

# **Mongolia Growth Group Ltd.**

Consolidated Financial Statements

**December 31, 2016**

(Expressed in Canadian dollars)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Mongolia Growth Group Ltd.

We have audited the accompanying consolidated financial statements of Mongolia Growth Group Ltd., which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the year then ended, and 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.

### *Auditors' 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 auditors' 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.



1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6  
Telephone (604) 687-0947 Davidson-co.com

***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Mongolia Growth Group Ltd. as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

***Other Matters***

The consolidated financial statements of Mongolia Growth Group Ltd. for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on April 19, 2016.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

March 30, 2017

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

(Expressed in Canadian dollars)

	2016 \$	2015 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash (note 5)	1,881,487	1,035,272
Marketable securities (note 6)	1,184,825	-
Other assets (note 7)	137,753	327,999
	3,204,065	1,363,271
<b>Non-current assets</b>		
Investment properties (note 8)	29,501,350	46,473,749
Property and equipment (note 9)	1,805,861	2,978,150
	31,307,211	49,451,899
<b>Total assets</b>	<u>34,511,276</u>	<u>50,815,170</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities (note 10)	1,192,397	704,426
Income taxes payable	162,104	146,290
	1,354,501	850,716
<b>Non-current liabilities</b>		
Deferred income tax liability (note 11)	624,335	990,109
<b>Total liabilities</b>	<u>1,978,836</u>	<u>1,840,825</u>
<b>Equity</b>		
Share capital (note 12)	54,130,373	54,369,332
Contributed surplus	6,849,976	6,738,875
Accumulated other comprehensive loss	(11,786,528)	(1,135,265)
Deficit	(16,661,381)	(10,998,597)
<b>Total equity</b>	<u>32,532,440</u>	<u>48,974,345</u>
<b>Total equity and liabilities</b>	<u>34,511,276</u>	<u>50,815,170</u>

**Commitment and contingencies (note 16)**

**Subsequent events (note 20)**

**Approved by the Board of Directors**

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*"Robert Scott"* Director *"Brad Farquhar"* Director

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

# Mongolia Growth Group Ltd.

## Consolidated Statements of Operations

For the years ended December 31

(Expressed in Canadian dollars)

	2016 \$	2015 \$
<b>Revenue</b>		
Rental income	1,783,896	2,002,512
Loss on disposal of investment property	(223,532)	(116,182)
Other revenue	49,602	61,178
<b>Total revenue</b>	<b>1,609,966</b>	<b>1,947,508</b>
<b>Expenses</b>		
Salaries and wages	876,670	1,065,273
Other expenses (note 19)	1,217,192	1,599,892
Development expense	-	174,429
Share based payment (note 12)	157,165	977,725
Depreciation (note 9)	124,523	137,608
<b>Total expenses</b>	<b>2,375,550</b>	<b>3,954,927</b>
<b>Net investment income</b>	20,270	30,571
Unrealized loss on fair value adjustment on Investment properties (note 8)	(5,728,003)	(7,926,701)
Impairment of Property and equipment (note 9)	(343,506)	(219,749)
Impairment of Other assets	(11,445)	-
Unrealized gain on short-term investments (note 6)	731,041	-
Recovery of consumption tax	333,475	-
<b>Net loss before income taxes</b>	<b>(5,763,752)</b>	<b>(10,123,298)</b>
Income taxes (note 11)	100,968	192,328
<b>Net loss for the year</b>	<b>(5,662,784)</b>	<b>(9,930,970)</b>
<b>Net loss per share</b> (note 12)		
Basic		
From net loss for the year	(0.16)	(0.28)
Diluted		
From net loss for the year	(0.16)	(0.28)

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

# Mongolia Growth Group Ltd.

## Consolidated Statements of Comprehensive Loss

For the years ended December 31

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(Expressed in Canadian dollars)

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Net loss for the year</b>	(5,662,784)	(9,930,970)
<b>Other comprehensive income (loss)</b>		
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	(10,651,263)	6,471,774
<b>Total comprehensive loss</b>	<b>(16,314,047)</b>	<b>(3,459,196)</b>

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

**Mongolia Growth Group Ltd.**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31**

(Expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
<b>Balance at January 1, 2015</b>	53,789,459	5,815,656	(7,607,039)	(1,067,627)	50,930,449
Net 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 12)	54,506	(54,506)	-	-	-
<b>Balance at December 31, 2015</b>	54,369,332	6,738,875	(1,135,265)	(10,998,597)	48,974,345

