MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis

March 31, 2014

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# Message to Shareholders

*For ease of readability, we have improved the format of our quarterly MD&A to give better insight into our business, with a particular emphasis on differentiating between corporate & business development expenses associated with our management platform, and our highly profitable core property portfolio.*

***All numbers stated in the following MD&A are presented in Canadian dollar terms unless stated otherwise.***

Our first quarter results reflect the continued growth in the Mongolian economy, particularly in our retail property assets with total rental revenues increasing to $482,624 during the first quarter of 2014, compared to $414,385 during the first quarter of the previous year.

Offsetting this revenue increase has been an increase of our expenditures as we invest in infrastructure and our implementation capabilities, along with one-time expenses. In particular, the Corporation recognized elevated expenses associated with the disposition of Mandal General Insurance LLC ("Mandal"), our former insurance company. We have recently announced cost cutting initiatives in our business, to re-align our expenses structure to current revenue levels.

In terms of our core portfolio rents on a same-property basis, we reported revenue growth of 37.7%, 41.6% and 34.2% in January, February and March compared to 2013's results in Mongolian Tögrög. We believe that this increase in revenue is a result of the continued strength in the Mongolian property market along with increased market rental rates.

It should be pointed out that the Corporation entered April, 2014 with an average high street retail lease rate of $14.37 per meter, per month. Current high street lease rates range between $21.72 and $37.24 per meter, per month, which should give us decent headroom as we continue to re-sign leases at market rates.

In February of 2014, we purchased one of the highest quality re-developable property assets on Peace Avenue, from a highly distressed seller, in a transaction which involved us committing to pay $5.1 million in cash and swapping two of our less performing assets. To date, we have paid $4.0 million for this asset and have one remaining payment of $1.1 million to make. We purchased this asset at a significant discount to current market values and are currently evaluating options to substantially increase the yield on this asset, on an interim basis as we look to ultimately redevelop this location into one of the highest quality retail assets in Ulaanbaatar, Mongolia.

Sincerely,

Harris Kupperman

Executive Chairman

MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis

March 31, 2014

The management of Mongolia Growth Group Ltd. ("MGG" or "the Corporation") presents the Corporation's management discussion and analysis for the three months ended March 31, 2014 (the "MD&A"), compared with the three months ended March 31, 2013. As of January 1, 2011, the Corporation adopted International Financial Reporting Standards ("IFRS"). This MD&A provides an overall discussion, followed by analyses of the performance of the Corporation's major reportable segments. The reporting and presentation currency in the consolidated financial statements and in this discussion and analysis is the Canadian dollar, unless otherwise noted.

This MD&A is dated May 30, 2014 and incorporates all relevant information and considerations to that date.

*The following discussion and analysis should be read in conjunction with the consolidated condensed financial statements of the Corporation for the three months ended March 31, 2014 and March 31, 2013 together with all of the notes, risk factors and information contained therein, available on SEDAR at www.sedar.com.*

Non-IFRS Financial Measures

This MD&A makes reference to earnings before interest, taxes, depreciation and amortization ("EBITDA"). MGG uses EBITDA as a measure of the performance of its operating subsidiaries as it excludes depreciation and interest charges, which are a function of the Corporation's specific capital structure, and also excludes entity specific tax expense. These amounts are not performance measures as defined under IFRS and should not be considered either in isolation of, or as a substitute for, net earnings prepared in accordance with IFRS. The Corporation refers to "funds used in operations", "operating losses" and "re-valuation of investment properties" within this analysis. "Funds used in operations" is computed by calculating the cash flow from operations before changes to non-cash working capital from operations.

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.

# Section 1 – Overview

## Financial and Operational Overview

During the first quarter, the Corporation renewed several leases at significantly higher rates. Increased renewal rates were somewhat offset by a decline in the Mongolian Tögrög, which resulted in the Corporation's rental revenue increasing 16% over the previous year's first quarter. The Corporation's occupancy rates continue to improve with high and secondary street retail space being almost fully occupied during the majority of the quarter, 98.4% high street retail occupancy and 93.3% secondary street retail occupancy at March 31, 2014.

The Corporation had an unrealized fair value adjustment gain at the end of the quarter of $1,824,323 versus a fair value adjustment gain of $1,136,125 during the prior year's first quarter. $292,724 of this unrealized gain was due to a fair market value adjustment of a property that was transferred from Other Assets to Investment Property following the receipt of its land title. $303,980 of this unrealized gain was due to a fair market value adjustment of two properties previously held at cost as PPE which transferred to Investment Properties during the quarter. The properties classified as Other Assets and PPE transferred to Investment Properties during the quarter were adjusted to reflect the fair market value assessed by the an external appraiser at December 31, 2013. The remaining unrealized gains were a result of an internal valuation performed by management as at March 31, 2014 on six properties that were not valued during 2013.

The Corporation had a net gain from Continuing Operations of $696,160 during the quarter versus a gain of $141,920 during the first quarter of 2013 (restated). Excluding depreciation and stock option expenses, the Corporation had a net gain from Continuing Operations of $1,155,300 (Q1 2013 - $629,247).

