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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MGG undertakes its own property acquisitions, develops brownfield land assets and repositions outdated properties, relying on in-house services for all facets of both the investment portfolio and development side of the business.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,

2014 started with much hope and promise, yet ended with accelerating operating losses and extensive disruption to our overall business. Ultimately, we had to bear a substantial economic cost to reverse these trends and set the company back on a viable course.

On the upside, our acquisition of the Tuguldur Center and adjacent land packages were the culmination of over a year of negotiations that created the cornerstone of our future growth. Redevelopment of Tuguldur Stage 1 represented our largest project to date and when the development of Tuguldur Stage 2 is completed, this retailing center will reposition MGG as a dominant retail-focused property company. Unfortunately, our 2014 successes get rather thin after our triumph with Tuguldur.

As the company's largest shareholder, I have always promised that I would look out for minority shareholders and ensure that we run a frugal organization focused on long-term shareholder returns. As the year progressed, I realized that we were drastically straying from this ethos. In 2014 not only were the Company's losses accelerating, but years of accomplishments looked on the verge of being annulled. Ultimately, this realization amongst myself and other large shareholders precipitated the changes that were announced at year-end.

In 2015 our current board and I have undertaken the following actions;

- A dramatic cost cutting initiative targeted at aligning our cost structure with current revenues
- The re-initiation of various internal processes in order to improve efficiency and accountability
- A focus on restoring the company's relationships with employees and the Mongolian business community

- A repositioning of Tuguldur Center in order to improve its profile amongst shoppers and reduce tenant turnover

The net result of these actions is that our monthly cash burn has declined from the hundreds of thousands, into the tens of thousands. Over the past four months, much has been accomplished to preserve our core business, but we still have a long road ahead of us. Our goal is to achieve positive cash flow. This goal seemed impossible when I resumed the role of CEO in December; there is now a clear path to get there. As the business stabilizes we are once again thinking of how to grow our revenues. The initiatives that we will target were identified over a year ago—however, we are now setting our plans towards turning them into reality.

In summary, 2014 was a very difficult and traumatic year for MGG. I believe that the Company is now on the best path that it has been on since inception. Recently, the government of Mongolia has taken steps to reinvigorate the overall Mongolian economy. I believe that we will once again be beneficiaries of this growth; however we will be operating with a much lower cost structure—hopefully giving us improved leverage to Mongolia.

I want to thank the shareholders and employees of MGG for staying with us during 2014. We have stumbled, but not fallen—2015 will be better.

Sincerely,

Harris Kupperman

MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis

December 31, 2014

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, 2014 (the “MD&A”), compared with the year ended December 31, 2013. 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 29, 2015, 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, 2014 and December 31, 2013 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 earnings before interest, taxes, unrealized fair value adjustments, 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.

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 2014, the Corporation continued to suffer from negative cash flow as a result of excessive spending and insufficient revenues. Over the course of the year, these negative cash flows accelerated, which ultimately necessitated a management change at year end in order to correct this imbalance and put the Corporation on a more sustainable path.

On the positive side, the Corporation saw increased revenues versus the prior year due to an overall increase in average revenue per meter. This was achieved by maintaining 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 94.2% at the end of the year.

On the expense side, overall expenses increased from \$5,598,618 in 2013 to \$7,543,135 in 2014, contributing to a negative cash flow of \$3,724,898 during the year.

The Corporation had an unrealized fair value adjustment gain at the end of the year of \$10,683,896 versus a fair value adjustment gain of \$3,845,521 during the prior year.

This significant fair value adjustment propelled the Corporation to net income from Continuing Operations of \$4,151,782 or a gain of \$0.12 per share (EPS) versus a net loss of \$250,574 or a net loss of \$0.01 per share (EPS) in 2013.

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 higher quality institutional assets with better net-yield profiles. During the year, the Corporation disposed and swapped a total of 25 properties at a gain of \$56,105. As of December 31, 2014, the Corporation had 6 investment properties classified as available for sale.

The Mongolian Tögrög continued to depreciate throughout the year, depreciating from 1,542 MNT/CAD on December 31, 2013, to 1,624 MNT/CAD over the course of 2014; a decline of 5.3%.

In December 2014, the Corporation replaced four resigning members of the Board of Directors (Jordan Calonego, Bill Fleckenstein, John Shaw and Paul Sweeney) with four new Board members (Nick Cousyn, Jim Dwyer, Brad Farquhar and Robert Scott). Additionally, former CEO Paul Byrne resigned and the existing Board Chair, Harris Kupperman, reassumed the role of CEO, with a mandate to reduce costs and improve operational performance.

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 2014, the Mongolian economy witnessed a decrease in its growth rate, with this slow-down 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 significant 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 continues to grow though at a slower rate according to data from The National Statistics Office of Mongolia ("NSO") with estimates of full year 2014 growth of 7.8% from 11.7% in 2013.

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. Management would like to note that in general, most commercial property transactions in Ulaanbaatar are

negotiated in US Dollars and recent declines in the Tögrög to US Dollar exchange rate have not had a noticeable impact on the prices of property assets, in US Dollar terms.

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. MGG 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 recent slow-down 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 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 strong.

Outside of the downtown of Ulaanbaatar, a noticeable increase in building activity has saturated certain 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. Management cautions shareholders that property prices have historically been, and continue to be, volatile.

Management expects 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.

Section 2 - Executing the Strategy

Core Business

During the past four 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.

Since inception, MGG has acquired a number of redevelopment properties. To date the Corporation has also remodeled, rebuilt and completed additions on properties. During 2014, the Corporation spent substantial resources on redeveloping its Tuguldur retail center property. Assuming that funding is available, the Corporation intends to invest substantial additional capital into increasing the size of this property. It is Management's intent to begin de novo property developments on the Corporation's other owned sites and MGG's intention is to remain a substantial owner of the properties, post-completion. However, there can be no certainty on when this happens due to the current economic climate in Mongolia and the difficulty in accessing additional growth capital.

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 includes 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, 2014;

	2014			2013		
	# of Properties	Value at 31-Dec-14 \$CDN	Meters	# of Properties	Value at 31-Dec-13 \$CDN	Meters
Residential	2	357,160	-	10	1,378,377	-
Office	3	5,039,196	2,650	4	5,310,481	2,727
Retail	35	27,645,411	9,497	43	16,058,219	6,808
Land and Redevelopment	4	15,416,750	7,086	6	9,566,314	11,540
Total	44	48,458,517	19,233	63	32,313,391	21,075

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, 2014;

	2014			2013		
	# of Properties	Value at 31-Dec-14 \$CDN	Meters	# of Properties	Value at 31-Dec-13 \$CDN	Meters
Residential	2	139,536	-	4	591,557	-
Office	1	2,627,014	1,300	1	2,567,260	1,300
Retail	-	-	-	1	510,728	134
Land and Redevelopment	-	-	-	-	-	-
Total	3	2,766,550	1,300	6	3,669,545	1,434

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, 2014;

	2014			2013		
	# of Properties	Value at 31-Dec-14 \$CDN	Meters	# of Properties	Value at 31-Dec-13 \$CDN	Meters
Residential	-	-	-	-	-	-
Office	-	-	-	-	-	-
Retail	1	729,497	184	1	908,222	184
Land and Redevelopment	1	69,392	28	5*	950,860	1,708
Total	2	798,889	212	6	1,859,082	1,892

* These land assets are part of the land packages outlined in the Investment Properties section and are not standalone land packages.