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
<b>Balance at January 1, 2016</b>	54,369,332	6,738,875	(1,135,265)	(10,998,597)	48,974,345
Net loss for the year	-	-	-	(5,662,784)	(5,662,784)
Other comprehensive loss	-	-	(10,651,263)	-	(10,651,263)
	54,369,332	6,738,875	(11,786,528)	(16,661,381)	32,660,298
Share capital issued (note 12)	46,064	(46,064)	-	-	-
Share repurchase	(258,313)	-	-	-	(258,313)
Share based payments	-	157,165	-	-	157,165
Treasury stock	(26,710)	-	-	-	(26,710)
<b>Balance at December 31, 2016</b>	54,130,373	6,849,976	(11,786,528)	(16,661,381)	32,532,440

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

# Mongolia Growth Group Ltd.

## Consolidated Statements of Cash Flows

For the years ended December 31

(Expressed in Canadian dollars)

	2016 \$	2015 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the year	(5,662,784)	(9,930,970)
Items not affecting cash		
Depreciation of property and equipment (note 9)	124,523	137,608
Share based payments (note 12)	157,165	977,725
Deferred taxes (note 11)	(365,774)	(234,440)
Bad debt write off	5,930	-
Allowance for doubtful tax receivables (note 7)	85,526	-
Realized loss (gain) on disposal of property and equipment	8,671	(17,175)
Realized loss (gain) on disposal of investment properties (note 8)	223,532	116,182
Impairment of property and equipment	343,506	219,749
Impairment of other assets	11,445	-
Unrealized gain on marketable securities (note 6)	(731,041)	-
Unrealized loss (gain) on fair value adjustment on investment properties (note 8)	5,728,003	7,926,701
	<b>(71,298)</b>	<b>(804,620)</b>
Net change in non-cash working capital balances (note 17)	784,461	(586,742)
	<b>713,163</b>	<b>(1,391,362)</b>
<b>Financing activities</b>		
Share repurchase	(285,023)	-
	<b>(285,023)</b>	-
<b>Investing activities</b>		
Acquisition of marketable securities (note 6)	(453,698)	-
Disposal (acquisition) of property and equipment - Net	(18,241)	27,128
Acquisition of investment properties (note 8)	(22,617)	(832,245)
Disposal of investment properties, net of taxes (note 8)	970,241	1,447,118
	<b>475,685</b>	<b>642,001</b>
	<b>903,825</b>	<b>(749,361)</b>
<b>Effect of exchange rates on cash</b>	(57,610)	139,212
<b>Increase (decrease) in cash</b>	846,215	(610,149)
<b>Cash – Beginning of year</b>	1,035,272	1,645,421
<b>Cash – End of year</b>	<b>1,881,487</b>	<b>1,035,272</b>

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, 2016**

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### **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, 2016, 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, Oceanus LLC and Uya Ra 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. MGG's publicly traded securities are currently held in a brokerage account owned by Mongolia Barbados Corp.

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

At December 31, 2016, the Company is organized into two segments based on the business operations:

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

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# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### 2. Basic of presentation (continued)

These consolidated financial statements were approved by the Board of Directors of the Company for issue on March 31, 2017.

### 3 Significant accounting policies

#### a. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, 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. 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.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### Financial instruments (continued)

#### 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 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 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:

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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***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.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### **d. Investment properties (continued)**

Properties under development are measured at cost.

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.

# **Mongolia Growth Group Ltd.**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31**

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### **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 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**

Cash includes cash held at banks or on hand and demand deposits.

### **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.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### **h. Property and equipment (continued)**

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.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### **i. Income taxes (continued)**

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. At reporting dates, monetary items are translated at the closing rate of exchange in effect at the consolidated statement of financial position date.

#### ***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 Other Comprehensive Income “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.



# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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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.

# **Mongolia Growth Group Ltd.**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31**

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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, 2017 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.

# **Mongolia Growth Group Ltd.**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31**

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### ***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.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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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.

