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Mongolia Growth Group Ltd.

Mongolia Growth Group Ltd. (MGG) is a leading publicly traded property investment and development company in Ulaanbaatar, Mongolia. MGG owns an extensive property portfolio, with an emphasis on institutional-grade commercial assets.

MGG undertakes its own property acquisitions, develops brownfield land assets and repositions outdated properties, relying on in-house services for all facets of both the investment portfolio and development side of the business. In addition, MGG acts as a full-service third party provider for institutional clients.



Dear Shareholders,

At the end of 2014, I took drastic action to reverse the course of our business and set it back on a path towards sustainability. We spent much of our first four years with sizable and accelerating cash losses. These losses were rapidly destroying our equity and threatening the future of this Company. It became obvious that to preserve our capital, the first step was to stop losing money. I can now say that we've made substantial progress in this regard.

Following the turnaround in 2015, we've now cut our recurring losses to a point where we believe we can successfully manage through this downturn. In many ways, 2015 was the best year in our Company's history and I am proud of the success that has been achieved despite a steadily weakening economy in Mongolia.

In concrete terms, these accomplishments are;

- Improvements in operational performance have reduced negative quarterly AFFO by 89% year over year to CDN \$451,898 compared to 2014 when negative AFFO was CDN \$4,127,427.
- Reduced expenses excluding non-cash, non-capitalized development expense from \$5,578,213 to \$2,665,165, a decrease of 52%, despite an increase in expenses associated with the operation of Tuguldur Center and various marketing initiatives

Please note that the above discussion is all about costs as our cost structure was bloated and 2015 was all about the immediacy of eliminating this unnecessary spending. The interesting thing about cutting costs is that when you cut one set of unnecessary costs, you suddenly realize that some other piece of spending is pointless without the other leg to stand on—so you can eliminate it too. During 2015 we have taken a number of journeys through each and every expense item and we've continued to find additional costs to cut. At the time, some items seemed impossible to live without—now we wonder why we ever spent on them on the first place. Now that we have cut more than half of our run-rate expenses, we can operate the Company more efficiently as a result of fewer distractions. I suspect that as we continue to make cuts, our effectiveness will increase.

Offsetting these accomplishments has been the realization that the Mongolian property market is rapidly declining and there is very little that we can do to compensate for these macro forces, outside of continuing to cut costs and manage the business better.

On the revenue side, we have continued to seek out ways of enhancing our revenues; however despite the success of these initiatives, they have been insufficient to offset the declines in rent caused by the deteriorating economy. While we will do our best to find additional savings, there is only so much that we can do to get to positive AFFO—especially as lease rates decline in Mongolian Togrog terms, while the Togrog itself declines against the Canadian Dollar.

Despite this obvious headwind, I feel good about the overall state of the business and believe that we are on the right track—even if that may only mean losing less money until the economy recovers. Previously, our goal had been to grow with the economy. Now our goal is to preserve as much shareholder value as possible, until the economy recovers.

My only regret from 2015 has been that we continued to spend money on advancing Tuguldur Stage 2. While the economics of this project are very robust, it may have been wiser to defer all new development with the economy is in such a debilitated state. Despite the availability of funding for the project, we ultimately decided to postpone development—but not before spending a good deal of our capital to push it forward. This money isn't wasted as we will ultimately have to divert these utilities before any development can be undertaken—but as I write this, I'd much rather have the cash in our bank accounts to redeploy into distressed property assets—rather than a clean piece of land that we won't build on for many years.

Returning to the original motif, in many ways, 2015 was the best year in the history of our Company and we ended the year with the best quarter in the history of our Company. We expect these improvements to continue through 2016. We are on the right track, have identified additional costs to cut and when the Mongolian economy recovers, we hope to be leveraged to an increase in asset values while using our unique property management platform to drive third party business.

Sincerely,


Harris Kupperman
CEO and Chairman of the Board

MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis

December 31, 2015

The management of Mongolia Growth Group Ltd. (“MGG” or “the Corporation”) presents the Corporation’s management discussion and analysis for the year ended December 31, 2015 (the “MD&A”), compared with the year ended December 31, 2014. As of January 1, 2011, the Corporation adopted International Financial Reporting Standards (“IFRS”). This MD&A provides an overall discussion, followed by analyses of the performance of the Corporation’s major reportable segments. The reporting and presentation currency in the consolidated financial statements and in this discussion and analysis is the Canadian dollar, unless otherwise noted.

This MD&A is dated April 19, 2016 and incorporates all relevant information and considerations to that date.

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2015 and December 31, 2014 together with all of the notes, risk factors and information contained therein, available on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

This MD&A makes reference to adjusted earnings before interest, taxes, unrealized fair value adjustments, share based payments depreciation and amortization (“**Adjusted EBITDA**”). The Corporation uses Adjusted EBITDA as a measure of the performance of its operating subsidiaries as it excludes depreciation and interest charges, which are a function of the Corporation’s specific capital structure, and also excludes entity specific tax expense. These amounts are not performance measures as defined under IFRS and should not be considered either in isolation of, or as a substitute for, net earnings prepared in accordance with IFRS. The Corporation refers to “funds used in operations”, “operating losses” and “re-valuation of investment properties” within this analysis. “Funds used in operations” is computed by calculating the cash flow from operations before changes to non-cash working capital from operations. “Operating Profits” is computed by calculating the profit before tax and any fair value adjustments. The Corporation also refers to Funds from Operations (“FFO”) and Adjusted Funds from Operations (“AFFO”). “FFO” is not defined under IFRS. The Corporation calculates FFO in accordance with the Real Property Association of Canada (“REALpac”) White Paper on Funds from Operations issued April 2014. FFO is defined by the Corporation as net income (loss) and comprehensive income (loss) calculated in accordance with IFRS, excluding: (i) Unrealized change in fair value of investment properties (ii) depreciation and amortization of investment properties; (iii) gains (or losses) from sales of investment properties and equipment; (iv) tax on gains or losses of sale on investment properties (v) deferred income tax (expense) recovery; (vi) impairment/losses on all real estate assets (vii) Gains or losses on PPE properties (viii) share based payments. “AFFO” is not defined under IFRS and may not be comparable to AFFO used by other issuers. The Corporation has defined AFFO as FFO subject to certain adjustments, including: development expenses not capitalized, large one-time expenses and other adjustments as determined by Management.

Forward Looking Statements

This MD&A contains forward-looking statements relating to future events. In some cases, forward-looking statements can be identified by words such as “anticipate”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “should”, “believe”, or similar expressions. These statements represent management’s best projections but undue reliance should not be placed upon them as they are derived from numerous assumptions. These assumptions are subject to known and unknown risks and uncertainties, including the “Risks and Uncertainties” as discussed herein. Actual performance and financial results will differ from any projections of future performance or results expressed or implied by such forward looking statements and the difference may be material.

Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. From time to time, the Corporation’s management may make estimates and have opinions that form the basis for the forward-looking statements. The Corporation assumes no obligation to update such statements if circumstances, management’s estimates, or opinions change.

