Mongolia Growth Group Ltd., Q2 2018 MD&A

Second Quarter 2018

MONGOLIA GROWTH GROUP LTD

Contents

TO THE SHAREHOLDERS OF MGG:

The second quarter of 2018 results were roughly in-line with expectations and saw a continued decline in revenues offset by a small increase in expenses when compared to 2017. The reduced revenue was the result of the economic crisis which has impacted lease rates, along with reduced revenues due to asset sales to fund working capital—offset by a slight increase in expenses mostly related to compensation—some of which is now classified as "professional fees." I believe that current run-rates are somewhat indicative of where quarterly results should be going forward, excluding the continued reduction in revenues as we sell assets—potentially offset by an increase in expenses as we research other businesses to enter, to continue the focus on diversifying our company.

During late March of 2018, Prime Minister Khurelsukh Ukhnaa had high level meetings with various Chinese leaders regarding the semi-embargo at the border. Following these meetings, commodity exports increased dramatically and this increase in volume has continued as of today. With 4 months of increased export volumes, the economy has seen some signs of a recovery. While the property sector normally lags in a recovery, we have also seen some benefits of the improved economic mood. In particular; many of our tenants are now caught up on delinquent rents and near quarter end, we began to successfully pass along slight rent increases upon renewals. While there has been some push-back on rent increases, the majority have been accepted by tenants.

While this quarter marks the first quarter in many years where we have successfully increased rents, it is important to realize that rental rates have declined for the better part of 5 years and there is no way to know if this trend is sustainable—particularly as various commodities that Mongolia relies upon for exports (coal, copper, gold, etc.) have declined dramatically in price on global markets over the past month—which will naturally have an impact on export values and the economy

While any recovery in the Mongolian economy, no matter how slight, is more than welcome, a recovery based on restoring export volumes at existing mines will only take the economy so far. For the Mongolian economy to return to real growth, it will require bold leadership from the government in re-starting the many stalled mega-projects. Unfortunately, due to a combination of government corruption and incompetence over the past 5 years, many of the former investors and partners in these mega-projects have long since left Mongolia for countries more supportive of foreign investment. These investors will not soon return.

During the quarter, we were unable to sell any property assets. To date, our primary focus has been to increase liquidity so that we can move the business forward—either through investments in public securities or the diversification of our business through the acquisition of all or part of a business that is not in Mongolia. That said, our primary focus is to first increase liquidity while keeping costs contained as that gives us the flexibility to act in the future.

Our securities portfolio produced a small unrealized gain and a slightly larger realized gain for the quarter. Our unrealized gain was the result of most positions appreciating in value during the quarter, offset by a 24% decline in shares of Mongolian Mining Corp (975 – Hong Kong). The shares have declined 38% during the first half of the year. As this is by far our largest position, it has negatively impacted the overall portfolio. We have continued to add to shares of Mongolian Mining Corp as the shares declined and as of this writing, we own 60,000,000 shares. The shares declined due to a decline in exports that have impacted profitability starting during the late summer of 2017. However, border exports have improved dramatically during the second quarter (up 98% over the first quarter) and appear to be at an elevated level into July. We see tremendous opportunity in the shares as market participants recognize the recovery in exports and profitability. We believe that if washed coal exports return to a 6 million ton run-rate, the shares trading at 12.8 Hong Kong cents at the end of June 30, 2018, trade for less than 1 times normalized earnings, when a more appropriate multiple would be between 3 and 6 times earnings. Our expectation remains that while this portfolio will be volatile on a quarterly basis, particularly due to the size of our position in Mongolian Mining, the investment portfolio should produce gains over time that may hopefully offset some of the future expected losses from our Mongolian operations.

In summary, while we remain optimistic about Mongolia's long-term future, we are realistic about our own company's predicament. Until the government becomes supportive of economic growth, the economy will muddle along—at best. The longer this takes; the more capital we will lose as we wait for a recovery. Despite this outlook, I continue to believe that our shares are undervalued. During the first half of the year, the Company re-purchased 227,500 shares under our Normal Course Issuer Bid at a cost of $55,295.

