

# **Mongolia Growth Group Ltd.**

Condensed Interim Consolidated Financial  
Statements

(Unaudited)

For the three and six months ended

**June 30, 2014 and 2013**

(expressed in Canadian dollars)

# Mongolia Growth Group Ltd.

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

(expressed in Canadian dollars)

	June 30, 2014 \$	December 31, 2013 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,325,377	5,370,319
Other assets	4,359,618	4,046,491
	<u>8,684,995</u>	<u>9,416,810</u>
<b>Non-current assets</b>		
Other assets	-	1,645,125
Investment properties (note 7)	43,429,344	32,313,391
Property and equipment (note 8)	2,850,860	3,915,692
	<u>54,965,199</u>	<u>47,291,018</u>
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities	1,518,847	874,222
Income taxes payable	47,315	4,121
Long term debt – current portion (note 9)	432,304	-
	<u>1,998,466</u>	<u>878,343</u>
<b>Non-current liabilities</b>		
Long term debt (note 9)	2,749,860	-
Deferred income tax liability	1,558,157	1,090,117
	<u>6,306,483</u>	<u>1,968,460</u>
<b>Total liabilities</b>		
<b>Equity</b> (note 10)		
Share capital	53,689,435	52,204,394
Contributed surplus	4,854,820	4,423,914
Accumulated other comprehensive loss	(9,909,955)	(6,086,341)
Retained earnings (deficit)	24,416	(5,219,409)
	<u>48,658,716</u>	<u>45,322,558</u>
<b>Total equity</b>		
<b>Total equity and liabilities</b>	<u>54,965,199</u>	<u>47,291,018</u>

### Approved by the Board of Directors

"Paul Sweeney" Director "Jordan Calonego" Director

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

# Mongolia Growth Group Ltd.

## Condensed Interim Consolidated Statement of Operations

(Unaudited)

**For the three and six month period ended June 30 2014 and 2013**

(expressed in Canadian dollars)

	For the three months ended June 30		For the six months ended June 30	
	2014 \$	2013 \$ (Restated – note 6)	2014 \$	2013 \$ (Restated – note 6)
<b>Revenue</b>				
Rental income	461,652	431,512	944,276	845,897
Other revenue	81,185	(9,914)	233,142	1,454
Total revenue	542,837	421,598	1,177,418	847,351
<b>Expenses</b>				
Salaries and wages	336,248	432,542	624,568	653,219
Other expenses (note 15)	738,436	832,681	1,655,355	1,506,587
Share based payment	528,020	267,356	953,044	719,683
Depreciation	27,956	35,594	62,072	70,594
Total expenses	1,630,660	1,568,173	3,295,039	2,950,083
<b>Net investment income</b>	22,563	72,633	40,241	170,585
<b>Unrealized gain on fair value adjustment on investment properties (note 7)</b>	6,112,423	-	7,936,746	1,136,125
Finance expense	13,784	-	13,784	-
<b>Net income (loss) before income taxes</b>	5,033,379	(1,073,942)	5,845,582	(796,022)
<b>Provision for income taxes</b>	(485,715)	(5,289)	(601,757)	(141,289)
<b>Income (loss) from continuing operations</b>	4,547,664	(1,079,231)	5,243,825	(937,311)
<b>Loss from discontinued operations (note 6)</b>	-	(144,243)	-	(350,497)
<b>Net Income (loss) for the period</b>	4,547,664	(1,223,474)	5,243,825	(1,287,808)
<b>Net Income (loss) per share</b>				
Basic				
From continuing operations	0.13	(0.03)	0.15	(0.03)
From discontinued operations	-	-	-	(0.01)
From net income (loss) for the period	0.13	(0.03)	0.15	(0.04)
Diluted				
From continuing operations	0.13	(0.03)	0.15	(0.03)
From discontinued operations	-	-	-	-
From net income (loss) for the period	0.13	(0.04)	0.15	(0.04)

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

# Mongolia Growth Group Ltd.

## Condensed Interim Consolidated Statement of Comprehensive Income (Loss)

(Unaudited)

**For the three and six month period ended June 30 2014 and 2013**

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(expressed in Canadian dollars)