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

# **Mongolia Growth Group Ltd.**

## **Notes to the Consolidated Financial Statements**

**For the year ended December 31**

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- 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 12.
- 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.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 5 Cash

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

The following table discloses the geographical location of cash:

	2016 \$	2015 \$
Barbados	45,275	7,003
Canada	1,408,483	137,930
Mongolia	427,729	890,339
	<u>1,881,487</u>	<u>1,035,272</u>

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

The credit quality of cash 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:

	2016 \$	2015 \$
Cash on hand	3,300	3,245
A or A+ rated	1,359,463	137,853
-B or B+ rated	424,506	887,171
Unrated	94,218	7,003
Total cash	<u>1,881,487</u>	<u>1,035,272</u>

The unrated balance relates to one private bank in Barbados (2015 – one), one investment company in Canada (2015 – nil) and one investment company in the United States (2015 – nil).

### 6 Marketable Securities

	2016 \$	2015 \$
<b>Common shares of public companies:</b>		
<b>Fair value - beginning of the year</b>	-	-
Purchases	453,698	-
Foreign exchange gains	86	-
Unrealized gains	731,041	-
<b>Fair value - end of the year</b>	<u>1,184,825</u>	-

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### 7 Other assets

	2016 \$	2015 \$
Accounts receivable	161,514	222,601
less: Allowance for doubtful accounts	(85,526)	-
Prepaid expenses	19,006	35,671
Prepaid deposits on investment properties	42,759	69,727
	<hr/> 137,753	<hr/> 327,999

Prepaid deposit on investment properties relates to one property for which a title has not been obtained.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 8 Investment properties

	2016 \$	2015 \$
Balance - beginning of year	46,473,749	48,458,517
Additions		
Acquisitions	-	-
Capital expenditures	22,617	832,245
Transfer from prepaid deposits	-	750,869
Transfer from property and equipment	75,144	-
Disposals	(1,193,773)	(1,785,637)
Fair value adjustment	(5,728,003)	(7,926,701)
Foreign exchange adjustments	(10,148,384)	6,144,456
Balance – end of year	29,501,350	46,473,749

During the year ended December 31, 2016, the Company recorded a \$5,728,003 unrealized fair value loss (2015 - \$7,926,701 loss) on its investment properties.

Four investment properties were sold during the year for total cash consideration of \$970,241 (net of taxes), resulting in a net loss of \$223,532 on these transactions. In comparison, during the year ended December 31, 2015, ten investment properties were sold for cash consideration of \$1,669,455 resulting in net loss of \$116,182 on these transactions.

As of December 31, 2016, included in investment properties are five (2015 – four) investment properties actively being marketed for sale that are to be disposed without redevelopment with a fair value of \$2,132,267 (December 31, 2015 - \$2,970,114). As at December 31, 2016, a deposit of \$673,585 (2015 – \$48,688) has been received relating to the sale of one of these properties.

Investment properties by major category are as follows:

	2016 \$	2015 \$
Residential	250,320	285,170
Office	2,976,642	4,649,657
Retail	16,505,234	25,842,764
Land and redevelopment sites	9,769,154	15,696,158
	29,501,350	46,473,749

Investment properties with an aggregate fair value of \$16,459,265 (2015 - \$40,075,384) and an office building classified as property and equipment of \$1,672,645 (2015 - \$2,765,305), 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 remaining balance of investment properties was valued internally.



# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### 8. Investment properties (continued)

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.

The Company currently has a standing agreement with the owner of a 42 sq. meter apartment which has been included in one of the Company's properties classified as land and development. The agreement entitles the owner of the apartment to 84 sq. meters of space on the first floor of a new building to be built on this land. The agreement expires at the end of 2017 and has not yet been extended. A liability of \$149,081 is currently included in the Company's balance sheet to reflect this liability. Management has no certainty that the agreement will be extended beyond 2017. If the agreement is not extended, the Company could face an impairment. As of today, the Company cannot determine the effect of any future impairment.

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

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

	2016		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.5%	9.0%	10.1%
	2015		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.0%	8.5%	9.5%

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### 8. Investment properties (continued)

The following sensitivity table outlines the impact of a 0.25% change in the weighted average capitalization rate on investment properties at December 31, 2016:

	Change to fair value if capitalization rate increased 0.25%	Change to fair value if capitalization rate decreases 0.25%
Commercial property	\$(118,393)	\$132,157

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 \$101,551 (2015 - \$753,746) have no rental revenue associated with them at December 31, 2016, consisting of one property held for sale that management has determined is easier to sell while vacant. The 2015 amount consisted of a different property where the Company had not yet received the property title and was not available for rent.