Sincerely,
Harris Kupperman
CEO

MONGOLIA GROWTH GROUP LTD

Management Discussion & Analysis
June 30, 2018

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, 2018 (the “MD&A”), compared with the three months ended June 30, 2017. As of January 1, 2011, the Corporation adopted International Financial Reporting Standards (“IFRS”). This MD&A provides an overall discussion, followed by analysis 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 7, 2018 and incorporates all relevant information and considerations to that date.

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Corporation for the three months ended June 30, 2018 and June 30, 2017 together with all of the notes, risk factors and information contained therein, available on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

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

Forward Looking Statements

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

Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. From time to time, the Corporation’s management may make estimates and have opinions that form the basis for the forward-looking statements. The Corporation assumes no obligation to update such statements if circumstances, management’s estimates, or opinions change.

Forward looking statements are included within the Outlook, CEO Message to Shareholders and Executive Strategy sections of this MD&A.

Section 1 – Overview

Financial and Operational Overview

During the second quarter of 2018, the Corporation continued to focus on ensuring that occupancy remained high and outstanding rents were collected, despite the prevailing economic weakness.

The Corporation's rental revenue decreased by 9% over the same quarter last year, which was a result of rental discounts provided to tenants, lower lease renewals, a reduction in the amount of properties in the Corporation's investment portfolio and a decrease in the Mongolian Tögrög. Rental rates appear to have stabilized at a low level, with some rental rates having increased from prior rates near quarter end, however recent weakness in commodity prices may impede any additional recovery in rental rates. While the Corporation has experienced low levels of bad debt expense, this expense may increase in future quarters. Despite a very weak economy, the Corporation has recently been able to achieve almost full occupancy rates, with office space and retail occupancy rates of 94.9% and 100% respectively.

During the second quarter, no investment properties were sold (Q2 2017 – 7) and none were purchased (Q2 2017 – 4). It is anticipated that the Corporation will continue to dispose of properties in future quarters in order to fund future operating losses, working capital needs, and the Normal Course Issuer Bid (NCIB) program, along with future investments in public securities.

During the quarter, the Mongolian Tögrög decreased slightly versus the Canadian dollar from 1,852 MNT/CAD on March 31, 2018, to 1,858 MNT/CAD on June 30, 2018. This decrease and the volatility during the quarter led to a $76,247 comprehensive unrealized loss (Q2 2017 – $535,895 gain) during the quarter.

Economic Overview

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

Despite official statistics that tend to show moderate economic growth, the Corporation is of the opinion that the economy has been in contraction since 2014, though the rate of contraction has varied based on economic policy. Recent statements by prominent politicians that were designed to embarrass and belittle China, have resulted in China dramatically reducing imports of raw commodities. This led to a continued decline in economic activity during most of 2017 and the first quarter of 2018. Furthermore, changes to tax rates, particularly related to mining licenses, has served to further dissuade foreign investment. Recent arrests of prominent former Mongolian politicians who have been supportive of foreign investment has further dissuaded foreign investment, while likely ensuring that the senior government officials do not approve laws supportive of foreign investment in order to avoid arrest themselves. During March of 2018, Prime Minister Khurelsukh Ukhnaa visited with high-level Chinese officials who agreed to allow an increase of Mongolian commodity exports. This increase in exports has had a beneficial impact on the overall economy and has led to the first increase in rental rates in many years during the end of the second quarter of 2018 and into July of 2018. However, optimism for a recovery must be tempered by a recent decline in commodity prices and continued political grandstanding which may reverse China's policy of increasing Mongolian exports.

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

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

Management believes that the current economic slow-down is the result of policies that have discouraged FDI. When the government takes the appropriate steps to stimulate FDI, it is expected that the economy can return to economic growth. Management remains a believer in the long-term growth potential of Mongolia.