	For the three months ended June 30		For the six months ended June 30	
	2014 \$	2013 \$ (Restated – note 6)	2014 \$	2013 \$ (Restated – note 6)
<b>Net income (loss) for the period</b>	4,547,664	(1,223,474)	5,243,825	(1,287,808)
<b>Other comprehensive loss</b>				
Items that may be subsequently reclassified to income or loss				
Unrealized gain (loss) on translation of financial statement operations with Mongolian MNT functional currency to Canadian dollar reporting currency - continuing operations	(2,163,962)	339,564	(3,823,614)	712,939
Unrealized loss on translation of financial statement operations with Mongolian MNT functional currency to Canadian dollar reporting currency - discontinued operations	-	(51,667)	-	(26,651)
<b>Total comprehensive income (loss)</b>	<u>2,383,702</u>	<u>(935,577)</u>	<u>1,420,211</u>	<u>(601,520)</u>

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

# Mongolia Growth Group Ltd.

## Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited)

**For the six month period ended June 30 2014 and 2013**

(expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	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>

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Retained earnings / (deficit) \$	Total \$
<b>Balance at January 1, 2014</b>	52,204,394	4,423,914	(6,086,341)	(5,219,409)	45,322,558
Net income for the period	-	-	-	5,243,825	5,243,825
Other comprehensive loss	-	-	(3,823,614)	-	(3,823,614)
	52,204,394	4,423,914	(9,909,955)	24,416	46,742,769
Share capital issued	1,485,041	(722,141)	-	-	762,900
Share based payment	-	1,153,047	-	-	1,153,047
<b>Balance at June 30, 2014</b>	<b>53,689,435</b>	<b>4,854,820</b>	<b>(9,909,955)</b>	<b>24,416</b>	<b>48,658,716</b>

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

# Mongolia Growth Group Ltd.

## Interim Consolidated Statement of Cash Flows

(Unaudited) For the six month period ended June 30 2014 and 2013

(expressed in Canadian dollars)

	June 30, 2014 \$	June 30, 2013 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the period	5,243,825	(1,287,808)
Items not affecting cash		
Depreciation of property and equipment	62,072	93,003
Share based payment	953,044	933,243
Deferred taxes	612,196	118,339
Realized loss (gain) on disposal of investment properties (note 7)	(201,103)	13,794
Non cash finance expense	1,204	-
Unrealized gain on fair value adjustment on investment properties (note 7)	(7,936,746)	(1,136,125)
	(1,265,508)	(1,265,554)
Net change in non-cash working capital balances (note 13)	279,944	(390,852)
	(985,564)	(1,656,406)
<b>Financing activities</b>		
Proceeds from share issuance	762,900	293,600
Proceeds from long term debt, net of finance costs	3,237,161	-
	4,000,061	293,600
<b>Investing activities</b>		
Purchase of investments	-	(701,023)
Disposition of investments	-	505,962
Net acquisition of property and equipment (note 8)	(8,569)	(102,859)
Net acquisition of investment properties (note 7)	(3,703,411)	(1,211,273)
	(3,711,980)	(1,509,193)
<b>Effect of exchange rates on cash</b>	(347,459)	159,142
<b>Decrease in cash and cash equivalents</b>	(1,044,942)	(2,712,857)
<b>Cash and cash equivalents - Beginning of period</b>	5,370,319	8,702,253
<b>Cash and cash equivalents - End of period</b>	4,325,377	5,989,396

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

# **Mongolia Growth Group Ltd.**

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

(Unaudited)

**June 30, 2014**

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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 100 King Street West, Suite 5600, Toronto, Ontario, M5X 1C9, Canada. The Company also has a business office for the Mongolian investment property in the Mandal Building on Seoul Street, Ulaanbaatar, Mongolia.

At June 30, 2014, the Company is organized into two business units based on the business operations:

- Big Sky Capital LLC and its subsidiaries own investment properties which are located in Ulaanbaatar, Mongolia and are held for the purpose of generating rental revenue, capital appreciation, and/or redevelopment; and
- The MGG Corporate office is located in Toronto, Canada and administers the financial resources, investment portfolio, corporate reporting and legal functions of the Company.

### **2 Basis of presentation**

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

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

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

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

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

# **Mongolia Growth Group Ltd.**

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

(Unaudited)

**June 30, 2014**

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(expressed in Canadian dollars)

These condensed interim consolidated financial statements were approved for issue by the Board of Directors of the Company on August 28, 2014.s

### **3 Significant accounting policies**

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

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

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

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

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

- Fair value of investment properties - The estimate of fair value of investment properties is the most critical accounting estimate to the Company. An external appraiser estimates the fair value of the majority of investment properties annually. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value of investment properties represents an estimate of the price that would be made in an arm's length transaction between knowledgeable, willing parties. The Company operates in the emerging real estate market of Mongolia, which given its current economic, political and industry conditions, gives rise to an increased inherent risk given the lack of reliable and comparable market information. The significant estimates underlying the fair value determination are disclosed in note 10 of the annual financial statements for the year ended December 31, 2013. Changes in assumptions about these factors could materially affect the carrying value of investment properties.



# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2014**

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(expressed in Canadian dollars)

- Accuracy of share based compensation expense - The estimate of the ultimate expense arising from share based compensation plans is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the share based compensation expense recorded by the Company. The ultimate expense is estimated by using a number of key assumptions such as the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the expected life of the option and future forfeiture rates. Further information on key assumptions including sensitivity analysis is included in note 16 of the annual financial statements for the year ended December 31, 2013.
- Operating environment of the Company - Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. The tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes. The future economic performance of Mongolia is tied to the continuing demand from China and continuing high global prices for commodities as well as being dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Mongolia together with tax, legal, regulatory and political developments. Management is unable to predict all developments that could have an impact on the Mongolian economy and consequently what effect, if any, they could have on the future financial position of the Company.

### 5 New accounting standards

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

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

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

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2014**

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(expressed in Canadian dollars)

### ***IFRIC 21 – Levies***

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

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

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

### ***IFRS 15 – Revenue from contracts with customers***

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

## **6 Disposal of subsidiary**

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

As part of this transaction, the Company filed a formal application with the Financial Regulatory Commission (FRC) of Mongolia to seek permission for disposal of Mandal, which was granted. The transaction closed on December 20, 2013 with the Company selling its stake to UMC Capital LLC (UMC) for consideration of \$3,669,951. Cash consideration of \$458,101 was paid at the date of closing with the remaining \$3,222,368 (US\$3,019,460) as at June 30, 2014 due in instalments over a 12 month period. The amount receivable of \$3,222,368 includes an unrealised gain on foreign currency translation of \$10,518.

The comparative income statement has been restated to show these operations separately from the continuing operations. Management committed to a plan to sell this segment due to a strategic decision to place greater focus on the Company's core operation, being investment properties.

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2014**

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(expressed in Canadian dollars)

Loss attributable to discontinued operations was as follows:

	For the three months ended June 30		For the six months ended June 30	
	2014 \$	2013 \$	2014 \$	2013 \$
Net premiums earned	-	321,565	-	663,682
Other revenue	-	28,026	-	36,632
	<u>-</u>	<u>349,591</u>	<u>-</u>	<u>700,314</u>
Salaries and wages	-	198,864	-	369,966
Other expenses	-	387,950	-	727,728
Share based payment	-	39,013	-	213,560
Depreciation	-	11,539	-	22,409
	<u>-</u>	<u>637,366</u>	<u>-</u>	<u>1,333,663</u>
Net investment income	-	159,938	-	315,133
	<u>-</u>	<u>(127,837)</u>	<u>-</u>	<u>(318,216)</u>
Provision for income taxes	-	(16,406)	-	(32,281)
Loss for the period	<u>-</u>	<u>(144,243)</u>	<u>-</u>	<u>(350,497)</u>

Cash flows from (used in) discontinued operations:

	For the six months ended June 30	
	2014 \$	2013 \$
Net cash from operating activities	-	833,836
Net cash used from investing activities	-	(1,033,620)
Net effect on cash flows	<u>-</u>	<u>(199,784)</u>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2014**

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(expressed in Canadian dollars)

### 7 Investment properties

	June 30, 2014 \$	December 31, 2013 \$
Balance - beginning of period	32,313,391	30,786,742
Additions		
Acquisitions	8,430,572	1,684,451
Capital expenditures	501,428	131,137
Transfer from property and equipment	689,054	204,995
Transfer from prepaid deposits	722,572	-
Disposals	(3,486,455)	(921,126)
Unrealized fair value adjustment	7,936,746	4,040,173
Foreign exchange adjustments	(3,667,964)	(3,612,981)
	<hr/>	<hr/>
Balance - end of period	43,429,344	32,313,391

In February 2014, the Company purchased a property for \$6,465,868, in a transaction which involved consideration of \$5,137,820 in cash and two properties valued at \$1,328,048. As at June 30, 2014, the Company had paid \$4,195,525 with the remaining amount of \$942,295 due in August 2014 and is currently recorded in trade payables and accrued liabilities. The two properties included in the consideration paid were recorded at a value of \$1,186,163 prior to their disposal resulting in a gain on sale of \$141,885. Of these two properties sold, \$1,036,182 was classified as Investment properties and the remaining \$149,981 as other assets.