The Corporation continues to dispose of non-core assets to streamline its portfolio and dispose of smaller and underperforming assets. It is anticipated that proceeds from sales will be reinvested in higher quality institutional assets with better net-yield profiles. During the quarter, the Corporation disposed of six properties for consideration worth $1,597,277, and a gain of $141,885. As of March 31, 2014, the Corporation had twelve investment properties classified as available for sale.

The Mongolian Tögrög continued to depreciate throughout the quarter, depreciating 4.8% versus the Canadian Dollar.

## Economic Overview

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

During the first half of 2013, uncertainties due to the presidential election, a reduction in Chinese demand for coal and an unsure environment for mining concerns and foreign investment led to a decrease in the rate at which the Mongolian economy grew. Economic growth accelerated in the second half of 2013 following the successful re-election of President Elbegdorj, the repeal of Strategic Entities Foreign Investment Law (SEFIL) and an increased focus on attracting foreign investment. This growth has continued into the first quarter of 2014 and the local economy appears to be quite robust, with the exception of certain industries related to coal mining and its supply chain.

During the second quarter of 2013, the government announced a program to offer 8% mortgages on certain conforming apartments. As consumers refinance their properties, it has created a stimulating effect on the economy. Loans outstanding in the banking industry also increased substantially during the past year. From December 31, 2013 to March 31, 2014, the National Consumer Price Index increased 3.5%. Money supply (M2) has risen (decreased) 6.1%, (1.8%) and 1.0% in January, February and March, respectively.

The Mongolian economy continues to grow based on data from The National Statistics Office of Mongolia ("NSO") with estimates of first quarter, 2014 growth of 7.4%. The growth rate has been sustained in part by the spending from the Chinggis Bond, which has been directed towards investment in roads, as well as manufacturing and construction sector developments.

The Mongolian Tögrög has fluctuated significantly over the past two years. In 2012, the average exchange rate between the Tögrög and the Canadian Dollar was approximately 1,360 MNT/CAD for the year, whereas during 2013, the Tögrög reached a high of over 1,649 Tögrög per Canadian Dollar and averaged 1,467 per Canadian Dollar. During the first quarter of 2014, the Tögrög averaged 1,567 per Canadian Dollar. Management would like to note that in general, most commercial property transactions in Ulaanbaatar are negotiated for in US Dollars and recent declines in the Tögrög to US Dollar exchange rate have not had a noticeable impact on the prices of property assets, in US Dollar terms. In addition, in times of currency volatility, Mongolians have tended to prefer to acquire property assets to protect their savings.

It is anticipated that the economy will remain strong, despite concerns over commodity price volatility and questions over when phase 2 of the Oyu Tolgoi mine will begin construction.

## Property Overview

The general property market continues to be influenced by improvement in the overall Mongolian economy.

Outside of the downtown of Ulaanbaatar, a noticeable increase in building activity has saturated certain markets and led to a decline in prices. In addition, there has been a recent increase in office construction activity that will likely lead to future saturation in the office market.

Management cautions shareholders that property prices have historically been, and continue to be, very volatile.

It should also be noted that last year's initiation of 8% mortgages for certain conforming apartments has led to a sizable increase in conforming apartment prices and increases in the value of land assets that are suitable for building apartments.

Management expects continued high demand for well-located retail space, with a lower demand level for office space. However, demand for office space continues to improve with the strength of economy.

## Outlook

Management remains focused on finding ways to leverage the growth of the Mongolian economy to increase value per share.

On March 1, 2014, Paul Byrne was appointed as CEO of MGG. Since his appointment, Mr. Byrne has undertaken a comprehensive overview of the Corporation's operations, with the goal of increasing returns. Recent initiatives include accelerating the disposition of non-core property assets, improving efficiencies at the property management company and reducing costs across the entire Corporation, with a particular emphasis on corporate costs.

The Corporation is considering the possibility of leveraging its existing institutional property management platform by seeking out third party asset management clients in Ulaanbaatar. In addition, Management will be researching the possibility of providing certain services to various funds in the region. Mr. Byrne's extensive experience in multiple countries makes him uniquely qualified to lead the Corporation in this re-positioning of its strategy.

# Section 2 - Executing the Strategy

## Core Business

MGG's core business involves the ownership and management of institutional quality property assets in Ulaanbaatar. During the past three years, Management has worked hard to aggressively build up the infrastructure capability needed to manage the Corporation's property assets. Management believes it has a very strong team in place to lead the Corporation into its next phase of growth.

MGG's plans on further expansion of its property holdings via the investment of additional capital into income producing and redevelopment properties in Ulaanbaatar. The Corporation will continue to source suitable investment targets which meet MGG's investment criteria.  This mandate would be consistent with the prevailing capital markets and lending environment being conducive at the time.

Since inception, MGG has acquired a number of redevelopment properties. To date, the Corporation has only remodeled, rebuilt and completed additions on properties. It is Management's intent to undertake property developments on Corporation owned sites. MGG's intent is to remain a substantial owner of the properties, post-completion.

Recently, with the hiring of Paul Byrne as CEO, the Corporation has increased its focus on managing third party property assets along with the management of property funds. This program is in its infancy and to date, the Corporation only manages one third party asset.