Property Overview

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

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

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

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

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

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

Section 2 - Executing the Strategy

Core Business

During the past seven years, Management and employees have worked hard to build up the infrastructure needed to manage MGG’s institutional property platform. This platform is unique in Mongolia and is one of the only platforms capable of managing assets through the full cycle of ownership from acquisition through disposition and includes dedicated departments that manage maintenance, leasing, marketing and tenant management. Management believes it has a strong team in place to manage the business on an ongoing basis.

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

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

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

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

Portfolio

Mongolia Growth Group’s properties are located in the Downtown and the Central Business District of Ulaanbaatar. Within the financial statements, MGG classifies properties in each of the following categories; Investment Properties, Property and Equipment, and Other Assets/Prepaid Deposits. Fluctuations in the values of the Corporation’s property portfolio during the quarter can be attributed to changes in valuations, properties purchased and sold, and the change in value of the functional currency (Mongolian Tögrög) versus the Canadian dollar.

Investment Properties

Investment Properties include properties held to earn rental revenue, for capital appreciation, and/or for redevelopment. Investment Properties are initially valued at fair value, which is the purchase price plus any directly attributable expenditure. Investment Properties are subsequently valued at fair value, which reflects market conditions at the date of the statement of financial position.

The following table represents properties classified as Investment Properties, as of June 30, 2018;

		30-June-2018		31-Dec-2017
	# of Properties	Value at 30-June-18 $CDN	# of Properties	Value at 31-Dec-17 $CDN
Office	2	1,995,434	2	1,923,500
Retail	20	14,198,056	20	13,686,179
Land and Redevelopment	3*	7,845,977	3	7,277,842
Total	**25**	**24,039,467**	**25**	**22,887,521**

*During the quarter, the Corporation received two land titles belonging to one of its land assets. These titles added 196 meters to the existing land package.

Property and Equipment

Properties are classified as Property and Equipment if the Corporation occupies more than 10% of the property. Properties classified as Property and Equipment are measured at cost less accumulated depreciation, less any accumulated impairment losses. All repairs and maintenance costs to these properties are charged to the consolidated statement of operations during the period in which they occur unless eligible for capitalization. The Corporation's headquarters, purchased in October 2011, falls within this category.

The following table represents properties classified as Property and Equipment, as of June 30, 2018;

		30-June-2018		31-Dec-2017
	# of Properties	Value at 30-June-18 $CDN	# of Properties	Value at 31-Dec -17 $CDN
Office	1	1,635,711	1	1,576,744
Retail	-	-	-	-
Land and Redevelopment	-	-	-	-
Total	**1**	**1,635,711**	**1**	**1,576,744**

Other Assets/ Prepaid Deposits

Investment property purchases where the Corporation has paid either the full or partial purchase proceeds to the seller, but the Corporation has not yet received the official land or building title from the Mongolian Property office, are recorded at cost as Prepaid Deposits on Investment Properties and classified within other assets.

The following table represents properties classified as Prepaid Deposits on Investment Properties, as of June 30, 2018;

		30-June-2018		31-Dec-2017
	# of Properties	Value at 30-June-18 $CDN	# of Properties	Value at 31-Dec-17 $CDN
Office	-	-	-	-
Retail	-	-	-	-
Land and Redevelopment	-	-	2*	285,290
Total	**-**	**-**	**2**	**285,290**

* These land assets are part of one land package 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:

	30-June-2018	31 –Dec- 2017	30-June-2017
	Occupancy Rate*	Occupancy Rate*	Occupancy Rate*
Office	94.9%	97.2%	93.9%
Retail	100.0%	100.0%	93.1%
Weighted Average**	**97.9%**	**98.5%**	**93.4%**

