

MONGOLIA
GROWTH GROUP



2017 Annual Report

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Mongolia Growth Group Ltd.

Mongolia Growth Group Ltd. (MGG) is a leading publicly traded property investment 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MGG undertakes its own property acquisitions, develops brownfield land assets and repositions outdated properties, relying on in-house services for all facets of both the investment portfolio and development side of the business.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,

Seven years ago, I co-founded a company to invest in Mongolia. At the time, it was expected that Mongolia would be one of the world's fastest growing economies, for many years into the future. While, I expected there would be good and bad years along the way, no one could have anticipated the illogical nature of the self-inflicted economic crisis which has afflicted Mongolia for the past five years. Despite recent official numbers that purport to show an economic recovery, we have seen no recovery in our business, nor would we expect one, unless at least one of the mega-projects is approved to go forward. While we are hopeful that an approval is always imminent, we have become realists—approvals will only come when conditions are so dire that the Mongolian government has no choice but to do the right thing.

As I have noted in many past letters, as I look at our business, I am cognizant that we have not hit scale and are highly unlikely to ever hit scale as logical investors are highly unlikely to invest additional capital into Mongolia given the current backdrop. As our company consistently loses money, we have been forced to repeatedly sell assets to fund those losses; which then reduces our future revenues and increases our future losses. While we have been able to dramatically reduce costs over the past three years, this only slows the pace of our capital depletion. As the economic crisis continues to intensify, it is expected that our revenues will continue to decline and the vice around us will tighten. Furthermore, if rental rates decline, so will the values of our property assets, which would further erode the carrying value of our business, even before the constant cash losses that are expected to continue and accelerate going forward.

If the above sounds rather bleak, that is, quite frankly, because it is. Fortunately, we are not completely without options. While Mongolia seems intent on self-immolation, many parts of this globe are growing. During 2017, we have continued our focus on asset sales, with a particular emphasis on our development assets, as we no longer have the in-house team to develop these assets and our office buildings, excluding our headquarters, as the current glut of new development ensures that utilization will remain weak for many years into the future. In the interest of transparency, I believe that we may be forced to sell certain assets at discounts to carrying values in order to re-purpose this capital into something else with a future. Unfortunately, the continuing economic crisis has meant that sales during 2017 have been rather anemic. To date, the capital released by our sales, has been re-invested in an increasingly diversified portfolio of highly liquid, publicly traded securities.

As of this writing, we have experienced both realized and unrealized net gains on this portfolio of securities. While I expect investment returns will be highly volatile on a quarterly basis, I would also hope that over time, they show a net gain. That said; my goal is not to transition MGG's assets into a publicly traded securities portfolio as there are both regulatory and tax reasons why this is less than ideal. My hope remains that the Mongolian economy will one day recover and we will gain exposure to that recovery through our core retail focused portfolio. However, given the fact that a recovery may be many years into the future; senior management has spent the past half year researching other businesses that we can enter into that are outside of Mongolia and serve to diversify our business, while still leveraging our highly skilled Mongolian team. While we have not identified any candidates that interest us, we have also kept our spending on this endeavor to a minimum, outside of an increased travel expense. Fortunately, we are not in any hurry to re-allocate this capital and can wait for the ideal investment as we now have the liquidity to offset our future operating losses for some time, even as those losses increase in future periods.

While, I realize that this change in focus may be disappointing to some of you, we try to be realists. If the current business is destined towards failure, we should seek out something else with the potential to succeed. The bigger mistake would be to simply continue to do the same thing and hope for a different outcome.

On a final note, seven years ago, I decided that as a sign of confidence in this business, I would take no salary—largely as I expected that within a few years; my role would transition to that of a very dedicated board member and saw myself as something of an interim CEO. Despite spending lots of time and money, we have never identified the right person to act as our permanent CEO. As the Mongolian economy continues to struggle, our potential future CEO options have continued to narrow and at this point, it seems silly to subject MGG to any additional overhead expense as our team in Mongolia is doing an outstanding job managing our business on a daily basis. Unfortunately for me, this means that I will never be able to transition out of the CEO role and seek out other business roles for myself. Therefore, as of January, 2018, I have agreed to accept a salary in-line with that which Genevieve, our CFO, receives. I realize that this is something of a change from my past promises, but I never expected that I would still be in a full-time role, seven years after our business was founded. For better or worse, I intend to continue to serve as CEO for the foreseeable future.

Despite all of the above, I believe that our shares are undervalued and I purchased additional shares of MGG for myself during 2017. While our liquidity remains tight, MGG purchased an additional 1,110,000 shares for a cost basis of \$378,900 during the year under its Normal Course Issuer Bids. While I realize that maintaining liquidity is of paramount importance as the economic crisis worsens, I also believe that repurchasing shares is still a good use of our dwindling capital. Either Mongolia turns around at some point and this buyback turns out to have been accretive, or Mongolia continues into the abyss, in which case, nothing we do will matter anyway.

Sincerely,



Harris Kupperman

CEO and Chairman of the Board

MONGOLIA GROWTH GROUP LTD

Management Discussion & Analysis December 31, 2017

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, 2017 (the “MD&A”), compared with the year ended December 31, 2016. 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 March 23, 2018 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, 2017 and December 31, 2016 together with all of the notes, risk factors and information contained therein, available on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

This MD&A makes reference to adjusted earnings before interest, taxes, unrealized fair value adjustments, share based payments depreciation and amortization (“Adjusted EBITDA”). The Corporation uses Adjusted EBITDA as a measure of the performance of its operating subsidiaries as it excludes depreciation and interest charges, which are a function of the Corporation’s specific capital structure, and also excludes entity specific tax expense. These amounts are not performance measures as defined under IFRS and should not be considered either in isolation of, or as a substitute for, net earnings prepared in accordance with IFRS.

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

During 2017, the Corporation's rental revenues decreased by 18% when compared to 2016, which was largely as a result of lower rental rates, an increasing amount of rental discounts provided to tenants, a weaker local currency versus the Canadian dollar and fewer rental properties due to disposals. Throughout 2017, rental rates continued to decline, particularly in the office market, leading to an expectation that rental revenues may continue to decline in future years. Despite a very weak economy, the Corporation has been able to achieve almost full occupancy rates, with office space and retail occupancy rates of 96.2% and 100% respectively at year end.

Due to a deterioration of the local economy, the Corporation recorded an unrealized fair value loss of \$2,758,843 on its investment properties portfolio during the year (2016 - \$5,728,003). The majority of this impairment (\$1,585,120) (2016 - \$nil) was as a result of a 25% impairment to one of the Corporation's investment properties classified as land and redevelopment. The Corporation currently has a standing agreement with the former owner of a 42 sq. meter apartment, leading it to be included in this properties land title. The agreement entitles the owner of the apartment to 84 sq. meters of space on the first floor of a new building to be built on this land. In this agreement, the Corporation had an obligation to complete the construction of a new building by the end of 2017. A liability of \$142,894 is currently included in the Corporation's balance sheet to reflect this liability. In addition, at year end, the Corporation recognized a \$1,585,120 unrealized fair value loss on this property in excess of the fair value adjustment calculated using the valuation approaches described in Note 8 of the financial statements. This adjustment is management's estimate of the markets perception of the risk related to this agreement. While the Corporation has received legal advice that it is not at a substantial risk of losing the property in question, interpretations of Mongolian law can be varied and arbitrary. The Corporation cautions investors that should it lose this property, it would result in a material reduction in the Corporation's overall assets and fair value (4.7 million dollars current carrying value). In addition, there is the potential that the 84 sq. meter liability could inhibit the sale or development of this asset in future periods.

During the year, the Corporation acquired three properties for a total cost of \$131,387. The Corporation also paid full purchase proceeds of \$372,348 on a fourth property in a separate transaction, however has not yet received the official land title from the Mongolian Property office. Therefore, the fourth property is classified as a prepaid deposit on investment properties within other assets (note 7). During this period, the Corporation sold eight investment properties of which three had been purchased during this same period for total proceeds of \$3,095,071 resulting in a net gain of \$247,200 on these transactions. In comparison, during the year ended December 31, 2016, four investment properties were sold for cash consideration of \$970,241 resulting in net loss of \$223,532 on these transactions. Proceeds from the sales of assets during the year were used for working capital purposes, the acquisition of publicly traded securities, and its Normal Course Issuer Bid (NCIB) program. It is anticipated that the Corporation will continue to dispose of properties in future quarters in order to fund working capital needs, future public securities purchases along with the renewed NCIB program.

During the year, the Mongolian Tögrög depreciated versus the Canadian dollar from 1,848 MNT/CAD on December 31, 2016 to 1,927 on December 31, 2017; a 4.3% decrease during the year. This depreciation led to a \$1,299,746 other comprehensive loss (2016 – 10,651,263 loss) during the year. During the year, the Corporation has experienced some difficulty in converting Mongolian Tögrögs to U.S. Dollars as banks seem to have a shortage of U.S. Dollars. At times, banks have imposed various daily limits on convertibility that have hindered the Corporation's ability to convert even small quantities of currency. The Corporation continues to transfer money back to its Canadian headquarters, however there is no certainty that the Mongolian banks will continue to allow such transfers in the future. The Corporation tries to keep as little of its cash reserves in Mongolian Tögrög as is possible to operate the business.

Economic Overview

Starting in 2012, the Mongolian government initiated a program to restrict and inhibit foreign investment. Additionally, various government officials made statements designed to intimidate foreign investors, followed by arbitrary arrests of foreign employees and confiscations of foreign investments. These actions led to a dramatic slow-down in foreign direct investment (FDI) and an exodus of foreign investors. The economy would have entered a crisis sooner, if not for expansionary fiscal policy and monetary stimulus from the Central Bank of Mongolia. However, by 2014, even this stimulus was insufficient to avert the economic crisis which is currently ongoing.

Despite official statistics that tend to show moderate economic growth, the Corporation is of the opinion that the economy has been in contraction since 2014, though the rate of contraction has varied based on economic policy. Recent statements by prominent politicians that were designed to embarrass and belittle China have resulted in China dramatically reducing imports of raw commodities. This has led to a noticeable decline in economic activity during recent months. Furthermore, changes to tax rates, particularly related to mining licenses, has served to further dissuade foreign investment.

During the past seven years, Mongolia has had five Prime Ministers, seven Cabinets and even more substantial turn-over within most ministries. This has led to inconsistent policy-making, arbitrary decision-making and a general focus amongst ministers for personal gain, hurting all investors—as their tenures tend to be short. This cycle of corruption and incompetence, coupled with a distrust of foreigners by most voters, has led to policies generally designed to stymie foreign investment and devalue existing investments.

The two recent People's Party governments have made statements that are more supportive of foreign investment—however these statements have rarely been backed up by actions that would actually tempt anyone to invest in Mongolia. Furthermore, despite statements of support for foreign investment, multiple investors are waiting for government approvals for their businesses to move forward and there has been a continued net divestment amongst most existing foreign investors.

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 economic growth. Management remains a believer in the long-term growth potential of Mongolia.

Property Overview

During the boom years at the beginning of this decade, multiple sizable property developments were initiated. Despite an economic crisis that began in 2014, many of these developments were ultimately completed, while new projects have continually been initiated—despite minimal demand for these properties. There also remains a sizable shadow inventory of partially completed projects that may re-commence development at any time.