Investment properties include land held under operating leases with an aggregate fair value of \$9,769,154 (2015 - \$15,696,158) at December 31 2016.

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

	2016 \$	2015 \$
Less than 1 year	1,145,691	1,647,994
Between 1 and 5 years	444,230	612,571
	<u>1,589,921</u>	<u>2,260,565</u>

Direct operating expenses arising from investment properties that generated rental income during the year was \$1,350,803 (2015 - \$1,557,740). Direct operating expenses arising from investment properties that did not generate rental income during the year was \$3,211 (2015 - \$19,011).

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 9 Property and equipment

	<b>2016</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>	108,439	240,759	30,248	3,072,284	3,451,730
Additions	2,235	288	-	24,833	27,356
Disposals	(7,163)	(493)	(26,310)	-	(33,966)
Transfers	-	-	-	(85,042)	(85,042)
Impairment	-	-	-	(343,506)	(343,506)
Foreign exchange adjustment	(24,554)	(55,473)	(3,938)	(674,272)	(758,237)
<b>At December 31</b>	<b>78,957</b>	<b>185,081</b>	<b>-</b>	<b>1,994,297</b>	<b>2,258,335</b>
	<b>2016</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>	28,915	123,304	14,382	306,979	473,580
Depreciation	9,375	46,418	1,074	67,656	124,523
Transfers	-	-	-	(9,898)	(9,898)
Disposals	(3,765)	(21)	(12,395)	-	(16,181)
Foreign exchange adjustment	(8,321)	(41,717)	(3,061)	(66,451)	(119,550)
<b>At December 31</b>	<b>26,204</b>	<b>127,984</b>	<b>-</b>	<b>298,286</b>	<b>452,474</b>
<b>Net book value at December 31</b>	<b>52,753</b>	<b>57,097</b>	<b>-</b>	<b>1,696,011</b>	<b>1,805,861</b>

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 9. Property and equipment (continued)

	<b>2015</b>				
	<b>Furniture and fixtures</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>Buildings</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>					
<b>At January 1</b>	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
<b>At December 31</b>	<b>108,439</b>	<b>240,759</b>	<b>30,248</b>	<b>3,072,284</b>	<b>3,451,730</b>
	<b>2015</b>				
	<b>Furniture and fixtures</b>	<b>Equipment</b>	<b>Vehicles</b>	<b>Buildings</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Accumulated depreciation</b>					
<b>At January 1</b>	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
<b>At December 31</b>	<b>28,915</b>	<b>123,304</b>	<b>14,382</b>	<b>306,979</b>	<b>473,580</b>
<b>Net book value at December 31</b>	<b>79,524</b>	<b>117,455</b>	<b>15,866</b>	<b>2,765,305</b>	<b>2,978,150</b>

### 10 Trade payables and accrued liabilities

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Trade and accrued payables	340,492	450,063
Security deposit	135,357	163,668
Unearned revenue	42,963	42,007
Deposit on investment property sales	673,585	48,688
	<b>1,192,397</b>	<b>704,426</b>

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

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### 11 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:

	2016 \$	2015 \$
Net income (loss) before income taxes	(5,763,752)	(10,123,298)
Combined statutory tax rate	26.5%	26.5%
Tax payable (recoverable) based on statutory tax rate	(1,527,395)	(2,682,674)
Effect of:		
Permanent differences	1,635,962	150,537
Change in statutory, foreign tax, foreign exchange rates and other	(153,284)	2,118,993
	(56,251)	220,816
Change in unrecognised deductible tax differences	(100,968)	(192,328)
Provision for (recovery of) income taxes		
Current	264,806	42,112
Deferred	(365,774)	(234,440)
Provision for (recovery of) income taxes - continuing operations	(100,968)	(192,328)

#### 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.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 11. Income taxes (continued)

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2016	2015
Deferred Tax Assets (liabilities)		
Investment properties	\$ (624,335)	\$ (990,109)
<b>Net deferred tax liability</b>	<b>\$ (624,335)</b>	<b>\$ (990,109)</b>

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

Temporary Differences	2016	Expiry Date Range	2015	Expiry Date Range
Property and equipment	11,000	No expiry date	14,000	No expiry date
Canadian eligible capital (CEC)	179,000	No expiry date	193,000	No expiry date
Allowable capital losses	60,000	No expiry date	741,000	No expiry date
Non-capital losses available for future period	8,625,000	2030 to 2036	8,510,000	2030 to 2035

Tax attributes are subject to review, and potential adjustment, by tax authorities.

