

MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis

June 30, 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 second quarter results reflect the continued progress of the Mongolian economy, particularly in our retail property assets, offset by a decline in the exchange rate between the Mongolian Tögrög and the Canadian Dollar of 6%, which has reduced our rents when converted into Canadian Dollars.

In terms of our core commercial portfolio rents on a same-property basis on properties owned 12 months or longer, we reported revenue growth of 36.8%, 28.8% and 32.3% in April, May and June compared to 2013's results in Mongolian Tögrög. We believe that this increase in revenue is a result of the progress in the Mongolian property market, along with increased market rental rates.

It should be pointed out that the Corporation ended the quarter with an average high street lease rate of 23,000 Mongolian Tögrög per meter, per month. Current high street lease rates range between 15,000 and 40,000 Mongolian Tögrög per meter, per month, which should give the Corporation comfortable headroom as we continue to re-sign leases at market rates.

During the second quarter, we completed the conversion and renovation of one of our office buildings into a high quality medical facility, with a well-respected medical tenant occupying the majority of the building. This tenant began paying full rent in August, which has led to a significant increase in rent over the prior scenario where the building was only partially occupied as an office building. As of August, the building is fully occupied.

Beginning in February of 2014, through two separate transactions, we purchased an additional development asset on Peace Avenue, from a highly distressed seller, along with an adjacent development site for a total of \$5.9m million in cash and the swapping of three underperforming assets along with one of our development assets. We believe that we purchased this premium development 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. These transactions were funded with available cash on hand, along with a USD \$3 million borrowing from Xac Bank of Mongolia.

Following this transaction, we have two development sites on Peace Avenue, totaling 7,366 meters. We anticipate that these will form the nucleus of our future development plans as we transition into an owner of institutional quality property assets. In conjunction with this plan and in addition to the three assets swapped as explained above, we have disposed or swapped a total of 12 assets for proceeds of \$1.5 million in the first half of the year. We intend to continue this disposal plan and have targeted eight additional assets to dispose of. Following the completion of this plan, we will have a much more streamlined business, focused on owning institutional property assets in the Peace Avenue corridor of downtown Ulaanbaatar.

As for liquidity, we ended the quarter with \$4.3 million in cash. We anticipate that targeted non-core asset sales along with repayment of our loan to UMC Capital Group give us sufficient liquidity to complete the renovations of the recently acquired property on Peace Avenue along with future development work on that site.

Sincerely,

Harris Kupperman

Executive Chairman of Mongolia Growth Group

MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis

June 30, 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 June 30, 2014 (the “MD&A”), compared with the three months ended June 30, 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 August 28, 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 June 30, 2014 and June 30, 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 adjusted earnings before interest, taxes, unrealized fair value adjustments, depreciation and amortization (“**Adjusted EBITDA**”). The Corporation uses Adjusted EBITDA as a measure of the performance of its operating subsidiaries as it excludes depreciation and interest charges, which are a function of the Corporation’s specific capital structure, and also excludes entity specific tax expense. These amounts are not performance measures as defined under IFRS and should not be considered either in isolation of, or as a substitute for, net earnings prepared in accordance with IFRS. The Corporation refers to “funds used in operations”, “operating losses” and “re-valuation of investment properties” within this analysis. “Funds used in operations” is computed by calculating the cash flow from operations before changes to non-cash working capital from operations. “Operating Profits” is computed by calculating the profit before tax and any fair value adjustments.

Forward Looking Statements

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

Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. From time to time, the Corporation’s management may make estimates and have

opinions that form the basis for the forward-looking statements. The Corporation assumes no obligation to update such statements if circumstances, management's estimates, or opinions change.

Section 1 – Overview

Financial and Operational Overview

During the second 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 7% over the previous year's second 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 including 94.1% high street retail occupancy and 93.7% secondary street retail occupancy at June 30, 2014.

The Corporation recorded an unrealized fair value adjustment gain during the quarter of \$6,112,423 versus a fair value adjustment gain of \$nil during the prior year's second quarter and \$1,824,323 in the current year's first quarter (Q1 2013 - \$1,136,125). The gain was recorded when the Corporation obtained the full land title for one of its redevelopment assets previously held at cost. This holding comprises of 52 separate property titles.