While reliable statistics are hard to come by, management believes that the overall supply of office space is about fifty percent more than current demand, while the supply of high-end residential space is many orders of magnitude in relation to the demand that exists in the market. Retail space has been slightly more insulated, particularly in downtown areas. However, many new office developments are being built with two to three floor retail podiums, along with high-end entertainment venues on the top floors. It is expected that there is minimal demand for this new space, as absorption has been slow—however retail absorption has still been better than the absorption of office or apartment space. When 2018 deliveries hit the market, it is expected that overall vacancy rate will increase beyond current rates, at a time when demand is contracting in most markets.

Due to the glut of space that is currently in the market, new supply coming to the market and reduced demand due to the ongoing economic crisis, rental rates have declined dramatically, with the largest declines witnessed in the residential market, followed by the office market. The Corporation expects that the current market environment will lead to further declines in rental rates and hence overall property values in future years, unless there is a dramatic economic recovery to aid overall absorption.

The Corporation's management is of the opinion that current supply is sufficient to more than satiate demand for many years into the future, even if there is a dramatic overall economic recovery. This is even before properties under development are completed. The Corporation's management remains pessimistic about overall rental rates and property valuations for the foreseeable future. Additionally, many property owners have defaulted on loans with domestic banks. Recent initiatives forcing banks to recognize losses and liquidate collateral are happening at a time when there is minimal liquidity in the market. It is expected by most market participants that these sales will set new benchmarks for valuations and dramatically decrease market values for all property assets within Mongolia.

Recently, a number of prestigious office buildings have offered highly aggressive rates in order to fill vacancies, including elongated free rental periods or even offering rental rates that are below the levels needed to support property taxes and utilities. Based on those indicative rates, the Corporation would experience a substantial decline in rental rates for existing office assets and it is expected that the Corporation's rental revenues will decline substantially in future periods. The Corporation cautions investors that in future periods, it may be forced to accept rental rates that do not cover basic operating costs such as utilities and property tax, even before considering additional allocated overhead management costs. In such a situation, it would be expected that operating losses would expand dramatically from current levels. Additionally, such lease rates may last for an elongated period of time and substantially deplete the Corporation's liquidity.

Management cautions investors that it has a negative outlook on the property sector and is focused on continuing to dispose of assets, when possible.

Section 2 - Executing the Strategy

Core Business

During the past seven 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 through disposition and includes dedicated departments that manage maintenance, leasing, marketing and tenant management. Management believes it has a strong team in place to manage the business on an ongoing basis.

Due to MGG's unique platform, the Corporation has added third party leasing and property management to its focus, in order to leverage its existing resources. Management believes that it has excess capacity to handle these functions and has seen a sizable increase in interest in using its brokerage operation as awareness spreads in the Ulaanbaatar market. The Corporation intends to aggressively target this brokerage opportunity through its website at www.MGGproperties.com.

The Corporation has continued to have occupancy levels that are in excess of current market conditions and it credits its leasing and property management teams with this success. Additionally, bad debt expense has remained below expectations.

Since inception, MGG has acquired a number of redevelopment properties. To date, the Corporation has also remodeled, rebuilt and completed additions on properties. During 2015, the Corporation spent substantial resources redeveloping its Tuguldur retail center property; however these redevelopment efforts have been put on hold due to a slowing economy and uncertainty regarding the ability to lease added space due to the rapidly increasing vacancy level in the city. The Corporation did complete a 334 meter extension to Tuguldur during early 2016 and a lease was signed with a well-respected Mongolian tenant in early 2016. This tenant began to pay rent during the third quarter of 2016. Due to the project going over budget and the sizable decline in market rents from when the project began until a lease was signed, this development project did not hit internal return targets, further validating the Corporation's decision to cease all further development spending. As part of its cost savings initiative, the Corporation has eliminated its development department. The Corporation is evaluating its development pipeline to assess if it should dispose of these assets as the Corporation no longer has the internal resources to develop them and a monetization of these assets will increase the Corporation's liquidity. Additionally, it is unlikely that the city of Ulaanbaatar will need additional space for many years into the future.

The Corporation believes that the Mongolian economy may continue to experience an economic crisis for many years into the future. Therefore, the Corporation believes that property values may continue to depreciate or stay roughly constant, depending on government decisions regarding foreign investment as there is too much oversupply of property for any material recovery in property prices to occur—even if the government suddenly becomes supportive of economic growth. As such, the Corporation is looking at various investment opportunities outside Mongolia, in order to diversify its business. During 2017, the Corporation spent substantial time evaluating a number of businesses, but has not decided to move forward on any acquisition. Additionally, the Corporation has made investments in certain publicly traded securities. The Corporation believes that over time, it will continue to dispose of property assets in order to increase its ownership of publicly traded securities and fund potential future investments outside Mongolia. The Corporation may be forced to take on additional borrowings or issue equity in order to finance these future investments.

The Corporation anticipates that revenues and EBITDA may decline in future quarters as the economic crisis deepens, properties are sold to fund working capital needs, investments in public securities and future potential businesses. Additionally, the Corporation anticipates an increase in operating expenses in future quarters, primarily as a result of an increase in payroll along with due diligence expenses related to potential acquisitions outside of Mongolia. The Corporation expects to finance losses with additional property sales.

Portfolio

Mongolia Growth Group's properties are located in the 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. Fluctuations in the values of the Corporation's property portfolio during the quarter can be attributed to changes in valuations, properties purchased and sold, and the change in value of the functional currency (Mongolian Tögrög) versus the Canadian dollar.

Investment Properties

Investment Properties include properties held to earn rental revenue, for capital appreciation and/or for redevelopment. Investment Properties are initially valued at fair value, which is the purchase price plus any directly attributable expenditure. 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, 2017;

2017			2016	
	# of Properties	Value at 31-Dec-17 \$CDN	# of Properties	Value at 31-Dec-16 \$CDN
Residential	-	-	2	250,320
Office	2	1,923,500	3	2,976,642
Retail	20	13,686,179	23	16,505,234
Land and Redevelopment	3	7,277,842	3	9,769,154
Total	25	22,887,521	31	29,501,350

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, 2017;

2017			2016	
	# of Properties	Value at 31-Dec-17 \$CDN	# of Properties	Value at 31-Dec-16 \$CDN
Office	1	1,576,744	1	1,672,645
Retail	-	-	-	-
Land and Redevelopment	-	-	-	-
Total	1	1,576,744	1	1,672,645

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, 2017;

2017			2016	
	# of Properties	Value at 31-Dec-17 \$CDN	# of Properties	Value at 31-Dec-16 \$CDN
Residential	-	-	-	-
Office	-	-	-	-
Retail	-	-	-	-
Land and Redevelopment	2*	285,290	1*	42,759
Total	2	285,290	1	42,759

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

Occupancy Rates

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

	31-Dec-2017	31-Dec-2016	31-Dec-2015
	Occupancy Rate*	Occupancy Rate*	Occupancy Rate*
Office	97.2%	84.9%	91.7%
Retail	100.0%	95.1%	84.4%
Weighted Average**	98.5%	91.0%	87.4%

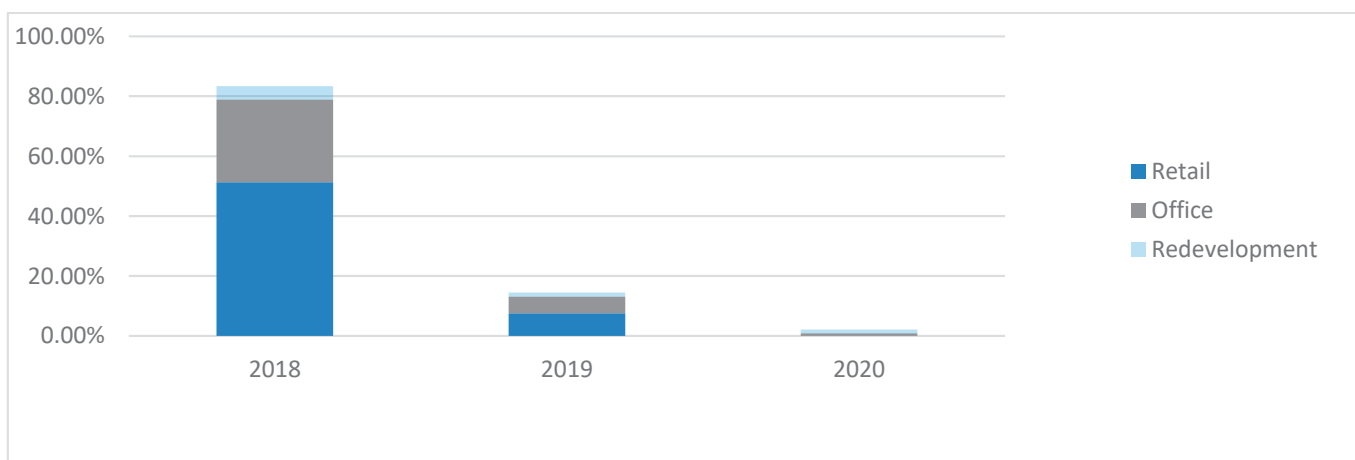
* Occupancy rates are calculated on a per meter basis;

** 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, excluding its headquarters building, continued to improve throughout the year even while vacancy levels throughout the city have remained high as additional supply has entered the market. The Corporation's Tuguldur Center has experienced a continued improvement in occupancy throughout the year and ended the year with average weekly occupancy of over 95% compared to much lower rates in previous years. Management attributes its success throughout the portfolio to increased marketing initiatives, industry leading property management 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 local industry standards, with the expectation that once leases expire, existing tenants are offered the first right to re-lease the space at then prevailing market rates.



The weighted average remaining lease length decreased slightly to 10.8 months in December 2017 compared to 10.9 months in December 2016, calculated as a percentage of monthly revenues.

Most Recent Retail Lease Signings						
Lease Type	Lease Renewal Date	SqM	Old Price Per Meter (Mongolian Tögrög)	New Price Per Meter (Mongolian Tögrög)	Percent Increase (decrease)	
Office lease	Oct-17	21	28,571	20,000	-30.00%	
Retail lease	Oct-17	28	21,429	21,429	0.00%	
Office lease	Oct-17	21	28,571	20,000	-30.00%	
Office lease	Oct-17	54	20,370	14,444	-29.09%	
Office lease	Nov-17	40	20,000	20,000	0.00%	
Office lease	Nov-17	21	28,571	20,000	-30.00%	
Retail lease	Nov-17	125	42,169	42,169	0.00%	
Office lease	Nov-17	24	20,000	20,000	0.00%	
Office lease	Nov-17	24	10,000	10,000	0.00%	
Office lease	Nov-17	44	24,659	30,000	21.66%	
Retail lease	Nov-17	140	37,741	37,741	0.00%	
Office lease	Nov-17	49	27,000	27,000	0.00%	
Retail lease	Dec-17	201	32,200	32,200	0.00%	
Retail lease	Dec-17	110	40,909	40,909	0.00%	
Office lease	Dec-17	54	20,370	20,000	-1.82%	
Office lease	Dec-17	31	35,000	30,000	-14.29%	
Office lease	Dec-17	30	28,000	28,000	0.00%	
Office lease	Dec-17	55	30,000	30,000	0.00%	
Office lease	Dec-17	55	20,000	20,000	0.00%	
Office lease	Dec-17	84	27,000	27,000	0.00%	

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

Publicly Traded Securities

During 2016 and 2017, one of the Corporation's offshore subsidiaries purchased 45,000,000 shares (of which 19,000,000 were purchased in 2016) of Mongolian Mining Corporation at an average cost of approximately 16.8 Hong Kong cents for a cost basis of \$1,219,932. As of the end of the year, the shares were worth \$1,507,054 for a pre-tax gain of \$287,121. However, as the share price decreased from 0.36 to 0.21 Hong Kong cents during the year, this investment contributed to the Corporation's unrealized loss of \$371,197 during period. The shares were purchased for investment purposes as the Corporation remains hopeful that the shares will be worth substantially more should the Mongolian government approve the mega-projects currently in discussions.