Following an internal review in early 2015, the Corporation determined that it had been overpaying certain taxes to the Canadian government during the period from 2011 until early 2015. The Tax Authorities agreed with the Corporation's findings related to this tax issue. On October 3, 2016, the Corporation received a refund for \$333,475, which is included in profit and loss. The Corporation intends to continue to monitor its tax liabilities.

At year end, the Company reviewed its taxes receivable and determined that the Value Added Tax (VAT) amount that was not projected to be received/offset by the end of 2017 (\$85,526) should be expensed and recorded as doubtful receivables.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 12 Share capital and contributed surplus

#### Common shares

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

The issued and outstanding common shares are as follows:

	<b>Number of shares</b>	<b>Amount \$</b>
Balance, December 31, 2014	34,848,745	53,789,459
New shares issued	640,691	525,367
RSAs vested	23,393	54,506
Balance, December 31, 2015	35,512,829	54,369,332
Shares re-purchased	(726,000)	(258,313)
Treasury stock	-	(26,710)
RSAs vested	19,770	46,064
<b>Balance, December 31, 2016</b>	<b>34,806,599</b>	<b>54,130,373</b>

As at December 31, 2016, the Company held 86,500 shares in Treasury to be cancelled during the first quarter of 2017.

#### a) Stock options

	<b>Number of options</b>	<b>Weighted average exercise price \$</b>
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
December 31, 2015	3,288,000	1.45
Balance, January 1, 2016	3,288,000	1.45
Granted	350,000	0.38
Expired	(280,000)	4.21
Forfeited	-	-
December 31, 2016	3,358,000	1.11

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 12. Share capital and contributed surplus (continued)

The Company has established a share based payment plan (the "Plan") to encourage ownership of its shares by key management personnel (directors and executive management), employees and other key service providers, and to provide compensation for certain services. The Plan provides for the issuance of stock options in an aggregate number of up to 10% of the Company's issued and outstanding shares, calculated from time to time and are exercisable within a maximum of ten (10) years. The vesting period for all options is at the discretion of the directors. The exercise price will be set by the directors at the time of grant and cannot be less than the discounted market price of the Company's common shares. At December 31, 2016, the Company had 122,660 (2015 – 239,890) common shares available for the granting of future options under the new plan. The Company does not have any cash-settled transactions. Full details of the Company's option plan can be found in "Schedule C" of the Management Information Circular on the Company's website and filed on Sedar.

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

	<b>December 31, 2016</b>	<b>Weighted average exercise price \$</b>	<b>December 31, 2015</b>	<b>Weighted average exercise price \$</b>
Balance, beginning of the year	3,288,000	1.45	2,448,000	2.61
Options Expired	(280,000)	4.21	-	-
Options cancelled	-	-	(615,000)	3.98
Options granted	350,000	0.38	1,575,000	0.73
Options exercised	-	-	-	-
Options forfeited	-	-	(120,000)	1.56
Balance, end of the year	<u>3,358,000</u>	<u>1.11</u>	<u>3,288,000</u>	<u>1.45</u>
Exercisable	<u>3,358,000</u>		<u>2,510,500</u>	<u>1.53</u>
Weighted remaining average life (years)		<u>2.74</u>		<u>1.49</u>

During the year, no options were exercised (2015 – nil).

Additionally during 2016, 280,000 options (2015- nil) with a weighted average exercise price of \$4.21 expired.

The fair value of \$64,372 associated with the options issued in March 2016 was calculated using the Black-Scholes model for options valuation, assuming volatility of 67.5% on the underlying units, a risk free interest rate of 0.54%, an expected option life of 3 years, a dividend rate of 0% 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.



# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 12. Share capital and contributed surplus (continued)

The approximate impact of an increase of 10% in the volatility assumption for the options issued in the current year would increase net loss of the Company by \$7,669 (2015- \$67,272). The approximate impact of a decrease of 10% in the volatility assumption would decrease net loss of the Company by \$8,062 (2015 - \$73,154.)