During the quarter the Corporation had net income from Continuing Operations of \$4,547,664 and a loss of \$1,564,759, excluding the unrealized gain on fair value adjustment on investment properties. During the second quarter of 2013 the Corporation incurred a net loss of \$1,079,231(restated) from continuing operations.

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, or swapped, nine properties for consideration worth \$2,234,126 of which cash proceeds were \$1,231,126. The gain on disposal recorded was \$59,218. As of June 30, 2014, the Corporation had eight investment properties classified as available for sale.

The Mongolian Tögrög continued to depreciate throughout the quarter, depreciating 6% 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 begun to slow into the second quarter of 2014.

The first quarter of 2014 saw Foreign Direct Investment decrease by 65% over the same period of the previous year. Money supply (M2) has risen (decreased) 2.6%, 0.4% and (1.3%) in April, May and June, respectively. During the first half of 2014, the National Consumer Price Index increased 6.7% while GDP growth was estimated at 5.3% during the period.

The Mongolian Tögrög has decreased 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 and further declined to 1632 Tögrögs per Canadian dollar during the second quarter of 2014. 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.

Property Overview

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

In particular, there has been a steady and increased interest in high quality retail locations on Peace Avenue and other high traffic streets. The Corporation has the majority of its retail portfolio along these streets and has seen high levels of interest in leasing or purchasing these locations at steadily increasing prices.

Outside of the downtown of Ulaanbaatar, a noticeable increase in building activity has increased supply in certain markets and led to a trailing off in prices. In addition, there has been a recent increase in office construction activity that would likely lead to future increased supply in the office market.

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

Outlook

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

The continued disagreement and postponement of Phase II of the Oyu Tolgoi copper mine, along with a substantial decline in Foreign Direct Investment (FDI) and the decline in the Mongolian Tögrög has led to a less optimistic view of the economy amongst some businesspeople. In particular, a number of prominent mining firms and firms supplying the mining supply chain have announced sizable reductions in staffing. Thus far, the broader economy has been able to absorb these people, but at lower wage rates. While this has not had a noticeable impact on our property operations, excluding the decline in the Mongolian Tögrög, the continued negative sentiment caused by the Oyu Tolgoi dispute, a decline in FDI and a weaker Mongolian Tögrög may potentially impact our operations in the future. Possible impacts include a weaker currency, reduced occupancy and lower lease rates.

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, increased visibility through the leasing department and reducing costs across the entire Corporation, with a particular emphasis on corporate costs.

The Corporation has considered 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 pro-actively 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.

With the hiring of Paul Byrne as CEO, the Corporation will begin to explore 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. Fluctuations in the values of the Corporation's property portfolio during the year can be attributed to changes in valuations, properties purchased and sold, and the change in value of the Functional Currency (Mongolian Tögrög) versus the Canadian dollar. Management would like to note that the decline in the Togrog versus the Canadian Dollar has served to reduce the value of the assets 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 eligible for capitalization. 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 June 30, 2014;

	Q2 2014			Q1 2014		
	# of Properties	Value at June 30 2014	Meters	# of Properties	Value at March 31 2014	Meters
Residential	6	710,682	-	8	858,474	-
Office	3	5,007,173	2,650	4	5,243,996	2,727
Retail - high street	25	18,891,897	6,158	27	18,785,053	6,415
Retail –secondary street	16	3,622,281	1,962	18	4,290,519	2,183
Land and Redevelopment	4	15,197,311	6,228	5	10,166,748	6,737
Total	54	43,429,344	16,998	62	39,344,790	18,062

Property and Equipment

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

The following table represents properties classified as Property and Equipment, as of June 30, 2014;

	Q2 2014			Q1 2014		
	# of Properties	Carrying Value at June 30 2014	Meters	# of Properties	Carrying Value at March 31, 2014	Meters
Residential	2	134,541	-	2	188,045	-
Office	1	2,509,240	1,300	1	2,648,154	1,300
Retail - high street	-	-	-	-	-	-
Retail – secondary street	-	-	-	-	-	-
Land and Redevelopment	-	-	-	-	-	-
Total	3	2,643,781	1,300	3	2,836,199	1,300

