

Mongolia Growth Group Ltd.

Consolidated Financial Statements

December 31, 2015

(expressed in Canadian dollars)



April 19, 2016

Independent Auditor's Report

To the Shareholders of Mongolia Growth Group Ltd.

We have audited the accompanying consolidated financial statements of Mongolia Growth Group Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015 and 2014 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mongolia Growth Group Ltd. and its subsidiaries as at December 31, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Mongolia Growth Group Ltd.
Consolidated Statements of Financial Position
As at December 31

(expressed in Canadian dollars)

	2015 \$	2014 \$
Assets		
Current assets		
Cash and cash equivalents (note 5)	1,035,272	1,645,421
Other assets (note 6)	327,999	1,027,703
	1,363,271	2,673,124
Non-current assets		
Investment properties (note 7)	46,473,749	48,458,517
Property and equipment (note 8)	2,978,150	2,974,950
	49,451,899	51,433,467
Total assets	50,815,170	54,106,591
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 9)	704,426	1,925,655
Income taxes payable (note 10)	146,290	151,346
	850,716	2,077,001
Non-current liabilities		
Deferred income tax liability (note 10)	990,109	1,099,141
Total liabilities	1,840,825	3,176,142
Equity		
Share capital (note 11)	54,369,332	53,789,459
Contributed surplus	6,738,875	5,815,656
Accumulated other comprehensive loss	(1,135,265)	(7,607,039)
Deficit	(10,998,597)	(1,067,627)
Total equity	48,974,345	50,930,449
Total equity and liabilities	50,815,170	54,106,591
Commitments and contingencies (note 15)		

Approved by the Board of Directors

"Robert Scott"

Director

"Harris Kupperman"

Director

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

Mongolia Growth Group Ltd.

Consolidated Statement of Operations

As at December 31

(expressed in Canadian dollars)

	2015 \$	2014 \$
Revenue		
Rental income	2,002,512	1,822,392
Gain (Loss) on disposal of investment property	(116,182)	56,105
Other revenue	61,178	40,419
Total revenue	1,947,508	1,918,916
Expenses		
Salaries and wages	1,065,273	2,677,203
Other expenses (note 18)	1,599,892	2,901,010
Development expense	174,429	-
Share based payment (note 11)	977,725	1,838,904
Depreciation (note 8)	137,608	126,018
Total expenses	3,954,927	7,543,135
Net investment income	30,571	66,606
Unrealized gain (loss) on fair value adjustment on investment properties (note 7)	(7,926,701)	10,683,896
Impairment	219,749	402,339
Finance expense	-	250,230
Net income (loss) before income taxes	(10,123,298)	4,473,714
Income taxes (note 10)	(192,328)	321,932
Net Income (loss) for the year	(9,930,970)	4,151,782
Net income (loss) per share (note 12)		
Basic		
From net income (loss) for the year	(0.28)	0.12
Diluted		
From net income (loss) for the year	(0.28)	0.12

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

Mongolia Growth Group Ltd.

Consolidated Statement of Comprehensive Income (Loss)

As at December 31

(expressed in Canadian dollars)

	2015	2014
	\$	\$
Net Income (loss) for the year	(9,930,970)	4,151,782
Other comprehensive (income) loss		
Items that may be subsequently reclassified to income or loss		
Unrealized losses on translation of financial statement operations with Mongolian Tögrög functional currency to Canadian dollar reporting currency	6,471,774	(1,520,698)
Total comprehensive income (loss)	(3,459,196)	2,631,084

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

Mongolia Growth Group Ltd.
Consolidated Statement of Changes in Equity
As at December 31

(expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance at January 1, 2014	52,204,394	4,423,914	(6,086,341)	(5,219,409)	45,322,558
Net income (loss) for the year	-	-	-	4,151,782	4,151,782
Other comprehensive loss	-	-	(1,520,698)	-	(1,520,698)
	52,204,394	4,423,914	(7,607,039)	(1,067,627)	47,953,642
Liability settled by equity	-	200,003	-	-	200,003
Share based payments	-	1,838,904	-	-	1,838,904
Share capital issued (note 11)	1,585,065	(647,165)	-	-	937,900
Balance at December 31, 2014	53,789,459	5,815,656	(7,607,039)	(1,067,627)	50,930,449

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Retained earnings (deficit) \$	Total \$
Balance at January 1, 2015	53,789,459	5,815,656	(7,607,039)	(1,067,627)	50,930,449
Net income (loss) for the year	-	-	-	(9,930,970)	(9,930,970)
Other comprehensive income	-	-	6,471,774	-	6,471,774
	53,789,459	5,815,656	(1,135,265)	(10,998,597)	47,471,253
Liability settled by equity	525,367	-	-	-	525,367
Share based payments	-	977,725	-	-	977,725
Share capital issued (note 11)	54,506	(54,506)	-	-	-
Balance at December 31, 2015	54,369,332	6,738,875	(1,135,265)	(10,998,597)	48,974,345

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

Mongolia Growth Group Ltd.