Occupancy Rates

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

	31-Dec- 2014	31-Dec- 2013
	Occupancy Rate*	Occupancy Rate*
Residential	100%	95.6%
Office	98.2%	84.3%
Retail	91.2%	98.3%
Weighted Average**	94.2%	97.7%

* Occupancy rates are calculated on a per meter basis;

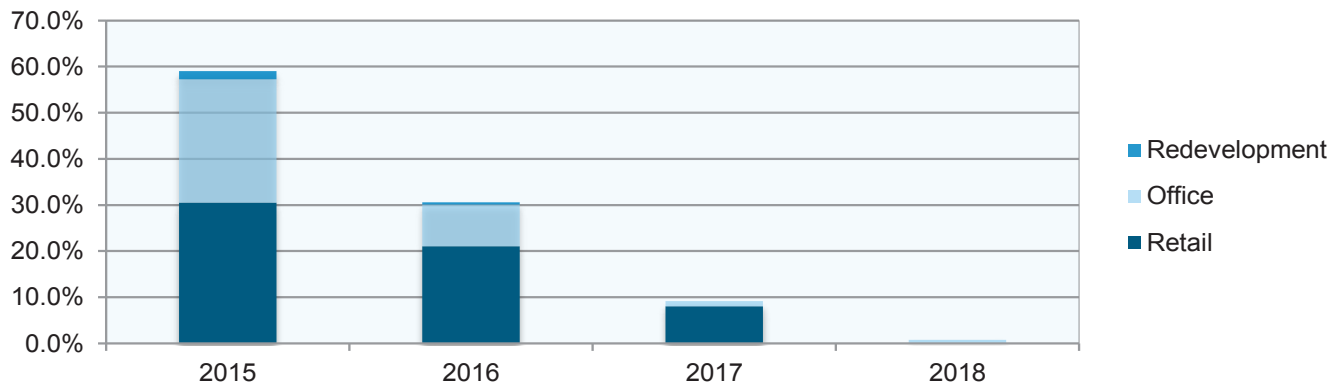
** Weighted Average is calculated based on total meters available for lease

Demand for retail space has remained strong, despite a difficult economy. 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.

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.

A summary of the Corporation's lease expirations by asset class is presented in the chart below:



The weighted average remaining lease term decreased slightly to 17.2 months at December 31st 2014, from 17.7 months at December 31st 2013 calculated as a percentage of monthly revenues.

It is Management's belief that most existing leases are at rates that are generally at the current prevailing market rates. With the current economic conditions, many smaller companies without significant cash reserves are suffering which is reflected lower office rents in aggregate.

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
Retail Lease	December 2014	246	14,785	23,947	62%
Retail Lease	December 2014	110	34,347	37,179	8%
Retail Lease	December 2014	206	35,232	33,030	-6%
Office	October 2014	40	31,818	22,727	-29%
Office	November 2014	62	30,067	35,551	33%

Section 3 – Results of Operation

Selected Annual Financial Information (CAD)

	Year ended	Year ended	Year ended
	31-Dec- 2014	31-Dec- 2013	31-Dec- 2012 (Restated)*
Revenue and other income	1,918,916	1,727,373	1,582,460
Income			
Income/ (loss) from continuing operations attributable to equity holders of the Corporation	4,151,782	(250,574)	(4,931,975)
Net Income/ (loss) attributable to equity holders of the Corporation	4,151,782	(155,563)	(6,073,750)
Comprehensive income/ (loss) attributable to equity holders of the Corporation	2,631,084	(3,713,297)	(7,360,920)
Basic earnings per share ("EPS") (in CAD)			
Earnings/ (loss) from continuing operations	0.12	(0.01)	(0.14)
Earnings/ (loss) from discontinued operations	0	0	(0.03)
Net income/ (loss)	0.12	(0.01)	(0.17)
Diluted EPS (in CAD)			
Earnings/ (loss) from continuing operations	0.12	(0.01)	(0.14)
Earnings/ (loss) from discontinued operations	0	0	(0.03)
Net Income/ (loss)	0.12	(0.01)	(0.17)
Balance Sheet			
Total Assets	54,106,591	47,291,018	51,306,531
Total liabilities	3,176,142	1,968,460	4,002,971
Total Equity	50,930,449	45,322,558	47,303,560
Shares Outstanding at year end	34,848,745	34,303,352	34,143,352
Book Value per share	1.46	1.32	1.38

*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, 2014, Revenue from Investment Properties reached \$1,822,392 versus \$1,650,895 in the prior year. This increase was attributable to higher achieved market lease rates.

Revenue from Other Sources

Revenue from other sources consists of late fees and other income. For the year ending December 31, 2014, revenues from other sources totaled \$96,524 compared to \$76,478 for the year ending December 31, 2013. Revenues increased due to higher late payments collected along with higher income from property disposals in comparison to the previous 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, 2014, the Corporation had approximately 90% of its Investment Properties Portfolio valued by either an international valuation firm and the remaining 10% (23 properties) were valued by Management. For the year ended December 31, 2014, the fair value adjustment to investment properties was a gain of \$10,683,896 compared to a gain of \$3,845,521 for the same period in 2013. Overall, the gains in the portfolio were attributed to two of the Corporation's land packages that were assembled

through several transactions. In aggregate, most of the remaining investment properties depreciated in Canadian dollar terms.

Property Operating Expenses

Property Operating Expenses consist of repairs and maintenance, bad debts, utilities, salaries and land and property taxes. For the year ending December 31, 2014 the property operating expenses were \$1,556,367 compared to \$1,398,184 during the same period in 2013, representing an increase of 11%. This increase is mainly attributed to an increase in salaries, utilities and land and property taxes.

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, 2014 general and administration expenses increased to \$4,635,599 from \$3,680,336 in 2013. The majority of this increase was due to spending for initiatives that never materialized, increased investor outreach, legal expenses, increased human resource recruitment and retention costs and costs related to the management change at year-end. In addition, the Corporation experienced several one-time expenses.

One-Time Expenses

During the 2014 year, the Corporation incurred one-time expenses including; severance to of the Corporation's former CEO of \$870,540, accrued a commission payment of \$487,522 to a senior employee of the Corporation for several recent large acquisitions, a discount of \$402,339 given to UMC against sale of Mandal Insurance and \$222,995 spent on legal and professional fees to file a base shelf prospectus. These four major expenses total to \$1,983,396. In 2013, one-time major expenses included TSX listing fees, fees for a transaction that did not materialize and expenses incurred on disposal of the Corporation's insurance subsidiary totaling \$632,009.

At this time, management does not foresee any significant one-time expenses during 2015.