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

In addition to the three properties disposed of, as discussed above, a further twelve investment properties were sold for cash consideration of \$1,482,442, resulting in a gain on disposal of \$59,218.

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

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2014**

(expressed in Canadian dollars)

As of June 30, 2014, included in investment properties are investment properties actively being marketed for sale that are to be disposed without redevelopment with a fair value of \$1,605,197 (December 31, 2013 - \$2,883,050).

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

### 8 Property and equipment

					2013
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
<b>December 31</b>					
Cost	71,844	111,745	137,170	3,863,751	4,184,510
Accumulated depreciation	16,873	26,267	31,472	194,206	268,818
<b>Net book value</b>	<b>54,971</b>	<b>85,478</b>	<b>105,698</b>	<b>3,669,545</b>	<b>3,915,692</b>
					2014
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
<b>Cost</b>					
<b>At January 1</b>	71,844	111,745	137,170	3,863,751	4,184,510
Additions	1,236	7,333	-	-	8,569
Transfers	-	-	-	(738,823)	(738,823)
Foreign exchange adjustment	(6,663)	(11,031)	(13,541)	(321,360)	(352,595)
<b>At June 30</b>	<b>66,417</b>	<b>108,047</b>	<b>123,629</b>	<b>2,803,568</b>	<b>3,101,661</b>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**June 30, 2014**

(expressed in Canadian dollars)

	<b>2014</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>	16,873	26,267	31,472	194,206	268,818
Depreciation	3,124	18,373	6,053	34,522	62,072
Transfers	-	-	-	(49,769)	(49,769)
Foreign exchange adjustment	(1,666)	(5,728)	(3,754)	(19,172)	(30,320)
<b>At June 30</b>	<b>18,331</b>	<b>38,912</b>	<b>33,771</b>	<b>159,787</b>	<b>250,801</b>
<b>Net book value at June 30</b>	<b>48,086</b>	<b>69,135</b>	<b>89,858</b>	<b>2,643,781</b>	<b>2,850,860</b>

### 9 Long term debt

	<b>June 30, 2014 \$</b>	<b>December 31, 2013 \$</b>
Current	432,304	-
Non-current	2,749,860	-
	<b>3,182,164</b>	<b>-</b>

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

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

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2014

(expressed in Canadian dollars)

### 10 Equity

#### Common shares issued

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

	Number of shares issued	Amount \$
February 28, 2014	60,000	98,400
March 19, 2014	50,000	95,000
March 31, 2014	125,000	250,000
April 3, 2014	50,000	87,500
April 10, 2014	30,000	57,000
April 30, 2014	50,000	87,500
June 9, 2014	50,000	87,500
June 27, 2014	30,393	-
	<u>445,393</u>	<u>762,900</u>

#### Stock options

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

	June 30, 2014	Weighted average exercise price \$	December 31, 2013	Weighted average exercise price \$
Balance, beginning of period	1,957,000	3.76	1,782,000	3.40
Options cancelled	(297,000)	4.2	(65,000)	4.20
Options granted	1,163,000	1.90	475,000	4.13
Options forfeited	(325,000)	4.32	(75,000)	4.21
Options exercised	(290,000)	1.77	(160,000)	1.84
Balance, end of the period	<u>2,208,000</u>	<u>2.81</u>	<u>1,957,000</u>	<u>3.76</u>
Exercisable	<u>1,350,000</u>	<u>3.08</u>	<u>1,324,500</u>	<u>3.44</u>
Weighted remaining average life (years)		<u>3.36</u>		<u>3.55</u>

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

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(expressed in Canadian dollars)

During the period, 80,000 options were exercised at a price of \$1.90, 60,000 options were exercised at a price of \$1.64 and 150,000 options at a price of \$1.75 were exercised for total cash proceeds of \$512,900 (2013 – nil). In addition, 30,393 RSAs vested increasing the shares issued by the same amount. During the same period, 325,000 options with a weighted average exercise price of \$4.32 were forfeited. In addition, 222,000 options with a weighted average exercise price of 4.20 were cancelled during this time. An additional 75,000 options with a weighted average exercise price of 4.20 expired and were cancelled during the period.

During the month of March 2014, approximately \$200k of stock options were issued in satisfaction of the directors fees of the same amount accrued at December 31, 2013.

On March 3, 2014, the Company issued 1,128,000 five year stock options at a price of \$1.90 per share and 35,000 three year stock options at a price of \$1.90.

