

# **Mongolia Growth Group Ltd.**

Interim Consolidated Financial Statements  
(Unaudited)  
For the three months ended  
**March 31, 2012 and 2011**  
(expressed in Canadian dollars)

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

**Mongolia Growth Group Ltd.**  
Interim Consolidated Statements of Financial Position  
(Unaudited)

(expressed in Canadian dollars)

	March 31, 2012 \$	December 31, 2011 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	14,393,415	20,078,948
Investments and marketable securities	3,255,377	2,569,778
Other assets	978,810	427,949
Reinsurance assets	7,894	7,760
Deferred acquisition expenses	15,437	15,175
	18,650,933	23,099,610
<b>Non-current assets</b>		
Investments and marketable securities	1,720,023	1,446,983
Investment properties (note 4)	30,669,704	26,166,286
Property and equipment (note 5)	4,742,636	4,624,010
	55,783,296	55,336,889
<b>Total assets</b>		
<b>Liabilities</b>		
Trade and accrued liabilities	973,324	859,213
Income taxes payable	768,135	819,096
Insurance contract liabilities	566,084	361,820
	2,307,543	2,040,129
<b>Total liabilities</b>		
<b>Equity</b> (note 6)		
<b>Share capital</b>	51,676,360	51,681,818
<b>Contributed surplus</b>	2,236,674	1,846,475
<b>Accumulated other comprehensive loss</b>	(802,694)	(1,241,437)
<b>Retained earnings</b>	365,413	1,009,904
	53,475,753	53,296,760
<b>Total equity</b>		
	55,783,296	55,336,889
<b>Total equity and liabilities</b>		

**Approved by the Board of Directors**

\_\_\_\_\_ Director \_\_\_\_\_ Director

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

# Mongolia Growth Group Ltd.

## Interim Consolidated Statement of Operations

(Unaudited)

**For the three month period ended March 31, 2012 and 2011**

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(expressed in Canadian dollars)

	<b>March 31, 2012 \$</b>	<b>March 31, 2011 \$</b>
<b>Revenue</b>		
Net premiums earned	71,983	-
Rental income	383,104	-
Other revenue	14,795	-
	<hr/>	<hr/>
Total revenue	469,882	-
<b>Expenses</b>		
Salaries and wages	193,306	-
Other expenses (note 11)	637,260	168,170
Share based payment	390,199	-
Depreciation	17,343	1,662
Financing charges	14,767	377
	<hr/>	<hr/>
Total expense	1,252,875	170,209
<b>Net investment income</b>	138,502	20,555
<b>Net loss for the period</b>	<hr/> <b>(644,491)</b>	<hr/> <b>(149,654)</b>
<b>Net loss per share</b>		
Basic	(0.02)	(0.00)
Diluted	(0.02)	(0.00)

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

# Mongolia Growth Group Ltd.

## Interim Consolidated Statement of Comprehensive Income (Loss)

(Unaudited)

**For the three month period ended March 31, 2012 and 2011**

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(expressed in Canadian dollars)

	<b>March 31, 2012 \$</b>	<b>March 31, 2011 \$</b>
<b>Net loss for the period</b>	(644,491)	(149,654)
<b>Other comprehensive loss - net of taxes</b>		
Unrealized gain on AFS marketable securities	-	97,583
Unrealized gains on translation of financial statement operations with Mongolian MNT functional currency to Canadian dollar reporting currency	438,743	-
	<hr/>	<hr/>
<b>Total comprehensive loss</b>	<b>(205,748)</b>	<b>(52,071)</b>

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

# Mongolia Growth Group Ltd.

## Interim Consolidated Statement of Changes in Equity

(Unaudited)

For the three month period ended March 31, 2012 and 2011

(expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Retained earnings (deficit) \$	Total \$
<b>Balance at January 1, 2011</b>	438,547	47,872	-	(339,249)	147,170
Net loss for the period	-	-	-	(149,654)	(149,654)
Other comprehensive income	-	-	97,583	-	97,583
	438,547	47,872	97,583	(488,903)	95,099
Share capital issued	4,611,252	-	-	-	4,611,252
Share issue costs	(236,665)	-	-	-	(236,665)
<b>Balance at March 31, 2011</b>	<b>4,813,134</b>	<b>47,872</b>	<b>97,583</b>	<b>(488,903)</b>	<b>4,469,686</b>