Currency

The Mongolian Tögrög has fluctuated significantly over the past three 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. 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 4 in the financial statements disclose the foreign exchange adjustment, which flows through the investment property classification during each period. As at December 31, 2014 the Corporation recognized a significant foreign exchange adjustment loss of \$1,375,377 to its investment property portfolio due to the 5.3% depreciation 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 of \$5,900,540 during 2014 (2013 – loss of \$3,733,368), generated interest income of \$66,606 (2013 - \$239,055) and finance expense of \$250,230 (2013 – Nil) during the year. The larger Adjusted EBITDA loss in 2014 is attributed to the large one-time expenses mentioned earlier as well as increased salaries, property taxes and the discount of \$402,339 given to UMC in exchange for early repayment of a debt.

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

	2014	2013
Net Income before Income taxes	4,473,714	213,331
Add Depreciation and Amortization	126,018	137,877
Subtract Interest and Investment (Income) / Finance Expense	183,624	(239,055)
EBITDA	4,783,356	112,153
Subtract Fair Value Adjustment	(10,683,896)	(3,845,521)
Total Adjusted EBITDA	(5,900,540)	(3,733,368)

Operating Profit from Discontinued Operations

The Corporation disposed of its insurance business on December 20, 2013. During 2013, the insurance business generated an Operating loss or Adjusted EBITDA loss of \$711,146 and investment income of \$543,045.

Net Income

For the year ended December 31, 2014, the Corporation incurred a net gain of \$4,151,782 compared to a net loss of \$155,563 for the year ended December 31, 2013. This improvement is attributed to the substantial unrealized gain on fair value adjustment on investment properties of \$10,683,896 during the year versus the unrealized gain of \$3,845,521 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. However, the newly installed CEO and board have taken an active focus on the Corporation's negative cash flow as they recognize that the Corporation cannot continue to suffer from negative cash flow.

Section 4 - Financial Condition

Cash Flow

Mongolia Growth Group's primary sources of capital are cash generated from operating, financing and investing activities. Management expects to meet all of the Corporation's obligations through current cash and cash equivalents along with cash flows from operations.

The following table provides an overview of the Corporation's cash flows from operating, financing and investing activities for the year ended December 31, 2014 and 2013.

	For the year ending	
Net change in cash related to:	31-Dec-14	31-Dec-13
Operating	(2,908,159)	(1,730,252)
Investing	(1,392,747)	(1,012,196)
Financing	821,951	293,600
Effects of exchange rates on cash	(245,943)	(883,086)
Net change in cash during the period	(3,724,898)	(3,331,934)

Overall, cash outflows during 2014 were lower than the previous year with net outflows in operating and investing each higher than the previous year offset by an increase in financing inflows. The changes in components of cash flows for the year ended December 31, 2014 compared to the year ended December 31, 2013 were the result of the following factors:

- **Operating** – Operating cash outflows for the year ended 2014 increased primarily due to an increase in one-time expenses.
- **Investing** – Investing cash outflows for the year ended 2014 increased due to acquisitions of investment properties netted off by the receipt of payment on the disposal of insurance subsidiary as well as from disposal of properties in comparison to the previous year.
- **Financing** – Financing cash inflows for the year ended 2014 increased over 2013 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, 2014, the Corporation had approximately \$1,645,421 in cash and cash equivalents.

Total Assets

As of December 31, 2014, the Corporation had \$2,673,124 (2013 - \$9,416,810) in Current Assets out of which \$1,645,421 (2013 - \$5,370,319) 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 increased throughout the year by way of a significant acquisition and the appreciation of the portfolio during the year.

In 2014, assets classified as Investment Properties increased to \$48,458,517 from \$32,313,391 the year prior, primarily due to an increase in unrealized fair value adjustment and the acquisition of Tulguldur. Property and Equipment, which primarily consists of properties that are measured at their cost base, decreased from \$3,915,692 in 2013 to \$2,974,950 in 2014 as several properties in this category were either sold or transferred to Investment Properties.

In 2013, as part of the agreement to sell Mandal to UMC Capital LLC, proceeds for this transaction were included in current assets and non-current assets. As the payment for this transaction was received during 2014, this item was no longer outstanding at December 31, 2014.

Total Liabilities

As of December 31, 2014, the Corporation had current liabilities of \$2,077,001 consisting of payables and accrued liabilities. In December 31, 2013, current liabilities were significantly lower at of \$878,343. The reason for increase in trade payables is due to capital expenditures performed on one of the Corporation's investment properties and an increase in deposits as prepayments for property sales.

As of December 31, 2014, 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 increased slightly during the year to \$1,099,141 in 2014 (2013 - \$1,090,117).

Total Equity

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

Outstanding	As at 31-Dec-2014	As at 31-Dec-2013
Common shares	34,848,745	34,303,352
Options to buy common shares	2,448,000	1,957,000

Options Outstanding

At December 31, 2014, the Corporation had 1,385,000 options that were exercisable (December 31, 2013; 1,324,500).

The Chart below shows the historical option grants and options outstanding as of December 31, 2014.

\$ 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	0	250,000	50,000	50,000	0
1.90	1,363,000	35,000	0	200,000	1,128,000	492,500	635,500
4.20	900,000	408,000	362,000	0	130,000	97,500	32,500
4.77	175,000	100,000	0	0	75,000	65,000	10,000
4.25	150,000	50,000	0	0	100,000	75,000	25,000
4.00	190,000	0	0	0	190,000	105,000	85,000
4.13	475,000	75,000	0	0	400,000	125,000	275,000
1.09	375,000	0	0	0	375,000	375,000	0
Total	4,028,000	668,000	362,000	550,000	2,448,000	1,385,000	1,063,000

Acquisitions and Dispositions

During the year, the Corporation acquired a large property for a total of \$9,099,706 in three separate transactions. During this time, 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, 2014, the Corporation had no off-balance sheet items.

Events Subsequent to Year End

The Corporation sold 6 properties with a fair value of approximately \$1,227,836 for cash proceeds of approximately \$1,075,964. The loss since December 31, 2014 is attributed to the currency depreciation in the Mongolian Tögrög.

On April 2, 2015, the Corporation announced that it intended to issue a total of 640,691 common shares of the Corporation at a price of CDN \$0.82 per share in settlement of outstanding amounts owed by the Corporation in the amount of US \$420,000. The Corporation also issued 935,000 5-year options to purchase at a price of CDN \$0.72 per share,

On April 7, 2015, the Corporation announced that various employees and a consultant have agreed to forfeit and cancel 615,000 options with exercise prices between CDN \$4.00 and CDN \$4.77. The Corporation also announced

that a total of 640,000 5-year, stock options had been issued to Directors and Officers at an exercise price of CDN \$0.74.

On April 27, 2015, the Corporation announced the closing of the Company's previously announced settlement of outstanding amounts owed by the Company in the amount of US \$420,000 through the issuance of 640,691 common shares of the Company at a price of CAD \$0.82 per share.