## 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. Certain assets classified as Property and Equipment or Other Assets/Prepaid Deposits at year-end 2013, have been transferred to investment properties during the first quarter of 2014 as the Corporation had received their land titles during the quarter.

**Investment Properties**

Investment Properties includes properties held to earn rental revenue, for capital appreciation, and/or for redevelopment. Investment Properties are initially valued at fair value, which is the purchase price plus any directly attributable 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 March 31, 2014;

| | | | Q1 2014 | | | Q4 2013 |
|---|---|---|---|---|---|---|
| | # of Properties | Value at Mar 31 2014 | Meters | # of Properties | Value at Dec 31, 2013 | Meters |
| Residential | 8 | 858,474 | - | 10 | 1,378,377 | - |
| Office | 4 | 5,243,996 | 2,727 | 4 | 5,310,481 | 2,727 |
| Retail - high street | 27 | 18,785,053 | 6,415 | 25 | 11,497,733 | 4,625 |
| Retail –secondary street | 18 | 4,290,519 | 2,183 | 18 | 4,560,486 | 2,183 |
| Land and Redevelopment | 5 | 10,166,748 | 6,737 | 6 | 9,566,314 | 11,540 |
| **Total** | **62** | **39,344,790** | **18,062** | **63** | **32,313,391** | **21,075** |

**Property and Equipment (PPE)**

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 March 31, 2014;

| | | | Q1 2014 | | | Q4 2013 |
|---|---|---|---|---|---|---|
| | # of Properties | Value at Mar 31, 2014 | Meters | # of Properties | Value at Dec 31, 2013 | Meters |
| Residential | 2 | 188,045 | - | 4 | 591,557 | - |
| Office | 1 | 2,648,154 | 1,300 | 1 | 2,567,260 | 1,300 |
| Retail - high street | 0 | | - | 1 | 510,728 | 134 |
| Retail – secondary street | 0 | - | - | - | | |
| Land and Redevelopment | 0 | - | - | - | | |
| Total | 3 | 2,836,199 | 1,300 | 6 | 3,669,545 | 1,434 |

**Other Assets/ Prepaid Deposits**

Investment property purchases where the Corporation has paid either the full or partial purchase proceeds to the seller, but the Corporation has not yet received the official land or building title from a Mongolian property office, are recorded at cost as Prepaid Deposits on Investment Properties and classified within other assets. There are currently two assets within this category. One is a large high street retail location while the other is a small property which is a component of one of the Corporation's redevelopment assets.

The following table represents properties classified as Prepaid Deposits on Investment Properties, as of March 31, 2014;

| | Q1 2014 | | | Q4 2013 | | |
|---|---|---|---|---|---|---|
| | # of Properties | Value at Mar 31, 2014 | Meters | # of Properties | Value at Dec 31, 2013 | Meters |
| Residential | - | - | | - | - | |
| Office | - | - | | - | - | |
| Retail - high street | 1 | 810,569 | 184 | 1 | 908,222 | 379 |
| Retail - secondary street | - | - | | - | - | - |
| Land and Redevelopment | 1 | 66,402 | 28 | 5* | 950,860 | 1,708 |
| Total | 2 | 876,971 | 212 | 6 | 1,859,062 | 2,087 |

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

## Occupancy Rates

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

| | March 31, 2014 | December 31, 2013 | March 31, 2013 |
|---|---|---|---|
| | Occupancy Rate* | Occupancy Rate* | Occupancy Rate* |
| Retail – High Streets | 98.4% | 100% | 92.7% |
| Retail – Secondary Streets | 93.3% | 94.0% | 96.3% |
| Office | 74.0% | 67.6% | 51.3% |
| Residential | 100% | 100% | 97.0% |
| **Total** | **91.8%** | **93.8%** | **86.8%** |

* Occupancy rates are calculated on a per meter basis and are rented or available for rent. The occupancy rates do not include properties under renovations, available for sale or redevelopment.

As disposable income levels continue to rise, demand for retail space has been strong. Retail occupancy rates for both high and secondary streets remain very strong as disposable income per capita continues to increase.