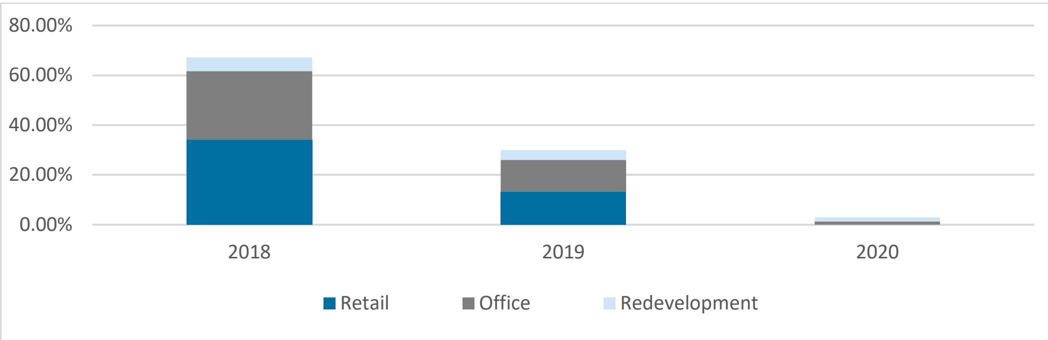
* Occupancy rates are calculated on a per meter basis;
** Weighted Average is calculated based on total meters available for lease

Demand for retail space has remained strong, despite a difficult economy. Occupancy levels for the Corporation's office space continues to be strong even while vacancy levels throughout the city have remained high as additional supply has entered the market. The Corporation's Tuguldur Center has experienced a continued improvement in occupancy throughout the year and ended the quarter with average weekly occupancy of over 95% compared to much lower rates in previous years. Management attributes its success throughout the portfolio to increased marketing initiatives, industry leading property management and realistic price expectations.

Leasing Schedule

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

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



The weighted average remaining lease length, calculated as a percentage of monthly revenues, decreased significantly during the second quarter of 2018 to 8.1 months from 9.9 months at June 30, 2017 as many of the Corporation's leases are set to expire during the 2018 year.

Most Recent Retail and Office Lease Signings					
Lease Type	Lease Renewal Date	SqM	Old Price Per Meter (Mongolian Tögrög)	New Price Per Meter (Mongolian Tögrög)	Percent Increase in MNT (decrease)
Office Lease	Apr-18	23	30,000	36,957	23.19%
Office Lease	May-18	30	28,000	35,000	25.00%
Office Lease	May-18	85	20,000	22,000	10.00%
Office Lease	May-18	9	16,666	16,666	0.00%
Office Lease	May-18	60	20,000	20,000	0.00%
Retail Lease	May-18	187	21,390	18,716	-12.50%
Retail Lease	May-18	18	33,333	44,444	33.33%
Retail Lease	May-18	426	11,267	12,394	10.00%
Office Lease	Jun-18	54	20,370	20,000	-1.82%
Office Lease	Jun-18	24	35,000	35,416	1.19%
Retail Lease	Jun-18	152	46,052	44,736	-2.86%
Retail Lease	Jun-18	65	47,384	49,753	5.00%

It is Management's belief that some of the Corporation's existing leases are at rates that are above current prevailing market rates. It is expected that the Corporation's rental revenue may decline as leases are renewed at current market rates. Offsetting this fact, some of the Corporation's prior leases were signed at rates that did not reflect then current market rates. While rental rates appear to have recovered slightly in recent months, they often remain below the rates of existing leases.

Publicly Traded Securities

Since 2016, one of the Corporation's offshore subsidiaries purchased 55,000,000 shares (of which 10,000,000 were purchased in 2018) of Mongolian Mining Corporation. As of the end of the quarter, the shares were worth $1,178,355. As the share price decreased from 21 to 12.8 Hong Kong cents during the first half of the year, this investment contributed significantly to the Corporation's unrealized loss of $53,443 during period (June 30, 2017 – $643,295). The shares were purchased for investment purposes as the Corporation remains hopeful that the shares will be worth substantially more should the Mongolian government approve the mega-projects currently in discussions and exports return to normal levels.

In addition to its position in Mongolian Mining Corporation, as at June 30, 2018, the Corporation also held positions in 11 different publicly traded companies including warrants, preferreds and the equity value of a put spread with a total value of approximately $2,928,000.