### Restricted Stock Awards

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

	June 30, 2014	Weighted average exercise price \$	December 31, 2013	Weighted average exercise price \$
Balance, beginning of period	91,179	-	91,179	-
RSAs cancelled	-	-	-	-
RSAs granted	-	-	-	-
RSAs forfeited	-	-	-	-
RSAs vested	(30,393)	-	-	-
Balance, end of the period	60,786	-	91,179	-

### Weighted Average Number of Shares

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

	June 30, 2014 \$	December 31, 2013 \$
Weighted average number of shares – basic	34,495,983	34,256,557
Effect of dilutive stock options	1,313,000	440,000



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Weighted average number of shares – diluted	35,808,983	34,696,557
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Basic earnings (loss) per share are derived by dividing net income (loss) for the period by the weighted average number of common shares outstanding for the period. The effect of potentially dilutive securities is excluded if they are anti-dilutive.

### 11 Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

On August 8, 2013, the Company loaned a member of key management \$100,000 with a fixed interest rate of 6% payable to the Company within six months from the loan date. The loan was fully repaid in February 2014.

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

	June 30, 2014 \$	June 30, 2013 \$
Salaries and other short-term employee benefits	207,674	195,218
Share-based payments	638,574	376,450
	<hr/> 846,248	<hr/> 571,668

In addition to the above, during the period, the Company rented an office for total consideration of \$4,746 (2013: \$nil) from a company in which a director of the Company has a controlling interest.

### 12 Changes in commitments and contingencies

#### Contractual commitments

#### 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.

# Mongolia Growth Group Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

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(expressed in Canadian dollars)

### 13 Supplementary cash flow information

	June 30, 2014 \$	June 30, 2013 \$
Changes in non-working capital arising from		
Other assets	472,770	(1,148,772)
Trade payables and accrued liabilities	(129,938)	63,134
Reinsurance assets	-	404,270
Deferred acquisition expense	-	6,367
Income taxes payable	(62,888)	(2,351)
Insurance contract liabilities	-	286,500
	<hr/>	<hr/>
Changes in non-cash working capital from operating activities	279,944	(390,852)

Income taxes paid during the quarter were \$64,914 (June 30, 2013: \$115,987).

### 14 Segment information

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

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

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

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

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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, 2014</b>		
	<b>Investment property \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
Rental income	944,276	-	944,276
Property operating expenses	(877,022)	-	(877,022)
Unrealized gain on fair value adjustment on investment properties	7,936,746	-	7,936,746
Share based payment	(297,036)	(656,008)	(953,044)
Other expenses	(478,566)	(938,119)	(1,416,685)
Depreciation	(58,719)	(3,353)	(62,072)
Net investment income	32,310	7,931	40,241
Gain on disposal of investment properties	202,039	-	202,039
Other revenue	30,842	261	31,103
<b>Net income (loss) before income taxes</b>	<b>7,434,870</b>	<b>(1,589,288)</b>	<b>5,845,582</b>

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(expressed in Canadian dollars)

	<b>Three months ended June 30, 2014</b>		
	<b>Investment property \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
Rental income	461,652	-	461,652
Property operating expenses	(498,389)	-	(498,389)
Unrealized gain on fair value adjustment on investment properties	6,112,423	-	6,112,423
Share based payment	(169,238)	(358,782)	(528,020)
Other expenses	(206,801)	(383,278)	(590,079)
Depreciation	(26,279)	(1,677)	(27,956)
Net investment income	15,031	7,532	22,563
Gain on disposal of investment properties	59,218	-	59,218
Other revenue	21,967	-	21,967
Net income (loss) before income taxes	<b>5,769,584</b>	<b>(736,205)</b>	<b>5,033,379</b>

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June 30, 2014

(expressed in Canadian dollars)

	<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
Gain on disposal of investment properties	(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)

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	<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>Gain on disposal of investment properties</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

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(expressed in Canadian dollars)

### 15 Other expenses

	For the three months ended June 30		For the six months ended June 30	
	2014	2013 (Restated – note 6)	2014	2013 (Restated – note 6)
	\$	\$	\$	\$
Professional fees	352,213	493,324	856,263	913,094
Travel	59,757	81,374	93,388	136,792
Advertising	53,499	9,095	101,012	12,527
Land and property tax	76,097	68,688	164,346	126,248
Insurance	17,526	7,027	33,314	13,849
Utility expense	31,893	12,002	60,580	40,888
Other expenses	147,451	161,172	346,452	263,190
	<u>738,436</u>	<u>832,681</u>	<u>1,655,355</u>	<u>1,506,587</u>