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.

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
	4,863,414	3,204,065
Non-current assets		
Investment properties (note 8)	22,887,521	29,501,350
Property and equipment (note 9)	1,654,896	1,805,861
	24,542,417	31,307,211
Total assets	29,405,831	34,511,276
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	507,534	1,192,397
Income taxes payable	9,543	162,104
	517,077	1,354,501
Non-current liabilities		
Deferred income tax liability (note 12)	502,426	624,335
Long term debt (note 11)	629,748	-
Total liabilities	1,649,251	1,978,836
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)
Total equity	27,756,580	32,532,440
Total equity and liabilities	29,405,831	34,511,276

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	**(4,396,960)**	**(16,314,047)**

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)
	54,369,332	6,738,875	(11,786,528)	(16,661,381)	32,660,298
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	54,130,373	6,849,976	(11,786,528)	(16,661,381)	32,532,440

	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)
	54,130,373	6,849,976	(13,086,274)	(19,758,595)	28,135,480
Share repurchase	(378,900)	-	-	-	(378,900)
Balance at December 31, 2017	53,751,473	6,849,976	(13,086,274)	(19,758,595)	27,756,580

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.

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.

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.

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.

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

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.

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.

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.

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.

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.

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.

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.

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.

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 financiail 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.

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**

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
	406,019	**137,753**

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.

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)
Balance – end of year	**22,887,521**	**29,501,350**

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
	22,887,521	**29,501,350**

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.

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%

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	-	-
	1,577,306	**1,589,921**

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.

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

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

					2016
	Furniture and fixtures $	**Equipment $**	**Vehicles $**	**Buildings $**	**Total $**
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

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
	507,534	1,192,397

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	629,748	-
	629,748	-

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.

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	26.5%	26.5%
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)	(80,752)	(100,968)
Provision for (recovery of) income taxes		
Current	41,157	264,806
Deferred	(121,909)	(365,774)
Provision for (recovery of) income taxes - continuing operations	**(80,752)**	**(100,968)**

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.

12 Income taxes (continued)

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

	2017	2016
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.

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.

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	3,103,000	1.13	3,358,000	1.11
Exercisable	3,103,000	1.13	3,358,000	
Weighted remaining average life (years)		1.77		2.74

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).

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	-	-

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	34,342,059	35,297,108

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	(517,077)	(1,354,501)
Working capital	**4,346,337**	**1,849,564**

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)
Maximum credit risk exposure on the consolidated statement of financial position	1,738,744	1,957,475

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

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	-	-

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.

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.

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.

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)**

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)**

Balance as of December 31, 2016	**Investment Property $**	**Corporate $**	**Total $**
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

Balance as of December 31, 2017	**Investment Property $**	**Corporate $**	**Total $**
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

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.