Forward looking statements are included within the Outlook, CEO Message to Shareholders and Executive Strategy sections of this MD&A.

Section 1 – Overview

Financial and Operational Overview

During 2015, the Corporation continued to suffer from negative cash flow as a result of inadequate scale and insufficient revenues accentuated by an accelerating decline in market rental rates. On the positive side, the Corporation was able to dramatically reduce expenses in order to offset the decline in revenues. As a result of reduced expenses and increased efficiency, AFFO improved from negative \$4,127,427 in 2014 to negative \$342,866 in 2015, representing a dramatic improvement over prior years.

The Corporation maintained high occupancy rates during the year, even amidst a slowdown in the local economy and higher vacancy rates across the country. The Corporation's occupancy rates continue to be strong with a weighted average occupancy rate of 87.4% at the end of the year.

On the expense side, overall expenses decreased from \$7,543,135 in 2014 to \$3,954,927 in 2015 due to the successful cost cutting initiatives undertaken throughout the year.

The Corporation had an unrealized fair value adjustment loss at the end of the year of \$7,926,701 versus a fair value adjustment gain of \$10,683,896 during the prior year.

This significant fair value loss propelled the Corporation to net loss from Continuing Operations of \$9,930,970 or a loss of \$0.28 per share (EPS) versus a gain of \$4,151,782 or \$0.12 (EPS) in 2014.

Throughout the year, the Corporation continued to dispose of non-core assets to streamline the portfolio and dispose of smaller and underperforming assets. Proceeds from sales were used for working capital and reinvested in advancing the Corporation's Tuguldur asset. During the year, the Corporation disposed a total of ten properties (2014 – 25) at a net loss of \$116,182 (2014 - \$56,105 gain). As of December 31, 2015, the Corporation had four investment properties (2014 – 6) classified as available for sale.

The Mongolian Tögrög appreciated throughout the year versus the Canadian dollar, appreciating from 1,624 MNT/CAD on December 31, 2014, to 1,438 MNT/CAD over the course of 2015; an increase of 11.4%. This appreciation served to reduce the Corporation's negative AFFO and make the decline in property values appear less severe due to the smaller decline in Canadian dollar terms.

Economic Overview

During recent years, the Mongolian real estate sector has benefitted from significant local economic growth. The majority of this recent growth is attributable to the mining and construction booms taking place in Mongolia, mainly resulting from the opening of the Oyu Tolgoi and Tavan Tolgoi deposits located in the Gobi desert. The associated infrastructure requirements for these projects have also served to strengthen the local economy. In addition, an increase in other industries, particularly tourism and agriculture have helped to grow the economy. The positive impact of improving consumer and business confidence has led to a substantial increase in the gross production of the local economy.

During 2015, the Mongolian economy witnessed a decrease in its growth rate, with this decline accelerating in the second half of the year. This slow-down has been caused by reduced prices for commodities, political uncertainty, the arrest of certain foreign executives, a decrease in bank lending, along with doubt over the timing of the continuation of the Oyu Tolgoi underground development. These factors have led to a substantial decline in foreign direct investment (FDI) which has reduced the rate of growth of the economy.

The Mongolian economy was negatively impacted by the global commodity market downturn. The National Statistics Office of Mongolia ("NSO") estimates full year 2015 growth was 2.3%, down from 7.8% in 2014.

The Mongolian Tögrög has fluctuated significantly over the past three years. In 2013, the average exchange rate between the Tögrög and the Canadian Dollar was approximately 1,360 MNT/CAD for the year, whereas during 2014, the Tögrög reached a low of over 1,728 Tögrög per Canadian Dollar and averaged 1,637 per Canadian Dollar, while in 2015, the Tögrög bounced back to an average rate of 1,540 per Canadian dollar finishing the year at 1,438 per Canadian dollar. Management would like to note that in general, most commercial property transactions in Ulaanbaatar are negotiated in US Dollars.

Management believes that the current economic slow-down is the result of policies that have discouraged Foreign Direct Investment (“FDI”). When the government takes the appropriate steps to stimulate FDI, it is expected that the economy can return to prior rates of economic growth. Management remains a believer in the long-term growth potential of Mongolia.

Property Overview

The general property market continues to be influenced by the overall Mongolian economy. With the accelerating decline in the Mongolian economy, there has been a noticeable increase in vacancy, particularly in office and residential space. In the downtown core, this has led to a substantial decline in pricing for both rental rates and sales for those two asset classes. High street retail has seen less of an increase in supply, and demand for space remains adequate although lease rates have declined noticeably during the second half of the year. While most data is anecdotal, office rental prices in the downtown core have declined by more than half, while retail lease rates have declined by approximately a third in Mongolian Tögrög terms over the past 12-18 months.

Outside of the downtown of Ulaanbaatar, a noticeable increase in building activity has saturated most markets and led to a more substantial decline in prices. In addition, there has been a recent increase in office and residential construction activity that will likely lead to future saturation in those markets. Finally, there has been a noticeable increase in the number distressed property owners, including banks that are experiencing a rapidly increasing number of bad debts and foreclosures. It is likely that these individuals will be forced to liquidate their property assets, potentially at prices that are substantially below current market prices. Management cautions shareholders that property prices have historically been, and continue to be, volatile.

Management expects a continued high demand for well-located retail space, with a lower demand level for office space. However, MGG continues to have below market rates of vacancy in all asset classes and believes that it is substantially outperforming the overall market in terms of occupancy.

MGG has seen an increase in bad debt and late payment of rent over the past year. Additionally, a large number of tenants are asking to have their rents reduced due to the economic crisis. MGG proactively evaluates tenants based on past rental history before changing the terms of rental contracts.

If the economy continues to deteriorate, it is expected that market rental rates will continue to decline. Additionally, overall rental revenue is expected to decline as existing leases are re-signed at current market rates that are often substantially lower than the rates that existed when contracts were previously signed. In many cases, it is expected that upon signing new leases, rents will continue to drop considerably.

Section 2 - Executing the Strategy

Core Business

During the past five years, Management and employees have worked hard to build up the infrastructure needed to manage MGG's institutional property platform. This platform is unique in Mongolia and is one of the only platforms capable of managing assets through the full cycle of ownership from acquisition and development, through disposition and includes dedicated departments that manage maintenance, leasing, marketing and tenant management. Management believes it has a strong team in place to lead the Corporation into its next phase of growth.

MGG's real estate subsidiary plans on further expansion via the investment of additional capital into income producing and redevelopment properties in Ulaanbaatar. The Corporation's plan is contingent on procuring further funds for investment and on finding suitable investment targets which meet MGG's stringent investment criteria. In addition, due to MGG's unique platform, the Corporation is adding third party leasing and property management to its focus, in order to leverage its existing resources. Management believes that it has excess capacity to handle these functions and has seen a sizable increase in interest in using its brokerage operation as awareness spreads in the Ulaanbaatar market. The Corporation intends to more actively target this brokerage opportunity once its website is renewed and relaunched.