Statement of Cash Flows

As at December 31

(expressed in Canadian dollars)

	2015 \$	2014 \$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	(9,930,970)	4,151,782
Items not affecting cash		
Depreciation of property and equipment (note 8)	137,608	126,018
Share based payments (note 11)	977,725	1,838,904
Deferred taxes (note 10)	(234,440)	9,024
Realized loss (gain) on disposal of property and equipment	(17,175)	15,252
Realized loss on disposal of other asset	-	144,107
Realized loss (gain) on disposal of investment properties (note 7)	116,182	(56,105)
Impairment	219,749	402,339
Unrealized loss (gain) on fair value adjustment on investment properties (note 7)	7,926,701	(10,683,896)
	(804,620)	(4,052,575)
Net change in non-cash working capital balances (note 16)	(586,742)	1,144,416
	(1,391,362)	(2,908,159)
Financing activities		
Proceeds from share issuance (note 11)	-	937,900
Proceeds from long term debt, net of finance costs	-	3,253,169
Repayment of long term debt	-	(3,369,118)
	-	821,951
Investing activities		
Disposal (acquisition) of property and equipment - Net	27,128	(37,116)
Disposal of investment properties	1,447,118	2,721,465
Acquisition of investment properties	(832,245)	(7,044,845)
Proceeds from disposal of subsidiary	-	2,967,749
	642,001	(1,392,747)
	(749,361)	(3,478,955)
Effect of exchange rates on cash	139,212	(245,943)
Decrease in cash and cash equivalents	(610,149)	(3,724,898)
Cash and cash equivalents – Beginning of year	1,645,421	5,370,319
Cash and cash equivalents – End of year	1,035,272	1,645,421

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

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

As at December 31, 2015

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 participating in the growth of the Mongolian economy 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 December 31, 2015, 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, Main Street Acquisitions LLC (formerly known as Tchoupitoulos 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 Mongolia Barbados Corp., MGG Properties LLC, Oceanus LLC, and Main Street Acquisitions LLC at this time.

The Company is registered in Alberta, Canada, with its Head Office at its registered 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, at the corner of Chinggis Ave. and Seoul St. in Ulaanbaatar, Mongolia.

At December 31, 2015, 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 and corporate reporting and legal functions of the Company.

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 the Consolidated Financial Statements

As at December 31, 2015

These consolidated financial statements were approved by the Board of Directors of the Company for issue on April 19, 2016.

3 Significant accounting policies

a. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties.

b. Basis of consolidation

These consolidated financial statements include the accounts of MGG and its wholly-owned subsidiaries. Subsidiaries are entities controlled by MGG. Control exists when MGG is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are prepared for the same reporting year as MGG, using consistent accounting policies. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Upon the disposal of a subsidiary, amounts previously recognized in other comprehensive income in respect of that entity, are reclassified to income or loss.

c. Financial instruments

Financial assets

Financial assets are classified as either fair-value through profit or loss (FVTPL) or loans and receivables. The classification depends on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

i) Fair value through profit or loss

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. FVTPL instruments are carried at fair value in the consolidated statement of financial position with changes in fair value recorded in the consolidated statement of operations.

ii) Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specific date or dates, or on demand. They are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account

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any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs.

Impairment on financial assets

All financial assets other than FVTPL instruments are assessed for impairment at each reporting date. The Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

Financial liabilities

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

Trade payables and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured and are usually paid within 30 days of recognition.

Fair value of financial instruments

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. Financial assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

- Level 1 fair value measurements are those derived from unadjusted quoted prices in an active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly (i.e., as price) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities.

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As at December 31, 2015

The Company has implemented the following classifications:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

- The Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of investments. The size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Fair value is based on or derived from market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

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

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

d. Investment properties

Investment properties include properties held to earn rental revenue, for capital appreciation, and/or for redevelopment. Investment properties are initially measured at fair value which is most often the purchase price plus any directly attributable expenditures. Investment properties are subsequently measured at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are recognized in the consolidated statement of operations in the year they arise. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of operations during the financial period in which they occur. Substantially all of the Company's income properties and properties under development are investment properties.

Properties under development are measured at cost.

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As at December 31, 2015

Certain land leases held under an operating lease are classified as investment properties when the definition of an investment property is met. At inception these leases are recognized at the lower of the fair value of the property and the present value of the minimum lease payments.

Some properties may be partially occupied by the Company, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Company can be sold separately, the Company accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income, capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Company considers the owner-occupied portion as insignificant when the property is more than 90% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Company uses the size of the property measured in square metres.

The fair value of investment properties was based on the nature, location and condition of the specific asset. The fair value is calculated at December 31 on the majority of investment properties by an independent, professional, qualified appraisal firm, whose appraisers hold recognized relevant, professional qualifications and who have recent experience in the locations and categories of the investment properties valued. The remaining investment properties' fair value was calculated by management and was performed by qualified individuals with recent experience in the locations and categories of the investment properties valued.