Management is continuously evaluating the situation and should it become apparent that the government will not be going ahead with the mega-projects, the Corporation will likely reduce its investment in the Company.

In addition to its position in Mongolian Mining Corporation, as at December 31, 2017, the Corporation also held positions in 13 different publicly traded companies with unrealized gains of \$124,329.

Additionally, the Corporation realized a gain of \$63,809 from sales of public securities during the year. The Corporation anticipates that its public security portfolio will experience volatility beyond the normal volatility of its property portfolio, especially due to its large position in Mongolian Mining Corporation, and the timing of gains and losses is unpredictable.

The Corporation continues to evaluate various investment opportunities in globally traded public securities. The Corporation views investment activities in public securities to be complimentary to its core property business and a potentially attractive use for excess property sale proceeds. The Corporation intends to increase the size of its securities portfolio over time.

Section 3 – Results of Operations

	Year ended 31-Dec- 2017	Year ended 31-Dec- 2016	Year ended 31-Dec- 2015
Total Revenue	1,772,242	1,609,966	1,947,508
Income			
Net loss attributable to equity holders of the Corporation	(3,097,214)	(5,662,784)	(9,930,970)
Total Comprehensive loss attributable to equity holders of the Corporation	(4,396,960)	(16,314,047)	(3,459,196)
Basic earnings per share ("EPS") (in CAD)			
Net income/ (loss)	(0.09)	(0.16)	(0.28)
Diluted EPS (in CAD)			
Net Income/ (loss)	(0.09)	(0.16)	(0.28)
Balance Sheet			
Total Assets	29,405,831	34,511,276	50,815,170
Total liabilities	1,649,251	1,978,836	1,840,825
Total Equity	27,756,580	32,532,440	48,974,345
Shares Outstanding at year end	33,696,599	34,806,599	35,512,829
Book Value per share	0.83	0.93	1.38

Revenue from Investment Properties

For the year end December 31, 2017, rental revenue from Investment Properties was \$1,471,344 versus \$1,783,896 in the prior year. The decrease year over year was attributable to a combination of leases being renewed at lower rates, fewer properties as well as a decrease in the local currency versus the Canadian dollar.

Gain/loss on sale of Investment Properties

For the year end December 31, 2017, the Corporation reported a net gain of \$247,200 on the sale of eight investment properties versus a net loss of \$223,532 in the prior year on the sale of four properties. The gain was primarily due to the sale of one of the Corporation's office buildings, which the Corporation sold as it found a buyer willing to purchase the asset at a significant premium to its fair market value.

Revenue from Other Sources

Revenue from other sources consists of late fees and other income, principally the Corporation's brokerage business. For the year ending December 31, 2017, revenues from other sources totaled \$53,698 compared to \$49,602 for the year ending December 31, 2016. Revenues increased due an increase in its 3rd party brokerage business.

Income Taxes

The Corporation has subsidiaries in Mongolia that are subject to income taxes and, accordingly, has provided for current and deferred income taxes with respect to those subsidiaries.

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 deferred tax liability on the balance sheet decreased by \$121,909 during the year (Q4 2016 - \$365,774) primarily due to a decline in the fair value in investment properties, as well as investment properties disposed of during the year.

At year end, the Corporation reviewed its taxes receivable and determined that the Value Added Tax (VAT) amount that was not projected to be received/offset by the end of 2018 (\$49,448) should be expensed and recorded as doubtful receivables. In comparison, the Corporation expensed doubtful receivables in the amount of \$85,526 during 2016.

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, 2017, the Corporation had approximately 58% of its Investment Properties Portfolio in addition to its head office (classified in PP&E) valued by an international valuation firm and the remaining 42% were valued by Management. For the year ended December 31, 2017, the fair value adjustment to investment properties was a loss of \$2,758,843 compared to a loss of \$5,728,003 for the same period in 2016. The majority of this impairment (\$1,585,120) was as a result of a 25%

impairment to one of the Corporation's investment properties classified as land and development. The Corporation currently has a standing agreement with the owner of a 42 sq. meter apartment leading it to be included in this properties land title. The agreement entitles the owner of the apartment to 84 sq. meters of space on the first floor of a new building to be built on this land. In this agreement, the Corporation had an obligation to complete the construction of a new building by the end of 2017 and the agreement was not extended. A liability of \$142,894 is currently included in the Corporation's balance sheet to reflect this liability. In addition, at year end, the Corporation recognized an \$1,585,120 (2016 - \$nil) impairment on this property in excess of the fair value adjustment calculated using the valuation approaches described. This adjustment is management's estimate of the markets perception of the risk related to this agreement.

Unrealized short-term investment gain/loss

During the year, the Corporation had an unrealized short-term investment loss of \$371,197 compared to an unrealized short-term investment gain of \$731,041 in the year 2016. This unrealized short-term investment loss was the result of the Corporation's significant investment in Mongolia Mining Corporation whose share price went from 0.36 to 0.21 Hong Kong cents during the year. This loss was offset by unrealized short-term investment gains made in the Corporation's other non-core holdings.

Share Repurchase

During the year, the Corporation repurchased 1,139,600 of its common shares under its Normal Course Issuer Bid (NCIB) at an average price of \$0.33 (2016-812,500, \$0.35 average). As at December 31, 2017, the Corporation held 116,100 shares in Treasury to be cancelled during the first quarter of 2017 (2016- 86,500).

Property Operating Expenses

Property Operating Expenses consist of repairs and maintenance, bad debts, utilities, salaries, as well as land and property taxes. For the year ending December 31, 2017, the property operating expenses were \$1,081,444 compared to \$1,354,014 during the same period in 2016, representing a decrease of approximately 22%. This decrease was primarily due to a reduction in the number of properties in the portfolio along with certain expense reductions as the Corporation becomes more efficient.

Corporate Expenses

Corporate expenses include senior management and board of director compensation, share-based expenses, listing fees, professional fees, technology, travel and administrative costs.

For the year ending December 31, 2017, general and administration expenses increased to \$551,764 from \$503,987 in 2016. This increase from the previous year is primarily attributed due to a reallocation of Management salaries from its Mongolian operations to its Canadian operations offset by a reduction in share based payment expense.

Currency

The Mongolian Tögrög has fluctuated significantly over the past five years. The Mongolian Tögrög has depreciated 6.8%, 5.1%, 11.5% and 5.3% in 2011, 2012, 2013 and 2014 respectively versus the Canadian Dollar while appreciating 11.4% in 2015 and depreciating 28.5% in 2016 and a further 4.3% in 2017. 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 8 in the financial statements discloses the foreign exchange adjustment, which flows through the investment property classification during each period. As at December 31, 2017, the Corporation recognized a foreign exchange adjustment loss of \$1,138,502 (2016 - loss of \$10,148,384) to its investment property portfolio due to the 4.3% depreciation of the local currency during the year.

Operating Profit (Loss)

Overall, the Corporation reported an Operating loss or an Adjusted EBITDA profit of \$159,363 during 2017 (2016 – loss of \$307,586). The Improvement in EBITDA since last year is due to the cost saving initiatives implemented during the year.

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

	2017	2016
	\$	\$
Net Income before Income taxes	(3,177,966)	(5,763,752)
Add Depreciation and Amortization	81,249	124,523
Add/Subtract Interest and Investment Income/gains / Finance Expense	287,049	(751,311)
EBITDA	(2,809,668)	(6,390,540)
Subtract Fair Value Adjustment Gain (Add back loss) on all properties including impairments on PPE and Other Assets	2,969,031	6,082,954
Total Adjusted EBITDA	159,363	(307,586)

Net Income

For the year ended December 31, 2017, the Corporation incurred a net loss of \$3,097,214, compared to a net loss of \$5,662,784 for the year ended December 31, 2016. This significant loss is primarily attributed to the substantial unrealized loss on fair value adjustment on investment properties portfolio of \$2,758,843 (2016 – loss of \$5,728,003).

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

Section 4 - Financial Condition

Cash Flow

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

The following table provides an overview of the Corporation's cash flows from operating, financing and investing activities for the year ended December 31, 2017 and 2016.

	31-Dec-17	For the year ending 31-Dec-16
	\$	\$
Net change in cash related to:		
Operating	(345,038)	713,163
Investing	(7,023)	475,685
Financing	269,980	(285,023)
Effects of exchange rates on cash	(158,635)	(57,610)
Net change in cash during the period	(240,716)	846,215

Overall, the Corporation had cash outflows of \$240,716 during 2017 compared to cash inflows of \$842,215 in 2016. The Corporation's cash outflows were generated through the significant operating cash outflows versus significant operating cash inflows during 2016 through a decrease in non-cash working capital balance. The changes in components of cash flows for the year ended December 31, 2017, compared to the year ended December 31, 2016, were the result of the following factors:

- **Operating**—The Corporation experienced significant Operating cash outflows for the year ended 2017 versus significant cash inflows for the year ended 2016 due to a negative change in non-cash working capital and the completion of the sale of an investment property during the year versus receiving the deposit for this property during the 2016 year.
- **Investing**—The Corporation experienced Investing cash outflows for the year ended 2017 due to the purchase of marketable securities and other assets compared to investing cash inflows in 2016 due to the sale of investment properties.
- **Financing**—Financing cash inflows occurred due to the proceeds from the bank loan offset by an increase in the repurchase of 1,139,600 shares during the year versus 812,500 shares during the 2016 year.

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, 2017, the Corporation had approximately \$1,640,771 (2016 - \$1,881,487) in cash and cash equivalents. Due to the expectation that Corporation's cash position will worsen in future quarters, the Corporation is focused on increasing liquidity and cash reserves in Canada through asset sales and has taken on a \$1,300,200 credit facility through a commercial bank in Mongolia.

Total Assets

As of December 31, 2017, the Corporation had \$4,863,414 (2016 - \$3,204,065) in Current Assets out of which \$1,640,771 (2016 - \$1,881,487) was held in cash. The decrease in cash is primarily due to purchase of marketable securities offset by the sale of investment properties during the year. Management considers its marketable securities to be liquid and available to be sold at any time should the Corporation require cash.

The majority of the Corporation's assets are classified as Non-Current Assets, mainly Investment Properties. Investment Properties are carried at Fair Market Value and decreased during the year to \$22,887,521 (2016 -\$29,501,350) by way of a dispositions, an unrealized loss on fair value adjustment further magnified by a decrease in the Mongolian Tögrög versus the Canadian dollar during the year.

Property and Equipment, which primarily consists of properties that are measured at their cost base, decreased from \$1,805,861 in 2016 to \$1,654,896 in 2017 primarily due to a decrease the Mongolian Tögrög versus the Canadian dollar.