Other Assets/ Prepaid Deposits

Investment property purchases where the Corporation has paid either the full or partial purchase proceeds to the seller, but the Corporation has not yet received the official land or building title from 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 June 30, 2014;

	Q2 2014			Q1 2014		
	# of Properties	Carrying Value at June 30 2014	Meters	# of Properties	Carrying Value at March 31, 2014	Meters
Residential	-	-	-	-	-	-
Office	-	-	-	-	-	-
Retail - high street	1	803,971	184	1	810,569	184
Retail - secondary street	-	-	-	-	-	-
Land and Redevelopment	1	65,862	28	1	66,402	28
Total	2	869,833	212	2	876,971	212

* 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:

	June 30, 2014	December 31, 2013	June 30, 2013
	Occupancy Rate*	Occupancy Rate*	Occupancy Rate*
Retail – High Streets	94.1%	100%	95.6%
Retail – Secondary Streets	93.7%	94.1%	80.5%
Office	95.2%	66.1%	90.2%
Residential	100%	100%	98.4%
Total	94.5%	93.8%	92.1%

* 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.

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 positively impacted during the quarter by the remodeling of an office space for the state ran dental clinic.

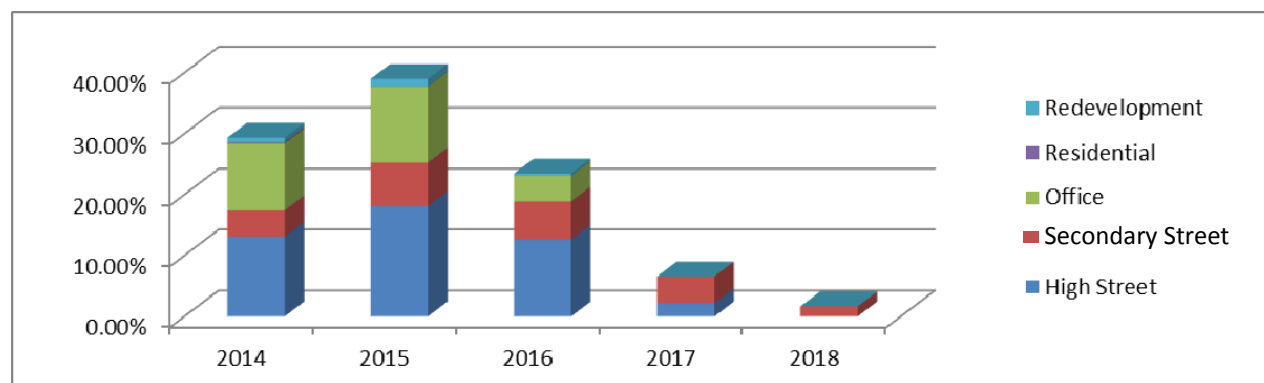
Leasing Schedule

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 third quarter of 2014, there are 1,021.26 meters of leases, representing 20,231,197 MNT 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 increased slightly to 19.0 months at June 30, 2014, from 17.7 months at December 31, 2013.

It is Management's belief that several 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
Office	June 2014	9.1	17.3	91%
High Street Retail Lease	June 2014	11.7	21.0	79%
High Street Retail Lease	June 2014	15.0	17.2	15%