Investment property purchases where the Company has paid either the full or partial purchase proceeds to the seller, but the Company has not yet received the official land or building title from the Mongolian Property office are recorded at the lower of cost and fair value as Prepaid deposits on investment properties and classified within other assets.

e. Assets held for sale

Assets, or disposal groups comprising assets and liabilities, are categorized as held for sale at the point in time when the asset or disposal group is available for immediate sale, management has committed to a plan to sell and is actively locating a buyer at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one year period. Investment property that is to be disposed of without redevelopment has been determined to not have a change in use and continues to be recorded in investment property. Investment property that has evidence of commencement of redevelopment with a view to sell is transferred to assets held for sale. Investment properties are measured by the guidelines of IAS 40 – Investment Property. All other assets held for sale are stated at the lower of carrying amounts and fair value less selling costs. An asset that is subsequently reclassified as held and in use, with the exception of investment property measured under the fair value model, is measured at the lower of its recoverable amount and the carrying value that would have been recognized had the asset never been classified as held for sale.

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Notes to the Consolidated Financial Statements

As at December 31, 2015

f. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The Company's specific revenue recognition criteria are as follows:

i) Rental revenue

The Company has not transferred substantially all of the benefits and risk of ownership of its investment properties and, therefore, the Company accounts for leases with its tenants as operating leases. Rental revenue includes all amounts earned from tenants related to lease agreements including property tax and operating cost recoveries.

The Company reports minimum rental revenue on a straight-line basis, whereby the total amount of cash to be received under a lease is recognized into earnings in equal periodic amounts over the term of the lease.

Contingent rents are recognized as revenue in the period in which they are earned.

Amounts payable by tenants to terminate their lease prior to their contractual expiry date (lease cancellation fees) are included in rental revenue at the time of cancellation.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset. Tenant incentives are recognized as a reduction of rental revenue on a straight-line basis over the term of the lease.

ii) Investment income

Investment income is recorded as it accrues using the effective interest method.

g. Cash and cash equivalents

Cash and cash equivalents include cash at bank, deposits held at call with banks, other short-term bank deposits and highly liquid investments with an original term to maturity of three months or less at the date of purchase that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

h. Property and equipment

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in a manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses. All repairs and maintenance costs are charged to the consolidated statement of operations during the period in which they occur.

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Depreciation is recognized in the consolidated statement of operations and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	Straight-line over 40 years
Furniture and fixtures	Straight-line over 5 to 10 years
Equipment	Straight-line over 1 to 5 years
Vehicles	Straight-line over 10 years

Impairment reviews are performed when there are indicators that the net recoverable amount of an asset may be less than the carrying value. The net recoverable amount is determined as the higher of an asset's fair value less cost to dispose and value in use. Impairment is recognized in the consolidated statement of operations, when there is objective evidence that a loss event has occurred which has impaired future cash flows of an asset. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the consolidated statement of operations at that time.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations in the period the asset is derecognized.

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

i. Income taxes

Income taxes are comprised of both current and deferred taxes. Current tax and deferred tax are recognized in the statement of operations except to the extent that it relates to items recognized in OCI or directly in equity. In this case, the tax is recognized in OCI or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income and are measured at the amount expected to be recovered from or paid to the taxation authorities for the current and prior periods.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases for assets and liabilities and for certain carry-forward items, such as losses and tax credits not utilized from prior years. However, if the deferred income tax arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income, it is not accounted for.

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Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where, in the opinion of management, it is probable that future taxable profit will be available against which the deferred tax asset can be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date the changes in tax laws and rates have been enacted or substantively enacted.

j. Foreign exchange transactions

Foreign currency transactions are translated at the rate of exchange in effect on the dates they occur. Gains and losses arising as a result of foreign currency transactions are recognized in the current year consolidated statement of operations.

Translation of foreign operations

For the purpose of the consolidated financial statements, the results and financial position of the Mongolian operations are expressed in Canadian dollars, which is the functional currency of the parent, and the presentation currency of the consolidated financial statements.

The Company translates the assets, liabilities, income and expenses of its Mongolian operations which have a functional currency of Mongolian Tögrög, to Canadian dollars on the following basis:

- Assets and liabilities are translated at the closing rate of exchange in effect at the consolidated statement of financial position date.
- Income and expense items are translated using the average rate for the month in which they occur, which is considered to be a reasonable approximation of actual rates.
- Equity items are translated at their historical rates.
- The translation adjustment from the use of different rates is included as a separate component of equity.

k. Comprehensive income

Comprehensive income consists of net income (loss) and OCI. OCI includes changes in unrealized gains (losses) on the translation of financial statement operations with Mongolian Tögrög functional currency.

l. Share capital and deferred share issuance costs

Ordinary shares issued by the Company are classified as equity. Costs directly identifiable with the raising of capital will be charged against the related share issue, net of any tax effect. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share issuance or charged to operations if the shares are not issued.

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m. Share based payment

The Company offers share based payment plans for directors, executive management, key employees and other key service providers. The purpose of the share based payment plan is to enhance the ability of the Company to attract and retain Directors, executive management, key employees and other key service providers whose training, experience and ability will contribute to the effectiveness of the Company and to directly align their interests with the interests of shareholders.

The Company's share based payment plans provide for the granting of stock options to independent Directors, executive management, key employees and other key service providers. Each stock option entitles the participant to receive one common share and can only be settled with the issuance of common shares, and as a result, is deemed to be an equity-settled share based payment transaction. Additionally, the Company will at times grant restricted stock of the Company under the terms of the Restricted Stock Award Plan. Restrictions on such shares are removed as the vesting conditions are met. For restricted shares, the holder is entitled to all dividend payments during the vesting period. Share based payment expense is measured based on the fair market value of the Company's shares at the grant date. The associated compensation expense is recognized over the vesting period or service period, whichever is shorter based on the number of rewards that are expected to vest.

