposits on investment properties	-	285,290
	<hr/>	<hr/>
	<b>101,991</b>	<b>406,019</b>
	<hr/>	<hr/>

### 8 Investment properties

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	\$	\$
Balance - beginning of period	22,887,521	29,501,350
Additions		
Acquisitions	-	131,387
Transfer from other asset	295,960	-
Disposals	-	(2,847,871)
Fair value adjustment	-	(2,758,843)
Foreign exchange adjustments	855,986	(1,138,502)
	<hr/>	<hr/>
Balance - end of period	<b>24,039,467</b>	<b>22,887,521</b>
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During the period ended June 30, 2018, the Company did not acquire or sell any properties. In comparison, during the period ended June 30, 2017, the Company acquired four properties for a total cost of \$537,353, and sold seven investment properties for proceeds of \$1,898,936. During the period ended June 30, 2018, two properties with a total value of \$295,960 (December 31, 2017 - \$285,290) were transferred from other assets to investment properties as their land titles were finally obtained.

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

(expressed in Canadian dollars)

### 9 Property and equipment

	<b>2017</b>			
	<b>Furniture and fixtures \$</b>	<b>Equipment \$</b>	<b>Buildings \$</b>	<b>Total \$</b>
<b>December 31</b>				
Cost	75,227	147,208	1,907,537	2,129,972
Accumulated depreciation	32,144	107,121	335,811	475,076
<b>Net book value</b>	<b>43,083</b>	<b>40,087</b>	<b>1,571,726</b>	<b>1,654,896</b>
				<b>2018</b>
	<b>Furniture and fixtures \$</b>	<b>Equipment \$</b>	<b>Buildings \$</b>	<b>Total \$</b>
<b>Cost</b>				
<b>At January 1</b>	75,227	147,208	1,907,537	2,129,972
Additions	-	-	-	-
Disposals	(1,045)	(16,392)	-	(17,437)
Foreign exchange adjustment	2,853	4,893	73,651	81,397
<b>At June 30</b>	<b>77,035</b>	<b>135,709</b>	<b>1,981,188</b>	<b>2,193,932</b>
				<b>2018</b>
	<b>Furniture and fixtures \$</b>	<b>Equipment \$</b>	<b>Buildings \$</b>	<b>Total \$</b>
<b>Accumulated depreciation</b>				
<b>At January 1</b>	32,144	107,121	335,811	475,076
Depreciation	3,638	6,302	27,956	37,896
Disposals	(534)	(16,392)	-	(16,926)
Foreign exchange adjustment	1,274	2,485	15,040	18,799
<b>At June 30</b>	<b>36,522</b>	<b>99,516</b>	<b>378,807</b>	<b>514,845</b>
<b>Net book value at June 30</b>	<b>40,513</b>	<b>36,193</b>	<b>1,602,381</b>	<b>1,679,087</b>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

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(expressed in Canadian dollars)

### 10 Long term debt

	<b>2018</b>	<b>2017</b>
	\$	\$
Current	-	-
Non-current	663,441	-
	<u>663,441</u>	<u>-</u>

In December 2017, the Company obtained a two year CDN\$1,300,200 (US\$1,000,000) credit facility through a commercial bank in Mongolia. The loan is secured by various property assets and guarantees from Mongolian subsidiaries.

The loan bears interest at a monthly rate of 1.1% on all drawn amounts with re-payment of principal due in 2 years and is in-line with current interest rates in Mongolia. The company made an initial draw of USD \$500,000 in December 2017 and has not drawn on the credit facility since this time.

### 11 Share capital and contributed surplus

#### Common shares

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

The issued and outstanding common shares are as follows:

	<b>Number of</b>	<b>Amount</b>
	<b>shares</b>	<b>\$</b>
Balance, December 31, 2017	33,696,599	53,751,473
Shares re-purchased	-	(55,296)
Treasury stock cancelled	(317,100)	-
<b>Balance, June 30, 2018</b>	<u><b>33,379,499</b></u>	<u><b>53,696,177</b></u>

As at June 30, 2018, the Company held 26,500 (Q2 2017-212,500) shares in Treasury with a value of \$6,717 to be cancelled during the third quarter of 2018.