Since inception, MGG has acquired a number of redevelopment properties. To date the Corporation has also remodeled, rebuilt and completed additions on properties. During 2015, the Corporation spent substantial resources on redeveloping its Tuguldur retail center property; however these redevelopment efforts have been recently put on hold due to a slowing economy and uncertainty regarding the ability to lease added space due to the rapidly increasing vacancy level in the city. The Corporation did complete a 334 meter extension to Tuguldur during early 2016 and a lease was signed with a well-respected Mongolian tenant in early 2016. It is expected that this tenant will begin to pay rent on June 1st of 2016. Due to the project going over budget and the sizable decline in market rents from when the project began, until a lease was signed, this development project did not hit internal return targets, further validating the Corporation's decision to cease all further development spending.

Given the current economic situation, the Corporation is focused on finding additional opportunities to reduce costs and reduce the Corporation's cash burn. In addition, the Corporation is looking to sell additional properties in order to have sufficient liquidity to get through the downturn.

Portfolio

Mongolia Growth Group's properties are located in Downtown and the Central Business District of Ulaanbaatar. Within the financial statements, MGG classifies properties in each of the following categories; Investment Properties, Property and Equipment, and Other Assets/Prepaid Deposits.

Investment Properties

Investment Properties include properties held to earn rental revenue, for capital appreciation, and/or for redevelopment. Investment Properties are initially valued at fair value, which is the purchase price plus any directly attributable expenditures. Investment Properties are subsequently valued at fair value, which reflects market conditions at the date of the statement of financial position.

The following table represents properties classified as Investment Properties, as of December 31, 2015;

2015				2014		
	# of Properties	Value at 31-Dec-15 \$CAD	Meters	# of Properties	Value at 31-Dec-14 \$CAD	Meters
Residential	1	285,170	-	2	357,160	-
Office	3	4,649,657	2,650	3	5,039,196	2,650
Retail	26	25,842,765	8,532	35	27,645,411	9,497
Land and Redevelopment	4	15,696,158	7,058	4	15,416,750	7,058
Total	34	46,473,750	18,240	44	48,458,517	19,205

Overall, the investment portfolio performed substantially better than similar properties in Ulaanbaatar, with the exception of Tuguldur which has continued to struggle with high turnover and vacancy. The Corporation believes that this is a result of mistakes made during the initial lease-up phase, compounded by the fact that many long-term leases were signed at below-market rents. This asset has now stabilized at average weekly occupancy rates of between 70% and 80% and correcting these mistakes continues to be a focus of management.

Property and Equipment

Properties are classified as Property and Equipment if the Corporation occupies more than 10% of the property. Properties classified as Property and Equipment are measured at cost less accumulated depreciation, less any accumulated impairment losses. All repairs and maintenance costs to these properties are charged to the consolidated statement of operations during the period in which they occur unless eligible for capitalization. The Corporation's Headquarters, purchased in October 2011, falls within this category.

The following table represents properties classified as Property and Equipment, as of December 31, 2015;

2015				2014			
	# of Properties	Value at 31-Dec-15 \$CAD	Meters		# of Properties	Value at 31-Dec-14 \$CAD	Meters
Residential	1	99,316	-		2	139,536	-
Office	1	2,665,989	1,300		1	2,627,015	1,300
Retail	-	-	-		-	-	-
Land and Redevelopment	-	-	-		-	-	-
Total	2	2,765,305	1,300		3	2,766,551	1,300

Other Assets/ Prepaid Deposits

Investment property purchases where the Corporation has paid either the full or partial purchase proceeds to the seller, but the Corporation has not yet received the official land or building title from the Mongolian Property office, are recorded at cost as Prepaid Deposits on Investment Properties and classified within other assets.

The following table represents properties classified as Prepaid Deposits on Investment Properties, as of December 31, 2015;

2015				2014			
	# of Properties	Value at 31-Dec-15 \$CAD	Meters		# of Properties	Value at 31-Dec-14 \$CAD	Meters
Residential	-	-	-		-	-	-
Office	-	-	-		-	-	-
Retail	-	-	-		1	729,497	184
Land and Redevelopment	1*	69,727	28		1	69,392	28
Total	1	69,727	28		2	798,889	212

* This land asset is part of one of the land packages outlined in the Investment Properties section and is not a standalone land package.

Occupancy Rates

A summary of MGG's property portfolio occupancy rates is set forth in the following table:

	31-Dec-2015	31-Dec-2014
	Occupancy Rate*	Occupancy Rate*
Office	91.7%	98.2%
Retail	84.4%	91.2%
Weighted Average**	87.4%	94.2%

* Occupancy rates are calculated on a per meter basis;

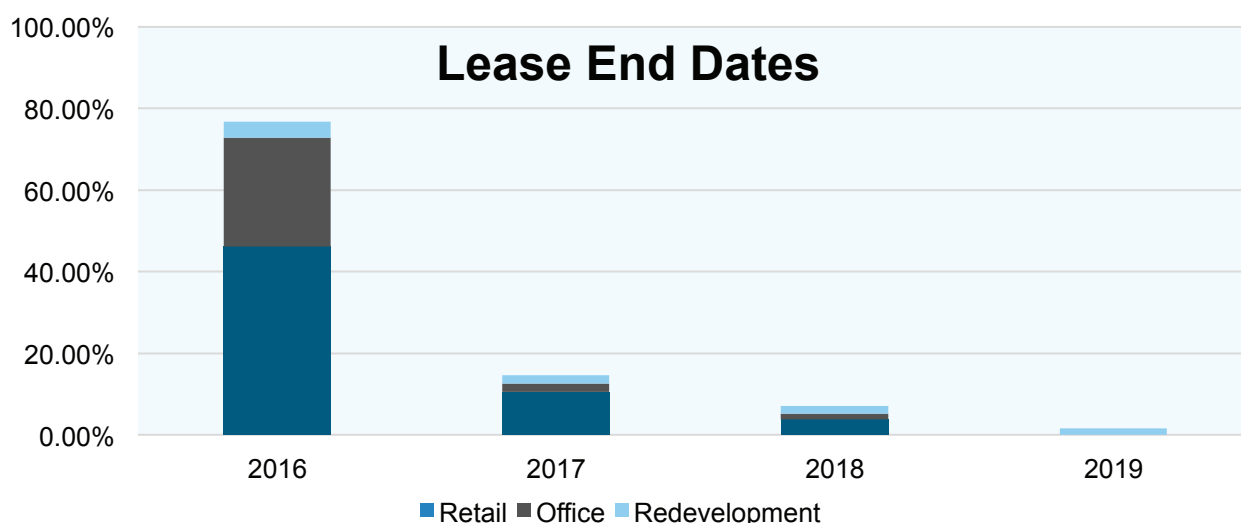
** Weighted Average is calculated based on total meters available for lease

Demand for retail space has remained strong, despite a difficult economy. Prior to year end, the Corporation lost a significant tenant occupying 375 meters of retail space. Furthermore, the Corporation received the title to another large retail space, consisting of 379 square meters, that was previously tied up in litigation between the former owner and tenant. Both of these space has since been leased. Occupancy levels for the Corporation's Office space have been strong even while vacancy levels throughout the city have increased significantly throughout the year as additional supply entered the market. Management attributes its success due to increased marketing initiatives and realistic price expectations.