Share based payment arrangements to other key service providers in which the Company receives properties, goods or services as consideration for its own equity instruments are measured at fair value.

The fair value of stock options granted is measured using the Black-Scholes option pricing model. The fair value of restricted shares granted is measured using the market price of the Company's shares.

Agent options granted as compensation for the issuance of shares are charged to share issue costs.

Any consideration received upon the exercise of stock options is credited to common shares. In the event that vested stock options expire without being exercised, previously recorded compensation costs associated with such options are not reversed.

n. Earnings (loss) per share

For both continuing and discontinued operations, the Company presents basic and diluted earnings (loss) per share (EPS) data for its common shares. Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise share options.

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o. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Chief Executive Officer. The Company is now managed as two operating segments based on how information is produced internally for the purpose of making operating decisions. The segments are defined as investment property operations and corporate.

p. Leases

The Company has entered into Mongolian government land leases on some of its investment properties. The Company, as a lessee, has determined, based on an evaluation of the terms and conditions of the arrangements, that these land leases meet the definition of an investment property and has classified them as such. At inception, these leases are recognized at the lower of the fair value of the property and the present value of the minimum lease payments.

The Company has entered into commercial and residential property leases on its investment properties. The Company as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains the significant risks and rewards of ownership of these properties and therefore accounts for these agreements as operating leases.

q. Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense of any provision is recognized in the consolidated statement of operations net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

r. Accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016 or later and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Company are set out below. The Company does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

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Annual Improvements 2012-2014 Cycle

In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, and will apply to annual periods beginning on or after January 1, 2016. The amendments affect IFRS 5 *Non-current assets held for sale and discontinued operations*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits*, and IAS 34 *Interim Financial Reporting*. The relevant proposed amendments are not expected to have a significant impact on the Company.

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.

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 is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

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 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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IFRS 16 – Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019, with early adoption permitted for entities that would also apply IFRS 15 Revenue from Contracts with Customers.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

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 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

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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 7. Changes in assumptions about these factors could materially affect the carrying value of investment properties.

- 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 11.
- 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.

5 Cash and cash equivalents

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

The following table discloses the geographical location of cash and cash equivalents:

	2015 \$	2014 \$
Barbados	7,003	1,703
Canada	137,930	339,429
Mongolia	890,339	1,304,289
	<u>1,035,272</u>	<u>1,645,421</u>

Cash and cash equivalents are not collateralized, the carrying amount of cash and cash equivalents approximates fair value.

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The credit quality of cash and cash equivalents balances may be summarized based on Standard and Poor's ratings or equivalents of Moody's and/or Fitch ratings. The credit quality at December 31 was as follows:

	2015 \$	2014 \$
Cash on hand	3,245	3,216
A or A+ rated	137,853	318,485
-B or B+ rated	887,171	1,079,405
Unrated	7,003	244,315
Total cash and cash equivalents	1,035,272	1,645,421

The unrated balance relates to one (2014 – one) private bank in Barbados. In 2014, there was also one commercial bank in Mongolia which had not been rated by any rating agency.

6 Other assets

	2015 \$	2014 \$
Accounts receivable	222,601	151,585
Prepaid expenses	35,671	77,229
Prepaid deposits on investment properties	69,727	798,889
	327,999	1,027,703

Prepaid deposits on investment properties decreased from the prior year as the Company received the title for one of its properties for which the value was subsequently transferred to Investment Properties. The remaining prepaid deposit on investment properties relates to one property for which a title has not been obtained.

7 Investment properties

	2015 \$	2014 \$
Balance - beginning of period	48,458,517	32,313,391
Additions		
Acquisitions	-	9,099,706
Capital expenditures	832,245	1,435,909
Transfer from prepaid deposits	750,869	722,572
Transfer from property and equipment	-	689,054
Disposals	(1,785,637)	(5,228,204)
Fair value adjustment	(7,926,701)	10,801,466
Foreign exchange adjustments	6,144,456	(1,375,377)
Balance – end of period	46,473,749	48,458,517

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As at December 31, 2015

During the year, the Company recorded a \$7,926,701 unrealized fair value loss (2014 - \$10,801,466 gain) on its investment properties.

Ten investment properties were sold during the year for total cash consideration of \$1,669,455 resulting in a net loss of \$116,182 on these transactions. A deposit of \$271,024 was received for the sale of one of these properties in 2014.

As of December 31, 2015, included in investment properties are four investment properties actively being marketed for sale that are to be disposed without redevelopment with a fair value of \$2,970,114 (December 31, 2014 - \$1,109,821). As at December 31, 2015, a deposit of \$48,688 has been received relating to the sale of one of these properties.