#### Stock options

The Company has established a share based payment plan (the "Plan") to encourage ownership of its shares by key management personnel (directors and executive management), employees and other key service providers, and to provide compensation for certain services. The Plan provides for the issuance of stock options in an aggregate number of up to 10% of the Company's issued and outstanding shares, calculated from time to time

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

(expressed in Canadian dollars)

### 11 Share capital and contributed surplus (continued)

and are exercisable within a maximum of ten (10) years. The vesting period for all options is at the discretion of the directors. The exercise price will be set by the directors at the time of grant and cannot be less than the discounted market price of the Company's common shares. At June 30, 2018, the Company had 234,950 (December 2017 – 266,660) common shares available for the granting of future options under the new plan. The Company does not have any cash-settled transactions. Full details of the Company's option plan can be found in "Schedule B" of the Management Information Circular on the Company's website and filed on Sedar.

A summary of the Company's options as at June 30, 2018 and December 31, 2017 and changes during the periods then ended follows:

	<b>June 30, 2018</b>	<b>Weighted average exercise price \$</b>	<b>December 31, 2017</b>	<b>Weighted average exercise price \$</b>
Balance, beginning of period	3,103,000	1.13	3,358,000	1.11
Options expired	-	-	(35,000)	1.90
Options cancelled	-	-	-	-
Options granted	-	-	-	-
Options forfeited	-	-	(220,000)	0.74
Options exercised	-	-	-	-
	<hr/>		<hr/>	
Balance, end of the period	3,103,000	1.13	3,103,000	1.13
	<hr/>		<hr/>	
Exercisable	3,103,000	1.13	3,103,000	1.13
	<hr/>		<hr/>	
Weighted remaining average life (years)	-	1.27	-	1.77
	<hr/>		<hr/>	

#### a) Earnings per share

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

	<b>June 30, 2018 \$</b>	<b>December 31, 2017 \$</b>
Weighted average number of shares – basic	33,464,179	34,342,059
Effect of dilutive stock options	-	-
	<hr/>	<hr/>
<b>Weighted average number of shares – diluted</b>	<b>33,464,179</b>	<b>34,342,059</b>
	<hr/>	<hr/>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

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(expressed in Canadian dollars)

### 11 Share capital and contributed surplus (continued)

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.

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

### 12 Management of capital structure

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

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

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	\$	\$
Current assets	4,393,361	4,863,414
Current liabilities	(452,684)	(517,077)
<b>Working capital</b>	<b>3,940,677</b>	<b>4,346,337</b>

The method used by the Company to monitor its capital is based on an assessment of the Company's working capital position relative to its projected obligations. At June 30, 2018, the Company's working capital was \$3,940,677 (December 31, 2017 - \$4,346,337).

### 13 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.



# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2018

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(expressed in Canadian dollars)

### 13 Related party transactions (continued)

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

	<b>Six month ending June 30, 2018 \$</b>	<b>Six months ending June 30, 2017 \$</b>
Salaries and other short-term employee benefits	200,423	107,287
Director fees	40,000	50,000
	<u>240,423</u>	<u>157,287</u>

### 14 Commitments and contingencies

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

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

### 15 Supplementary cash flow information

	<b>Six months ending June 30, 2018 \$</b>	<b>Six months ending June 30, 2017 \$</b>
Changes in non-working capital arising from		
Other assets	19,279	(35,291)
Trade payables and accrued liabilities	(72,194)	(859,821)
Income tax payable	(28,417)	(139,849)
	<u>(81,332)</u>	<u>(1,034,961)</u>

Income taxes paid during the quarter were \$9,137 (June 30, 2017-\$7,568).

Interest paid during the quarter was \$21,537 (Q2-2017 \$nil).

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

(expressed in Canadian dollars)

### 16 Segment information

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

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

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

	<b>Three months ended June 30, 2018</b>		
	<b>Investment property</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Rental income	347,058	-	347,058
Property operating expenses	(198,084)	-	(198,084)
Unrealized mark to market gain	-	37,004	37,004
Realized gain on short term investments	-	241,399	241,399
Other expenses	(38,065)	(206,687)	(244,752)
Depreciation	(19,524)	-	(19,524)
Net investment income	6,958	19	6,977
Other revenue	9,993	-	9,993
Foreign currency loss	(8,485)	(17,112)	(25,597)
Finance cost	(21,537)	-	(21,537)
<b>Net income before income taxes</b>	<b>78,314</b>	<b>54,623</b>	<b>132,937</b>

  

	<b>Six months ended June 30, 2018</b>		
	<b>Investment property</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Rental income	693,535	-	693,535
Property operating expenses	(401,951)	-	(401,951)
Unrealized mark to market loss	-	(53,443)	(53,443)
Other expenses	(67,396)	(407,191)	(474,587)
Depreciation	(37,896)	-	(37,896)
Net investment income	9,511	49	9,560
Other revenue	20,264	-	20,264
Realized gain on marketable securities	-	215,784	215,784
Foreign currency loss	(5,887)	(37,728)	(43,615)
Finance cost	(41,037)	-	(41,037)
<b>Net income (loss) before income taxes</b>	<b>169,143</b>	<b>(282,529)</b>	<b>(113,386)</b>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2018