The Corporation would like to caution shareholders that it is experiencing abnormally high levels of tenant turnover and occupancy levels fluctuate dramatically between months as tenants break leases. It is expected that turnover will increase as the economy continues to decline and it is uncertain if the Corporation will be able to continue to find new tenants due to the weak economy.

Leasing Schedule

In order to reduce the Corporation's exposure to currency fluctuations and inflation, the Corporation targets shorter lease durations with most tenants. Management's experience is that this practice is in line with the local industry standards, with the expectation that once leases expire, existing tenants are offered the first right to re-lease the space at then prevailing market rates.



The weighted average remaining lease term decreased significantly to 10.4 months in December 2015 from 17.2 months in December 31st 2014, calculated as a percentage of monthly revenues.

It is Management's belief that most existing leases are at rates that are above current prevailing market rates. With the current economic conditions, many companies are suffering which is reflected by lower market rental rates in aggregate. It is expected that the Corporation's rental revenue may decline as leases are renewed at current market rates. Offsetting this fact, many of the Corporation's prior leases were signed at rates that did not reflect peak market rates.

Most Recent Retail Lease Signings					
Lease Type	Lease Renewal Date	SqM	Old Price Per Meter (Mongolian Tögrög)	New Price Per Meter (Mongolian Tögrög)	Percent Increase (decrease)
Office Lease	December 2015	246	26,785	25,000	-6.6%
Office Lease	December 2015	110	25,000	25,000	0.0%
Retail Lease	December 2015	206	35,000	32,085	-8.3%
Retail Lease	November 2015	40	46,758	32,710	-30.0%
Office Lease	October 2015	62	30,083	27,906	-7.2%

Section 3 – Results of Operation

Selected Annual Financial Information (CAD)

	Year ended	Year ended	Year ended
	31-Dec- 2015	31-Dec- 2014	31-Dec- 2013 (Restated) *
Total Revenue	1,947,508	1,918,916	1,727,373
Income			
Income/ (loss) from continuing operations attributable to equity holders of the Corporation	(9,930,970)	4,151,782	(250,574)
Net Income/ (loss) attributable to equity holders of the Corporation	(9,930,970)	4,151,782	(155,563)
Comprehensive income/ (loss) attributable to equity holders of the Corporation	(3,459,196)	2,631,084	(3,713,297)
Basic earnings per share ("EPS") (in CAD)			
Earnings/ (loss) from continuing operations	(0.28)	0.12	(0.01)
Earnings/ (loss) from discontinued operations	0	0	0
Net income/ (loss)	(0.28)	0.12	(0.01)
Diluted EPS (in CAD)			
Earnings/ (loss) from continuing operations	(0.28)	0.12	(0.01)
Earnings/ (loss) from discontinued operations	0	0	0
Net Income/ (loss)	(0.28)	0.12	(0.01)
Balance Sheet			
Total Assets	50,815,170	54,106,591	47,291,018
Total liabilities	1,840,825	3,176,142	1,968,460
Total Equity	48,974,345	50,930,449	45,322,558
Shares Outstanding at year end	35,512,829	34,848,745	34,303,352
Book Value per share	1.38	1.46	1.32

*Excludes operations of Mandal Insurance previously included in Continuing Operations. Mandal Insurance was disposed of on December 20, 2013.

Revenue from Investment Properties

For the year end December 31, 2015, Rental revenue from Investment Properties reached \$2,002,512 versus \$1,822,392 in the prior year. This increase was primarily attributable to the addition of a full year of revenue from Tulguldur along with the depreciation of the Canadian Dollar as compared to the Mongolia Tögrög.

Gain/loss on sale of Investment Properties

For the year end December 31, 2015, the Corporation reported a net loss of \$116,182 on the sale of ten investment properties versus a net gain of \$56,105 in the prior year on the sale of 25 properties.

Revenue from Other Sources

Revenue from other sources consists of late fees and other income. For the year ending December 31, 2015, revenues from other sources totaled \$61,178 compared to \$40,419 for the year ending December 31, 2014. Revenues increased due to higher late payments and penalty income collected throughout the year.

Fair Value Adjustment on Investment Properties

As elected under IFRS, the Corporation's investment portfolio is subsequently measured at fair value in the Corporation's financial statements. As of December 31, 2015, the Corporation had approximately 86% of its Investment Properties Portfolio valued by an international valuation firm and the remaining 14% (19 properties) were valued by Management. For the year ended December 31, 2015, the fair value adjustment to investment properties was a loss of \$7,926,701 compared to a gain of \$10,683,896 for the same period in 2014.

Property Operating Expenses

Property Operating Expenses consist of repairs and maintenance, bad debts, utilities, salaries, as well as land and property taxes. For the year ending December 31, 2015 the property operating expenses were \$1,576,751

compared to \$1,556,367 during the same period in 2014, representing an increase of approximately 1%. This increase was primarily due to the addition of Tuguldur.

Corporate Expenses

Corporate expenses include senior management's compensation, share-based costs, listing fees, professional fees, technology, travel and administrative costs.

For the year ending December 31, 2015 general and administration expenses decreased to \$1,291,511 from \$4,635,599 in 2014. This decrease since the previous year is attributed to the cost cutting initiatives implemented throughout the year.

One-Time Expenses

During 2015, the Corporation did not incur any significant one-time expenses. In comparison, during 2014, the Corporation incurred one-time expenses of \$1,983,396 including; severance to the Corporation's former CEO of \$870,540, accrued a commission payment of \$487,522 to a senior employee of the Corporation for several large acquisitions, a discount of \$402,339 given to UMC against the sale of Mandal Insurance and \$222,995 spent on legal and professional fees to file a base shelf prospectus.

Currency

The Mongolian Tögrög has fluctuated significantly over the past five years. The Mongolian Tögrög has depreciated 6.8%, 5.1%, 11.5% and 5.3% in 2011, 2012, 2013 and 2014 respectively versus the Canadian Dollar while appreciating 11.4% in 2015. The fluctuation in the currency is reflected in the Corporation's financial statements, most notably in the investment property portfolio, as it is the largest item on the balance sheet. Note 7 in the financial statements disclose the foreign exchange adjustment, which flows through the investment property classification during each period. As at December 31, 2015 the Corporation recognized a significant foreign exchange adjustment gain of \$6,471,774 to its investment property portfolio due to the 11.4% appreciation of the local currency during the year.

Operating Profit (Loss) from Continuing Operations

In total the Corporation's continuing operations reported an Operating loss or an Adjusted EBITDA loss \$2,089,560 during 2015 (2014 – loss of \$5,900,540). The Improvement in EBITDA since last year is due to the cost saving initiatives implemented during the year.

The following table reconciles net income before income tax to Adjusted EBITDA from operations.