Section 5 - Quarterly Information

Quarterly Results

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

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Revenue *	316,712	424,787	542,837	634,581	427,836	452,185	421,599	425,753
Net income (loss) *	117,251	(1,489,119)	5,033,379	812,202	1,449,697	(825,693)	(1,127,918)	253,340
Income (loss) per common share*	0.00	(0.04)	0.15	0.02	0.04	(0.02)	(0.03)	0.01
Total Assets	54,106,591	55,523,885	54,965,199	49,253,675	47,291,018	47,988,406	52,443,237	52,859,111
Weighted Average Shares (No.)	34,652,992	35,800,084	34,495,983	35,823,685	34,696,557	34,246,026	34,245,230	34,170,019
Ending Shares (No.)	34,848,745	34,848,745	34,748,745	34,538,352	34,303,352	34,303,352	34,303,352	34,173,352

* These numbers have been restated to reflect the continuing operations of the Corporation.

Revenue

During the fourth quarter, the Corporation's real estate subsidiary earned total revenue of \$316,712 (Q4 2013 - \$427,836) of which rental income earned was \$457,496 (Q4 2013 - \$397,894). 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 also experienced a loss on sale of investment properties of \$140,423, which negatively affected the Corporation's revenue.

During the fourth quarter of 2014, the Corporation's net investment income decreased by \$12,405 as compared to an increase of \$36,736 in the same period in 2013. The decrease in net investment income is attributable to a decrease in investment and marketable securities as the Corporation continues to deploy its cash into building its property portfolio.

During the 4th quarter of 2014, the Corporation also incurred a large unrealized gain of \$2,747,150 compared to an unrealized gain of \$3,845,521 during Q4 2013.

Expenses

Quarterly expenses related to corporate operations totaled \$2,007,286 (Q4 2013 - \$1,024,256). The majority of this increase 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 generated a gain of \$117,251 in comparison to a gain of \$1,201,133 in the same quarter of the previous year. This difference is mainly attributed to the fair value adjustments recorded in the fourth quarter of the years offset by an increase in expenses.

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, 2014, the unrealized gain on fair value adjustment was a gain of \$10,683,896 (gain of \$3,845,521; 2013). During the first six months of 2014, there was a fair value adjustment gain of \$7,936,746 relating to properties that were not available for use at year end or were being carried at depreciated cost, and thus were recorded at the lower of cost and market, but adjusted during the first six months of 2014 as the properties became available for use. The remaining \$2,747,150 gain was adjusted during the 4th quarter of 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.

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 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 risk free interest rate for the expected life of the options and future forfeiture rates. For the year ending December 31, 2014, the cost of the share based payments) totaled \$1,838,904 (2013 - \$931,783). The increase over the previous year was due to a large amount of options issued to the Corporation's former CEO.

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, 2014, the Corporation has identified 6 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, 2014.

As at December 31, 2014, the Corporation had working capital of \$596,123 (2013- \$8,538,467) 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, 2014, the Corporation does not have any 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.

While inflation subsided in 2013, the consequences of loose monetary policy as well as exchange rate depreciation emerged in 2014 through rising inflation levels. The inflation rate peaked at 14.9% in July but gradually decreased towards the end of the year due to weakening domestic demand. As reported by the National Statistics Office, year over year inflation was 11% in December, 11.5% in November, 12.1% in October and 13% in September. The Bank of Mongolia raised the policy rate by 1.5 points to 12.0% in July in an effort to curb inflation.

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, 2013 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, 2014
(expressed in Canadian dollars)



April 29, 2015

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, 2014 and 2013 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, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

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

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

(expressed in Canadian dollars)

	2014	2013
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 6)	1,645,421	5,370,319
Other assets (note 7)	1,027,703	4,046,491
	<u>2,673,124</u>	<u>9,416,810</u>
Non-current assets		
Other assets (note 7)	-	1,645,125
Investment properties (note 8)	48,458,517	32,313,391
Property and equipment (note 9)	2,974,950	3,915,692
	<u>2,974,950</u>	<u>3,915,692</u>
Total assets	<u>54,106,591</u>	<u>47,291,018</u>
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	1,925,655	874,222
Income taxes payable (note 11)	151,346	4,121
	<u>2,077,001</u>	<u>878,343</u>
Non-current liabilities		
Deferred income tax liability (note 11)	1,099,141	1,090,117
	<u>1,099,141</u>	<u>1,090,117</u>
Total liabilities	<u>3,176,142</u>	<u>1,968,460</u>
Equity		
Share capital (note 12)	53,789,459	52,204,394
Contributed surplus	5,815,656	4,423,914
Accumulated other comprehensive loss	(7,607,039)	(6,086,341)
Deficit	(1,067,627)	(5,219,409)
	<u>50,930,449</u>	<u>45,322,558</u>
Total equity	<u>50,930,449</u>	<u>45,322,558</u>
Total equity and liabilities	<u>54,106,591</u>	<u>47,291,018</u>
Commitments and contingencies (note 16)		

Approved by the Board of Directors

“Robert Scott” Director

“Jim Dwyer” 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)

	2014 \$	2013 \$
Revenue		
Rental income	1,822,392	1,650,895
Other revenue	96,524	76,478
Total revenue	<u>1,918,916</u>	<u>1,727,373</u>
Expenses		
Salaries and wages	2,677,203	1,202,117
Other expenses (note 19)	2,901,010	3,326,841
Share based payment (note 12)	1,838,904	931,783
Depreciation (note 9)	126,018	137,877
Total expenses	<u>7,543,135</u>	<u>5,598,618</u>
Net investment income	66,606	239,055
Unrealized gain on fair value adjustment on investment properties (note 8)	<u>10,683,896</u>	<u>3,845,521</u>
Impairment of other assets (note 5)	402,339	-
Finance expense	250,230	-
Net income before income taxes	4,473,714	213,331
Income tax expense (note 11)	<u>321,932</u>	<u>463,905</u>
Income (loss) from continuing operations	4,151,782	(250,574)
Income from discontinued operations - net of tax (note 5)	<u>-</u>	<u>95,011</u>
Net Income (loss) for the year	<u>4,151,782</u>	<u>(155,563)</u>
Net income (loss) per share (note 12)		
Basic		
From continuing operations	\$0.12	\$(0.01)
From discontinued operations	0.00	0.00
From net income (loss) for the year	0.12	(0.01)
Diluted		
From continuing operations	\$0.12	(0.01)
From discontinued operations	0.00	0.00
From net income (loss) for the year	0.12	(0.01)

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)

	2014 \$	2013 \$
Net Income (loss) for the year	4,151,782	(155,563)
Other comprehensive 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 - continuing operations	(1,520,698)	(4,383,809)
Realized losses on translation of financial statement operations with Mongolian Tögrög functional currency to Canadian dollar reporting currency - discontinued operations (note 5)	-	826,075
Total comprehensive income (loss)	<u>2,631,084</u>	<u>(3,713,297)</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 \$	Retained earnings (deficit) \$	Total \$
Balance at January 1, 2013	51,681,818	3,214,195	(2,528,607)	(5,063,846)	47,303,560
Net loss for the year	-	-	-	(155,563)	(155,563)
Other comprehensive loss	-	-	(3,557,734)	-	(3,557,734)
	51,681,818	3,214,195	(6,086,341)	(5,219,409)	43,590,263
Share based payments	-	1,438,695	-	-	1,438,695
Share capital issued (note 12)	522,576	(228,976)	-	-	293,600
Balance at December 31, 2013	52,204,394	4,423,914	(6,086,341)	(5,219,409)	45,322,558
Balance at January 1, 2014	52,204,394	4,423,914	(6,086,341)	(5,219,409)	45,322,558
Net income 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
Share based payments	-	2,038,907	-	-	2,038,907
Share capital issued (note 12)	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

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

Mongolia Growth Group Ltd.