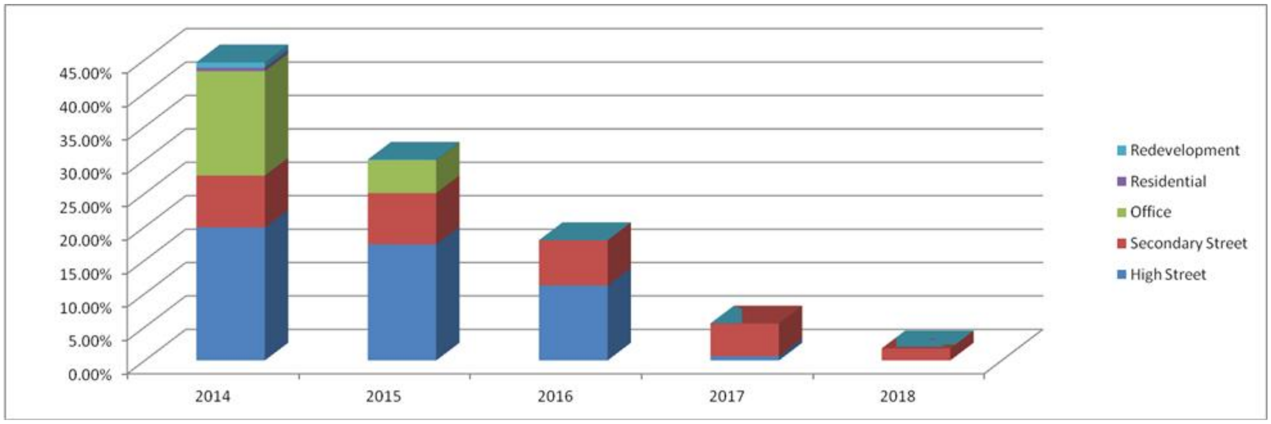
The Corporation's office occupancy rates were negatively impacted during the quarter by the downsizing of a major local tenant previously occupying an entire office building. Following the end of the quarter, this tenant entirely vacated the building, and the Corporation has begun renovating the asset. The renovation is expected to be completed during the second quarter and the Corporation is in the process of negotiating leases with new tenants. It is expected that this building will be fully occupied at significantly higher rents by the end of the second quarter. Excluding this asset, demand for office space increased moderately during the first quarter as several existing tenants expanded their operations.

## Leasing Schedule

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

During the second quarter of 2014, there are 651 meters of leases, representing $11,979 in monthly rental revenue that is set to expire. The Corporation actively monitors lease renewals and anticipates that many of these leases will be renewed with existing tenants at rates that are near current market rates, and higher than previous lease rates.

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




The weighted average remaining lease term decreased slightly to 17.3 months at March 31, 2014, from 17.7 months at December 31, 2013.

It is Management's belief that many existing leases are at rates that are below current prevailing market rates. Furthermore, recent renewals have seen sizable increases in lease rates from prior rates as presented in the chart below.

Most Recent Retail Lease Signings^*

| Lease Type | Lease Renewal Date | Old Price Per Meter | New Price Per Meter | Percent Increase |
|---|---|---|---|---|
| Secondary Street Retail Lease | January 2014 | 12.9 | 20.1 | 56% |
| Office | January 2014 | 22.4 | 22.5 | 1% |
| High Street Retail Lease | February 2014 | 11.5 | 22.9 | 99% |
| Secondary Street Retail Lease | March 2014 | 16.6 | 24.9 | 50% |

^ The leases above are new leases signed during the quarter with new tenants and do not include leases renewed with existing tenants.
*These numbers were calculated using MongolBank.mn official exchange rates based on 1st day of the month in which the contract was effective.

## Same-Store Comparable Rental Rates

The Corporation monitors monthly same-store rental increases at the core portfolio, excluding renovations, in order to track the performance of the core portfolio. During January, February and March of 2014, Same-Store Comparable rental rates increased in Mongolian Togrog terms by 37.7%, 41.6% and 34.2% respectively.

Below is a chart of monthly Same-Store Comparable Rental Increases year over year since January of 2013 local currency terms.


* The numbers in this chart were measured by using the Mongolian Tögrög rental rate increases on High Street Retail, Secondary Street Retail and Office properties that have been in the portfolio for over a year and are rented or available for rent. The chart does not included properties under renovations, available for sale, redevelopment, or any residential units.

# Section 3 - Results of Operations

## Selected Quarterly Financial Information (CAD)

| | Quarter Ended **March 31 2014** $ | Quarter Ended **March 31 2013 (Restated)** $ | Quarter Ended **March 31 2012 (Restated)** $ |
|---|---|---|---|
| **Revenue and other income** | | | |
| Rental revenue | 482,624 | 414,385 | 383,103 |
| Gain on sale of assets | 142,821 | 2,515 | - |
| Late fees and miscellaneous income | 9,136 | 8,855 | 14,795 |
| Interest income | 17,678 | 97,952 | 1,958 |
| **Net Revenue** | **652,259** | **523,707** | **399,856** |
| **Expenses** | | | |
| Corporate & business development | 826,607 | 650,537 | 512,364 |
| Share based payments | 425,024 | 452,327 | 254,305 |
| Depreciation | 34,116 | 35,000 | 11,193 |
| Property management and operating expenses | 378,633 | 244,046 | 149,661 |
| **Net Expenses** | **1,664,380** | **1,381,910** | **927,523** |
| **Income** | | | |
| Operating Income (loss) from Operations | (1,012,121) | (858,203) | (527,667) |
| Fair value adjustment | 1,824,323 | 1,136,125 | - |
| Income/ (loss) from continuing operations attributable to equity holders of the Corporation | 696,160 | 141,922 | (527,667) |
| Net Income/ (loss) attributable to equity holders of the Corporation | 696,160 | (64,334) | (527,667) |
| **Comprehensive income/ (loss) attributable to equity holders of the Corporation** | **(1,659,652)** | **334,057** | **(205,748)** |
| **Basic earnings per share ("EPS") (in CAD)** | | | |
| Earnings/ (loss) from continuing operations | 0.02 | 0.00 | (0.02) |
| Earnings/ (loss) from discontinued operations | - | (0.01) | (0.00) |
| **Net income/ (loss)** | **0.02** | **(0.00)** | **(0.02)** |
| **Diluted EPS (in CAD)** | | | |
| Earnings/ (loss) from continuing operations | 0.02 | 0.01 | (0.01) |
| Earnings/ (loss) from discontinued operations | - | (0.01) | (0.00) |
| **Net Income/ (loss)** | **0.02** | **(0.00)** | **(0.01)** |
| **Balance Sheet** | | | |
| Total Assets | 49,253,675 | 52,859,111 | 55,783,296 |
| Total Liabilities | 3,826,185 | 4,537,620 | 2,307,543 |
| Total Equity | 45,427,490 | 48,321,491 | 53,475,753 |
| Shares Outstanding at year end | 34,538,352 | 34,173,352 | 34,143,352 |
| Book Value per share | 1.32 | 1.41 | 1.57 |