	2015	2014
	\$CAD	\$CAD
Net Income before Income taxes	(10,123,298)	4,473,714
Add Depreciation and Amortization	137,608	126,018
Subtract Interest and Investment (Income) / Finance Expense	(30,571)	183,624
EBITDA	(10,016,261)	4,783,356
Subtract Fair Value Adjustment Gain (Add back loss)	7,926,701	(10,683,896)
Total Adjusted EBITDA	(2,089,560)	(5,900,540)

Funds From Operations ("FFO")

While FFO does not have a standardized meaning prescribed by IFRS, it is a non-IFRS financial measure of operating performance widely used by the real estate industry. The Real Property Association of Canada (REALpac) recommends that FFO be determined by reconciling FFO from net income.

During 2015, negative FFO improved from a loss of \$4,127,427 in 2014 to a loss of \$517,295 in 2015. The improvement is primary due to a reduction in expenses due to cost cutting measures initiated since the beginning of the year.

Adjusted Funds From Operations ("AFFO")

Since FFO does not consider capital expenditures and other one-time expenses. AFFO is presented herein as an alternative measure of determining available cash flow. AFFO is not defined by IFRS but the Corporation

follows recommendations by REALpac. During 2015, the Company's AFFO numbers improved considerably from \$4,127,427 to \$342,866.

It should be noted that FFO and AFFO include certain one-time costs related to the Corporation's cost cutting plan that were not sufficiently large enough to be broken out, but their exclusion would have further reduced the Corporation's AFFO loss for the year.

Reconciliation of FFO and AFFO

The analysis below shows a reconciliation of the Corporation's net income to FFO and AFFO for the year ended December 31, 2015

	Year ended 31-December 2015 \$CAD	Year ended 31-December 2014 \$CAD
Net Income for the period	(9,930,970)	4,151,782
<i>Add (deduct) items not affecting cash</i>		
Unrealized Change in fair value of investment properties	7,926,701	(10,683,896)
Depreciation and amortization of investment Properties	137,608	126,018
Loss (gain) from sales of investment properties	116,182	(56,105)
Tax on sales on investment property	35,710	84,507
Deferred Taxes	(109,032)	9,024
Impairment/losses on all real estate assets	-	-
Impairment of other assets	-	402,339
Loss (gain) on PP&E properties	219,749	-
Share Based Payments	977,725	1,838,904
Funds From Operations	(517,295)	(4,127,427)
<i>Add (deduct)</i>		
Development costs not capitalized	174,429	-
Significant one-time expenses	-	-
Adjusted Funds From Operations	(342,866)	(4,127,427)
Per Unit		
Funds From Operations	(0.01)	(0.12)
Adjusted Funds From Operations	(0.01)	(0.12)

Net Income

For the year ended December 31, 2015, the Corporation incurred a net loss of 9,930,970, compared to a net gain of \$4,151,782 for the year ended December 31, 2014. This deterioration is attributed to the substantial unrealized loss on fair value adjustment on investment properties of \$7,926,701 during the year versus the unrealized gain of \$10,683,896 from the prior year.

Management cautions investors that the Corporation is primarily focused on increasing shareholder value on a per share basis. This means that operationally, management is more concerned with long-term asset appreciation at the expense of short-term cash flow.

Section 4 - Financial Condition

Cash Flow

Mongolia Growth Group's primary sources of capital are cash generated from equity issuance financing and asset sales. Management expects to meet all of the Corporation's obligations through current cash and cash equivalents along with cash flows from asset sales.

The following table provides an overview of the Corporation's cash flows from operating, financing and investing activities for the year ended December 31, 2015 and 2014.

	For the year ending	
	31-Dec-15	31-Dec-14
	\$CAD	\$CAD
Net change in cash related to:		
Operating	(1,391,362)	(2,908,159)
Investing	642,001	(1,392,747)
Financing	-	821,951
Effects of exchange rates on cash	139,212	(245,943)
Net change in cash during the period	(610,149)	(3,724,898)

Overall, cash outflows during 2015 were significantly lower than the previous year with net outflows from operations much lower than net operating outflows in 2014. Cash flows from Investing were inflows of \$642,001 for the year compared to outflows of \$1,392,747 in 2014 as funds from property sales outweighed funds spent on property acquisitions. Cash flows from Financing were unchanged during the year compared to inflows of \$821,951 during 2014. The changes in components of cash flows for the year ended December 31, 2015 compared to the year ended December 31, 2014 were the result of the following factors:

- **Operating** –Operating cash outflows for the year ended 2015 decreased primarily due to a significant decrease in large one-time expenses as well as an overall reduction in expenses.
- **Investing** – Investing cash inflows for the year ended 2015 increased due to property sales outweighing property acquisitions for the year.
- **Financing** –Financing cash inflows for the year ended 2015 were nil compared to cash inflows of \$821,951 in 2014 as the Corporation generated increased cash through the exercise of options.

To date, the Corporation has been able to meet all of its capital and other cash requirements from its internal sources of cash. As at December 31, 2015, the Corporation had approximately \$1,035,272 (2014 - \$1,645,421) in cash and cash equivalents.

Total Assets

As of December 31, 2015, the Corporation had \$1,363,271 (2014 - \$2,673,124) in Current Assets out of which \$1,035,272 (2014 - \$1,645,421) was held in cash and cash equivalents.

The majority of the Corporation's assets are classified as Non-Current Assets, mainly Investment Properties. Investment Properties are carried at Fair Market Value and decreased during the year to \$46,473,749 (2014 - \$48,458,517) the year by way of a dispositions and a large unrealized loss on fair value adjustment offset by an increase in the Mongolian Tögrög versus the Canadian dollar during the year.

Property and Equipment, which primarily consists of properties that are measured at their cost base, increased from \$2,974,950 in 2014 to \$2,978,150 in 2015 primarily due to a decrease in the Canadian dollar versus the Mongolian Tögrög.

Total Liabilities

As of December 31, 2015, the Corporation had current liabilities of \$850,716 consisting of payables and accrued liabilities. In December 31, 2014, current liabilities were significantly higher at of \$2,077,001. The decrease is due to the settlement of the Corporation's outstanding liabilities over the course of the year.

As of December 31, 2015, the Corporation had no long term debt outstanding, as such the only non-current liability on the balance sheet is deferred income taxes. Deferred tax liabilities decreased slightly during the year to \$990,109 in 2015 (2014 - \$1,099,141).

Total Equity

The equity of the Corporation consists of one class of common shares.

Outstanding	As at 31-Dec-2015	As at 31-Dec-2014
Common shares	35,512,829	34,848,745
Options to buy common shares	3,288,000	2,448,000

Options Outstanding

At December 31, 2015, the Corporation had 2,510,500 options that were exercisable (December 31, 2014; 1,385,000).

The Chart below shows the historical option grants and options outstanding as of December 31, 2015.