#### Options outstanding 2016

Number outstanding	Number exercisable	Weighted average remaining life (years)	Weighted average exercise price \$	Weighted average at grant date
1,078,000	1,078,000	2.10	1.90	2.13
375,000	375,000	2.94	1.09	1.15
915,000	915,000	3.25	0.72	0.74
640,000	640,000	3.27	0.74	0.40
350,000	350,000	2.21	0.38	0.40
3,358,000	3,358,000	2.74	1.11	1.21

#### Options outstanding 2015

Number outstanding	Number exercisable	Weighted average remaining life (years)	Weighted average exercise price \$	Weighted average at grant date
130,000	130,000	0.32	4.20	4.04
20,000	20,000	0.69	4.77	4.70
5,000	5,000	0.92	4.25	4.14
125,000	125,000	0.17	4.13	4.09
1,078,000	758,000	3.11	1.90	2.13
375,000	375,000	3.94	1.09	1.15
915,000	457,500	4.26	0.72	0.74
640,000	640,000	4.27	0.74	0.80
3,288,000	2,510,500	3.51	1.45	1.54

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 12. Share capital and contributed surplus (continued)

#### Restricted Stock Awards

The Company has also adopted a Restricted Stock Award plan (“the RSA Plan”) whereby it can grant RSAs to directors, officers, employees, and technical consultants of the Company. The maximum number of RSAs that may be reserved for issuance under the RSA Plan is limited to 200,000 Common Shares and will be subject to the aggregate limits set forth under the Option Plan, such that unvested Common Shares under the RSA Plan will be considered “Common Shares reserved for issuance” under the Share Option Plan. The Restricted Period in respect to the Restricted Shares shall end once the Restricted Shares shall become vested. One third of each grant of Restricted Shares will vest on each of the first, second and third anniversaries of the grant date.

The Company has granted restricted stock of the Company to certain individuals under the terms of the RSA plan of the Company. Full details of the Company’s RSA plan can be found in “Schedule B” of the Management Information Circular on the Company’s website and filed on Sedar.

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

	December 31, 2016	December 31, 2015
Balance, beginning of year	23,393	46,786
RSAs forfeited	(3,623)	-
RSAs vested	(19,770)	(23,393)
Balance, end of the year	-	23,393

The fair value of the restricted shares granted during the 2016 year was \$40,064 (2015- \$7,954) 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 2016 year, the Company recorded net compensation expense of \$10,686 (2015 - \$39,527) for the Restricted Share Plan within the share based payment expenses.

#### b) Earnings per share

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

	2016 \$	2015 \$
Weighted average number of shares - basic	35,297,108	35,315,357
Effect of dilutive stock options	-	-
Weighted average number of shares - diluted	35,297,108	35,315,357

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.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

### For the year ended December 31

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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.

### 13 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, 2016, the Company's working capital was \$1,849,564 (2015 - \$512,555) and the Company had no debt.

	2016 \$	2015 \$
Current assets	3,204,065	1,363,271
Current liabilities	<u>1,354,501</u>	<u>850,716</u>
Working capital	<u>1,849,564</u>	<u>512,555</u>

### 14 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

During 2016, the Company obtained insurance on buildings and all permanent fixtures totalling approximately \$22,770,000 (2015 - \$23,700,000).

#### 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 receivables.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### 14. Financial risk management (continued)

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.

	2016 \$	2015 \$
Cash	1,881,487	1,035,272
Accounts receivable	161,514	222,601
less: Allowance for doubtful accounts	(85,526)	-
Maximum credit risk exposure on the consolidated statement of financial position	1,957,475	1,257,873

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 (note 4).

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.

As at December 31, 2016, 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, 2016. The Company does not have material liabilities that can be called unexpectedly at the demand of a third party.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 14. Financial risk management (continued)

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

	December 31, 2016		
	One year or less \$	One to two years \$	No maturity date \$
<b>Financial Assets</b>			
Cash	1,881,487	-	-
Accounts receivables	161,514	-	-
less: Allowance for doubtful accounts	(85,526)	-	-
	<b>1,957,475</b>	-	-
<b>Financial Liabilities</b>			
Trade payables and accrued liabilities	1,192,397	-	-
	December 31, 2015		
	One year or less \$	One to two years \$	No maturity date \$
<b>Financial Assets</b>			
Cash	1,035,272	-	-
Accounts receivables	222,601	-	-
	<b>1,257,873</b>	-	-
<b>Financial Liabilities</b>			
Trade payables and accrued liabilities	704,426	-	-

### 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. The Company is not directly exposed to interest rate risk at December 31, 2016 and 2015.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

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### 14. Financial risk management (continued)

#### 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 a fluctuation of 10% in the Mongolian Tögrög against the Canadian dollar would impact the OCI of the Company by \$3,076,824 (2015 - \$4,773,378).