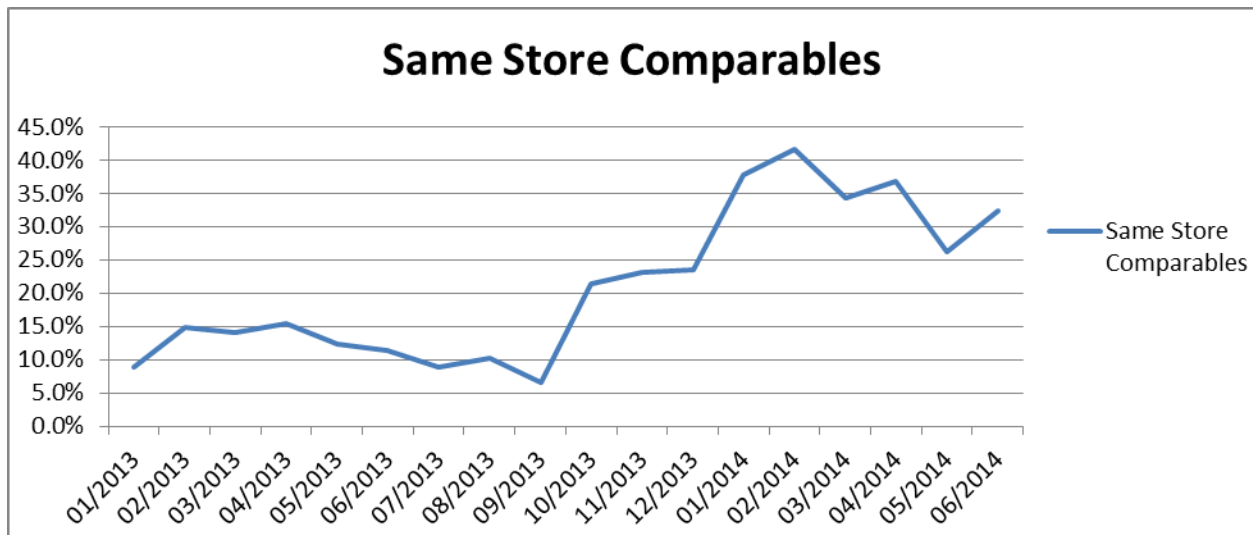
[^] The leases above are new leases signed during the quarter with new tenants and do not include leases renewed with existing tenants.

*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 April, May, and June of 2014, Same-Store Comparable rental rates increased in Mongolian Tögrög terms by 36.8%, 26.1% and 32.3% 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 include properties under renovations, available for sale, redevelopment, or any residential units.

Section 3 - Results of Operations

Selected Quarterly Financial Information (CAD)

	Quarter Ended June 30 2014	Quarter Ended June 30 2013 (Restated)	Quarter Ended June 30 2012 (Restated)
	\$	\$	\$
Revenue and other income			
Rental revenue	461,652	431,512	383,920
Gain on sale of assets	59,218	(16,309)	70,973
Late fees and miscellaneous income	21,967	6,395	-
Interest income	22,563	72,633	64,749
Net Revenue	565,400	494,231	519,642
Expenses			
Corporate & business development	576,296	1,037,598	546,383
Share based payments	528,020	267,356	254,305
Depreciation	27,956	35,594	15,284
Property management and operating expenses	498,388	227,625	279,559
Finance expense	13,784	-	-
Net Expenses	1,644,444	1,568,173	1,095,531
Income			
Operating Income (loss) from Operations	(1,079,044)	(1,073,942)	(575,889)
Fair value adjustment	6,112,423	-	-
Income/ (loss) from continuing operations attributable to equity holders of the Corporation	5,033,379	(1,073,942)	(575,889)
Net Income/ (loss) attributable to equity holders of the Corporation	4,547,664	(1,223,474)	(494,782)
Comprehensive income/ (loss) attributable to equity holders of the Corporation	2,383,702	(935,577)	(1,202,172)
Basic earnings per share ("EPS") (in CAD)			
Earnings/ (loss) from continuing operations	0.13	(0.03)	(0.02)
Earnings/ (loss) from discontinued operations	-	0.00	0.00
Net income/ (loss)	0.13	(0.03)	(0.02)
Diluted EPS (in CAD)			
Earnings/ (loss) from continuing operations	0.13	(0.03)	(0.01)
Earnings/ (loss) from discontinued operations	-	0.00	0.00
Net Income/ (loss)	0.13	(0.04)	(0.01)
Balance Sheet			
Total Assets	54,965,199	52,443,237	56,058,108
Total Liabilities	6,306,483	4,514,353	3,394,328
Total Equity	48,658,716	47,928,884	52,663,780
Shares Outstanding at quarter end	34,748,745	34,303,352	34,143,352
Book Value per share	1.40	1.40	1.54

Rental Revenue from Investment Properties

For the second quarter of 2014, revenue from Investment Properties reached \$461,652 versus \$482,624 in the first quarter of 2014 and \$431,512 in the second quarter of 2013. This reduction was attributable to realignment and decrease in the number of rentable properties within the portfolio combined with a decline in the Mongolian Tögrög.