\$ Option Price	Granted	Forfeited	Cancelled	Exercised	Total Options Outstanding	Options Exercisable	Options Non-Exercisable
1.64	100,000	0	0	100,000	0	0	0
1.75	300,000	0	50,000	250,000	0	0	0
1.90	1,363,000	85,000	0	200,000	1,078,000	492,500	585,500
4.20	900,000	408,000	362,000	0	130,000	130,000	0
4.77	175,000	100,000	55,000	0	20,000	20,000	0
4.25	150,000	50,000	95,000	0	5,000	3,750	1,250
4.00	190,000	0	190,000	0	0	0	0
4.13	475,000	75,000	275,000	0	125,000	125,000	0
1.09	375,000	0	0	0	375,000	375,000	0
0.72	935,000	20,000	0	0	915,000	467,500	447,500
0.74	640,000	0	0	0	640,000	640,000	0
Total	5,603,000	738,000	1,027,000	550,000	3,288,000	2,510,500	777,500

Acquisitions and Dispositions

During the year, the Corporation did not acquire any properties (2 properties at a cost of \$9,099,706 in 2014). The Corporation spent \$832,245 to further develop one of its existing properties versus capital expenditures of \$1,435,909 spent in 2014. During the year, the Corporation disposed of 10 investment properties for cash proceeds of \$1,669,455 at a net loss of \$116,182. During 2014, the Corporation disposed of 25 properties for \$5,432,386 including 5 properties swapped at a value of \$2,981,944. These acquisitions and disposals are consistent with the Corporation's strategy of streamlining its investment property portfolio.

Off-Balance Sheet Items

As of December 31, 2015, the Corporation had no off-balance sheet items.

Events Subsequent to Year End

- Subsequent to year end, the Corporation disposed of one property for \$229,743 with a book value at year end of \$261,521

As disclosed in the Corporation's February 17, 2016 News Release, on February 11, 2016, the Corporation filed a Form 5C "Notice of Intention to make a Normal Course Corporation Bid" (the "NCIB Form"), with the TSX Venture Exchange (the "Exchange"). The Corporation received Exchange approval ("Exchange Approval") for the Normal Course Corporation Bid (the "Bid") on February 17, 2016. A summary of the information contained in the NCIB Form is as follows:

Securities Sought: Up to 2,950,000 common shares (representing up to approximately 8.3% of the 35,512,829 common shares of the Corporation currently issued and outstanding, or approximately 9.9% of the 29,825,579 common shares constituting the Corporation's current Public Float (as that term is defined in the policies of the Exchange).

Duration of the Bid: Purchases under the Bid would begin on the date that is three clear trading days following receipt of Exchange approval and would terminate on the date that is one year from the date on which purchases began. Following receipt of Exchange Approval, the Corporation announced that purchases under the Bid were permitted to commence on Tuesday, February 23, 2016 and the Bid will end no later than February 22, 2017.

Method of Acquisition & Member Broker: The Corporation has retained M Partners Inc. of Toronto, Ontario as its broker Member for the purposes of conducting the Bid. Purchases under the Bid will be conducted on the open market through the facilities of the Exchange.

Consideration Offered: The common shares will be purchased for cancellation at market price.

Reasons for the Bid: The Corporation is undertaking the Bid because, in the opinion of its board of directors, the market price of its common shares, from time to time, may not fully reflect the underlying value of its operations and future growth prospects. The Corporation believes that in such circumstances, the purchase of the common shares of the Corporation may represent an appropriate and desirable use of the Corporation's funds and further enhance market stability.

Persons Acting Jointly & in Concert: No person is acting jointly and in concert with the Corporation in connection with the Bid.

Pervious Purchases: In the 12 months preceding the commencement of the Bid, the Corporation has not purchased any of its common shares.

Valuation: After making reasonable enquiry, the Corporation is not aware of any appraisal or valuation of the Corporation's securities that has been prepared within the two years preceding the date of the NCIB Form. In connection with the preparation of its audited financial statements for the financial year ending December 31, 2014, the Corporation engaged, an arm's length property valuator, to prepare three independent valuation reports in respect of the Corporation's Mongolian real estate investment assets. The valuations were prepared for internal accounting purposes.

Acceptance by Insiders, Affiliates and Associates & Benefits: To the knowledge of the Corporation at the time of filing the NCIB Form, no director, senior officer or other Insider of the Corporation or any associate or affiliate of the Corporation or any insider of the Corporation currently intends to sell common shares under the Bid. However, such sales by persons through the facilities of the Exchange may occur if the personal circumstances of such persons change or any such person makes a decision to sell shares as market circumstances may warrant. The benefits to any such person whose shares are purchased under the bid would be the same as the benefits available to all other holders of the Corporation's common shares whose shares are purchased under the Bid.

Shareholders may obtain a copy of the NCIB Form from the Corporation, without charge, by contacting info@mongoliagrowthgroup.com

- The Corporation has purchased 18,500 shares at a price of \$0.40/share

Section 5 - Quarterly Information

Quarterly Results

The following table is a summary of select quarterly information over the previous eight quarters:

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Revenue	526,949	340,871	501,936	577,752	316,712	424,787	542,837	634,581
Net income (loss)	(5,503,493)	(2,701,490)	(1,352,996)	(372,991)	117,251	(1,489,119)	5,033,379	812,202
Income (loss) per common share	(0.15)	(0.08)	(0.04)	(0.01)	0.00	(0.04)	0.15	0.02
Total Assets	50,815,170	54,495,461	54,790,433	55,548,676	54,106,591	55,523,885	54,965,199	49,253,675
Weighted Average Shares (No.)	35,315,357	35,248,810	35,114,612	34,848,745	34,652,992	35,800,084	34,495,983	35,823,685
Ending Shares (No.)	35,512,829	35,512,829	35,512,829	34,848,745	34,848,745	34,848,745	34,748,745	34,538,352

Revenue

During the fourth quarter, the Corporation's real estate subsidiary earned total revenue of \$526,949 (Q4 2014 - \$316,712) of which rental income earned was \$491,837 (Q4 2014 - \$457,496). The majority of this rental income increase is attributed to a larger property portfolio as well as increased occupancy levels. The quarterly revenue number also includes other revenue earned from miscellaneous sources such as late fee, advertising and from sale of investment properties. During the fourth quarter, the Corporation experienced a gain on sale of investment properties of \$22,455 (2014 - loss of \$140,423), which negatively affected the Corporation's revenue.

During the 4th quarter of 2015, the Corporation also incurred a large unrealized loss of \$5,655,640 compared to an unrealized gain of \$2,747,150 during Q4 2014.

Expenses

Quarterly expenses related to corporate operations totaled \$202,022 (Q4 2014 - \$2,007,286). The majority of this decrease is attributed to a \$870,540 severance payment made to the Corporation's former CEO along with a commission of \$487,522 accrued to a senior employee of the Corporation.

Net Income

During the quarter, the Corporation experienced a loss of \$5,503,493 in comparison to a gain of \$117,251 in the same quarter of the previous year. This difference is mainly attributed to the significant fair value adjustments loss recorded in the fourth quarter of the year compared to a gain in the 4th quarter of 2014, offset by an decrease in expenses versus last year.