Consolidated Statement of Cash Flows

As at December 31

(expressed in Canadian dollars)

	2014 \$	2013 \$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	4,151,782	(155,563)
Items not affecting cash		
Share based payments (note 12)	1,838,904	1,438,695
Deferred taxes (note 11)	9,024	423,418
Depreciation of property and equipment (note 9)	126,018	178,148
Realized loss on disposal of property and equipment	15,252	6,307
Realized loss on disposal of other asset	144,107	-
Realized loss (gain) on disposal of investment properties (note 8)	(56,105)	17,906
Unrealized loss (gain) on fair value adjustment on investment properties (note 8)	(10,683,896)	(3,845,521)
Impairment of other assets (note 5)	402,339	-
Realized gain on disposal of subsidiary (note 5)	-	(359,252)
	(4,052,575)	(2,295,862)
Net change in non-cash working capital balances (note 17)	1,144,416	565,610
	(2,908,159)	(1,730,252)
Financing activities		
Proceeds from share issuance (note 12)	937,900	293,600
Proceeds from long term debt, net of finance costs	3,253,169	-
Repayment of long term debt	(3,369,118)	-
	821,951	293,600
Investing activities		
Net acquisition of property and equipment	(37,116)	(131,773)
Disposal of investment properties	2,721,465	1,026,960
Acquisition of investment properties	(7,044,845)	(1,742,875)
Proceeds from disposal of subsidiary	2,967,749	(164,508)
	(1,392,747)	(1,012,196)
	(3,478,955)	(2,448,848)
Effect of exchange rates on cash	(245,943)	(883,086)
Decrease in cash and cash equivalents	(3,724,898)	(3,331,934)
Cash and cash equivalents - Beginning of year	5,370,319	8,702,253
Cash and cash equivalents - End of year	1,645,421	5,370,319

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, 2014

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, 2014, 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.

Prior to December 20, 2013, through the Company's wholly-owned subsidiary, Mandal General Insurance, the Company offered insurance products in Mongolia covering all common general insurance types. The Company's main lines of business were motor insurance, including voluntary motor third party liability, property, accident medical and travel and liability insurance. Mandal General Insurance was disposed of on December 20, 2013 and was therefore not a part of the Company as at December 31, 2014 (see note 5).

The Company is registered in Alberta, Canada, with its Head Office at its registered address at 1400, 700-2nd Street W, Calgary, Alberta, Canada. 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 Mandal Building, at the corner of Chinggis Ave. and Seoul St. in Ulaanbaatar, Mongolia.

At December 31, 2014, the Company is organized into two business units based on the business operations:

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

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

As at December 31, 2014

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).

These consolidated financial statements were approved by the Board of Directors of the Company for issue on April 29, 2015.

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 into one of the following categories: AFS, 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.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

As at December 31, 2014

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 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:

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- 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.

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. Assets measured at fair value and classified as Level 1 include cash and cash equivalents, and investments and marketable 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. Assets measured at fair value and classified as Level 2 include investments and marketable securities. 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 statement of financial position. Gains or losses arising from changes in the fair value of investment properties are recognized in the consolidated

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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.

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, 2014 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.

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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.

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

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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.

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

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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.

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

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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.

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. Discontinued operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other

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comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

The results of operations associated with disposal groups sold, or classified as held for sale, are reported separately as income or loss from discontinued operations.

o. 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.

p. 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. Previously to 2014, the Company's insurance operations were managed and segmented separately.

q. 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.

r. 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

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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.

s. Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to off-set' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company, since none of the entities in the Company has any offsetting arrangements.

Impairment of assets on the recoverable amount disclosures for non-financial assets – Amendments to IAS 36

This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. This amendment has no impact on the Company as the Company has not impaired any non-financial assets.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at January 1, 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

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Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at January 1, 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company.

t. 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, 2015 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.

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.

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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, 2017 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.

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.

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

- Fair value of investment properties - The estimate of fair value of investment properties is the most critical accounting estimate to the Company. An external appraiser estimates the fair value of the majority of investment properties annually. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value of investment properties represents an estimate of the price that would be made in an arm's length transaction between knowledgeable, willing parties. The Company operates in the emerging real estate market of Mongolia, which given its current economic, political and industry conditions, gives rise to an increased inherent risk given the lack of reliable and comparable market information. The significant estimates underlying the fair value determination are disclosed in note 8. Changes in assumptions about these factors could materially affect the carrying value of investment properties.
- Accuracy of share based compensation expense - The estimate of the ultimate expense arising from share based compensation plans is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the share based compensation expense recorded by the Company. The ultimate expense is estimated by using a number of key assumptions such as the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the expected life of the option and future forfeiture rates. Further information on key assumptions including sensitivity analysis is included in note 12.
- Operating environment of the Company - Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. The tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes. The future economic performance of Mongolia is tied to the continuing demand from China and global prices for commodities as well as being dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Mongolia together with tax, legal, regulatory and political developments. Management is unable to predict all developments that could have an impact on the Mongolian economy and consequently what effect, if any, they could have on the future financial position of the Company.

5 Disposal of subsidiary

During the year ended December 31, 2013, the Company disposed of its interest in Mandal General Insurance LLC (Mandal). The Company held 100% of the shares of Mandal with net assets at the date of disposal of \$2,484,624. Management committed to a plan to sell this segment due to a strategic decision to place greater focus on the Company's core operation, being investment properties.

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As part of this transaction, the Company filed a formal application with the Financial Regulatory Commission (FRC) of Mongolia to seek permission for disposal of Mandal, which was granted. The transaction closed on December 20, 2013 with the Company selling its stake to UMC Capital LLC (UMC) for consideration of \$3,669,951. Cash consideration of \$458,101 was paid at the date of closing with a further \$223,978 received on September 30, 2014. During the year, the Company amended the original payment terms in order to realise full payment of the remaining long-term receivable. As a result, the Company negotiated a discount on the consideration receivable of \$402,339 and the remaining \$2,585,533 was received in cash in November 2014. This discount of \$402,339 has been recorded as an expense during the year ended December 31, 2014.

Income attributable to discontinued operations was as follows:

	2013 \$
Net premiums earned	1,873,666
Other revenue	365,564
	<u>2,239,230</u>
Salaries and wages	773,611
Other expenses	1,669,853
Share based payment	506,912
Depreciation	40,271
	<u>2,990,647</u>
Net investment income	543,045
	<u>(208,372)</u>
Gain on disposal of subsidiary	
Realized loss on foreign currency translations	(826,075)
Gain on disposal of net assets	1,185,327
	<u>359,252</u>
	150,880
Provision for income taxes	55,869
Income for the period	<u>95,011</u>

Cash flows from (used in) discontinued operations:

	2013 \$
Net cash from operating activities	741,355
Net cash used from investing activities	(581,018)
Net effect on cash flows	<u>160,337</u>

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6 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:

	2014	2013
	\$	\$
Barbados	1,703	22,888
Canada	339,429	2,110,032
Mongolia	1,304,289	3,237,399
	<u>1,645,421</u>	<u>5,370,319</u>

Cash and cash equivalents are not collateralized. All amounts are classified as neither past due and not impaired.