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	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	-	-	-	(644,491)	(644,491)
Other comprehensive income	-	-	438,743	-	438,743
	51,681,818	1,846,475	(802,694)	365,413	53,091,012
Share based payment	-	390,199	-	-	390,199
Share issue costs	(5,458)	-	-	-	(5,458)
<b>Balance at March 31, 2012</b>	<b>51,676,360</b>	<b>2,236,674</b>	<b>(802,694)</b>	<b>365,413</b>	<b>53,475,753</b>

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

# Mongolia Growth Group Ltd.

## Interim Consolidated Statement of Cash Flows

(Unaudited)

For the three month period ended March 31, 2012 and 2011

(expressed in Canadian dollars)

	March 31, 2012 \$	March 31, 2011 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year	(644,491)	(149,654)
Items not affecting cash		
Depreciation of property and equipment	17,343	1,662
Share based payment	390,199	-
	(236,949)	(147,992)
Net change in non-cash working capital balances	(283,843)	46,957
	(520,792)	(101,035)
<b>Financing activities</b>		
Proceeds from share issuance	-	4,611,252
Cost of issue of shares	(5,458)	(236,665)
Payments received prior to subscription	-	5,807,501
	(5,458)	10,182,088
<b>Investing activities</b>		
Purchase of investments	(958,639)	(1,040,000)
Net acquisition of property and equipment (note 5)	(136,764)	(660,414)
Acquisition of investment properties (note 4)	(4,503,418)	-
	(5,598,821)	(1,700,414)
<b>Effect of exchange rates on cash</b>	439,538	-
<b>Increase (decrease) in cash and cash equivalents</b>	(5,685,533)	8,380,639
<b>Cash and cash equivalents - Beginning of year</b>	20,078,948	138,201
<b>Cash and cash equivalents - End of year</b>	14,393,415	8,518,840

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

# Mongolia Growth Group Ltd.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

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(expressed in Canadian dollars)

### **1 Corporate information**

The accompanying unaudited 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 and corporate reporting and legal functions of the Company.

### **2 Basis of presentation**

These interim consolidated financial statements 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 interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, 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 interim consolidated financial statements were approved by the Board of Directors of the Company for issue on May 29, 2012.

# Mongolia Growth Group Ltd.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

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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 2011 annual consolidated financial statements. Refer to note 3 of the 2011 annual consolidated financial statements for information on new accounting standards and amendments not yet effected.

### 4 Investment properties

	March 31, 2012 \$	December 31, 2011 \$
Balance - beginning of period	26,166,286	-
Additions		
Acquisitions <sup>(1)</sup>	4,051,428	21,621,505
Capital expenditures	113,034	819,698
Foreign currency translation	338,956	(2,015,836)
Unrealized fair value adjustment	0	5,740,919
	<hr/>	<hr/>
Balance - end of period	30,669,704	26,166,286

<sup>(1)</sup> Acquisition of foreign investment properties have been translated to Canadian dollars at the historical exchange rate and adjusted to reflect the March 31, 2012 and December 31, 2011 closing rate.

As of March 31, 2012, included in investment properties are investment properties actively being marketed for sale that are to be disposed without redevelopment with a fair value of \$1,757,511.

Subsequent to March 31, 2012, there were 6 investment properties sold resulting in a realized gain of \$128,487. The carrying value of these investment properties was \$371,220 and they had a fair value of \$412,342 as at December 31, 2012.



# Mongolia Growth Group Ltd.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

(expressed in Canadian dollars)

### 5 Property and equipment

	<b>2011</b>				
	<b>Furniture and fixtures \$</b>	<b>Equipment \$</b>	<b>Vehicles \$</b>	<b>Buildings \$</b>	<b>Total \$</b>
<b>December 31</b>					
Cost	109,122	81,605	234,039	4,241,393	4,666,159
Accumulated depreciation	5,780	9,926	8,618	17,825	42,149
<b>Net book value</b>	<b>103,342</b>	<b>71,679</b>	<b>225,421</b>	<b>4,223,568</b>	<b>4,624,010</b>
	<b>2012</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>	109,122	81,605	234,039	4,241,393	4,666,159
Additions	15,981	16,373	22,830	-	55,184
Disposals	-	-	-	-	-
Foreign exchange adjustment	2,162	1,693	4,438	73,287	81,580
<b>At March 31</b>	<b>127,265</b>	<b>99,671</b>	<b>261,307</b>	<b>4,314,680</b>	<b>4,802,923</b>
	<b>2012</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>	5,780	9,926	8,618	17,825	42,149
Depreciation	1,254	1,108	2,731	12,250	17,343
Foreign exchange adjustment	64	56	137	538	795
<b>At March 31</b>	<b>7,098</b>	<b>11,090</b>	<b>11,486</b>	<b>30,613</b>	<b>60,287</b>
<b>Net book value at March 31</b>	<b>120,167</b>	<b>88,581</b>	<b>249,821</b>	<b>4,284,067</b>	<b>4,742,636</b>