Section 6 – Critical Estimates

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS required Management to make assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments 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 critical estimates made in the preparation of the consolidated financial statements include the following:

Fair value of investment properties

The estimate of fair value of investment properties is the most critical accounting estimate to the Corporation. An external appraiser estimates the fair value of the majority of the Investment Properties annually, the remainder are appraised internally by Management. 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 Corporation operates in the emerging real estate market of Mongolia, which given its current economic and industry conditions, has an increased inherent risk resulting from the lack of reliable and comparable market information. At December 31, 2015, the unrealized gain on fair value adjustment was a loss of \$7,926,701 (gain of \$10,683,896; 2014). As of December 31, 2014, Management took the decision to write off the carrying value of one of the Corporation's land assets as the asset had been impaired and Management believed it was unlikely that it could fully recover the asset in the future. This continues to be the case as of December 31, 2015.

Accuracy of Share Based Compensation Expense

The estimate of the 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 Corporation. 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 riskfree interest rate for the expected life of the options and future forfeiture rates. For the year ending December 31, 2015, the cost of the share based payments totaled \$977,725 (2014 - \$1,838,904).

Operating Environment of the Corporation

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 continuing demand from China and continuing high global prices for commodities as well as being dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Mongolia together with tax, legal, regulatory and political developments. Management is unable to predict all developments that could have an impact on the Mongolian economy and consequently what effect, if any, they could have on the future financial position of the Corporation.

Assets and Liabilities Held for Sale

The Corporation makes judgments in determining whether certain non-current assets or group of assets and liabilities meet the specified criteria under IFRS for classification as held for sale. At December 31, 2015, the Corporation has identified 4 investment properties, which meet the specified criteria, and has accounted for them as assets held for sale.

Deferred Tax Assets

Deferred tax assets are recognized to the extent that it is probable that deductible temporary differences will reverse in the foreseeable future and there will be sufficient future taxable profits against which the deductible temporary differences can be utilized. The Corporation reviews the carrying amount of deferred tax assets at the end of each reporting period which is reduced to the extent that it is no longer probable that deferred tax assets recognized will be recovered, or increased to the extent that sufficient future taxable profit will be available to allow all or part of a previously unrecognized deferred tax asset to be recovered. Estimates of future taxable income are based on forecasted cash flows from operations, available tax planning opportunities and expected timing of reversals of taxable temporary differences.

Section 7 – Risk Management

Credit risk

The Corporation's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio. For the year, most of the Corporation's credit risk consisted of institutional deposits. The majority of the funds invested are held in reputable Canadian or Mongolian banks. The Corporation is in the early stages of development and is continually improving its policies in regards to monitoring its credit risk.

The Corporation is exposed to credit risk as an owner of real estate in which tenants may become unable to pay contracted rents. The Corporation mitigates this risk by carrying out due diligence on significant tenants. The Corporation's properties are diversified across residential and commercial classes. Historically, bad debts have not been a substantial expense for the Corporation.

Liquidity risk

The Corporation does not believe its current maturity profile 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.

As at December 31, 2015, the Corporation had working capital of \$512,555 (2014- \$596,123) comprised of cash and cash equivalents, other assets, net of trade and accrued liabilities and income taxes payable. Management considers the funds on hand to be sufficient to meet its ongoing obligations.

As of December 31, 2015, the Corporation does not have any material contractual obligations.

Currency risk

The Corporation owns properties located in Mongolia and collects rental revenue in Mongolian Tögrög, and is therefore subject to foreign currency fluctuations that may impact its financial position and results. Changes in the Mongolian Tögrög, U.S. dollar and Canadian dollar foreign currency exchange rates impact the fair value of securities denominated in Mongolian Tögrög and in U.S. dollars.

Economic Volatility and Uncertainty

Over the past few years, economic volatility and uncertainty around the world has contributed to dramatically restricted access to capital and reduced capital markets activity for more speculative businesses. The Corporation's management believes that the Corporation has sufficient resources to carry on its business and remain a going concern.

MGG holds the majority of its assets, investments and operations in the nation of Mongolia. Mongolia is presently experiencing drastic changes in its fast growing economy. Economic volatility and uncertainty in Mongolia could result in inflation, hyperinflation, economic stagnation, political extremism, and other similarly detrimental scenarios which could materially harm the Corporation.

As economic growth slowed down, one upside was much improved stability of the Tögrög. The Bank of Mongolia raised the policy rate by 1.0 percent to 13.0% in January of 2015 in an effort to curb inflation. The inflation rate started at 9.8% in January but due to weakening domestic demand decreased steadily over the year reaching 7.3% in June, 4.9% in September and finally reached 1.9% Y-o-Y in December, the lowest point since 2009.

Depending on the requirements of MGG's businesses, additional funds may be required to be raised in the capital markets and there is no guarantee that sufficient funds raised will be available to complete a financing required to augment the Corporation's operations.

Risks and Uncertainties

The Corporation, as part of its operations, carries financial instruments consisting of cash and cash equivalents, investments and marketable securities, accounts receivable, and trade payables and accrued liabilities. It is Management's opinion that the Corporation is not exposed to significant credit, interest or currency risks arising from these financial instruments except as otherwise disclosed in the notes to the Consolidated Financial Statements.

Certain members of parliament have recently asked to re-negotiate the agreement that exists between the government of Mongolia and Turquoise Hill regarding the current tax stability agreement. There can be no certainty if any changes to the agreement will be reached and how it will impact the investment climate or future GDP growth of Mongolia.

Further information related to Mongolia Growth Group Ltd. and the risks and uncertainties of MGG is filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be reviewed at www.sedar.com.

Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, investments and marketable securities, accounts receivable and trade and accrued payables. The Corporation is subject to interest risk as it earns interest income from its cash deposits. It is Management's opinion that the Corporation is not exposed to significant credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values. Management believes that there are material currency risks associated to certain Financial Instruments of the Corporation as they are held in Mongolian Tögrög. For further discussion of financial instrument risks, see the Insurance and Financial Risk Management note.

Internal Controls over Financial Reporting

Changes in securities laws no longer require the Chief Executive Officer and Chief Financial Officer of junior reporting issuers to certify that they have designed internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Instead, an optional form of certification has been made available to junior reporting issuers and has been used by the Corporation's certifying officers for the December 31, 2015 annual filings. The new certification reflects what the Corporation considers to be a more appropriate level of CEO and CFO certification given the size and nature of the Corporation's operations. This certification requires the certifying officers to state that: they have reviewed the interim MD&A and consolidated financial statements; they have determined that there is no untrue statement of a material fact, or any omission of material fact required to be stated which would make a statement or its omission misleading in light of the circumstances under which it was made within the interim MD&A and consolidated financial statements; based on their knowledge, the interim filings, together with the other financial information included in the interim filings, fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation as of the date and for the periods presented in the filings.

Recent Accounting Pronouncements

IFRS 9 – Financial Instruments introduces new requirements for classifying and measuring financial assets and financial liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 also introduced additional changes related to financial liabilities.

The IASB also recently introduced amendments to IFRS related to hedge accounting. The Standard is not applicable until annual periods beginning on or after January 1, 2015, but is available for early adoption.

In November 2013, the IASB issued three amendments affecting IFRS 9, IAS 7 and IAS 39. The first amendment sets out new hedge accounting requirements. The second amendment allows entities to apply the accounting for changes from own credit risk in isolation without applying the other requirements of IFRS 9. The third amendment removes the mandatory effective date of IFRS 9 from January 1, 2015 to a new date that will be determined when IFRS 9 is closer to completion.