#### 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. The Company's marketable securities are exposed to other price 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.

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 15 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:

	2016 \$	2015 \$
Salaries and other short-term employee benefits	186,341	170,685
Share-based payments	107,722	492,661
	<u>294,063</u>	<u>663,346</u>

### 16 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.

### 17 Supplementary cash flow information

	2016 \$	2015 \$
Changes in non-working capital arising from		
Other assets	32,350	(12,659)
Trade payables and accrued liabilities	696,958	(579,139)
Income tax payable	<u>55,153</u>	<u>5,056</u>
Changes in non-cash working capital from operating activities	<u>784,461</u>	<u>(586,742)</u>

Income tax paid during the year was \$43,987 (2015 - \$44,528).

Interest paid during the year was nil (2015 - nil)

During the year ended December 31, 2016 \$75,144 (2015 - nil) was transferred from property and equipment to investment properties (note 8).

During the year ended December 31, 2016 \$46,064 was reclassified from contributed surplus to share capital which was the fair value of RSA's vested (note 12).

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 18 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.

	2016		
	Investment Property \$	Corporate \$	Total \$
Rental income	1,783,896	-	1,783,896
Property operating expenses	(1,354,014)	-	(1,354,014)
Non capitalized development expense	-	-	-
Unrealized gain on fair value adjustment on investment properties	(5,728,003)	-	(5,728,003)
Impairment of PPE and Other Assets	(354,951)		(354,951)
Unrealized Mark to Market gain	-	731,041	731,041
Share based payment	(59,062)	(98,103)	(157,165)
Other expenses	(340,335)	(399,513)	(739,848)
Depreciation	(118,152)	(6,371)	(124,523)
Net investment income	17,925	2,345	20,270
Loss on disposal of investment property	(223,532)		(223,532)
Other revenue	47,602	2,000	49,602
Recovery of consumption tax	-	333,475	333,475
Net income (loss) before income taxes	(6,328,626)	564,874	(5,763,752)



# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 18. Segment information (continued)

	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 of PPE and Other Assets	(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)
<b>Balance as of December 31, 2016</b>	<b>Investment Property \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
<b>Total assets</b>	31,867,291	2,643,985	34,511,276
Property and equipment	1,805,861	-	1,805,861
Investment properties	29,501,350	-	29,501,350
Expenditures			
Property and equipment	27,356	-	27,356
Investment properties	22,617	-	22,617
<b>Balance as of December 31, 2015</b>	<b>Investment Property \$</b>	<b>Corporate \$</b>	<b>Total \$</b>
<b>Total assets</b>	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

# Mongolia Growth Group Ltd.

## Notes to the Consolidated Financial Statements

For the year ended December 31

### 18. Segment information (continued)

	Revenue		Property and equipment		Investment property	
	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$
Canada	2,000	-	-	6,371	-	-
Mongolia	1,607,966	1,947,508	1,805,861	2,971,779	29,501,350	46,473,749
	<u>1,609,966</u>	<u>1,947,508</u>	<u>1,805,861</u>	<u>2,978,150</u>	<u>29,501,350</u>	<u>46,473,749</u>

### 19 Other expenses

	2016 \$	2015 \$
Investor Relations	25,470	132,146
Repairs and maintenance	90,997	71,471
Office	69,825	85,571
Professional fees	397,442	615,319
Travel	55,969	108,158
Advertising	16,331	13,257
Land and property tax	175,939	198,668
Insurance	58,388	113,199
Utilities	150,529	172,140
Bad debt	5,930	-
Allowance for doubtful tax receivables	85,526	-
Other	84,846	89,963
	<u>1,217,192</u>	<u>1,599,892</u>

### 20 Subsequent events

- Subsequent to year end, the Corporation disposed of one property for \$1,441,660 with a book value at year end of \$1,481,887. The Corporation had received a deposit of \$669,800 during Q4 2016.
- The Corporation repurchased 196,000 of its shares at an average price of \$0.34/share.