Investment properties by major category are as follows:

	2015	2014
	\$	\$
Residential	285,170	357,160
Office	4,649,657	5,039,196
Retail	25,842,764	27,645,411
Land and redevelopment sites	15,696,158	15,416,750
	<u>46,473,749</u>	<u>48,458,517</u>

Investment properties with an aggregate fair value of \$40,075,384 (2014 - \$43,435,936) at December 31, were valued by an external independent valuation professional who is deemed to be qualified appraiser who holds a recognized, relevant, professional qualification and who has recent experience in the locations and categories of the investment properties valued. The carrying value of investment properties valued by the external appraiser at December 31, 2015 and 2014 agrees to the valuations reported by the external appraiser.

The Company determined the fair value of investment properties using the income approach and the sales comparison approach, which are generally accepted appraisal methodologies.

Under the income approach, the methodology used was the direct capitalization approach which is based on rental income and yields. Rental incomes were based on current rent and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future rent in light of current conditions adjusted for non-recoverable property costs. Yields were determined using data from real estate agencies, market reports and property location among other things in determining the appropriate assumptions. Under this method, year one income is stabilized and capped at a rate deemed appropriate for each investment property.

The sales comparison approach analyzes all available information of sales of comparable properties that have recently taken place or have recently been marketed and adjusts the price to reflect differences in the property valued and sold.

The entire portfolio of investment properties has been valued using the income approach, the sales comparison approach or a combination thereof.

Under the fair value hierarchy, the fair value of the Company's investment properties is considered a level three, as defined in note 3.

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The key valuation assumptions for commercial investment properties are as follows:

	2015		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.0%	8.5%	9.51%
	2014		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.5%	8.0%	9.75%

The following sensitivity table outlines the impact of a 0.25% change in the weighted average capitalization rate on investment properties at December 31, 2015:

	Change to fair value if capitalization rate increased 0.25%	Change to fair value if capitalization rate decreases 0.25%
Commercial property	\$(255,374)	\$269,626

Additional valuation assumptions include the rental revenue per square meter, grade quality of the property and comparable market data. Changes to these assumptions could have a material impact on the fair value of the Company's investment properties.

Investment properties of \$753,746 (2014 - \$26,666,348) have no rental revenue associated with them at December 31, 2015.

Investment properties include land held under operating leases with an aggregate fair value of \$15,691,687 (2014 - \$15,416,750) at December 31 2015.

Certain investment properties held by the Company are leased out under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2015	2014
	\$	\$
Less than 1 year	1,647,994	1,509,802
Between 1 and 5 years	612,571	1,047,863
	2,260,565	2,557,665

Direct operating expenses arising from investment properties that generated rental income during the year was \$1,557,740 (2014 - 1,556,367). Direct operating expenses arising from investment properties that did not generate rental income during the year was \$19,011 (2014 - \$125,116).

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8 Property and equipment

	2015				
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
Cost					
At January 1	102,343	177,233	26,829	2,972,460	3,278,865
Additions	1,743	41,344	-	-	43,087
Disposals	(5,197)	(369)	-	(54,596)	(60,162)
Impairment	-	-	-	(219,749)	(219,749)
Foreign exchange adjustment	9,550	22,551	3,419	374,169	409,689
At December 31	108,439	240,759	30,248	3,072,284	3,451,730
	2015				
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
Accumulated depreciation					
At January 1	20,202	67,527	10,276	205,910	303,915
Depreciation	9,661	49,399	2,642	75,906	137,608
Disposals	(3,184)	(369)	-	(3,569)	(7,122)
Foreign exchange adjustment	2,236	6,747	1,464	28,732	39,179
At December 31	28,915	123,304	14,382	306,979	473,580
Net book value at December 31	79,524	117,455	15,866	2,765,305	2,978,150

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	2014				
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
Cost					
At January 1	71,844	111,745	137,170	3,863,751	4,184,510
Additions	42,566	45,772	-	-	88,338
Disposals	(4,787)	-	(92,439)	-	(97,226)
Transfers	-	18,690	(18,690)	(738,823)	(738,823)
Foreign exchange adjustment	(7,280)	1,026	788	(152,468)	(157,934)
At December 31	102,343	177,233	26,829	2,972,460	3,278,865
	2014				
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
Accumulated depreciation					
At January 1	16,873	26,267	31,472	194,206	268,818
Depreciation	5,656	39,058	10,042	71,262	126,018
Disposals	(1,637)	-	(29,115)	-	(30,752)
Transfers	-	2,172	(2,172)	(49,769)	(49,769)
Foreign exchange adjustment	(690)	30	49	(9,789)	(10,400)
At December 31	20,202	67,527	10,276	205,910	303,915
Net book value at December 31	82,141	109,706	16,553	2,766,550	2,974,950

9 Trade payables and accrued liabilities

	2015 \$	2014 \$
Trade and accrued payables	450,063	1,403,004
Security deposit	163,668	188,970
Unearned revenue	42,007	62,657
Deposit on investment property sales	48,688	271,024
	704,426	1,925,655

The carrying amounts above reasonably approximate fair value at the consolidated statement of financial position date. All trade and other payables are current.