The carrying amount of cash and cash equivalents approximates fair value.

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:

	2014	2013
	\$	\$
Cash on hand	3,216	10,822
A or A+ rated	318,485	2,109,532
-B or B+ rated	1,079,405	3,198,387
Unrated	244,315	51,578
	<u>1,645,421</u>	<u>5,370,319</u>
Total cash and cash equivalents	<u>1,645,421</u>	<u>5,370,319</u>

The unrated balance relates to one (2013 - one) commercial bank in Mongolia, which has not been rated by any rating agency and one (2013 - one) private bank in Barbados which is also unrated.

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7 Other assets

	2014 \$	2013 \$
Accounts receivable	151,585	138,714
Prepaid expenses	77,229	481,970
Prepaid deposits on investment properties	798,889	1,859,082
Consideration receivable from UMC (note 5)	-	3,211,850
	<hr/>	<hr/>
	1,027,703	5,691,616
Less: Non-current portion of other assets	-	(1,645,125)
	<hr/>	<hr/>
	1,027,703	4,046,491

Total consideration receivable from UMC at December 31, 2014 is \$nil (2013 - \$3,211,850) (note 5). An early payment discount of \$402,339 was granted and as a result the balance of the receivable was paid before December 31, 2014. All other assets are considered current.

8 Investment properties

	2014 \$	2013 \$
Balance - beginning of period	32,313,391	30,786,742
Additions		
Acquisitions	9,099,706	1,684,451
Capital expenditures	1,435,909	131,137
Transfer from prepaid deposits	722,572	-
Transfer from property and equipment	689,054	204,995
Disposals	(5,228,204)	(921,126)
Unrealized fair value adjustment ⁽¹⁾	10,801,466	4,040,173
Foreign exchange adjustments	(1,375,377)	(3,612,981)
	<hr/>	<hr/>
Balance - end of period	48,458,517	32,313,391

- i) During the year ended December 31, 2014, the Company recorded a \$10,801,466 (2013 - \$4,040,173) unrealized fair value gain on its investment properties. The majority of this unrealized gain (\$6,112,423) was recorded in June 2014 as the Company obtained the full land title for one of its redevelopment assets previously held at cost. This holding comprises of 52 separate property titles. The unrealized gain (loss) on fair value adjustment on investment properties of \$10,683,896 (2013 - \$3,845,521) recorded in the consolidated statement of operations includes an impairment provision of \$117,570 (2013 - \$194,652) related to investment properties classified as prepaid deposits.
- ii) In February 2014, the Company purchased a property for \$6,465,868, in a transaction which involved consideration of \$5,137,820 in cash and two properties valued at \$1,328,048. The two properties included in the consideration paid were recorded at a

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value of \$1,210,204 prior to their disposal. Of these two properties sold, \$1,060,223 was classified as Investment properties and the remaining \$149,981 as other assets as of December 31, 2013. A total gain of \$122,810 was recorded as a result of this transaction due to the swap involved.

In June 2014, the Company entered into a swap transaction to buy a redevelopment asset adjacent to the asset purchased during February 2014 in order to increase the size of the total redevelopment asset. The property was purchased for consideration of \$1,799,357. The consideration for this purchase included one redevelopment asset carried at a fair value of \$1,003,439 and \$795,918 in cash. The gain recorded in this transaction by way of swap was \$8,986.

In December 2014, the Company entered into a swap transaction to acquire a piece of land for a total value of \$775,121, adjacent to the asset purchased in February 2014. This included giving up two retail properties valued at \$664,408 in a swap and \$110,713 payable in cash out of which \$61,596 was paid subsequent to year end. The swap resulted in a gain of \$1,839.

In addition to the five properties disposed of discussed above, an additional 20 investment properties were sold for cash consideration of \$2,450,441, resulting in net loss on disposal of \$77,530. Furthermore, \$271,024 was received as a deposit against a sale which later took place subsequent to the year end in February 2015.

Investment properties by major category are as follows:

	2014	2013
	\$	\$
Residential	357,160	1,378,377
Office	5,039,196	5,310,481
Retail	27,645,411	16,058,219
Land and redevelopment sites	15,416,750	9,566,314
	<u>48,458,517</u>	<u>32,313,391</u>

Included in investment properties are properties actively being marketed for sale that are to be disposed of without redevelopment with a fair value of \$1,109,821 (2013 - \$2,883,050). During the year, the Company earned gross proceeds of \$2,721,465 from sale of investment properties out of which \$271,024 was a deposit against a property which was sold in February 2015 and \$2,450,441 (2013 - \$961,079) was the proceeds against sales of investment properties that took place during the year ended December 31, 2014. A loss of \$77,530 (2013 - \$17,906) on these transactions and a total gain of \$133,635 (2013 - Nil) on transactions involving swap has been recorded in other revenue on the consolidated statement of operations.

Investment properties with an aggregate fair value of \$43,435,936 (2013 - \$21,718,639) 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

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carrying value of investment properties valued by the external appraiser at December 31, 2014 and 2013 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 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.

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

	2014		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.5%	8%	9.75%
	2013		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.5%	7.5%	9.5%

The following sensitivity table outlines the impact of a 0.25% change in the weighted average capitalization rate on investment properties at December 31, 2014:

	Change to fair value if capitalization rate increased 0.25%	Change to fair value if capitalization rate decreases 0.25%
Commercial property	\$(1,290,639)	\$1,358,567

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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 \$26,666,348 (2013 - \$15,886,443) have no rental revenue associated with them at December 31, 2014.

Investment properties include land held under operating leases with an aggregate fair value of \$15,416,750 (2013 - \$10,538,656) at December 31 2014.

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:

	2014 \$	2013 \$
Less than 1 year	1,509,802	1,358,772
Between 1 and 5 years	1,047,863	1,264,909
	2,557,665	2,623,681

Direct operating expenses arising from investment properties that generated rental income during the year was \$1,556,367 (2013 - \$1,130,285). Direct operating expenses arising from investment properties that did not generate rental income during the year was \$125,116 (2013 - \$267,899).