Total Liabilities

As of December 31, 2017, the Corporation had current liabilities of \$517,077 (2016 - \$1,354,501) consisting of payables and accrued liabilities. The decrease was due to a deposit of \$673,585 for the sale of an investment property that had been received in 2016 which was settled during the 2017 year.

As of December 31, 2017, the only non-current liabilities on the balance sheet are long term debt outstanding and deferred income taxes. During the period, the Corporation obtained a two year CDN\$1,300,200 (USD \$1,000,000) credit facility through a commercial bank in Mongolia. The loan is secured by various property assets and guarantees from Mongolian subsidiaries.

The Corporation made an initial draw of USD \$500,000 during the year ended December 31, 2017. As at the end of the year, the Corporation had \$629,748 in long term debt outstanding (2016-\$0).

Deferred tax liabilities decreased slightly during the year to \$502,426 in 2017 (2016 - \$624,335) due to the decrease in value of the Corporation's property portfolio.

Total Equity

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

Outstanding	31-Dec 16	31-Dec-16
Common shares	33,696,599*	34,806,599*
Options to buy common shares	3,103,000	3,358,000

* As at December 31, 2017, the Corporation held 116,100 of the common shares outstanding in Treasury to be cancelled during the first quarter of 2018 (2016-86,500).

* As of March 23, 2018, the Company had 33,580,499 shares outstanding, 108,500 shares held in treasury, and 3,103,000 options outstanding.

Options Outstanding

At December 31, 2017, the Corporation had 3,103,000 options that were exercisable (December 31, 2016; 3,358,000).

The chart below shows the historical option grants and options outstanding as of December 31, 2017.

Option Price	Granted	Expired	Forfeited	Cancelled	Exercised	Total Options Outstanding	Total Exercisable	Non exercisable
1.64	100,000	-	-	-	100,000	-	-	-
1.75	300,000	50,000	-	-	250,000	-	-	-
1.9	1,363,000	-	85,000	-	200,000	1,043,000	1,043,000	-
4.2	900,000	205,000	408,000	287,000	-	-	-	-
4.77	175,000	20,000	100,000	55,000	-	-	-	-
4.25	150,000	5,000	50,000	95,000	-	-	-	-
4.0	190,000	-	-	190,000	-	-	-	-
4.13	475,000	125,000	75,000	275,000	-	-	-	-
1.09	375,000	-	75,000	-	-	300,000	300,000	-
0.72	935,000	-	20,000	-	-	915,000	915,000	-
0.74	640,000	-	75,000	-	-	565,000	565,000	-
0.38	350,000	-	75,000	-	-	280,000	280,000	-
Total	5,953,000	405,000	963,000	902,000	550,000	3,103,000	3,103,000	-

Acquisitions and Dispositions

During the year, the Corporation acquired three properties for a total cost of \$131,387. The Corporation also paid full purchase proceeds of \$372,348 on a fourth property in a separate transaction, however has not yet received the official land title from the Mongolian Property office. Therefore, the fourth property is classified as a Prepaid deposit on investment properties within other assets (note 7). During this period, the Corporation sold eight investment properties of which three had been purchased during this same period for total proceeds of \$3,095,071 resulting in a net gain of \$247,200 on these transactions. A deposit of \$673,585 had been received in November 2016 for the sale of one of these properties. In comparison, during the year ended December 31, 2016, four investment properties were sold for cash consideration of \$970,241 resulting in net loss of \$223,532 on these transactions.

Related Party Transactions

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

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

Related Party Transactions	2017 \$	2016 \$
Salaries and other short-term benefits to officers	202,039	186,341
Director fees	50,000	-
Share-based payments to directors and officers	-	107,722
	252,039	294,063

As at December 31, 2017, amounts due to related parties totaled \$40,000, comprised entirely of accrued directors fees (2016 - \$nil) and were included in trade payables and accrued liabilities.

Off-Balance Sheet Items

As of December 31, 2017, the Corporation had no off-balance sheet items.

Events Subsequent to Year End

Since January 1, 2018, the Corporation repurchased 108,500 of its shares at an average price of \$0.27/share.

Section 5 - Quarterly Information

Quarterly Results

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

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue	662,458	370,354	338,352	401,078	348,301	433,302	338,203	490,160
Net income (loss)	(720,889)	401,886	(2,135,025)	(643,186)	196,138	434,059	(6,017,609)	(275,372)
Income (loss) per common share	(0.02)	0.01	(0.06)	(0.02)	0.00	0.01	(0.17)	(0.01)
Total Assets	29,405,831	29,377,211	31,397,409	33,268,754	34,511,276	36,767,186	41,480,240	46,241,247
Weighted Average Shares (No.)	34,342,059	34,486,152	34,571,610	34,633,899	35,297,108	35,430,404	35,444,217	35,512,829
Ending Shares (No.)	33,696,599	34,294,099	34,506,599	34,524,099	34,806,599	35,372,099	35,397,599	35,512,829

Revenue

During the fourth quarter, the Corporation's real estate subsidiary earned total revenue of \$662,458 (Q4 2016 - \$348,301) of which rental income earned was \$353,279 (Q4 2016 - \$406,410). The majority of this rental income decrease is attributed to lower rental rates and a decline in the currency. The quarterly revenue number also includes other revenue earned from miscellaneous sources such as late fees, advertising and from sale of investment properties. During the fourth quarter, the Corporation experienced a gain on sale of investment properties of \$298,646 (2016 – loss of \$62,279), which positively affected the Corporation's revenue.

During the 4th quarter of 2017, the Corporation also incurred an unrealized loss on fair value adjustment of \$1,107,674 compared to an unrealized loss on fair value adjustment of \$166,594 during Q4 2016.

Expenses

Quarterly expenses related to corporate operations totaled \$151,106 (Q4 2016 - \$71,328). This increase was due to a reallocation of Management salaries from its Mongolian operations to its Canadian operations.

Net Income

During the quarter, the Corporation experienced loss of \$720,889 in comparison to an income of \$196,138 in the same quarter of the previous year. This difference is mainly attributed to the significant fair value adjustments loss recorded in the fourth quarter of 2017 compared to the fourth quarter of 2016.

Section 6 – Critical Estimates and Judgements

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, 2017, the unrealized loss on fair value adjustment is \$2,758,843 (2016 - loss of \$5,728,003).

Accuracy of Share Based Compensation Expense

The estimate of the expense arising from share based compensation plans is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the share based compensation expense recorded by the Corporation. The ultimate expense is estimated by using a number of key assumptions such as the expected volatility of the share price, the dividends expected on the shares, the risk free interest rate for the expected life of the options and future forfeiture rates. For the year ending December 31, 2017, there were no share based payment costs (2016 - \$157,165).

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.

During 2016 and early 2017, the Corporation had difficulty in converting Mongolian Tögrög to U.S. Dollars at large Mongolian banks. This difficulty has persisted in subsequent periods, but to a lesser degree. There can be no certainty regarding the ability to convert or wire money from Mongolia in the future.

Mongolia recently signed an agreement with the IMF. There is no certainty regarding the demands that the IMF may make upon Mongolia for austerity or the impacts that this may have on the economy of Mongolia.

Due to the economic crisis, businesses are increasingly paying for transactions using various forms of barter such as used equipment, apartments, vehicles, future services and livestock. To date, the Corporation has only agreed to receive barter items in extreme circumstances and has a strong preference to avoid using barter in transactions. As the economic crisis worsens, barter transactions may become a more substantial percentage of overall economic transactions. As a result, the Corporation may be forced to receive barter items at a higher frequency. These barter items are often difficult to value and monetize and may cause other difficulties for the Corporation that are impossible to predict.

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.

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

Judgement is required in determining whether an asset meets the criteria for classification as assets held for sale and or as discontinued operations in the consolidated financial statements. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the probability of the sale being completed within an expected timeframe of one year and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this financial position category as appropriate. On completion of the sale, management exercises judgement as to whether the sale qualifies as a discontinued operation.

As at December 31, 2017 and 2016 management has made the judgment that none of the Company's assets meet the criteria to be classified as held for sale. While this is due to a number of factors, a primary reason is that due to the conditions of the Mongolian economy and the lack of liquidity in the market, management was unable to conclude that the sale of any significant size asset could be considered highly probable.

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. Recently, there have been rumors that various commercial banks in Mongolia could fail. There is no way to tell if these rumors are accurate however, starting in early July, the Corporation has had difficulty in converting Mongolian Tögrög into U.S. Dollars. If banks are unwilling or unable to give the Corporation access to its U.S. Dollar deposits, the Corporation could experience severe liquidity issues.

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. Recently, the Corporation has experienced an increase in late rental payments. The Corporation believes that it will collect all of this debt, but there is no certainty that this will occur.

Liquidity Risk

Under certain market conditions, such as during volatile markets or when trading in a security or market is otherwise impaired, the liquidity of the Corporation's portfolio positions may be reduced. In addition, the Corporation may from time to time hold large positions with respect to a specific type of financial instrument, which may reduce the Corporation's liquidity. During such times, the Corporation may be unable to dispose of certain financial instruments, including longer-term financial instruments, which would adversely affect its ability to rebalance its portfolio. In addition, such circumstances may force the Corporation to dispose of financial instruments at reduced prices, thereby adversely affecting its performance. If there are other market participants seeking to dispose of similar financial instruments at the same time, the Corporation may be unable to sell such financial instruments or prevent losses relating to such financial instruments. Furthermore, if the Corporation incurs substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In addition, in conjunction with a market downturn, the Corporation's counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Corporation's exposure to their credit 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, 2017.

As at December 31, 2017, the Corporation had working capital of \$4,346,337 (2016- \$1,849,564) 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, 2017, the Corporation's only material contractual obligations is the repayment of its credit facility of up to \$1,300,200 in December 2019. To date the Corporation has only drawn on \$629,748 of this facility.

Market Risk

Market risk is the risk that the fair value of, or future cash flows from, the Corporation's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Corporation is exposed to market risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices.

Property Title Risk

Mongolian law has strong protections for property assets; however implementation of Mongolian law is often arbitrary, with high degrees of corruption and incompetence. Additionally, laws frequently change, which can invalidate a property title. To date, the Corporation has only had one of its property assets confiscated by the Government of Mongolia, however the Corporation believes that there is a possibility that it will have additional assets confiscated by the Government of Mongolia or stolen by private individuals during future periods. The Corporation is currently not aware of any individual asset that is in imminent danger of being confiscated or stolen.

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. All of the Corporation's revenues are received in Mongolian Tögrög while approximately half of the Corporation's expenses are incurred in U.S. and Canadian Dollars. Therefore, a depreciation in the Mongolian Tögrög against the US and Canadian Dollar will reduce AFFO. The exchange rate continues to be volatile and there is an expectation that volatility may continue for the foreseeable future.

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 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.

Preliminary growth estimates according to the National Statistics Office for 2017 was 5.1% year over year, while inflation estimates were 6.4% according to Mongol Bank. Management cautions investors that official economic numbers often deviate materially from actual underlying economic conditions.

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.

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 (Note 15 on December 31, 2017 Financial Statements).

Unless the context otherwise requires, references to the "Corporation" include the Corporation and its subsidiaries and affiliates collectively, including Mongolia (Barbados) Corp.