Q2 2014 Revenue From Investment Properties	Q2 2013 Revenue From Investment Properties	% Change (Q2 2014 – Q2 2013)	Q1 2014 Revenue From Investment Properties	% Change (Q2 2014 – Q1 2014)
\$461,652	\$431,512	7.0%	\$482,624	(4.3%)

Revenue from Other Sources

For the quarter ending June 30, 2014, revenues from other sources totaled \$103,748 compared to \$62,719 for the quarter ending June 30, 2013. Revenue from other sources consists of gains on sales of assets, late fees & miscellaneous income and interest income. Interest income declined to \$22,563 in the second quarter of 2014 from \$72,633 in the second quarter of 2013 as a result of lower cash balances in interest bearing accounts.

	Q2 2014	Q2 2013
Gain / (loss) on Sale Of Assets	\$59,218	\$(16,309)
Late Fees and miscellaneous income	\$21,967	\$6,395
Interest Income	\$22,563	\$72,633
Total Revenue from Other Sources	\$103,748	\$62,719

Fair Value Adjustment on Investment Properties

The estimate of fair value of investment properties is a 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 quarter ending June 30, 2014, the fair value adjustment to investment properties was an unrealized gain of \$6,112,423, compared to an unrealized fair value gain of \$nil during the second quarter of 2013. The gain was recorded when the Corporation obtained the full land title for one of its redevelopment assets previously held at cost. This holding comprises of 52 separate property titles.

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 \$576,296 (Q2 2013 - \$1,037,598). The total expense reduced as compared to Q2 2013. In Q2 2013, the Corporation spent considerable time and resources on a proposed acquisition of the Company which was targeted to achieve growth, but which did not complete. By the end of six month period ending 30 June 2013, the expenses incurred on this project had exceeded more than \$400,000. These expenses were not recurring and are not expected to incur in the near future as the Corporation has no plan to undertake such an activity again.

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.

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 June 30, 2014, property management expenses totaled \$498,388 (Q2 2013 - \$227,625).

Expense Item	Q2 2014 (\$)	Q2 2013 (\$)
Professional fees	114,924	16,538
Advertising	4,293	4,136
Salaries and wages	244,747	111,476
Land and property taxes	76,098	68,688
Repairs and maintenance	11,757	10,632
Utilities	31,653	12,002
Others	14,916	4,153
Total	\$498,388	\$227,625

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 10.4% during the first half 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 \$3,667,964 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 \$3,823,614 during the first half of 2014 due to a further depreciation of the local currency. On June 30,

2014 the Mongolian Tögrög was 1,710MNT/CAD and has increased to 1,677 MNT/CAD on August 27, 2014.

Operating Profit/ (Loss) from Continuing Operations

MGG generated an Operating loss or Adjusted EBITDA loss of \$1,190,527 during Q2 2014 compared to a loss of \$1,111,380 during Q2 2013. Excluding share based payments, the Corporation reported Adjusted EBITDA losses of \$662,506 during Q2 2014 (Q2 2013– loss of \$844,024). These reductions are the result of improved rental revenue and ability to control expenses associated with running the business, off-set by increased salaries, property taxes and other related expenses associated with a larger portfolio.

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

	Q2 2014 \$	Q2 2013 (restated) \$
Net Income / (loss) before Income taxes	4,916,503	(1,073,943)
Add Depreciation and Amortization	27,956	35,594
Subtract Interest and Investment Income	(22,563)	(73,031)
Subtract Fair Value Adjustment	(6,112,423)	-
Total Adjusted EBITDA	(1,190,527)	(1,111,380)

Net Income

For the quarter ending June 30, 2014, the Corporation incurred a net gain of \$4,547,664 compared to a net loss of \$1,223,474 (restated) for the quarter ending June 30, 2013. This increase is due primarily to a Fair Value Adjustment during the 2nd quarter of 2014 versus the previous year when there was no fair value adjustment recorded in that period.

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 June 30, 2014, and June 30, 2013.