(expressed in Canadian dollars)

### 16 Segment information (continued)

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

	<b>Three months ended June 30, 2017</b>		
	<b>Investment property \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
Rental income	380,072	-	380,072
Property operating expenses	(261,251)	-	(261,251)
Unrealized fair value loss	(1,810,714)	-	(1,810,714)
Unrealized mark to market loss	-	(175,775)	(175,775)
Other expenses	(33,050)	(131,485)	(164,536)
Depreciation	(35,938)	-	(35,938)
Net investment income	1,854	273	2,127
Loss on disposal of investment property	(51,446)	-	(51,446)
Other revenue	9,726	-	9,726
Realized gain on marketable securities	-	22,066	22,066
Foreign currency loss	(68,850)	(942)	(69,792)
<b>Net loss before income taxes</b>	<b>(1,869,597)</b>	<b>(285,863)</b>	<b>(2,155,460)</b>

	<b>Six months ended June 30, 2017</b>		
	<b>Investment property \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
Rental income	764,652	-	764,652
Property operating expenses	(558,264)	(106,575)	(664,839)
Unrealized fair value loss	(1,810,714)	-	(1,810,714)
Unrealized mark to market loss	-	(643,295)	(643,295)
Other expenses	(70,221)	(255,829)	(326,050)
Depreciation	(42,514)	-	(42,514)
Net investment income	2,132	344	2,476
Loss on disposal of investment property	(51,446)	-	(51,446)
Other revenue	26,224	-	26,224
Realized gain on marketable securities	-	22,066	22,066
Foreign currency loss	(66,275)	(11,993)	(78,268)
<b>Net loss before income taxes</b>	<b>(1,806,426)</b>	<b>(995,282)</b>	<b>(2,801,708)</b>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

(expressed in Canadian dollars)

### 16 Segment information (continued)

	<u>Balance as of June 30, 2018</u>		
	<b>Investment Property</b>	<b>Corporate</b>	<b>Total</b>
	\$	\$	\$
<b>Total assets</b>	<b>26,127,925</b>	<b>3,983,990</b>	<b>30,111,915</b>
Property and equipment	1,679,087	-	1,679,087
Investment properties	24,039,467	-	24,039,467
Expenditures			
Property and equipment	-	-	-
Investment properties	-	-	-

	<u>Balance as of June 30, 2017</u>		
	<b>Investment Property</b>	<b>Corporate</b>	<b>Total</b>
	\$	\$	\$
<b>Total assets</b>	<b>29,457,577</b>	<b>1,939,832</b>	<b>31,397,409</b>
Property and equipment	1,802,060	-	1,802,060
Investment properties	26,882,962	-	26,882,962
Expenditures			
Property and equipment	1,053	-	1,053
Investment properties	537,353	-	537,353

	<u>Revenue</u>		<u>Property and equipment</u>		<u>Investment property</u>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
	\$	\$	\$	\$	\$	\$
Canada	-	-	-	-	-	-
Mongolia	713,799	739,430	1,679,087	1,802,060	24,039,467	26,882,962
	<b>713,799</b>	<b>739,430</b>	<b>1,679,087</b>	<b>1,802,060</b>	<b>24,039,467</b>	<b>26,882,962</b>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2018**

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(expressed in Canadian dollars)

### 17 Other expenses

#### For the three months ended June 30

	<b>2018</b>	<b>2017</b>
	\$	\$
Investor relations	7,564	7,501
Repairs and maintenance	12,820	9,108
Office	29,938	19,607
Professional fees	148,697	77,959
Travel	15,686	16,517
Advertising	1,588	4,202
Land and property tax	26,751	41,196
Insurance	12,634	10,560
Utilities	34,008	35,989
Other	28,264	18,995
	<b>317,950</b>	<b>241,634</b>

#### For the six months ended June 30

	<b>2018</b>	<b>2017</b>
	\$	\$
Investor relations	18,214	15,019
Repairs and maintenance	23,740	15,693
Office	52,877	31,523
Professional fees	288,772	138,019
Travel	44,342	27,810
Advertising	2,892	6,099
Land and property tax	52,846	75,860
Insurance	25,603	21,539
Utilities	72,873	75,736
Other	42,083	36,095
	<b>624,242</b>	<b>443,393</b>