Changes in Investment Strategies

The Corporation may alter its investment strategies and restrictions without prior approval by shareholders to adapt to changing circumstances.

Possible Negative Impact of Regulation

The regulatory environment is evolving and changes to it may adversely affect the Corporation. To the extent that regulators adopt practices of regulatory oversight that create additional compliance, transaction, disclosure or other costs for the Corporation, returns of the Corporation may be negatively affected. In addition, the regulatory or tax environment for securities, derivatives and related instruments is evolving and may be subject to modification by government or judicial action that may adversely affect the value of the investments held by the Corporation. The effect of any future regulatory or tax change on the Corporation is impossible to predict.

Property Specific Risk

The Corporation currently has a standing agreement with the owner of a 42 sq. meter apartment which has been included in one of the Corporation's properties classified as land and development. The agreement entitles the owner of the apartment to 84 sq. meters of space on the first floor of a new building to be built on this land. In this agreement, the Corporation had an obligation to complete the construction of a new building by the end of 2017 and the agreement was not extended. A liability of \$142,894 is currently included in the Corporation's balance sheet to reflect this liability. In addition, the Corporation has recognized a \$1,585,120 (2016 - \$nil) unrealized fair value loss on this property in excess of the fair value adjustment calculated using the valuation approaches described. This adjustment is management's estimate of the markets perception of the risk related to this agreement. While the Corporation has received legal advice that it is not at a substantial risk of losing the property in question, interpretations of Mongolian law can be varied and arbitrary. The Corporation cautions investors that should it lose this property, it would result in a material reduction in the Corporation's overall assets and fair value (4.7 million dollars current carrying value). In addition, there is the potential that the 84 sq. meter liability could inhibit the sale or development of this asset in future periods.

Use of Derivatives

The Corporation may use derivative instruments. The use of derivatives in general presents additional risks to those applicable to trading only in the underlying assets. To the extent of the Corporation's investment in derivatives it may take a credit risk with respect to parties with whom it trades and may also bear the risk of settlement default. When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Corporation from achieving the intended hedge effect or expose the Corporation to the risk of loss. In addition, derivative instruments may not be liquid at all times, so that in volatile markets the Corporation may not be able to close out a position without incurring a loss. No assurance can be given that short sales, hedging, leverage and other techniques and strategies utilized by the Corporation to hedge its exposure will not result in material losses.

Custody Risk and Broker or Dealer Insolvency

The Corporation does not control the custodianship of all of its assets. The Corporation's assets will be held in one or more accounts maintained for the Corporation by its broker or brokers. Such brokers are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Corporation's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a broker or any sub-custodians, agents or affiliates, it is impossible to generalize about the effect of their insolvency on the Corporation and its assets. Investors should assume that the insolvency of any of the brokers or such other service providers would result in the loss of all or a substantial portion of the Corporation's assets held by or through such brokers and/or the delay in the payment of withdrawal proceeds.

Investment and Trading Risks in General

All trades made by the Corporation risk the loss of capital. The Corporation may utilize trading techniques or instruments, which can, in certain circumstances, maximize the adverse impact to which a client's account may be subject. No guarantee or representation is made that the Corporation's investment program will be successful, and investment results may vary substantially over time. Many unforeseeable events, including actions by various government agencies, and domestic and international economic and political developments may cause sharp market fluctuations which could adversely affect the Corporation's portfolio and performance.

General Economic and Market Conditions

The success of the Corporation's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Corporation's investments. Unexpected volatility or illiquidity could impair the Corporation's profitability or result in losses.

Issuer-Specific Changes

The value of an individual security or particular type of security can be more volatile than, and can perform differently from the market as a whole.

Portfolio Turnover

The Corporation has not placed any limits on the rate of portfolio turnover and portfolio securities may be sold without regard to the time they have been held when, in the opinion of the Corporation, investment considerations warrant such action. A high rate of portfolio turnover involves correspondingly greater expenses than a lower rate.

Liquidity of Underlying Investments

Some of the securities in which the Corporation may invest may be thinly traded. There are no restrictions on the investment of the Corporation in illiquid securities. It is possible that the Corporation may not be able to sell or repurchase significant portions of such positions without facing substantially adverse prices. If the Corporation is required to transact in such securities before its intended investment horizon, the performance of the Corporation, could suffer.

Highly Volatile Markets

The prices of financial instruments in which the Corporation's assets may be invested can be highly volatile and may be influenced by, among other things, specific corporate developments, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The Corporation is subject to the risk of the failure of any of the exchanges on which the Corporation's positions trade or of their clearinghouses.

Emerging Markets

The Corporation may invest in the securities of companies which operate in some emerging markets. Operating in emerging markets involves additional risks because companies in emerging markets may be less regulated and not subject to the same

standards, reporting practices and disclosure requirements that apply in more developed markets. In addition, some emerging markets and legal systems may not adequately protect investor rights.

Small- to Medium- Capitalization Companies

The Corporation may invest a portion of its assets in the securities of companies with small- to medium-sized market capitalizations. While the Corporation believes these investments often provide significant potential for appreciation, those securities may involve higher risks in some respects than do investments in securities of larger companies. For example, while smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification, and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. As a result, the securities of smaller companies may be subject to wider price fluctuations. When making large sales, the Corporation may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the trading volume of smaller Corporation securities.

Fixed Income Securities

The Corporation may occasionally invest in bonds or other fixed income securities of issuers, including, without limitation, bonds, notes and debentures issued by corporations. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Corporation invests will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk). If fixed income investments are not held to maturity, the Corporation may suffer a loss at the time of sale of such securities.

Equity Securities

To the extent that the Corporation holds equity portfolio investments, or short positions in equities, it will be influenced by stock market conditions in those jurisdictions where the securities held by the Corporation, are listed for trading and by changes in the circumstances of the issuers whose securities are held by the Corporation.

Options

Selling call and put options is a highly specialized activity and entails greater than ordinary investment risk. The risk of loss when purchasing an option is limited to the amount of the purchase price of the option, however investment in an option may be subject to greater fluctuation than an investment in the underlying security. In the case of the sale of an uncovered option there can be potential for an unlimited loss. To some extent this risk may be hedged by the purchase or sale of the underlying security.

Shorting

Selling a security short ("shorting") involves borrowing a security from an existing holder and selling the security in the market with a promise to return it at a later date. Should the security increase in value during the shorting period, losses will incur to the Corporation. There is in theory no upper limit to how high the price of a security may go. Another risk involved in shorting is the loss of a borrow, a situation where the lender of the security requests its return. In cases like this, the Corporation, must either find securities to replace those borrowed or step into the market and repurchase the securities. Depending on the liquidity of the security shorted, if there are insufficient securities available at current market prices, the Corporation, may have to bid up the price of the security in order to cover the short position, resulting in losses to the Corporation.

Trading Costs

The Corporation may engage in a high rate of trading activity resulting in correspondingly high costs being borne by the Corporation.

Currency and Exchange Rate Risks

The Corporation's assets will be denominated in multiple currencies. The Corporation will report their results in Canadian dollars. The Corporation expects to report allocations of profit and loss for income tax purposes in Canadian dollars. Changes in currency exchange rates may affect the value of the Corporation's portfolio and the unrealized appreciation or depreciation of investments.

Leverage

The Corporation may use financial leverage by borrowing funds against the assets of the Corporation. Leverage increases both the possibilities for profit and the risk of loss for the Corporation. From time to time, the credit markets are subject to periods in which there is a severe contraction of both liquidity and available leverage. The combination of these two factors can result in leveraged strategies being required to sell positions typically at highly disadvantageous prices in order to meet margin requirements, contributing to a general decline in a wide range of different securities. Illiquidity can be particularly damaging to leveraged strategies because of the essentially discretionary ability of dealers to raise margin requirements, requiring leveraged strategy to attempt to sell positions to comply with such requirements at a time when there are effectively no buyers in the market at all or at any but highly distressed prices. These market conditions have in the past resulted in major losses. Such conditions, although unpredictable, can be expected to recur.

Future Acquisitions and Business Diversification

Management is currently evaluating future acquisitions of businesses and operating assets that are not related to investments within Mongolia. There can be no certainty that the Corporation will acquire any business. Additionally, if the Corporation acquires part or all of a business outside of Mongolia, it may dilute management's focus on current operations within Mongolia. Additionally, shareholders who desire a Mongolia focused investment vehicle may sell shares of the Corporation if they do not desire investments outside of Mongolia. There can be no certainty that the Corporation can raise adequate funding to finance an acquisition of a business outside of Mongolia or that diversification of the Corporation's business is in the best interest of the Corporation. Capital spent on researching businesses outside of Mongolia will increase operating expenses and operating losses as long as such due diligence is ongoing.

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 since 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.

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, 2018 or later and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

IFRS 9 Financial Instruments

IFRS 9, Financial Instruments, first issued in November 2009 with final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit and loss (FVTPL), fair value through OCI or amortized cost.

For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

IFRS 9 also introduces an expected loss impairment model for all financial assets not as at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018.

The Corporation has performed a preliminary assessment and expects no material impact from adopting 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 recognized 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 recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation has performed a preliminary assessment and expects no material impact from adopting IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 – Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right

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

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, 2017
(expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mongolia Growth Group Ltd.

We have audited the accompanying consolidated financial statements of Mongolia Growth Group Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Mongolia Growth Group Ltd. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

March 23, 2018

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

(Expressed in Canadian dollars)

	2017 \$	2016 \$
Assets		
Current assets		
Cash (note 5)	1,640,771	1,881,487
Marketable securities (note 6)	2,816,624	1,184,825
Other assets (note 7)	406,019	137,753
	<u>4,863,414</u>	<u>3,204,065</u>
Non-current assets		
Investment properties (note 8)	22,887,521	29,501,350
Property and equipment (note 9)	1,654,896	1,805,861
	<u>24,542,417</u>	<u>31,307,211</u>
Total assets	<u>29,405,831</u>	<u>34,511,276</u>
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	507,534	1,192,397
Income taxes payable	9,543	162,104
	<u>517,077</u>	<u>1,354,501</u>
Non-current liabilities		
Deferred income tax liability (note 12)	502,426	624,335
Long term debt (note 11)	629,748	-
	<u>1,132,174</u>	<u>624,335</u>
Total liabilities	<u>1,649,251</u>	<u>1,978,836</u>
Equity		
Share capital (note 13)	53,751,473	54,130,373
Contributed surplus	6,849,976	6,849,976
Accumulated other comprehensive loss	(13,086,274)	(11,786,528)
Deficit	(19,758,595)	(16,661,381)
	<u>27,756,580</u>	<u>32,532,440</u>
Total equity	<u>27,756,580</u>	<u>32,532,440</u>
Total equity and liabilities	<u>29,405,831</u>	<u>34,511,276</u>

Commitment and contingencies (note 17)

Subsequent events (note 21)

Approved by the Board of Directors

“Robert Scott” Director _____ *“Harris Kupperman”* Director

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

Mongolia Growth Group Ltd.
Consolidated Statements of Operations
For the years ended December 31

(Expressed in Canadian dollars)