As at June 30, 2018, the Corporation had borrowed $280,207 on margin. Management considers most of its equity positions to be liquid and as such these margin borrowings were netted out of the Company's marketable securities and not reflected in the Corporation's cash on the balance sheet.

The Corporation realized a gain of $241,399 from sales of public securities during the quarter (Q2 2017 – $22,066) and a foreign exchange loss of $16,836 (Q2 2017 - $69,793). During the six months ending June 30, 2018, the Corporation had a realized gain of $215,784 (June 30, 2017 – 22,066) and a foreign exchange loss of $41,023 (June 30, 2017 $78,267). In addition, the Corporation had significant unrealized gains in several of its public securities which offset the Corporation's unrealized losses in Mongolia Mining Corporation. The Corporation anticipates that its public security portfolio will experience volatility beyond the normal volatility of its property portfolio, especially due to its large position in Mongolian Mining Corporation, and the timing of gains and losses is unpredictable.

The Corporation's public securities as of June 30, 2018 are broken out in the following sectors with Mongolian Mining Corp displayed as an individual company instead of a sector;

Industry Sector	Percentage
Offshore Energy Services	31.0%
Mongolian Mining Corp	28.7%
Health Care Services	16.4%
Consumer Loyalty Business	8.4%
Oil and Gas Exploration	4.9%
Real Estate & Property Development	5.2%
Put Spread Auto Sector	3.9%
Pharmaceuticals	1.5%

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

Section 3 - Results of Operations

Selected Quarterly Financial Information (CAD)

	Quarter ended 30-June-2018 ($)	Quarter ended 30-June-2017 ($)	Quarter ended 30-June-2016 ($)
Revenue and other income	357,051	338,352	338,203
Income			
Net gain (loss) attributable to equity holders of the Corporation	128,671	(2,135,025)	(6,017,609)
Total Comprehensive income/ (loss) attributable to equity holders of the Corporation	52,424	(1,599,130)	(4,496,855)
Basic earnings per share ("EPS") (in CAD)			
Net income/ (loss)	0.00	(0.06)	(0.17)
Diluted EPS (in CAD)			
Net Income/ (loss)	0.00	(0.06)	(0.17)
Balance Sheet			
Total assets	30,111,915	31,397,409	41,480,240
Total liabilities	1,637,341	945,108	1,440,525
Total equity	28,474,574	30,452,301	40,039,715
Shares outstanding at quarter end	33,379,499	34,506,599	35,397,599
Book value per share	0.85	0.88	1.13

Rental Revenue from Investment Properties

Rental revenue from Investment Properties decreased from $380,072 in the second quarter of 2017 to $347,058 in the second quarter of 2018. The decrease during the quarter was primarily attributable to leases being renewed at lower rates as well as a decrease in the Mongolian Tögrög versus the Canadian dollar.

Revenue from Other Sources

Revenue from other sources consists of late fees and fees earned for third party leasing and property management. For the second quarter of 2018, revenues from other sources totaled $9,993 compared to $9,726 for the second quarter of 2017. This increase was due to an increase in third party revenues during the quarter.

Gain/Loss on disposal of Investment Properties

During the quarter, the Corporation did not dispose of any investment properties. During the second quarter of 2017, the Corporation disposed of seven investment properties at a net loss of $51,446.

Income Taxes

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

Differences between IFRS and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The deferred tax liability on the balance sheet decreased by $1,544 during the quarter (Q2 2017 - $28,485) primarily due to depreciation of Mongolian Tögrög versus the Canadian dollar.

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, 2018, the Corporation did not experience a fair value impairment to its investment portfolio (Q2 2017 – $1,810,714).

Unrealized short-term investment gain/loss

During the quarter, the Corporation had an unrealized short-term investment gain of $37,004 compared to an unrealized short-term investment loss of $175,775 during the second quarter of 2017. This unrealized short-term investment gain was primarily the result of the large unrealized gains in several of its marketable securities holdings offset by a significant unrealized loss in the Corporation's holding of Mongolia Mining Corporation whose share price declined from 16.9 to 12.8 Hong Kong cents during the quarter.