# Mongolia Growth Group Ltd.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

(expressed in Canadian dollars)

### 6 Equity

#### Stock options

A summary of the Company's options as at March 31, 2012 and December 31, 2011 and changes during the periods then ended follows:

	<b>March 31, 2012</b>	<b>Weighted average exercise price \$</b>	<b>December 31, 2011</b>	<b>Weighted average exercise price \$</b>
Balance, beginning of period	1,697,000	3.36	296,430	0.20
Options cancelled	-	-	(296,430)	(0.20)
Options granted	190,000	4.00	1,825,000	3.42
Options forfeited	(55,000)	(4.25)	(128,000)	(4.20)
Balance, end of the year	<u>1,832,000</u>	<u>3.40</u>	<u>1,697,000</u>	<u>3.36</u>
Exercisable	<u>-</u>		<u>-</u>	
Weighted remaining average life (years)	<u>5.48</u>		<u>5.7</u>	

During the first quarter of 2012, 50,000 options with an exercise price of \$4.20 and 5,000 options with an exercise price of \$4.77 per option were forfeited.

On March 23, 2012, the Company issued 190,000, 5 year stock options at a price of \$4.00 per share.

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

	<b>March 31, 2012 \$</b>	<b>December 31, 2011 \$</b>
Weighted average number of shares – basic	34,143,352	23,902,851
Effect of dilutive stock options	<u>1,656,615</u>	<u>1,101,214</u>
Weighted average number of shares – diluted	<u>35,799,967</u>	<u>25,004,065</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.

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.

# Mongolia Growth Group Ltd.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

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(expressed in Canadian dollars)

### 7 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.

Summary of significant transactions with related parties for the period ended March 31, 2012 are presented below:

	<b>Mandal General Insurance \$</b>
Payment of rental expense to Zulu LLC	33,645
Insurance premium paid by Big Sky and subsidiaries	32,096

The insurance premiums on the property portfolio paid by the real estate companies to Mandal Insurance are 99% ceded.

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

	<b>Expense \$</b>
Salaries and other short-term employee benefits	27,500
Share-based payments	<u>114,180</u>
	<u>141,680</u>

# Mongolia Growth Group Ltd.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

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(expressed in Canadian dollars)

### 8 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 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.

The Company's Mongolian insurance operations, Mandal General Insurance LLC, is not in compliance with the solvency limit set by FRC Order No. 211.

The current deficit under this regulation for the solvency limit is approximately \$483,000. As per Mongolian legislation, FRC has the right to take any corrective actions when an insurance company is not complying with the regulations including imposing a fine or even cancelling the insurance licence. Management believes that Mandal is operating on a going concern basis and that no action will be taken by FRC that would materially impact the financial position of the Company or its ability to continue the operations. Management believes that cancelling the insurance licence due to the breach of this ratio is highly unlikely, as management informed the regulator about this issue and obtained verbal assurance that the Company would not be materially fined or that the insurance licence would be cancelled.

### 9 Supplementary cash flow information

	<b>March 31, 2012</b>	<b>March 31, 2011</b>
	<b>\$</b>	<b>\$</b>
Changes in non-working capital arising from		
Other assets	550,861	(20,028)
Trade and other payables and accrued liabilities	(114,111)	66,985
Reinsurance assets	134	-
Deferred acquisition expense	262	-
Income tax payable	50,961	-
Insurance contract liabilities	(204,264)	-
	<hr/>	<hr/>
Changes in non-cash working capital from operating activities	(283,843)	46,957

# **Mongolia Growth Group Ltd.**

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

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(expressed in Canadian dollars)

### **10 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 Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

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(expressed in Canadian dollars)