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10 Income taxes

a) Effective tax rate

The income tax expense reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2015 \$	2014 \$
Net income (loss) before income taxes	(10,123,298)	4,473,714
Combined statutory tax rate	26.5%	26.5%
Tax payable (recoverable) based on statutory tax rate	(2,682,674)	1,185,534
Effect of:		
Permanent differences	150,537	361,829
Tax rate variances of foreign subsidiaries	2,118,993	(1,846,320)
assets not recognized	220,816	620,889
	(192,328)	321,932
Provision for (recovery of) income taxes		
Current	42,112	312,890
Deferred	(234,440)	9,042
Provision for (recovery of) income taxes - continuing operations	(192,328)	321,932

b) Deferred income taxes

Differences between IFRS and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The Company did not recognize a deferred tax asset in these consolidated financial statements as there is uncertainty with regard to the recoverability of the asset for both the Canadian and Mongolian entities.

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In accordance with Canadian tax law, the taxable losses can be forward twenty years. There are \$8,384,826 (2014 - \$7,935,753) of non-capital losses relating to the Canadian entity.

The losses expire as follows:

Year of expiry	Non-capital loss \$
2030	411,389
2031	575,039
2032	1,658,782
2033	2,708,970
2034	2,249,090
2035	781,556

No future tax benefit has been recorded on these non-capital loss carry forwards as the timing for potential realization of these future benefits is uncertain.

Components of the deferred tax liabilities are as follows:

	2015 \$	2014 \$
Deferred tax liabilities		
Investment properties	990,109	1,099,141
	<hr/> 990,109	<hr/> 1,099,141

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Notes to the Consolidated Financial Statements

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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:

	Number of shares	Amount \$
Balance, December 31, 2013	34,303,352	52,204,394
New shares issued	125,000	250,000
RSAs vested	30,393	70,815
Options exercised	390,000	1,264,250
		<hr/>
Balance, December 31, 2014	34,848,745	53,789,459
New shares issued	640,691	525,367
RSAs vested	23,393	54,506
		<hr/>
Balance, December 31, 2015	35,512,829	54,369,332

a) Stock options

	Number of options	Weighted average exercise price \$
Balance, January 1, 2014	1,957,000	3.76
Granted	1,538,000	1.70
Cancelled	(297,000)	4.20
Exercised	(390,000)	1.76
Forfeited	(360,000)	4.08
		<hr/>
December 31, 2014	2,448,000	2.61
		<hr/>
Balance, January 1, 2015	2,448,000	2.61
Granted	1,575,000	0.73
Cancelled	(615,000)	3.98
Forfeited	(120,000)	1.56
		<hr/>
December 31, 2015	3,288,000	1.45

The Company has established a share based payment plan (the "Plan") to encourage ownership of its shares by key management personnel (directors and executive

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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. At December 31, 2015, the Company had 239,890 (2014 - 1,036,874) common shares available for the granting of future options under the new plan. The Company does not have any cash-settled transactions.

On March 1, 2013, 475,000 options were granted to employees and consultants of the Company. These options allow the holder to acquire common shares at a price of \$4.13 per share for each option exercised. Of these options 375,000 vest in four equal annual tranches each year over four years and expire on March 1, 2018 and 125,000 of these options vested and became exercisable immediately and expire on March 1, 2016.

On December 20, 2013, the Company disposed of its investment in Mandal General Insurance resulting in the immediate vesting of 143,000 shares. The options became exercisable immediately and expired on January 20, 2014. None of these options were exercised.

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. Of these options issued, 192,000 were issued in satisfaction of approximately \$200,000 of directors fees which had been accrued at December 31, 2013.

On December 15, 2014, the Company issued 375,000 five year stock options at a price of \$1.09 to the new Directors of the Company. The options vested immediately.

On April 2, 2015, the Company issued 935,000 options at a price of \$0.72 to employees of the Company. These options vested in two tranches whereas the first tranche vested immediately and the second tranche will vest on April 2, 2016.

On April 7, 2015, 640,000 options were issued to Directors of the Company at a price of \$0.74. These options vested immediately.

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

	December 31, 2015	Weighted average exercise price \$	December 31, 2014	Weighted average exercise price \$
Balance, beginning of the year	2,448,000	2.61	1,957,000	3.76
Options cancelled	(615,000)	3.98	(297,000)	4.20
Options granted	1,575,000	0.73	1,538,000	1.70
Options exercised	-	-	(390,000)	1.76
Options forfeited	(120,000)	1.56	(360,000)	4.08
Balance, end of the year	3,288,000	1.45	2,448,000	2.61
Exercisable	2,510,500	1.53	1,385,000	2.46
Weighted remaining average life (years)		3.51		3.63

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During the year, no options were exercised (2014 – 390,000), however, 23,393 RSAs vested increasing the shares issued by the same amount.

Additionally during 2015, 120,000 options with a weighted average exercise price of \$1.56 were forfeited and 615,000 options with a weighted average exercise price of \$3.98 were cancelled during this time.

The fair value associated with the options issued in April was calculated using the Black-Scholes model for options valuation, assuming volatility of 67.5% on the underlying units, a risk free interest rate ranging from 0.73%-0.76% and a forfeiture rate of nil based on the composition of the option holders.

Share prices for the calculation were the closing price on the TSXV on the date of issue of the options. The Company has assumed the options will be exercised at the end of the term of the option.

The Company considered its historical share price over the last four years in determining the volatility to use in the option valuation. Prior to 2014, given the lack of sufficient information on historical volatility, it also considered historical volatility of similar entities following a comparable period in their lives.