Net change in cash related to:	Q2 2014 (\$)	Q2 2013 (\$)
Operating	(985,564)	(1,656,406)
Investing	(3,711,980)	(1,509,193)
Financing	4,000,061	293,600
Effects of exchange rates on cash	(347,459)	159,142
Net change in cash during the period	(1,044,942)	(2,712,857)

Overall, net cash outflows during the second quarter of 2014 were lesser than the previous year's second quarter, primarily due to more controlled cash outflow from operating activities and inflows from financing activities. The changes in components of cash flows for the quarter ended June 30, 2014 compared to the quarter ended June 30, 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 obtained financing from a commercial bank in Mongolia for acquisition purposes.

As at June 30, 2014, the Corporation had approximately \$4,325,377 in cash and cash equivalents. Additionally, \$3,222,368 is owed to the Corporation by UMC Capital LLC and is due to be received within 11 months.

Total Assets

As of June 30, 2014, the Corporation had \$8,684,995 of Current Assets of which approximately 50% were held in cash and cash equivalents (Q2 2013 –\$14,261,345 and 42%).

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 second quarter of 2014, assets classified as Investment Properties increased to \$43,429,344 from \$32,313,391 as at December 31, 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 \$2,850,860 (December 31, 2013 - \$3,915,692) 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 \$3,222,368 are to be paid to the Corporation by UMC in installments over an 11 month period. These are classified on the balance sheet as Receivable from UMC, under Other Assets and are classified as current assets based on the contractual payment dates. There were no receivables in relation to this transaction in the second quarter of 2013, as Mandal was disposed of on December 20, 2013.

Total Financial Liabilities

As of June 30, 2014, the Corporation had current liabilities of \$1,998,466 (December 31, 2013 – 878,343), consisting primarily of payables and accrued liabilities and the current portion of long term debt. Accrued liabilities increased to \$1,518,847 (December 31, 2013 - \$874,222) due to a large property purchase to be paid in installments during the third quarter of 2014.

As of June 30, 2014, the Corporation had long term debt outstanding of \$3,182,164 split between current and non-current liabilities based on contractual payment dates. The loan finance was received through a commercial bank in Mongolia, bears interest between 13% and 15% and is reviewed annually by the bank. The loan is currently being repaid according to a payment schedule of principal and interest payments.

The Corporation considers all other current cash commitments to be immaterial and operational in nature.

Deferred tax liabilities were \$1,558,157 at June 30, 2014 (December 31, 2013 - \$1,090,117).

Total Equity

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

Outstanding	as at June 30, 2014	As of December 30, 2013
Common shares	34,748,745	34,303,352
Options to buy common shares	2,208,000	1,957,000

Options Outstanding

At period-end, the Corporation had 1,350,000 options that were exercisable (December 31, 2013 – 1,324,500).

The Chart below shows the historical option grants and options outstanding as of June 30, 2014.

Option Price	Granted	Forfeited	Cancelled	Exercised	Total Options Outstanding	Total exercisable	Non exercisable
1.64	100,000	-	-	100,000	-	-	-
1.75	300,000	-	-	200,000	100,000	100,000	-
1.90	1,363,000	-	-	150,000	1,213,000	542,500	670,500
4.20	900,000	408,000	362,000	-	130,000	97,500	32,500
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	105,000	85,000
4.13	475,000	75,000	-	-	400,000	400,000	-
Total	3,653,000	633,000	362,000	450,000	2,208,000	1,350,000	858,000

Acquisitions and Dispositions

In February 2014, the Corporation purchased a property for \$6,465,868, in a transaction which involved consideration of \$5,137,820 in cash and two properties valued at \$1,328,048. As at June 30, 2014, the Corporation had paid \$4,195,525 with the remaining amount of \$942,295 due in August 2014 and is currently recorded in trade payables and accrued liabilities. The two properties included in the consideration paid were recorded at a value of \$1,186,163 prior to their disposal resulting in a gain on sale of \$141,885. Of these two properties sold, \$1,036,182 was classified as Investment properties and the remaining \$149,981 as other assets.