9 Property and equipment

	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	-	-	-	(738,823)	(738,823)
Foreign exchange adjustment	(7,280)	1,026	788	(152,468)	(157,934)
At December 31	102,343	158,543	45,519	2,972,460	3,278,865

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	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	-	-	-	(49,769)	(49,769)
Foreign exchange adjustment	(690)	30	49	(9,789)	(10,400)
At December 31	20,202	65,355	12,448	205,910	303,915
Net book value at December 31	82,141	93,188	33,071	2,766,550	2,974,950

	2013				
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
Cost					
At January 1	138,890	125,737	268,351	4,238,707	4,771,685
Additions	14,215	95,231	21,729	67,120	198,295
Disposals	(68,237)	(90,547)	(132,985)	-	(291,769)
Transfers	-	-	-	(204,995)	(204,995)
Foreign exchange adjustment	(13,024)	(18,676)	(19,925)	(237,081)	(288,706)
At December 31	71,844	111,745	137,170	3,863,751	4,184,510

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					2013
	Furniture and fixtures \$	Equipment \$	Vehicles \$	Buildings \$	Total \$
Accumulated depreciation					
At January 1	17,606	37,970	32,090	107,988	195,654
Depreciation	12,650	43,813	24,200	97,485	178,148
Disposals	(10,740)	(41,688)	(23,775)	-	(76,203)
Foreign exchange adjustment	(2,643)	(13,828)	(1,043)	(11,267)	(28,781)
At December 31	16,873	26,267	31,472	194,206	268,818
Net book value at December 31	54,971	85,478	105,698	3,669,545	3,915,692

10 Trade payables and accrued liabilities

	2014 \$	2013 \$
Trade and accrued payables	1,403,004	650,337
Security deposit	188,970	145,315
Unearned revenue	62,657	78,570
Deposit on investment property sales	271,024	-
	<u>1,925,655</u>	<u>874,222</u>

The carrying amounts above reasonably approximate fair value at the balance sheet date. All trade and other payables are current.

11 Income taxes

a) Effective tax rate

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

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	2014 \$	2013 \$
Net income (loss) before income taxes	4,473,714	213,331
Combined statutory tax rate	26.5%	26.5%
Tax payable (recoverable) based on statutory tax rate	1,185,534	56,533
Effect of:		
Permanent differences	361,829	175,406
Tax rate variances of foreign subsidiaries	(1,846,320)	(465,218)
Deferred tax assets not recognized	620,889	683,715
Other	-	13,469
	<u>321,932</u>	<u>463,905</u>
Provision for income taxes		
Current	312,908	40,487
Deferred	9,024	423,418
Provision for income taxes - continuing operations	321,932	463,905
Provision for income taxes - discontinued operations	-	55,869
	<u>321,932</u>	<u>519,774</u>

a) 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.

There are non-capital loss carry-forwards relating to the Mongolian entities that will expire in 2016 for which no future tax benefit has been recorded. The Company also did not recognize deferred tax assets related to taxable temporary differences. In accordance with Mongolian tax law, the taxable losses can be carried forward for two years and are deductible up to 50% of the taxable income of that year.

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In accordance with Canadian tax law, the taxable losses can be forward twenty years. There are \$7,935,753 (2013 - \$5,419,472) of non-capital losses relating to the Canadian entity.

The losses expire as follows:

Year of expiry	Non-capital loss \$
2028	8,572
2029	75,387
2030	275,393
2031	933,914
2032	1,660,163
2033	2,735,616
2034	2,246,708

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:

	2014 \$	2013 \$
Deferred tax liabilities		
Investment properties	1,099,141	1,090,117
	<hr/>	<hr/>
	1,099,141	1,090,117

12 Share capital and contributed surplus

a) Authorized

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

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b) Common shares

The issued and outstanding common shares are as follows:

	Number of shares	Amount \$
Balance, December 31, 2012	34,143,352	51,681,818
Options exercised	160,000	522,576
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

c) Stock options

	Number of options	Weighted average exercise price \$
Balance, January 1, 2013	1,782,000	3.40
Granted	475,000	4.13
Cancelled	(65,000)	4.20
Exercised	(160,000)	1.84
Forfeited	(75,000)	4.21
December 31, 2013	1,957,000	3.76
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

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The Company has established a share based payment plan (the "Plan") to encourage ownership of its shares by key management personnel (directors and executive management), employees and other key service providers, and to provide compensation for certain services. The Plan provides for the issuance of stock options in an aggregate number of up to 10% of the Company's issued and outstanding shares, calculated from time to time. At December 31, 2014, the Company had 1,036,874 (2013 - 1,473,335) 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 Directors of the Company. The options vested immediately.

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

	December 31, 2014	Weighted average exercise price \$	December 31, 2013	Weighted average exercise price \$
Balance, beginning of the year	1,957,000	3.76	1,782,000	3.40
Options cancelled	(297,000)	4.20	(65,000)	4.20
Options granted	1,538,000	1.70	475,000	4.13
Options exercised	(390,000)	1.76	(160,000)	1.84
Options forfeited	(360,000)	4.08	(75,000)	4.21
Balance, end of the year	<u>2,448,000</u>	<u>2.61</u>	<u>1,957,000</u>	<u>3.76</u>
Exercisable	<u>1,385,000</u>	<u>2.46</u>	<u>1,324,500</u>	<u>3.44</u>
Weighted remaining average life (years)		<u>3.63</u>		<u>3.55</u>

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During the year, 80,000 options were exercised at a price of \$1.90, 60,000 options were exercised at a price of \$1.64 and 250,000 options at a price of \$1.75 were exercised for total cash proceeds of \$687,900 (2013 – \$65,600). In addition, 30,393 RSAs vested increasing the shares issued by the same amount. Of the RSAs which vested during the year, 7,000 were subsequently bought back by the Company.

Additionally during 2014, 360,000 options with a weighted average exercise price of \$4.08 were forfeited and 297,000 options with a weighted average exercise price of 4.20 were cancelled during this time. An additional 75,000 options with a weighted average exercise price of 4.20 expired and were cancelled during the period.

The fair value associated with the options issued in March was calculated using the Black-Scholes model for options valuation, assuming volatility of 77.5% (2013 - 90%) on the underlying units, a risk free interest rate of 1.39% (2013 - 1.19%) and a forfeiture rate of nil based on the composition of the option holders. The fair value associated with the options issued in December was calculated using the Black-Scholes model for options valuation, assuming volatility of 68.6% (2013 - 90%) on the underlying units, a risk free interest rate of 1.31% (2013 - 1.19%) 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. In prior periods, 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 \$106,687. The approximate impact of a decrease of 10% in the volatility assumption would increase net income of the Company by \$116,905.

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The following options were issued, outstanding and exercisable at December 31:

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

Options outstanding 2013

Number outstanding	Weighted average remaining life (years)	Weighted average exercise price \$	Weighted average at grant date
360,000	6.02	1.73	1.78
80,000	7.19	1.90	1.78
602,000	1.24	4.20	4.04
150,000	2.69	4.77	4.70
100,000	2.92	4.25	4.14
190,000	3.23	4.00	4.00
475,000	3.96	4.13	4.13
1,957,000	3.55	3.76	3.55

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:

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	December 31, 2014	Weighted average exercise price \$	December 31, 2013	Weighted average exercise price \$
Balance, beginning of period	91,179	-	91,179	-
RSAs forfeited	(14,000)	-	-	-
RSAs vested	(30,393)	-	-	-
Balance, end of the period	46,786	-	91,179	-

The fair value of the restricted shares granted during the 2014 year was \$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 2014 year, the Company recorded net compensation expense of \$127,230 (2013 - \$2,384) for the Restricted Share Plan within the share based payment expenses.

d) Earnings per share

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

	2014 \$	2013 \$
Weighted average number of shares - basic	34,652,992	34,256,557
Effect of dilutive stock options	-	440,000
Weighted average number of shares - diluted	34,652,992	34,696,557

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.