## Rental Revenue from Investment Properties

For the first quarter of 2014, Revenue from Investment Properties reached $482,624 versus $397,894 in the fourth quarter of 2013 and $414,385 in the first quarter of 2013. This increase was attributable to higher prevailing market lease rates, reduced vacancy, and the inclusion of rental revenue received by its former insurance subsidiary, offset by a decline in the Mongolian Tögrög along with certain tenants vacating properties that are now in the 'held for sale' category.

| Q1 2014 Revenue From Investment Properties | Q1 2013 Revenue From Investment Properties | % Change (Q1 2014 – Q1 2013) | Q4 2013 Revenue From Investment Properties | % Change (Q1 2014 – Q4 2013) |
|---|---|---|---|---|
| $482,624 | $414,385 | 16.5% | $397,894 | 21.3% |

## Revenue from Other Sources

For the quarter ending March 31, 2014, revenues from other sources totaled $169,374 compared to $109,322 for the quarter ending March 31, 2013. Revenue from other sources consists of gains on sales of assets, late fees & miscellaneous income and interest income. Interest income declined to $17,678 in the first quarter of 2014 from $97,952 in the first quarter of 2013 as a result of lower cash balances in interest bearing accounts.

| | Q1 2014 | Q1 2013 |
|---|---|---|
| Gain On Sale Of Assets | $142,821 | $2,515 |
| Late Fees and miscellaneous income | $8,875 | $8,855 |
| Interest Income | $17,678 | $97,952 |
| **Total Revenue from Other Sources** | **$169,374** | **$109,322** |

## Fair Value Adjustment on 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 given the lack of reliable and comparable market information. For the year ended December 31, 2013, the fair value adjustment to investment properties was a gain of $3,845,521 compared to a loss of $2,697,212 for the same period in 2012. For the quarter ending March 31, 2014, the fair value adjustment to investment properties was an unrealized gain of $1,824,323 compared to an unrealized fair value gain of $1,136,125 during the first quarter of 2013. During the first quarter of 2014, Management performed an internal valuation on six properties which were not valued as part of the year end valuation analysis. It was determined that the value of two of these properties had not changed substantially in value since they were purchased, while the remaining four had incurred an unrealized gain of $ 1,227,619. In addition, the Corporation incurred an unrealized gain of $292,724 due to a Fair Market Value adjustment of a property that was transferred from Other Assets to Investment Property following the receipt of its land title. Lastly, the Corporation incurred an unrealized gain of $303,980 due to a Fair Market Value adjustment of two properties previously held at cost as PPE which transferred to Investment Properties during the quarter. The properties classified as Other Assets and PPE transferred to Investment Properties during the quarter were adjusted to the fair market value assessed by the an external appraiser at December 31, 2013.

## Corporate and Business Development

Corporate and Business development expense includes various corporate expenses incurred in North America, including salaries for senior executives, board compensation and business development for staff in Mongolia, professional fees, travel, rent and other.

Quarterly expenses related to corporate and business development totaled $1,285,747 (Q1 2013 - $1,137,864). The total expense increased slightly and the increase was primarily due to a number of one-time items including; consulting fees of $123,410 related to the hiring of the Corporation's new CEO, severance expense related to our former CFO and recruitment fees related to the search for a replacement CFO. Additional expenses not expected to be recurring are costs related to the rebuilding of the Corporation's website, costs involved in the North American road-show to introduce Paul Byrne to investors, and costs related to the disposition of Mandal.

Following the end of the first quarter, the Corporation announced that it had identified recurring annual cash costs of approximately $500,000 to be reduced or deferred, based on first quarter, 2014 run rates of expenses.

| Expense Item | Q1 2014 ($) | Q1 2013 (S) |
|---|---|---|
| Employee and Board Compensation | 188,730 | 91,128 |
| Professional Fees | 412,408 | 403,181 |
| Travel | 47,513 | 53,476 |
| Share Based Costs | 425,024 | 452,327 |
| Other | 212,072 | 137,752 |
| **Total** | **1,285,747** | **1,137,864** |

## Property Management Expense

Property management expense relates to costs incurred by the property management team to manage the Corporations portfolio of assets. The main components of property management expense are property management wages and salaries, professional fees, property taxes and other expenses.