The approximate impact of an increase of 10% in the volatility assumption for the options issued in the current year would decrease net income of the Company by \$67,272 (2014- \$106,687). The approximate impact of a decrease of 10% in the volatility assumption would increase net income of the Company by \$73,154 (2014 - \$116,905.)

Options outstanding 2015

Number outstanding	Weighted average remaining life (years)	Weighted average exercise price \$	Weighted average at grant date
130,000	0.32	4.20	4.04
20,000	0.69	4.77	4.70
5,000	0.92	4.25	4.14
125,000	0.17	4.13	4.09
1,078,000	3.11	1.90	2.13
375,000	3.94	1.09	1.15
915,000	4.26	0.72	0.74
640,000	4.27	0.74	0.80
3,288,000	3.51	1.45	1.54

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Options outstanding 2014

Number outstanding	Weighted average remaining life (years)	Weighted average exercise price \$	Weighted average at grant date
50,000	6.19	1.64	1.78
130,000	1.32	4.20	4.04
75,000	1.69	4.77	4.70
100,000	1.92	4.25	4.14
190,000	2.23	4.00	4.00
400,000	2.92	4.13	4.09
1,128,000	4.11	1.90	2.13
375,000	4.94	1.09	1.15
2,448,000	3.63	2.61	2.52

Restricted Stock Awards

The Company has granted restricted stock of the Company to certain individuals under the terms of the Restricted Stock Award Plan of the Company. Restrictions on such shares are removed as vesting conditions are met.

The number of restricted shares granted under the Restricted Stock Award Plan was as follows:

	December 31, 2015	Weighted average exercise price \$	December 31, 2014	Weighted average exercise price \$
Balance, beginning of period	46,786	-	91,179	-
RSAs forfeited	-	-	(14,000)	-
RSAs vested	(23,393)	-	(30,393)	-
Balance, end of the period	23,393	-	46,786	-

The fair value of the restricted shares granted during the 2015 year was \$7,954 (2014- \$212,447) at the time of the grant (weighted average grant price of \$2.33 per share) and was based on the market price of the Company's shares at that time.

During the 2015 year, the Company recorded net compensation expense of \$39,527 (2014 - \$127,230) for the Restricted Share Plan within the share based payment expenses.

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b) Earnings per share

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

	2015 \$	2014 \$
Weighted average number of shares - basic	35,315,357	34,652,992
Effect of dilutive stock options	-	-
Weighted average number of shares - diluted	<u>35,315,357</u>	<u>34,652,992</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.

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.

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 December 31, 2015, the Company's working capital was \$512,555 (2014 - \$596,123) and the Company had no debt.

	2015 \$	2014 \$
Current assets	1,363,271	2,673,124
Current liabilities	<u>850,716</u>	<u>2,077,001</u>
Working capital	<u>512,555</u>	<u>596,123</u>

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13 Financial risk management

The Board of Directors ensures that management has put appropriate risk management processes in place. Through the Audit Committee, the Board oversees such risk management procedures and controls. Management provides updates to the Audit Committee on a quarterly basis with respect to risk management.

Catastrophe risk

The Company obtained insurance on buildings and all permanent fixtures totalling approximately \$23,700,000 (2014 - \$24,600,000).

Credit risk

Credit risk is the risk of an unexpected financial loss to the Company if a third party fails to fulfill its performance obligations under the terms of a financial instrument. The Company's credit risk arises principally from the Company's cash and cash equivalents and receivables.

The following table summarizes the Company's maximum exposure to credit risk on the consolidated statement of financial position. The maximum credit exposure is the carrying value of the asset, net of any allowances for loss.

	2015 \$	2014 \$
Cash and cash equivalents	1,035,272	1,645,421
Accounts receivable	222,601	151,585
Maximum credit risk exposure on the consolidated statement of financial position	1,257,873	1,797,006

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio. The majority of the funds invested are held in reputable Barbadian, Canadian or Mongolian banks.

The Company is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. The Company mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The Company's properties are diversified across residential and commercial classes.

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial obligations without raising funds at unfavourable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business are met primarily by funds generated from operations, liquid investments and income and other returns received on investments. Cash provided from these sources is used primarily for investment property operating expenses.

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As at December 31, 2015, the Company does not believe the current maturity profile of the Company lends itself to any material liquidity risk, taking into account the level of cash and cash equivalents, investments and marketable securities as at December 31, 2015. The Company does not have material liabilities that can be called unexpectedly at the demand of a third party.

The following table summarizes the undiscounted cash flows of financial assets and liabilities by contractual or expected maturity:

	December 31, 2015		
	One year or less \$	One to two years \$	No maturity date \$
Financial Assets			
Cash and cash equivalents	1,035,272	-	-
Accounts receivables	222,601	-	-
	1,257,873	-	-
Financial Liabilities			
Trade payables and accrued liabilities	704,426	-	-
	December 31, 2014		
	One year or less \$	One to two years \$	No maturity date \$
Financial Assets			
Cash and cash equivalents	1,645,421	-	-
Accounts receivables	151,585	-	-
	1,797,006	-	-
Financial Liabilities			
Trade payables and accrued liabilities	1,925,655	-	-

Market risk

Market risk includes interest rate risk, currency risk and other price risk.

i) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on fixed income securities. Changes in interest rates will affect the fair value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true.