	2017	2016
	\$	\$
Revenue		
Rental income	1,471,344	1,783,896
Gain (loss) on disposal of investment property	247,200	(223,532)
Other revenue	53,698	49,602
Total revenue	1,772,242	1,609,966
Expenses		
Salaries and wages	821,593	876,670
Other expenses (note 20)	944,299	1,217,192
Share based payment (note 13)	-	157,165
Depreciation (note 9)	81,249	124,523
Total expenses	1,847,141	2,375,550
Net investment income	26,133	20,270
Unrealized loss on fair value adjustment on Investment properties (note 8)	(2,758,843)	(5,728,003)
Impairment of property and equipment (note 9)	-	(343,506)
Impairment of other assets	(210,188)	(11,445)
Unrealized gain (loss) on short term investments (note 6)	(371,197)	731,041
Realized gain on short term investments (note 6)	63,809	-
Foreign currency gain	5,839	-
Finance costs	(5,794)	-
Recovery of tax	147,174	333,475
Net loss before income taxes	(3,177,966)	(5,763,752)
Income taxes (note 12)	80,752	100,968
Net loss for the year	(3,097,214)	(5,662,784)
Net loss per share (note 13)		
Basic		
From net loss for the year	(0.09)	(0.16)
Diluted		
From net loss for the year	(0.09)	(0.16)

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

Mongolia Growth Group Ltd.
 Consolidated Statements of Comprehensive Loss
 For the years ended December 31

(Expressed in Canadian dollars)

	2017	2016
	\$	\$
Net loss for the year	(3,097,214)	(5,662,784)
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	(1,299,746)	(10,651,263)
Total comprehensive loss	<u>(4,396,960)</u>	<u>(16,314,047)</u>

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

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

(Expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance at January 1, 2016	54,369,332	6,738,875	(1,135,265)	(10,998,597)	48,974,345
Net loss for the year	-	-	-	(5,662,784)	(5,662,784)
Other comprehensive loss	-	-	(10,651,263)	-	(10,651,263)
	<u>54,369,332</u>	<u>6,738,875</u>	<u>(11,786,528)</u>	<u>(16,661,381)</u>	<u>32,660,298</u>
Share repurchase	(285,023)	-	-	-	(285,023)
Share based payments	-	157,165	-	-	157,165
Share capital issued (note 13)	46,064	(46,064)	-	-	-
Balance at December 31, 2016	<u>54,130,373</u>	<u>6,849,976</u>	<u>(11,786,528)</u>	<u>(16,661,381)</u>	<u>32,532,440</u>

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance at January 1, 2017	54,130,373	6,849,976	(11,786,528)	(16,661,381)	32,532,440
Net loss for the year	-	-	-	(3,097,214)	(3,097,214)
Other comprehensive loss	-	-	(1,299,746)	-	(1,299,746)
	<u>54,130,373</u>	<u>6,849,976</u>	<u>(13,086,274)</u>	<u>(19,758,595)</u>	<u>28,135,480</u>
Share repurchase	(378,900)	-	-	-	(378,900)
Balance at December 31, 2017	<u>53,751,473</u>	<u>6,849,976</u>	<u>(13,086,274)</u>	<u>(19,758,595)</u>	<u>27,756,580</u>

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

Mongolia Growth Group Ltd.

Consolidated Statements of Cash Flow

For the years ended December 31

(Expressed in Canadian dollars)

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Net loss for the year	(3,097,214)	(5,662,784)
Items not affecting cash		
Depreciation (note 9)	81,249	124,523
Share based payments (note 13)	-	157,165
Deferred taxes (note 12)	(121,909)	(365,774)
Bad debt write off	-	5,930
Allowance for doubtful tax receivables (note 7)	(36,078)	85,526
Realized loss on disposal of property and equipment	-	8,671
Realized loss (gain) on disposal of investment properties (note 8)	(247,200)	223,532
Impairment of property and equipment (note 9)	-	343,506
Impairment of other assets (note 7)	210,188	11,445
Unrealized loss (gain) on marketable securities (note 6)	371,197	(731,041)
Realized gain on marketable securities	(63,809)	-
Unrealized loss on fair value adjustment on investment properties (note 8)	2,758,843	5,728,003
	(144,733)	(71,298)
Net change in non-cash working capital balances (note 18)	(200,305)	784,461
	(345,038)	713,163
Financing activities		
Share repurchase (note 13)	(378,900)	(285,023)
Proceeds from bank loan (note 11)	648,880	-
	269,980	(285,023)
Investing activities		
Net purchases of marketable securities (note 6)	(1,924,157)	(453,698)
Net disposal (acquisition) of property and equipment	(617)	(18,241)
Net acquisition of other assets (note 7)	(196,004)	-
Net acquisition of investment properties (note 8)	-	(22,617)
Disposal of investment properties, net of taxes (note 8)	2,113,755	970,241
	(7,023)	475,685
	(82,081)	903,825
Effect of exchange rates on cash	(158,635)	(57,610)
Increase (decrease) in cash	(240,716)	846,215
Cash – Beginning of year	1,881,487	1,035,272
Cash – End of year	1,640,771	1,881,487

*Supplementary cash flow information (note 18)

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, 2017

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 operating 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, 2017, 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 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 Oceanus LLC at this time. MGG's marketable securities are currently held in a brokerage account owned by Mongolia (Barbados) Corp.

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

At December 31, 2017, the Company is organized into two segments based on the business operations:

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

2 Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The significant accounting policies used in the preparation of these consolidated financial statements are summarized in note 3.

The consolidated financial statements, including the notes to the consolidated financial statements, are presented in Canadian dollars (\$) which is the Company's presentation currency and the functional currency of the parent Company. The functional currency of the Company's operating subsidiaries is the Mongolian National Tögrög (MNT).

These consolidated financial statements were approved by the Board of Directors of the Company for issue on March 23, 2018.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

3 Significant accounting policies

a. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of investment properties.

b. Basis of consolidation

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

c. Financial instruments

Financial assets

Financial assets are classified as either fair-value through profit or loss (“FVTPL”) or loans and receivables. The classification depends on the purpose for which the asset was acquired. The Company’s accounting policy for each category is as follows:

i) Fair value through profit or loss

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

ii) Loans and receivables

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

Cash and accounts receivable are classified as loans and receivables. Their carrying amount approximates fair value due to their limited time to maturity and readily available conversion to cash.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

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, accrued liabilities and long-term debt. 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. Marketable securities are classified as fair value through profit or loss. Financial assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

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

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

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

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

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

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

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

The levels of the fair value inputs used in determining estimated fair value of the Company's financial assets at fair value through profit or loss as at December 31, 2017 and 2016, is shown below.

	Estimated fair values			
	December 31, 2017	Level 1	Level2	Level3
Marketable securities	\$2,816,624	\$2,816,624	-	-
	\$2,816,624	\$2,816,624	-	-

	Estimated fair values			
	December 31, 2016	Level 1	Level2	Level3
Marketable securities	\$1,184,825	\$1,184,825	-	-
	\$1,184,825	\$1,184,825	-	-

At December 31, 2017 and 2016 there were no financial assets or liabilities measured and recognized in the statement of financial position at fair value that would be categorized as level 2 and 3 in the fair value hierarchy above.

d. Investment properties

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

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For the year ended December 31

d. Investment properties (continued)

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 generating 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 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 price to the seller, but the Company has not yet received the official land or building title from the Mongolian Property office are recorded as Prepaid deposits on investment properties and classified within other assets.

e. Assets held for sale

Non-current 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 properties measured under the fair value model and held for sale continue to be measured by the guidelines of IAS 40 – Investment Property. All other assets held for sale are stated at the lower of carrying amounts and fair value less selling costs. An asset that is subsequently reclassified as held and in use, with the exception of investment property measured under the fair value model, is measured at the lower of its recoverable amount and the carrying value that would have been recognized had the asset never been classified as held for sale.

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f. Revenue recognition

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

i) Rental revenue

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

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

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

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

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

ii) Investment income

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

g. Cash

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

h. Property and equipment

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

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

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h. Property and equipment (continued)

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

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

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

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

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

i. Income taxes

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

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

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

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i. Income taxes (continued)

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

j. Foreign exchange transactions

Foreign currency transactions are translated at the rate of exchange in effect on the dates they occur. Gains and losses arising as a result of foreign currency transactions are recognized in the current year consolidated statement of operations. At reporting dates, monetary items are translated at the closing rate of exchange in effect at the consolidated statement of financial position date.

Translation of foreign operations

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

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

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

k. Comprehensive income

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

l. Share capital and deferred share issuance costs

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

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For the year ended December 31

m. Share based payment

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

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

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

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

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

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

n. Earnings (loss) per share

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

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Notes to the Consolidated Financial Statements

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o. Segment reporting

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

p. Leases

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

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

q. Provisions and contingent liabilities

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

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

r. Accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018 or later and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Company are set out below. The Company does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

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IFRS 9 Financial Instruments

IFRS 9, Financial Instruments, first issued in November 2009 with final version released in July 2014 by the IASB, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit and loss (FVTPL), fair value through OCI or amortized cost.

For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

IFRS 9 also introduces an expected loss impairment model for all financial assets not as at FVTPL. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established; (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized; and (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount.

Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities. The standard is effective for annual periods beginning on or after January 1, 2018.

The Company has performed a preliminary assessment and expects no material impact from adopting IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company has performed a preliminary assessment and expects no material impact from adopting IFRS 15 and plans to adopt the new standard on the required effective date.

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IFRS 16 – Leases

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

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 results may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in net income (loss) in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

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

- Fair value of investment properties – The estimate of fair value of investment properties is the most critical accounting estimate to the Company. An external appraiser estimates the fair value of the majority of investment properties annually. The remaining balance of investment properties was valued internally. 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. This fair value assumes that the Company is in possession of the property's land and property titles where applicable. Management judges that the Company has the appropriate titles for each of the properties classified as Investment properties. Properties whereby the Company is not currently in possession of the appropriate titles but does not expect there to be issues in receiving the titles are classified as prepaid deposits on investment properties. Properties whereby Management judges that the Company's titles are at risk, have been impaired to reflect the level of risk estimated by Management.
- 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.

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4 Significant accounting estimates and judgements (continued)

- Valuation of marketable securities and investments - The Company recognizes marketable securities and investments at fair value. Fair value is determined on the basis of market prices from independent sources, if available. If there is no market price, then the fair value is determined by using valuation models with inputs derived from observable market data where possible but where observable data is not available, judgment is required to establish fair values.
- 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 13.
- 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.

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

- Judgement is required in determining whether an asset meets the criteria for classification as assets held for sale and or as discontinued operations in the consolidated financial statements. Criteria considered by management include the existence of and commitment to a plan to dispose of the assets, the expected selling price of the assets, the probability of the sale being completed within an expected timeframe of one year and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this financial position category as appropriate. On completion of the sale, management exercises judgement as to whether the sale qualifies as a discontinued operation.
- As at December 31, 2017 and 2016 management has made the judgment that none of the Company's assets meet the criteria to be classified as held for sale. While this is due to a number of factors, a primary reason is that due to the conditions of the Mongolian economy and the lack of liquidity in the market, management was unable to conclude that the sale of any significant size asset could be considered highly probable.