For the quarter ended March 31, 2014, property management expenses totaled $378,633 (Q1 2013 - $244,046)

| Expense Item | Q1 2014 ($) | Q1 2013 ($) |
|---|---|---|
| Professional fees | 34,073 | 16,588 |
| Advertising | 254 | 3,431 |
| Salaries and wages | 199,589 | 129,548 |
| Land and property taxes | 88,248 | 57,560 |
| Repairs and maintenance | 17,192 | 4,180 |
| Utilities | 28,353 | 28,886 |
| Others | 10,924 | 3,853 |
| **Total** | **$378,633** | **$244,046** |

## Currency

The Mongolian Tögrög has depreciated 6.8%, 5.1%, 11.5% in 2011, 2012 and 2013 respectively versus the Canadian Dollar and a further 4.8% during the first quarter of 2014. 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. During 2013, the Corporation recognized a significant foreign exchange adjustment loss of $3,612,981 to its investment property portfolio due to the 11.5% depreciation of the local currency during the year. The Corporation recognized a further currency loss of $1,785,513 during the first quarter of 2014 due to a further depreciation of the local currency. Management would like to note that in general, most commercial properties in Ulaanbaatar are negotiated for in US Dollars and recent declines in the Tögrög to U.S. Dollar exchange rate have not had a noticeable impact on the prices of property assets in U.S. Dollar terms. On March 31, 2014 the Mongolian Tögrög was 1,619.46 MNT/CAD and has decreased to 1679.12 MNT/CAD on May 30, 2014.

## Operating Profit/ (Loss) from Continuing Operations

MGG generated an Operating loss or EBITDA loss of $(570,659) during Q1 2014 (Q1 2013– loss of $468,830) excluding share based payments and reported investment income of $17,678 during the year (2012- $97,952). This reduction is the result of an increase in expenses associated with building a property management team, along with increased property taxes and other related expenses associated with a larger portfolio offset by increased rental revenue.

## Net Income

For the quarter ending March 31, 2014, the Corporation incurred a net gain of $696,160 compared to a net loss of $(64,334) (restated) for the quarter ending March 31, 2013. This increase is due primarily to a larger Fair Value Adjustment during the 1st quarter of 2014 versus the previous year.

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

# Section 4 - Financial Condition

## Cash Flow

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

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

| Net change in cash related to: | **Q1 2014** ($) | **Q1 2013** ($) |
|---|---|---|
| Operating | (275,317) | (875,748) |
| Investing | (3,004,261) | (1,100,463) |
| Financing | 443,400 | 57,000 |
| Effects of exchange rates on cash | (54,398) | 80,391 |
| **Net change in cash during the period** | **(2,890,576)** | **(1,838,820)** |

Overall, cash outflows during the first quarter of 2014 were significantly higher than the previous year's first quarter, primarily due to a significant cash outflow from investing activities which was a result of a large property acquisition. The changes in components of cash flows for the quarter ended March 31, 2014 compared to the quarter ended March 31, 2013 were the result of the following factors:

- Operating–Operating cash outflows for the quarter decreased mainly due to changes in non-working capital items.
- Investing–Investing cash outflows for the quarter increased due to a large acquisition that took place during the quarter.
- Financing–Financing cash inflows for the quarter increased as the Corporation generated cash through the exercise of 110,000 options and a private placement of $250,000.

As at March 31, 2014, the Corporation had approximately $2,479,743 in cash and cash equivalents along with $3,337,710 owed to it by UMC Capital LLC receivable over an 18 month period. Subsequent to the end of the quarter, the Corporation obtained US$3,000,000 ($3,316,200) of financing through a commercial bank in Mongolia which bears interest between 12-15%. As at May 29, 2014, the Corporation has drawn US$1.2 million ($1,326,480) on this investment loan.

## Total Assets

As of March 31, 2014, the Corporation had $5,132,331 of Current Assets of which approximately 50% were held in cash and cash equivalents (Q1 2013 –$14,961,204).

The majority of the Corporation's assets are classified as Non-Current Assets, mainly Investment Properties. Investment Properties are carried at Fair Market Value and increased throughout the quarter by way of acquisitions and the appreciation of the portfolio during the quarter.

In the first quarter of 2014, assets classified as Investment Properties increased to $39,344,790 from $33,260,289 in Q1 2013 primarily due to an increase in unrealized fair value adjustment and a large acquisition offset slightly by dispositions of several small properties. Property and Equipment declined to $3,066,962 (Q1-2013 $4,637,618) as certain assets classified in this category were reclassified as Investment Properties.

Lastly, as part of the agreement to sell Mandal to UMC Capital LLC, proceeds of $3,337,710 are to be paid to the Corporation by UMC in installments over an 18 month period. These are classified on the balance sheet as Receivable from UMC, under Other Assets and are split between current and non-current assets based on the contractual payment dates. There were no receivables in relation to this transaction in the first quarter of 2013, as Mandal was disposed of on December 20, 2013.