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

	<b>Three months ended March 31, 2012</b>			
	<b>Investment property \$</b>	<b>Insurance \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
<b>Rental income</b>	383,104	-	-	383,104
<b>Property operating expenses</b>	(149,661)	-	-	(149,661)
<b>Net premiums earned</b>	-	71,983	-	71,983
<b>Claims and insurance benefits incurred</b>	-	(22,432)	-	(22,432)
<b>Share based payment</b>	(134,290)	(135,894)	(120,015)	(390,199)
<b>Other expenses</b>	(67,068)	(377,600)	(228,572)	(673,240)
<b>Depreciation</b>	(8,800)	(6,150)	(2,393)	(17,343)
<b>Net investment income</b>	-	136,544	1,958	138,502
<b>Other revenue</b>	14,795	-	-	14,795
<b>Net income (loss) before income taxes</b>	38,080	(333,549)	(349,022)	(644,491)

# Mongolia Growth Group Ltd.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

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(expressed in Canadian dollars)

	<b>Three months ended March 31, 2011</b>			
	<b>Investment property \$</b>	<b>Insurance \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
<b>Rental income</b>	-	-	-	-
<b>Property operating expenses</b>	-	-	-	-
<b>Unrealized gains on fair value adjustment on investment properties</b>	-	-	-	-
<b>Net premiums earned</b>	-	-	-	-
<b>Claims and insurance benefits incurred</b>	-	-	-	-
<b>Share based payment</b>	-	-	-	-
<b>Other expenses</b>	-	-	(168,547)	(168,547)
<b>Depreciation</b>	-	-	(1,662)	(1,662)
<b>Net investment income (loss)</b>	-	-	20,555	20,555
<b>Other revenue</b>	-	-	-	-
<b>Net income (loss) before income taxes</b>	-	-	(149,654)	(149,654)

# Mongolia Growth Group Ltd.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

(expressed in Canadian dollars)

	<b>March 31, 2012</b>			
<b>Balance as of March 31, 2012:</b>	<b>Investment property \$</b>	<b>Insurance \$</b>	<b>Corporate \$</b>	<b>Consolidated \$</b>
<b>Total assets</b>	44,110,990	5,111,219	6,561,087	55,783,296
Property and equipment	4,529,205	179,974	33,457	4,742,636
Investment properties	30,669,704	-	-	30,669,704
<b>Period Expenditures</b>				
Property and equipment	23,531	109,704	3,529	136,764
Investment properties	4,503,418	-	-	4,503,418

	<b>March 31, 2011</b>			
<b>Balance as of March 31, 2011:</b>	<b>Investment property \$</b>	<b>Insurance \$</b>	<b>Corporate \$</b>	<b>Consolidated \$</b>
<b>Total assets</b>	1,433,308	-	8,920,540	10,353,848
Property and equipment	-	-	-	-
Investment properties	658,752	-	-	658,752
<b>Period Expenditures</b>				
Investment properties	658,752	-	-	658,752

	<b>Revenue</b>		<b>Property and equipment</b>		<b>Investment property</b>	
	<b>March 31, 2012 \$</b>	<b>March 31, 2011 \$</b>	<b>March 31, 2012 \$</b>	<b>March 31, 2011 \$</b>	<b>March 31, 2012 \$</b>	<b>March 31, 2011 \$</b>
Barbados	-	-	-	-	-	-
Canada	-	-	33,457	-	-	-
Mongolia	469,882	-	4,709,179	-	30,669,704	658,752
	469,882	-	4,742,636	-	30,669,704	658,752



# Mongolia Growth Group Ltd.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2012**

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(expressed in Canadian dollars)

### 11 Other expenses

	<b>March 31, 2012</b>	<b>March 31, 2011</b>
	<b>\$</b>	<b>\$</b>
Professional fees	140,127	138,176
Travel	42,943	17,861
Advertising	59,812	-
Net claims incurred	22,432	-
Other expenses	371,946	12,133
	<hr/>	<hr/>
	637,260	168,170

### 12 Subsequent events

On May 16, 2012, the Company has agreed to sell shares of Mandal General Insurance (MGI) to UMC Capital, the operators of MGI, at a purchase price equivalent to the Company's financing cost in June 2011. Following the close of this transaction, UMC Capital will own approximately 16% of MGI's outstanding shares. The remaining 84% is owned by MGG.

Subsequent to the period end the Company purchased approximately \$2.69 million worth of investment properties.