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5 Cash

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

The following table discloses the geographical location of cash:

	2017 \$	2016 \$
Barbados	79,034	45,275
Canada	946,834	1,408,483
Mongolia	614,903	427,729
Total cash	1,640,771	1,881,487

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

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

	2017 \$	2016 \$
Cash on hand	4,478	3,300
A or A+ rated	881,751	1,359,463
-B or B+ rated	610,425	424,506
Unrated	144,117	94,218
Total cash	1,640,771	1,881,487

The unrated balance relates to one private bank in Barbados (2016 – one), one investment company in Canada (2016 – one) and one investment company in the United States (2016 – one).

6 Marketable Securities

	2017 \$	2016 \$
Common shares of public companies:		
Fair value - beginning of the year	1,184,825	-
Net purchases	1,924,157	453,698
Foreign exchange gains	15,030	86
Unrealized (loss) gain	(371,197)	731,041
Realized gain	63,809	-
Fair value - end of the year	2,816,624	1,184,825

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7 Other assets

	2017	2016
	\$	\$
Accounts receivable	147,421	161,514
less: Allowance for doubtful accounts	(49,448)	(85,526)
Prepaid expenses	22,756	19,006
Prepaid deposits on investment properties	285,290	42,759
	<u>406,019</u>	<u>137,753</u>

Prepaid deposit on investment properties relates to two properties for which a title have not been obtained.

During the year, the Company paid \$372,348 towards land which will eventually be classified as an investment property, however has not yet received the official land title from the Mongolian Property office as at December 31, 2017. Therefore, the purchase price is classified as a prepaid deposit on investment properties within other assets. During the year, the Company recorded a \$132,622 impairment (2016 - \$11,445) on its prepaid deposit on investment properties and a \$77,566 impairment (2016- \$nil) on a prepaid expense.

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8 Investment properties

	2017	2016
	\$	\$
Balance - beginning of year	29,501,350	46,473,749
Additions		
Acquisitions	131,387	-
Capital expenditures	-	22,617
Transfer from property and equipment	-	75,144
Disposals	(2,847,871)	(1,193,773)
Fair value adjustment	(2,758,843)	(5,728,003)
Foreign exchange adjustments	(1,138,502)	(10,148,384)
	<u>22,887,521</u>	<u>29,501,350</u>
Balance – end of year		

During the year ended December 31, 2017, the Company recorded a \$2,758,843 unrealized fair value loss (2016 - \$5,728,003 loss) on its investment properties.

During the year ended December 31, 2017, the Company acquired three properties for a total cost of \$131,387. The Company also paid \$372,348 on a fourth property in a separate transaction, however has not yet received the official land title from the Mongolian Property office. Therefore, the fourth property is classified as a prepaid deposit on investment properties within other assets (note 7). During the year ended December 31, 2017, the Company sold eight investment properties, of which three had been purchased during this same period, for total proceeds of \$3,095,071 resulting in a net gain of \$247,200 on these transactions. A deposit of \$673,585 had been received in November 2016 for the sale of one of these properties. In comparison, during the year ended December 31, 2016, four investment properties were sold for cash consideration of \$970,241 resulting in net loss of \$223,532 on these transactions.

Investment properties by major category are as follows:

	2017	2016
	\$	\$
Residential	-	250,320
Office	1,923,500	2,976,642
Retail	13,686,179	16,505,234
Land and redevelopment sites	7,277,842	9,769,154
	<u>22,887,521</u>	<u>29,501,350</u>

Investment properties with an aggregate fair value of \$13,176,208 (2016 - \$16,459,265) and an office building classified as property and equipment of \$1,576,743 (2016 - \$1,672,645), were valued by an external independent valuation professional who is deemed to be qualified appraiser who holds a recognized, relevant, professional qualification and who has recent experience in the locations and categories of the investment properties valued. The remaining balance of investment properties was valued internally.

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8 Investment properties (continued)

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

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

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

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

The Company currently has a standing agreement with the owner of a 42 sq. meter apartment which has been included in one of the Company's properties classified as land and redevelopment. The agreement entitles the owner of the apartment to 84 sq. meters of space on the first floor of a new building to be built on this land. In this agreement, the Company had an obligation to complete the construction of a new building by the end of fiscal 2017 and the agreement was not extended. A liability of \$142,894 is currently included in the Company's trade payables and accrued liabilities to reflect this liability. In addition, the Company has recognized a \$1,585,120 (2016-\$nil) unrealized fair value loss on this property in excess of the fair value adjustment calculated using the valuation approaches described. This adjustment is management's estimate of the markets perception of the risk related to this agreement.

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:

	2017		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.5%	9.5%	10.1%
	2016		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.5%	9.0%	10.1%

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8 Investment properties (continued)

The following sensitivity table outlines the impact of a 0.25% change in the weighted average capitalization rate on investment properties at December 31, 2017:

	Change to fair value if capitalization rate increased 0.25%	Change to fair value if capitalization rate decreases 0.25%
Commercial property	(95,661)	82,970

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 \$177,445 (2016 - \$101,551) have no rental revenue associated with them at December 31, 2017, consisting of one property held for sale that management has determined is easier to sell while vacant. The 2016 amount consisted of a different property that was vacant for the same reason.

Investment properties include land held under operating leases with an aggregate fair value of \$7,277,842 (2016 - \$9,769,154) at December 31 2017.

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

	2017	2016
	\$	\$
Less than 1 year	1,137,557	1,145,691
Between 1 and 5 years	439,749	444,230
Beyond 5 years	-	-
	<u>1,577,306</u>	<u>1,589,921</u>

Direct operating expenses arising from investment properties that generated rental income during the year was \$1,078,473 (2016 - \$1,350,803). Direct operating expenses arising from investment properties that did not generate rental income during the year was \$2,971 (2016 - \$3,211).

The Company's operating leases, in which the Company is the lessor, are structured such that the weighted average length of the leases as December 31, 2017 was 10.8 months (10.8 months in December 2016), calculated as a percentage of monthly revenues.

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9 Property and equipment

	2017			
	Furniture and fixtures \$	Equipment \$	Buildings \$	Total \$
Cost				
At January 1	78,957	185,081	1,994,297	2,258,335
Additions	-	1,383	-	1,383
Disposals	(1,805)	(30,729)	-	(32,534)
Foreign exchange adjustment	(1,925)	(8,527)	(86,760)	(97,212)
At December 31	75,227	147,208	1,907,537	2,129,972
	2017			
	Furniture and fixtures \$	Equipment \$	Buildings \$	Total \$
Accumulated depreciation				
At January 1	26,204	127,984	298,286	452,474
Depreciation	7,449	17,626	56,174	81,249
Disposals	(1,039)	(30,729)	-	(31,768)
Foreign exchange adjustment	(470)	(7,760)	(18,649)	(26,879)
At December 31	32,144	107,121	335,811	475,076
Net book value at December 31	43,083	40,087	1,571,726	1,654,896

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

9 Property and equipment (continued)

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

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

10 Trade payables and accrued liabilities

	2017 \$	2016 \$
Trade and accrued payables	192,150	191,411
Property Commitment (note 8)	142,894	149,081
Security deposit	129,297	135,357
Unearned revenue	43,193	42,963
Deposit on investment property sales	-	673,585
	<u>507,534</u>	<u>1,192,397</u>

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

11 Long term debt

	2017 \$	2016 \$
Non-current	<u>629,748</u>	-
	<u>629,748</u>	-

During the period, the Company obtained a two year CDN\$1,300,200 (USD \$1,000,000) credit facility through a commercial bank in Mongolia. The loan is secured by various property assets and guarantees from Mongolian subsidiaries.

The loan will bear interest at a simple monthly rate of 1.1% on all drawn amounts with re-payment of principal due 2 years following the draw date and is in-line with current interest rates in Mongolia. The Company made an initial draw of USD \$500,000 during the year ended December 31, 2017.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

12 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:

	2017 \$	2016 \$
Net income (loss) before income taxes	(3,177,966)	(5,763,752)
Combined statutory tax rate	<u>26.5%</u>	<u>26.5%</u>
Tax payable (recoverable) based on statutory tax rate	(842,161)	(1,527,395)
Effect of:		
Permanent differences	278,094	1,635,962
Change in statutory, foreign tax, foreign exchange rates and other	179,315	(153,284)
Change in unrecognised deductible tax differences	304,000	56,251
Total income tax expense (recovery)	<u>(80,752)</u>	<u>(100,968)</u>
Provision for (recovery of) income taxes		
Current	41,157	264,806
Deferred	<u>(121,909)</u>	<u>(365,774)</u>
Provision for (recovery of) income taxes - continuing operations	<u>(80,752)</u>	<u>(100,968)</u>

b) Deferred income taxes

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

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

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

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12 Income taxes (continued)

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

	<u>2017</u>	<u>2016</u>
Deferred Tax Assets (liabilities)		
Investment properties	\$ (502,426)	\$ (624,335)
Net deferred tax liability	\$ (502,426)	\$ (624,335)

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

Temporary Differences	2017	Expiry Date Range	2016	Expiry Date Range
Property and equipment	14,000	No expiry date	11,000	No expiry date
Capital Cost Allowance (CCA)	167,000	No expiry date	179,000	No expiry date
Allowable capital losses	162,000	No expiry date	60,000	No expiry date
Non-capital losses available for future period	9,679,000	2030 to 2037	8,625,000	2030 to 2036

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

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

13 Share capital and contributed surplus

Common shares

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

The issued and outstanding common shares are as follows:

	Number of shares	Amount \$
Balance, December 31, 2015	35,512,829	54,369,332
Shares re-purchased	-	(285,023)
Treasury stock cancelled	(726,000)	-
RSAs vested	19,770	46,064
Balance, December 31, 2016	34,806,599	54,130,373
Shares re-purchased	-	(378,900)
Treasury stock cancelled	(1,110,000)	-
Balance, December 31, 2017	33,696,599	53,751,473

As at December 31, 2017, the Company held 116,100 (2016 -86,500) shares in treasury to be cancelled during the first quarter of 2018.

Stock options

The Company has established a share based payment plan (the "Plan") to encourage ownership of its shares by key management personnel (directors and executive management), employees and other key service providers, and to provide compensation for certain services. The Plan provides for the issuance of stock options in an aggregate number of up to 10% of the Company's issued and outstanding shares, calculated from time to time and are exercisable within a maximum of ten (10) years. The vesting period for all options is at the discretion of the directors. The exercise price will be set by the directors at the time of grant and cannot be less than the discounted market price of the Company's common shares. At December 31, 2017, the Company had 266,660 (2016 - 122,660) common shares available for the granting of future options under the new plan. The Company does not have any cash-settled transactions. Full details of the Company's option plan can be found in "Schedule C" of the Management Information Circular on the Company's website and filed on Sedar.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

13 Share capital and contributed surplus (continued)

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

	December 31, 2017	Weighted average exercise price \$	December 31, 2016	Weighted average exercise price \$
Balance, beginning of the year	3,358,000	1.11	3,288,000	1.45
Options expired	(35,000)	1.90	(280,000)	4.21
Options cancelled	-	-	-	-
Options granted	-	-	350,000	0.38
Options exercised	-	-	-	-
Options forfeited	(220,000)	0.74	-	-
Balance, end of the year	<u>3,103,000</u>	<u>1.13</u>	<u>3,358,000</u>	<u>1.11</u>
Exercisable	3,103,000	1.13	3,358,000	
Weighted remaining average life (years)		<u>1.77</u>		<u>2.74</u>

The Company recognizes share based payment expense for all stock options granted using the fair value based method of accounting. During the year ended December 31, 2017, the Company recognized \$nil (2016 - \$157,165) in share based payment expense with respect to options vested during the year. The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the years ended December 31, 2017 and 2016:

	2017	2016
Risk-free interest rate	-	0.54%
Expected life of grant	-	3 years
Volatility	-	67.5%
Dividend	-	0%
Forfeiture rate	-	nil
Weighted average fair value per option	-	\$0.18

The approximate impact of an increase of 10% in the volatility assumption for the options issued in the current year would increase net loss of the Company by \$nil (2016- \$7,669). The approximate impact of a decrease of 10% in the volatility assumption would decrease net loss of the Company by \$nil (2016 - \$8,062).