## Total Financial Liabilities

As of March 31, 2014, the Corporation had current liabilities of $2,701,598 (Q1 2013 – 3,805,335), consisting primarily of payables and accrued liabilities. Accrued liabilities increased to $2,691,433 (Q1-2013 - $874,222) due to a large property purchase to be paid in installments during the second and third quarters of 2014. On March 31, 2013, current liabilities included Insurance contract liabilities of $2,544,441 which are no longer on the Corporation's balance sheet for 2014 due to disposal of the insurance business.

As of March 31, 2014, the Corporation had no long term debt outstanding, as such the only non-current liability on the balance sheet is deferred income taxes. Deferred tax liabilities were $1,124,587 in 2014 (Q1 2013 - $732,285). Subsequent to the end of the quarter, the Corporation obtained US$3,000,000 ($3,316,200) of financing through a commercial bank in Mongolia bearing interest between 12-15%. As at May 30, 2014, the Corporation has drawn US$1.2 million ($1,326,480) on this investment loan.

## Total Equity

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

| **Outstanding** | **as at March 31, 2014** | **As of March 31, 2013** |
|---|---|---|
| Common shares | 34,538,352 | 34,173,352 |
| Options to buy common shares | 2,463,000 | 2,217,000 |

## Options Outstanding

At period-end, the Corporation had 1,419,750 options that were exercisable (Q1 2013 – 468,000).

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

| Option Price | Granted | Forfeited | Cancelled | Exercised | Total Options Outstanding | Total exercisable | Non exercisable |
|---|---|---|---|---|---|---|---|
| 1.64 | 100,000 | - | - | 100,000 | - | - | - |
| 1.75 | 300,000 | - | - | - | 250,000 | 250,000 | - |
| 1.90 | 1,363,000 | - | - | 170,000 | 1,243,000 | 439,750 | 803,250 |
| 4.20 | 900,000 | 408,000 | 287,000 | - | 205,000 | 140,000 | 65,000 |
| 4.77 | 175,000 | 100,000 | - | - | 75,000 | 55,000 | 20,000 |
| 4.25 | 150,000 | 50,000 | - | - | 100,000 | 50,000 | 50,000 |
| 4.00 | 190,000 | - | - | - | 190,000 | 85,000 | 105,000 |
| 4.13 | 475,000 | 75,000 | - | - | 400,000 | 400,000 | - |
| **Total** | **3,653,000** | **633,000** | **287,000** | **270,000** | **2,463,000** | **1,419,750** | **1,043,250** |

## Acquisitions and Dispositions

During the first quarter of 2014, the Corporation acquired a property for a total of $6,465,868. Of this purchase price, $1,328,048 of it was paid for by swapping two underperforming assets valued at their December 31, 2013 Fair Market Value and $5,137,820 to be paid in cash. As of May 30, 2014, $4,032,955 has been paid and remaining $1,098,200 is due by August 14, 2014. The two swapped assets produced $10,500 of monthly revenue and negligible net yields when you include recurring maintenance expenditures and allocated property management expenses.

During the first quarter of 2014, the Corporation disposed of six properties valued at $1,287,410 for $1,429,296. These acquisitions and disposals are consistent with the Corporation's strategy of upgrading its investment property portfolio by disposing of smaller and underperforming assets and investing in better quality assets.

## Off-Balance Sheet Items

As of March, 31, 2014, the Corporation had no off-balance sheet items.

## Events Subsequent to Quarter End

- Corporation sold two investment properties with a fair value of approximately $148,484 for cash proceeds of approximately $138,631
- The Corporation purchased a property adjoining to the large property purchased on February 17, 2014 for a total cost of $1,804,496 adding an additional 2,503 meters of land to the development site for a total size of 4,119 meters. The purchase of this property was funded through the swaping of one property valued at $ 1,006,305 and $798,191 in cash.

- The Corporation obtained US$3,000,000 ($3,316,200) of financing through a commercial bank in Mongolia which bears interest between 12-15% and is reviewed annually by the bank. As of May 30, 2014, the Corporation has drawn US$1.2 million ($1,326,480) on this investment loan.

# Section 5 - Quarterly Information

## Quarterly Results

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

| | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 |
|---|---|---|---|---|---|---|---|---|
| **Revenue *** | $634,581 | $427,836 | $452,185 | $421,599 | $425,753 | $271,113 | $455,234 | $458,215 |
| **Net income (loss) *** | $696,160 | $1,449,697 | $(825,693) | $(1,127,918) | $253,340 | $(3,810,138) | $(235,006) | $(575,889) |
| **Income (loss) per common share*** | $0.02 | $0.04 | $(0.02) | $(0.03) | $0.01 | $(0.11) | $(0.01) | $(0.02) |
| **Total Assets** | $49,253,675 | $47,291,018 | $47,988,406 | $ 52,443,237 | $52,859,111 | $51,306,531 | $52,048,976 | $56,058,108 |
| **Weighted Average Shares** | 35,823,685 | 34,696,557 | 34,246,026 | 34,245,230 | 34,170,019 | 34,143,352 | 34,143,352 | 34,143,352 |
| **Ending Shares** | 34,538,352 | 34,303,352 | 34,303,352 | 34,303,352 | 34,173,352 | 34,143,352 | 34,143,352 | 34,143,352 |

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

# Section 6 – Critical Estimates

### Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS required Management to make assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The critical estimates made in the preparation of the consolidated financial statements include the following:

## Fair Value Adjustment on 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 given the lack of reliable and comparable market information. For the year ended December 31, 2013, the fair value adjustment to investment properties was a gain of $3,845,521 compared to a loss of $2,697,212 for the same period in 2012. For the quarter ending March 31, 2014, the fair value adjustment to investment properties was an unrealized gain of $1,824,323 compared to an unrealized fair value gain of $1,136,125 during the first quarter of 2013. During the first quarter of 2014, Management performed an internal valuation on 6 properties which not valued as part of the year end valuation analysis. It was determined that the value of two of these properties had not changed substantially in value since they were purchased, while the remaining four had incurred an unrealized gain of $1,227,619. In addition, the Corporation incurred an unrealized gain of $292,724 due to a Fair Market Value adjustment of a property that was transferred from Other Assets to Investment Property following the receipt of its land title. Lastly, the Corporation incurred an unrealized gain of $303,980 due to a Fair Market Value adjustment of two properties previously held at cost as PPE which transferred to Investment Properties during the quarter. The properties classified as Other Assets and PPE transferred to Investment Properties during the quarter were adjusted to the fair market value assessed by the an external appraiser at December 31, 2013.

### Accuracy of Share Based Compensation Expense

The estimate of the ultimate expense arising from share based compensation plans is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the share based compensation expense recorded by the Corporation. The ultimate expense is estimated by using a number of key assumptions such as the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the expected life of the options and future forfeiture rates. For the quarter ending March 31, 2014, the cost of the share based payments totaled $425,024 (2013 - $452,327).

### Operating Environment of the Corporation

Mongolia displays many characteristics of an emerging market including relatively high inflation and interest rates. The tax and customs legislation in Mongolia is subject to varying interpretations and frequent changes. The future economic performance of Mongolia is tied to continuing demand from China and continuing high global prices for commodities as well as being dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Mongolia together with tax, legal, regulatory and political developments. Management is unable to predict all developments that could have an impact on the Mongolian economy and consequently what effect, if any, they could have on the future financial position of the Corporation.

### Assets and Liabilities Held for Sale

The Corporation makes judgments in determining whether certain non-current assets or group of assets and liabilities meet the specified criteria under IFRS for classification as held for sale. At March 31, 2014, the Corporation has identified 12 investment properties which meet the specified criteria and has accounted for them as assets held for sale.

### Deferred Tax Assets

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

## Section 7 – Risk Management

### Credit risk

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

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

### Liquidity risk

The Corporation does not believe its current maturity profile lends itself to any material liquidity risk, taking into account the level of cash and cash equivalents, investments and marketable securities as at March 31, 2014.

As at March 31, 2014, MGG had working capital of $2,430,733 (Q1 2013- $11,155,869) comprised of cash and cash equivalents, investments and marketable securities, other assets, net of trade and accrued liabilities, income taxes payable.

### Currency risk

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

### Economic Volatility and Uncertainty

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

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

While inflation levels during the last year are no longer above the 14% levels as they were during 2012, during the 2013, inflation remained at an elevated level compared to many mature economies. As reported by the National Statistics Office, year over year inflation was 12.3% in January, 12.3% in

February and 12.4% in March of 2014. The Bank of Mongolia is working hard to ensure stability. At the end of the year the Government has agreed to reduce spending to keep government budgets within the cap set by the Fiscal Stability Law.

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

## Risks and Uncertainties

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

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

Beginning in 2011, the Corporation purchased apartment units in a knowingly condemned building with the intent that through control of the home owner's association the Corporation can procure a long-term lease on the land underlying the building. The process of exerting control over a home owner's association in order to develop the underlying land plot is an extensive legal process, is complicated, lacks precedent and is a generally risky proposition. The Corporation currently owns 50 of the 51 apartments in the building, has an agreement with the last owner to exchange his unit for space in any future building and has applied to the city for the respective land use permissions. Subsequent to the end of the quarter, the Corporation has been notified by the city that its request for the land title underneath the apartment building has been approved, however the Corporation has yet to receive the formal land title.

Further information related to Mongolia Growth Group Ltd. and the risks and uncertainties of MGG are filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be reviewed at www.sedar.com. A comprehensive set of risk disclosures are included in the Corporation's most recently filed annual MD&A.

## Financial Instruments

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

## Internal Controls over Financial Reporting

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

Instead, an optional form of certification has been made available to junior reporting issuers and has been used by the Corporation's certifying officers for the March 31, 2014 interim 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:

(i) they have reviewed the interim MD&A and consolidated financial statements;
(ii) 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;
(iii) based on their knowledge, the interim filings, together with the other financial information included in the interim filings, fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation as of the date and for the periods presented in the filings.

## Recent Accounting Pronouncements

IFRS9, *Financial Instruments* ("IFRS9"), effective for annual periods beginning on or after January 1, 2015, replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and liabilities. IFRS 9 will use a single approach to determine whether a financial asset is measured at amortized cost or fair value. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the change recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. The Corporation is currently evaluating the impact of IFRS 9 on its condensed consolidated interim financial statements.

## Additional Information

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