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

In addition to the three properties disposed of, as discussed above, a further twelve investment properties were sold for cash consideration of \$1,482,442, resulting in a gain on disposal of \$59,218. During the period, the Corporation recorded a \$7,936,746 (2013 - \$1,136,125) unrealized fair value gain on its investment properties. The majority of this unrealized gain (\$6,112,423) was recorded in June 2014 as the Corporation obtained the full land title for one of its redevelopment assets previously held at cost. This holding comprises of 52 separate property titles.

Off-Balance Sheet Items

As of June 30, 2014 the Corporation had no off-balance sheet items.

Events Subsequent to Quarter End

- The Corporation sold two investment properties with a fair value of approximately \$345,500 for cash proceeds of approximately \$348,850

Section 5 - Quarterly Information

Quarterly Results

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

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Revenue *	\$542,838	\$634,581	\$433,122	\$452,187	\$421,618	\$425,753	\$257,495	\$455,224
Net income (loss) *	\$5,033,379	\$812,202	\$1,866,906	\$(857,554)	\$(1,073,943)	\$277,921	\$(3,880,740)	\$(195,030)
Income (loss) per common share*	\$0.15	\$0.02	\$0.05	\$(0.03)	\$(0.03)	\$0.01	\$(0.11)	\$(0.01)
Total Assets	\$54,965,199	\$49,253,675	\$47,291,018	\$47,988,406	\$52,443,237	\$52,859,111	\$51,306,531	\$52,048,976
Weighted Average Shares	34,495,983	35,823,685	34,696,557	34,246,026	34,245,230	34,170,019	34,143,352	34,143,352
Ending Shares	34,748,745	34,538,352	34,303,352	34,303,352	34,303,352	34,173,352	34,143,352	34,143,352

*These numbers have been restated to reflect the continued operations (before tax) 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 six month period ending June 30, 2014, the fair value adjustment to investment properties was an unrealized gain of \$7,936,746 compared to an unrealized fair value gain of \$1,136,125 during the same period of 2013. The majority of this unrealized gain (\$6,112,423) was recorded in June 2014 as the Corporation obtained the full land title for one of its redevelopment assets previously held at cost. This holding comprises of 52 separate property titles.

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 June 30, 2014, the cost of the share based payments totaled \$528,020 (2013 - \$267,356).

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 June 30, 2014, the Corporation has identified eight investment properties which meet the specified criteria and has accounted for them as assets held for sale.

Deferred Tax Assets

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

Section 7 – Risk Management

Credit risk

The Corporation's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio. For the 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 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.

The Corporation is also exposed to credit risk through the receivable owed by UMC Capital LLC of \$3,222,368 for the purchase of its interest in Mandal General Insurance.

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 and long term debt as at June 30, 2014.

As at June 30, 2014, MGG had working capital of \$6,866,529 (December 31, 2013- \$8,538,467) comprised of cash and cash equivalents, investments and marketable securities, other assets, net of trade and accrued liabilities, income taxes payable and long term debt (current portion).

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.

Inflation remains at an elevated level compared to many mature economies. As reported by the National Statistics Office, year over year inflation in June 2014 reached 14.6%, its highest level since 2012. The Bank of Mongolia is working hard to ensure stability.

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

Risks and Uncertainties

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

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

Further information related to Mongolia Growth Group Ltd. and the risks and uncertainties of MGG 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, trade and accrued payables and long term debt. The Corporation is subject to interest risk as it earns interest income from its cash deposits and pays interest on its long term debt. 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 June 30, 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”), On July 24, 2014, the IASB issued IFRS 9, “*Financial Instruments*” (“IFRS 9”) to replace International Accounting Standard 39, “*Financial Instruments: Recognition and Measurement*”. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Corporation is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.

The Corporation is currently evaluating the impact of IFRS 9 on its condensed consolidated interim financial statements.

In May 2014, the IASB issued IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”), a new standard that specifies the steps and timing for entities to recognize revenue as well as requiring them to provide more informative, relevant disclosures, IFRS 15 supersedes IAS 11, Construction Contracts, and IAS 18, Revenue, as well as various IFRIC and SIC interpretations regarding revenue. Adoption of IFRS 15 is mandatory and will be effective for the Corporation's beginning on September 1, 2017, with earlier adoption permitted. The Corporation is assessing the impact of adopting this standard on its 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.