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

13 Share capital and contributed surplus (continued)

Options outstanding 2017

Number outstanding	Number exercisable	Weighted average remaining life (years)	Weighted average exercise price \$
1,043,000	1,043,000	1.17	1.90
300,000	300,000	1.94	1.09
915,000	915,000	2.25	0.72
565,000	565,000	2.27	0.74
280,000	280,000	1.21	0.38
3,103,000	3,103,000	1.77	1.13

Options outstanding 2016

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

Restricted Stock Awards

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

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

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

	December 31, 2017	December 31, 2016
Balance, beginning of year	-	23,393
RSAs forfeited	-	(3,623)
RSAs vested	-	(19,770)
Balance, end of the year	-	-

Mongolia Growth Group Ltd.

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For the year ended December 31

13 Share capital and contributed surplus (continued)

The fair value of the restricted shares granted during the 2017 year was \$nil (2016- \$40,064) 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 2017 year, the Company recorded net compensation expense of \$nil (2016 - \$10,686) for the Restricted Share Plan within the share based payment expenses.

a) Earnings per share

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

	2017 \$	2016 \$
Weighted average number of shares - basic	34,342,059	35,297,108
Effect of dilutive stock options	-	-
Weighted average number of shares - diluted	<u>34,342,059</u>	<u>35,297,108</u>

Basic earnings (loss) per share are derived by dividing net income (loss) for the year by the weighted average number of common shares outstanding for the period. The effect of potentially dilutive securities is excluded if they are anti-dilutive.

There have been no significant capital transactions from the reporting date to the date of this filing which have had a material impact on earnings per share.

14 Management of capital structure

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

The Company's capital structure includes equity and working capital. In managing its capital structure, the Company considers future investment and acquisition opportunities, potential credit available and potential issuances of new equity. The Company's objective is to maintain a flexible capital structure that will allow it to execute its stated business. Upon acquiring investment properties and operating businesses, the Company will strive to balance its proportion of debt and equity within its capital structure in accordance with the needs of the continuing business. The Company may, from time to time, issue shares and adjust its spending to manage current and projected proportions as deemed appropriate.

The method used by the Company to monitor its capital is based on an assessment of the Company's working capital position relative to its projected obligations. At December 31, 2017, the Company's working capital was \$4,346,337 (2016 - \$1,849,564).

	2017 \$	2016 \$
Current assets	4,863,414	3,204,065
Current liabilities	<u>(517,077)</u>	<u>(1,354,501)</u>
Working capital	<u>4,346,337</u>	<u>1,849,564</u>

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

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15 Financial risk management

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

Catastrophe risk

During the year ended December 31, 2017, the Company obtained insurance on buildings and all permanent fixtures totalling approximately \$15,600,000 (2016 - \$22,770,000).

Credit risk

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

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.

	2017	2016
	\$	\$
Cash	1,640,771	1,881,487
Accounts receivable	147,421	161,514
less: Allowance for doubtful accounts	(49,448)	(85,526)
	<u>1,738,744</u>	<u>1,957,475</u>

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio. The majority of the funds invested are held in reputable Barbadian, Canadian or Mongolian banks (note 5).

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 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

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

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15 Financial risk management (continued)

received on investments. Cash provided from these sources is used primarily for investment property operating expenses.

As at December 31, 2017, 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 marketable securities as at December 31, 2017. The Company's only material liability that can be called unexpectedly at the demand of a third party is a \$629,748 loan (2016- \$nil) .

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

	December 31, 2017		
	One year or less \$	One to two years \$	No maturity date \$
Financial Assets			
Cash	1,640,771	-	-
Accounts receivables	147,421	-	-
less: Allowance for doubtful accounts	(49,448)	-	-
	1,738,744	-	-
Financial Liabilities			
Trade payables and accrued liabilities	507,534	-	-
Bank loan	-	629,748	-

	December 31, 2016		
	One year or less \$	One to two years \$	No maturity date \$
Financial Assets			
Cash	1,881,487	-	-
Accounts receivables	161,514	-	-
Less: Allowance for doubtful accounts	(85,526)	-	-
	1,957,475	-	-
Financial Liabilities			
Trade payables and accrued liabilities	1,192,397	-	-

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

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15 Financial risk management (continued)

Market risk

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

i) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on fixed income securities. Changes in interest rates will affect the fair value of the fixed income securities. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease. During periods of declining interest rates the opposite is true. The Company is not directly exposed to interest rate risk at December 31, 2017 and 2016.

ii) Currency risk

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

The approximate impact of a fluctuation of 10% in the Mongolian Tögrög against the Canadian dollar would impact the OCI of the Company by \$2,727,189 (2016 - \$3,076,824).

iii) Other price risk

Other price risk market fluctuation risk is where fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. The Company's marketable securities are exposed to other price risk.

Economic risk

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

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

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

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

15 Financial risk management (continued)

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

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

Mongolia Growth Group Ltd.

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16 Related party transactions

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

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

	2017	2016
	\$	\$
Salaries and other short-term employee benefits	202,039	186,341
Director fees	50,000	-
Share-based payments	-	107,722
	252,039	294,063

As at December 31, 2017, amounts due to related parties totaled \$40,000, comprised entirely of accrued directors fees (2016 - \$nil) and were included in trade payables and accrued liabilities.

17 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.

18 Supplementary cash flow information

	2017	2016
	\$	\$
Changes in non-working capital arising from		
Other assets	(83,188)	32,350
Trade payables and accrued liabilities	12,124	696,958
Income tax payable	(129,241)	55,153
Changes in non-cash working capital from operating activities	(200,305)	784,461

Income tax paid during the year was \$46,061 (2016 - \$43,987).

Interest paid during the year was \$5,794 (2016 - \$nil).

During the year ended December 31, 2017, no properties (2016 - \$75,144) were transferred from property and equipment to investment properties (note 8).

During the year ended December 31, 2017, Investment Properties of \$131,387 was received as consideration in the sale of an Investment Property.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

18 Supplementary cash flow information (continued)

During the year ended December 31, 2017, Investment Properties of \$176,344 were disposed of as consideration to acquire Other Assets (2016 - \$nil).

During the year ended December 31, 2017, the Company reclassified \$673,585 from accrued liabilities relating to a deposit on a sale of an investment property which completed during the year ended December 31, 2017.

19 Segment information

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

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

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

	2017		
	Investment Property	Corporate	Total
	\$	\$	\$
Rental income	1,471,344	-	1,471,344
Property operating expenses	(1,081,444)	-	(1,081,444)
Unrealized loss on fair value adjustment on investment properties	(2,758,843)	-	(2,758,843)
Impairment of other assets	(210,188)	-	(210,188)
Unrealized mark to market loss	-	(371,197)	(371,197)
Other expenses	(132,684)	(551,764)	(684,448)
Depreciation	(81,249)	-	(81,249)
Net investment income	25,773	360	26,133
Gain on disposal of investment property	247,200	-	247,200
Other revenue	53,698	-	53,698
Foreign currency gain (loss)	13,574	(7,735)	5,839
Realized gain on marketable securities	-	63,809	63,809
Finance cost	(5,794)	-	(5,794)
Tax recovery	147,174	-	147,174
Net income (loss) before income taxes	(2,311,439)	(866,527)	(3,177,966)

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

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19 Segment information (continued)

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

	Investment Property	Corporate	Total
	\$	\$	\$
Balance as of December 31, 2016			
Total assets	31,867,291	2,643,985	34,511,276
Property and equipment	1,805,861	-	1,805,861
Investment properties	29,501,350	-	29,501,350
Expenditures			
Property and equipment	27,356	-	27,356
Investment properties	22,617	-	22,617

	Investment Property	Corporate	Total
	\$	\$	\$
Balance as of December 31, 2017			
Total assets	25,560,529	3,845,302	29,405,831
Property and equipment	1,654,896	-	1,654,896
Investment properties	22,887,521	-	22,887,521
Expenditures			
Property and equipment	1,383	-	1,383
Investment properties	131,387	-	131,387

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

19 Segment information (continued)

	Revenue		Property and equipment		Investment property	
	2017 \$	2016 \$	2017 \$	2016 \$	2017 \$	2016 \$
Canada	-	2,000	-	-	-	-
Mongolia	1,772,242	1,607,966	1,654,896	1,805,861	22,887,521	29,501,350
	1,772,242	1,609,966	1,654,896	1,805,861	22,887,521	29,501,350

20 Other expenses

	2017 \$	2016 \$
Investor Relations	42,095	25,470
Repairs and maintenance	51,404	90,997
Office	64,147	69,825
Professional fees	317,622	397,442
Travel	73,760	55,969
Advertising	8,682	16,331
Land and property tax	123,928	175,939
Insurance	45,674	58,388
Utilities	136,600	150,529
Bad debt	-	5,930
Allowance for doubtful tax receivables	(36,078)	85,526
Other	116,465	84,846
	944,299	1,217,192

21 Subsequent events

- Since January 1, 2018, the Corporation has repurchased 108,500 of its shares at an average price of \$0.27/share and cancelled 219,600 shares.

Board of Directors



Harris Kupperman
CEO and Chairman of Mongolia Growth Group Ltd

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



Nick Cousyn
Independent Director

Mr. Cousyn is a Capital Markets' professional with 15 years of alternatives and traditional industry experience. Before moving to Mongolia, Mr. Cousyn was a licensed securities professional in the U.S. with extensive experience in relationship management and trading which spanned equities, fixed income, derivatives and distressed debt. While based in the US, some of the firms he worked for included Deutsche Bank, Banque Populaire, Wells Fargo and First Horizon National Bank. Since 2012, Mr. Cousyn has served as Chief Communications Officer for Petro Matad and Chief Operating Officer and head of research for BDSec (MO:BDS), Mongolia's largest broker and investment bank. Mr. Cousyn also served as Co-Chair of the Business Council of Mongolia Capital Market Working Group and is a Senior Council Member and guest lecturer at Mongolia's Institute for Finance and Economics. Mr. Cousyn holds a BA in Economics from the University of California at Riverside.



Jim Dwyer
Independent Director

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



Brad Farquhar
Independent Director

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



Robert Scott
Independent Director

Mr. Scott, CPA, CA, CFA brings more than 20 years of professional experience in accounting, corporate finance, 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, and has served on the management teams and boards of numerous Canadian publicly traded companies with a strong track record of cost effectively running operations. Mr. Scott has also listed several companies on the TSX Venture Exchange gaining extensive IPO, RTO, regulatory and reporting experience, and currently holds senior management and board positions with a number of issuers on the TSX Venture Exchanges & the Canadian Securities Exchange.

Officers

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CEO and Chairman of the Board

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

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