13 Management of capital structure

The Company's objective when managing capital is to ensure the Company is capitalized in a manner which provides a strong financial position for its shareholders.

The Company's capital structure includes equity and working capital. In managing its capital structure, the Company considers future investment and acquisition opportunities, potential

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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, 2014, the Company's working capital was \$596,123 (2013 - \$8,538,467) and the Company had no debt.

	2014	2013
	\$	\$
Current assets	2,673,124	9,416,810
Current liabilities	2,077,001	878,343
Working capital	<u>596,123</u>	<u>8,538,467</u>

14 Financial risk management

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

The Company is no longer exposed to risks resulting from insurance contracts and the related claims as the Company has disposed of their insurance operations effective December 20, 2013 (note 5).

Catastrophe risk

The Company obtained insurance on buildings and all permanent fixtures totalling approximately \$24,600,000 (2013 - \$28,700,000).

Credit risk

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

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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.

	2014 \$	2013 \$
Cash and cash equivalents	1,645,421	5,370,319
Receivables	151,585	3,350,564
	<hr/>	<hr/>
Maximum credit risk exposure on the consolidated statement of financial position	1,797,006	8,720,883

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 in the early stages of development and is continually improving its policies regarding monitoring its credit risk.

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

Liquidity risk

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

As at December 31, 2014, 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, 2014. The Company does not have material liabilities that can be called unexpectedly at the demand of a client.

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The Company is not directly exposed to interest rate risk at December 31, 2014 and 2013.

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 \$766,111 (2013 - \$4,267,566). The approximate impact of a decrease of 10% in the Mongolian Tögrög against the Canadian dollar would decrease OCI of the Company by \$935,558 (2013 - \$4,267,566).

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.

15 Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control

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over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

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

	2014	2013
	\$	\$
Salaries and other short-term employee benefits	438,006	821,756
Share-based payments	929,311	341,049
Termination benefits	870,540	-
	<u>2,237,857</u>	<u>1,162,805</u>

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

16 Commitments and contingencies

From time to time and in the normal course of business, claims against the Company may be received. On the basis of management's assessments and professional legal advice, management is of the opinion that no material losses will be incurred and no provision or disclosure has been made in these consolidated financial statements.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

As at December 31, 2014

17 Supplementary cash flow information

	2014 \$	2013 \$
Changes in non-working capital arising from		
Other assets	3,557,875	394,187
Trade payables and accrued liabilities	(2,563,665)	107,760
Income tax payable	150,206	63,663
	<hr/>	<hr/>
Changes in non-cash working capital from operating activities	1,144,416	565,610
	<hr/>	<hr/>

Income tax paid during the year was \$75,991 (2013 \$181,423). Interest paid during the year was \$250,230 (2013 - Nil).

18 Segment information

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

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

Insurance Operations included general property and casualty insurance products in Mongolia. Insurance underwriting and claims handling functions were administered through Mandal General Insurance LLC. These operations were disposed of on December 20, 2013 (note 5).

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

As at December 31, 2014

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

	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	<u>9,107,983</u>	<u>(4,634,269)</u>	<u>4,473,714</u>

	2013			
	Investment Property \$	Insurance \$	Corporate \$	Total \$
Rental income	1,650,895	-	-	1,650,895
Property operating expenses	(1,398,184)	-	-	(1,398,184)
Unrealized gain on fair value adjustment on investment properties	3,845,521	-	-	3,845,521
Net premiums earned	-	1,873,666	-	1,873,666
Claims and insurance benefits incurred	-	(1,063,379)	-	(1,063,379)
Share based payment	(325,967)	(506,912)	(605,816)	(1,438,695)
Other expenses	(71,291)	(1,380,085)	(3,065,792)	(4,517,168)
Depreciation	(129,149)	(40,271)	(8,728)	(178,148)
Net investment income	237,672	543,045	1,383	782,100
Gain on disposal of investment property	(17,906)	-	-	(17,906)
Other revenue	99,691	365,564	1,001	466,256
Net income (loss) before income taxes	<u>3,891,282</u>	<u>(208,372)</u>	<u>(3,677,952)</u>	<u>4,958</u>

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

As at December 31, 2014

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

Balance as of December 31, 2013	Investment Property \$	Corporate \$	Total \$
Total assets	41,819,097	5,471,921	47,291,018
Property and equipment	3,893,719	21,973	3,915,692
Investment properties	32,313,391	-	32,313,391
Expenditures			
Property and equipment	129,576	2,197	131,773
Investment properties	715,915	-	715,915

	Revenue		Property and equipment		Investment property	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
Canada	261	1,001	11,666	21,973	-	-
Mongolia	1,918,655	3,919,375	2,963,284	3,893,719	48,458,517	32,313,391
	1,918,916	3,920,376	2,974,950	3,915,692	48,458,517	32,313,391

Revenue in Mongolia includes nil (2013 - \$2,239,230) from discontinued operations (note 5).

19 Other expenses

	2014 \$	2013 \$
Professional fees	1,513,848	1,866,094
Travel	140,349	303,038
Advertising	150,253	21,118
Land and property tax	268,694	254,404
Insurance	68,519	27,901
Utility expense	142,299	75,983
Other expenses	617,048	778,303
	2,901,010	3,326,841

Board of Directors



Harris Kupperman
CEO & 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 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 has served as Executive Director since its formation, in August 2007. 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 also serves in a similar capacity at Assiniboia Capital Corp., which manages a 140,000 acre portfolio of farmland on behalf of one of the world's largest institutional investors. 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, 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 and CEO of the Trend Capital LLC, investment advisory firm. In the past, she was one of the key partners at UMC to launch and build Mandal financial services group being in charge of asset management arm. She managed three local investment funds under Mandal Asset Management. She was instrumental in drafting of the Investment Fund law of Mongolia, which was successfully passed by the Parliament in 2013. Ms. Losolsuren also serves as an independent director of the Mongolian Mortgage Corporation SPV and local insurance company. Also currently member of the Economic Council at the Prime Minister of Mongolia and a Director of the Investment and Finance Research Center. Columnist at the Mongolian Economy journal. She holds a BA from the National University of Mongolia, and MBA degree from Waseda University, Japan.



Robert Scott
Independent Director

Mr. Scott, CA, CFA brings more than 20 years of professional experience incorporate 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 is currently the CFO of Riverside Resources (TSXV: RRI) and on the board of Entourage Metals (TSXV: EMT). In addition, Mr. Scott is a co-founder and director of privately held, Pan American Hydro Corporation, a developer of small hydro projects in Latin America.

Officers

Harris Kupperman
CEO and Chairman

Genevieve Walkden, MBA, CFP, CAIA
Corporate Secretary and
Sr. Vice President Finance

Talha Siddiqui, ACCA
Interim Chief Financial Officer

Auditors

PricewaterhouseCoopers LLP
Winnipeg, MB

Legal

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Calgary, AB

Blakes, Cassels & Graydon LLP
Calgary, AB

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TSX - Venture

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