Additional Information

Additional information relating to Mongolia Growth Group Ltd., including its interim financial statements, is available on SEDAR at www.sedar.com.

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

PricewaterhouseCoopers LLP

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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)	<u>327,999</u>	<u>1,027,703</u>
	1,363,271	2,673,124
Non-current assets		
Investment properties (note 7)	46,473,749	48,458,517
Property and equipment (note 8)	<u>2,978,150</u>	<u>2,974,950</u>
	49,451,899	51,433,467
Total assets	<u><u>50,815,170</u></u>	<u><u>54,106,591</u></u>
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 9)	704,426	1,925,655
Income taxes payable (note 10)	<u>146,290</u>	<u>151,346</u>
	850,716	2,077,001
Non-current liabilities		
Deferred income tax liability (note 10)	<u>990,109</u>	<u>1,099,141</u>
Total liabilities	<u>1,840,825</u>	<u>3,176,142</u>
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	<u>(10,998,597)</u>	<u>(1,067,627)</u>
Total equity	<u>48,974,345</u>	<u>50,930,449</u>
Total equity and liabilities	<u><u>50,815,170</u></u>	<u><u>54,106,591</u></u>
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	<u>6,471,774</u>	<u>(1,520,698)</u>
Total comprehensive income (loss)	<u>(3,459,196)</u>	<u>2,631,084</u>

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

Mongolia Growth Group Ltd.

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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.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

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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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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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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Notes to the Consolidated Financial Statements

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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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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
	<u>(192,328)</u>	<u>321,932</u>
Provision for (recovery of) income taxes		
Current	42,112	312,890
Deferred	<u>(234,440)</u>	<u>9,042</u>
Provision for (recovery of) income taxes - continuing operations	<u>(192,328)</u>	<u>321,932</u>

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
	<u>990,109</u>	<u>1,099,141</u>

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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
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

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
December 31, 2014	2,448,000	2.61
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

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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As at December 31, 2015

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)

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

As at December 31, 2015

	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

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

As at December 31, 2015

	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>

Board of Directors



Harris Kupperman
CEO and Chairman of Mongolia Growth Group Ltd

Mr. Kupperman is a co-founder of Mongolia Growth Group. Mr. Kupperman was the President and CEO of the Corporation from February 2011 to March 2014, where he stepped down as CEO to continue his role as Executive Chairman, then returned as CEO in December 2014. Mr. Kupperman publishes *AdventuresInCapitalism.com*; a site dedicated to uncovering unique opportunities around the world. He spent 10 years as President of Praetorian Capital, a macro themed small cap focused hedge fund based in Miami. He graduated from Tulane University College with a history degree. Mr. Kupperman served as a Director at Aeroquest International Limited (TSX:AQL) from 2010-2011.



Nick Cousyn
Independent Director

Mr. Cousyn is a Capital Markets professional with 15 years of alternatives and traditional industry experience. Before moving to Mongolia, Mr. Cousyn was a licensed securities professional in the U.S. with extensive experience in relationship management and trading which spanned equities, fixed income, derivatives and distressed debt. Since 2012, Mr. Cousyn has served as Chief Operating Officer and head of research for BDsec (MO:BDS), Mongolia's largest broker and investment bank. Mr. Cousyn also serves as Co-Chair of the Business Council of Mongolia Capital Market Working Group and is a Senior Council Member and guest lecturer at Mongolia's Institute for Finance and Economics. Mr. Cousyn holds a BA in Economics from the University of California at Riverside.



Jim Dwyer
Independent Director

Mr. Dwyer is Chairman of Mongoljin Private Capital in Ulaanbaatar. Mr. Dwyer was a New York-based investment banker specializing in mergers and acquisitions for 30 years and completed over 100 M&A transactions. In addition, he founded and managed M&A departments for two major investment banking firms: Shearson Loeb Rhoades and UBS-North America. Mr. Dwyer first visited Mongolia in 2001 to represent the Government of Mongolia as lead investment banker for the privatization of its largest bank, Trade & Development Bank. Thereafter, he served as lead investment banker for the privatization of the largest Government owned retail bank, Khan Bank. He co-founded the Business Council of Mongolia (BCM) and served as Executive Director from its formation in 2007 to April 2016. Mr. Dwyer received his MBA from Columbia Graduate School of Business (Columbia University).



Brad Farquhar
Independent Director

Mr. Farquhar is Executive Vice-President and Chief Financial Officer of Input Capital Corp. (TSXV: INP), the world's first agricultural streaming company. He formerly served in a similar capacity at Assinibola Capital Corp., which built Canada's largest farmland fund before selling it to the Canada Pension Plan Investment Board in 2014. In addition, Mr. Farquhar is President of Nomad Mongolia LP, an investment partnership that invests in Mongolian public companies, including MGG. Mr. Farquhar is a trained financial planner. He received a MPA in Electoral Governance from Griffith University in Australia, studied political science at Carleton University, and completed a BA at Providence College. Mr. Farquhar is a Director of Input Capital Corp, the Legacy Group of Companies, Greenfield Carbon Offsetters Inc., on the advisory board of AgFunder.com and Chair of the board of directors of SIM Canada..



Byambaa Losolsuren
Independent Director

Mrs. Losolsuren is a founder of the Trend Capital LLC, investment advisory firm. In the past, she was one of the key partners at UMC, being in charge of asset management arm, where she launched and managed three local investment funds. She was instrumental in drafting of the first Investment Fund Law of Mongolia, which was successfully passed by the Parliament in 2013. Prior to that, she worked on a number of projects in the financial sector of Mongolia implemented by the Asian Development Bank. Mrs. Losolsuren also serves as an independent director of the local insurance company. Currently a member of the Economic Council at the Prime Minister's Office of Mongolia and a Director of the Investment and Finance Research Center. Columnist at the Mongolian Economy journal and at the online platform www.trends.mn. She holds a BA from the National University of Mongolia, and MBA degree from Waseda University, Japan. Earned her PMP designation from PMI in 2015.



Robert Scott
Independent Director

Mr. Scott, CPA, CA, CFA brings more than 20 years of professional experience in corporate finance, accounting and merchant and commercial banking. Mr. Scott earned his CFA in 2001, his CA designation in 1998 and has a B.Sc. from the University of British Columbia. He is a Founder and President of Corex Management Inc., a private company providing accounting, administration, and corporate compliance services to privately held and publicly traded companies. Mr. Scott currently serves as the CFO for Riverside Resources (TSXV: RRI) and Nickel One Resources Inc. (TSXV: NNN) and is also on the board of Genesis Metals Corp. (TSXV: GIS).

Officers

Harris Kupperman
CEO and Chairman of the Board

Genevieve Walkden, MBA, CFP, CAIA
CFO and Corporate Secretary

Auditors

PricewaterhouseCoopers LLP
Winnipeg, MB

Legal

Borden Ladner Gervais LLP
Calgary, AB

Farris, Vaughan, Wills & Murphy LLP
Vancouver, BC

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