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The Company is not directly exposed to interest rate risk at December 31, 2015 and 2014.

ii) Currency risk

Currency risk represents the risk that the Company incurs losses due to exposure to foreign currency fluctuations. The Company owns properties and carries out related business operations in Mongolia, and is therefore subject to foreign currency fluctuations that may impact its financial position and results.

The approximate impact of an increase of 10% in the Mongolian Tögrög against the Canadian dollar would increase the OCI of the Company by \$4,773,378 (2014 - \$766,111). The approximate impact of a decrease of 10% in the Mongolian Tögrög against the Canadian dollar would decrease OCI of the Company by \$4,339,435 (2014 - \$935,558).

iii) Other price risk

Other price risk market fluctuation risk is where fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. As the Company does not have any equity investments, it does not have any exposure to equity risk.

Economic risk

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by tax authorities.

Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as Value added tax (VAT), corporate income tax, personal income tax and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Company's management believes that its interpretation of the relevant legislation is appropriate and the Company's tax positions will be sustained. Management believes that tax risks are remote at present.

Management performs regular re-assessments of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

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14 Related party transactions

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

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

	2015 \$	2014 \$
Salaries and other short-term employee benefits	170,685	438,006
Share-based payments	492,661	929,311
Termination benefits	-	870,540
	<u>663,346</u>	<u>2,237,857</u>

15 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.

16 Supplementary cash flow information

	2015 \$	2014 \$
Changes in non-working capital arising from		
Other assets	(12,659)	3,557,875
Trade payables and accrued liabilities	(579,139)	(2,563,665)
Income tax payable	<u>5,056</u>	<u>150,206</u>
Changes in non-cash working capital from operating activities	<u>(586,742)</u>	<u>1,144,416</u>

Income tax paid during the year was \$44,528 (2014 - \$75,991). No interest was paid during the year (2014 - \$250,230).

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17 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.

	2015		
	Investment Property \$	Corporate \$	Total \$
Rental income	2,002,512	-	2,002,512
Property operating expenses	(1,576,751)	-	(1,576,751)
Non capitalized development expense	(174,429)	-	(174,429)
Unrealized gain on fair value adjustment on investment properties and property and equipment	(7,926,701)	-	(7,926,701)
Impairment	(219,749)	-	(219,749)
Share based payment	(431,107)	(546,618)	(977,725)
Other expenses	(348,817)	(739,597)	(1,088,414)
Depreciation	(132,312)	(5,296)	(137,608)
Net investment income	30,353	218	30,571
Loss on disposal of investment property	(116,182)		(116,182)
Other revenue	61,216	(38)	61,178
Net income (loss) before income taxes	(8,831,967)	(1,291,331)	(10,123,298)

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	2014		
	Investment Property \$	Corporate \$	Total \$
Rental income	1,822,392	-	1,822,392
Property operating expenses	(1,556,367)	-	(1,556,367)
Unrealized gain on fair value adjustment on investment properties	10,683,896	-	10,683,896
Share based payment	(603,798)	(1,235,106)	(1,838,904)
Other expenses	(1,280,628)	(3,393,787)	(4,674,415)
Depreciation	(119,312)	(6,706)	(126,018)
Net investment income	65,537	1,069	66,606
Gain on disposal of investment property	56,105	-	56,105
Other revenue	40,158	261	40,419
Net income (loss) before income taxes	9,107,983	(4,634,269)	4,473,714

Balance as of December 31, 2015	Investment Property \$	Corporate \$	Total \$
Total assets	50,661,225	153,945	50,815,170
Property and equipment	2,971,779	6,371	2,978,150
Investment properties	46,473,749	-	46,473,749
Expenditures			
Property and equipment	43,087	-	43,087
Investment properties	832,245	-	832,245

Balance as of December 31, 2014	Investment Property \$	Corporate \$	Total \$
Total assets	53,745,233	361,358	54,106,591
Property and equipment	2,963,284	11,666	2,974,950
Investment properties	48,458,517	-	48,458,517
Expenditures			
Property and equipment	88,338	-	88,338
Investment properties	10,535,615	-	10,535,615

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	Revenue		Property and equipment		Investment property	
	2015 \$	2014 \$	2015 \$	2014 \$	2015 \$	2014 \$
Canada	-	261	6,371	11,666	-	-
Mongolia	1,947,508	1,918,655	2,971,779	2,963,284	46,473,749	48,458,517
	<u>1,947,508</u>	<u>1,918,916</u>	<u>2,978,150</u>	<u>2,974,950</u>	<u>46,473,749</u>	<u>48,458,517</u>

18 Other expenses

	2015 \$	2014 \$
Administration	132,146	177,609
Repairs and maintenance	71,471	110,398
Office	85,571	143,048
Professional fees	615,319	1,518,494
Travel	108,158	148,745
Advertising	13,257	48,461
Land and property tax	198,668	277,350
Insurance	113,199	68,519
Utilities	172,140	143,708
Other	89,963	264,678
	<u>1,599,892</u>	<u>2,901,010</u>