Share Repurchase

During the quarter, the Corporation repurchased 119,000 common shares under its Normal Course Issuer Bid (NCIB) at an average price of $0.22(Q2 2017-230,000, $0.36 average). As at June 30, 2018, the Corporation held 26,500 shares in Treasury to be cancelled during the third quarter of 2018 (Q2 2017- 212,500).

Currency

The Mongolian Tögrög has fluctuated significantly over the past seven years. The Mongolian Tögrög has depreciated 6.8%, 5.1%, 11.5% and 5.3% in 2011, 2012, 2013 and 2014 respectively versus the Canadian Dollar while appreciating 11.4% in 2015 and depreciating 28.5% in 2016 and a further 4.3% in 2017. During the first quarter of 2018, the Mongolian Tögrög increased 3.9% versus the Canadian dollar from 1,927 MNT/CAD on December 31, 2017, to 1,852 MNT/CAD on March 31, 2018. During the second quarter, the Mongolian Tögrög decreased 0.3% versus the Canadian dollar from 1,852 MNT/CAD on March 31, 2018, to 1,858 MNT/CAD on June 30, 2018. This decrease led to a $76,247 comprehensive unrealized loss (Q2 2017 – $535,895 gain) during the quarter. Depreciation of the Mongolian Tögrög tends to negatively impact the Corporation's financial performance including its EBITDA as approximately half of the Corporation's expenses are in U.S. and Canadian Dollars while all of the Corporation's revenues are in Mongolian Tögrög. The fluctuation in the currency is reflected in the Corporation's financial statements, most notably in the investment property portfolio, as it is the largest item on the Balance Sheet. Note 8 in the Financial Statements discloses the foreign exchange adjustment, which flows through the investment property classification during each period. During the three month period, the Corporation recognized a foreign exchange adjustment gain of $855,986 (Q2 2017 gain of $605,355) to its investment property portfolio.

Operating Profit (Loss)

Overall, the Corporation reported an Adjusted EBITDA loss of $111,382 during the second quarter of 2018 (Q2 2017 – loss of $229,102). The Improvement in EBITDA since last year is due to the continued cost saving initiatives implemented during the year and lower commission fees.

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

	Q2 2018 $	Q2 2017 $
Net Income before Income taxes	132,937	(2,155,460)
Add Depreciation and Amortization	19,524	35,938
Subtract Interest and Investment Income/gains/finance expense	263,843	151,582
EBITDA	**(111,382)**	**(2,039,816)**
Subtract Fair Value Adjustment Gain (add back loss) on all properties	-	(1,810,714)
Including impairments on PPE and Other Assets	-	-
Total Adjusted EBITDA	**(111,382)**	**(229,102)**

Net Income

For the quarter ended June 30, 2018, the Corporation had a net income of $128,671 compared to a net loss of $2,135,025 for the quarter ending June 30, 2017. The improvement in performance versus the same period last year is primarily due to a higher realized gain on short term securities incurred during the quarter.

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 equity issuance, financing and asset sales. Management expects to meet all of the Corporation's obligations through current cash and cash equivalents along with cash flows from asset sales.

The following table provides an overview of the Corporation's cash flows from operating, financing and investing activities for the six month period ended June 30, 2018 and 2017.

	30-June-2018 $	30-June-2017 $
Net change in cash related to:		
Operating	(330,760)	(1,337,938)
Investing	(887,363)	595,259
Financing	(55,296)	(149,713)
Effects of exchange rates on cash	98,713	228,776
Net change in cash during the period	**(1,174,706)**	**(663,616)**

Overall, the Corporation had cash outflows of $1,174,706 during the second quarter of 2018 primarily due to the purchase marketable securities. The changes in components of cash flows for the period ended June 30, 2018, compared to the period ended June 30, 2017, were the result of the following factors:

- **Operating** – Operating cash outflows during the three month period were significantly smaller than the previous year due to a significant reduction in negative non-cash working capital balances.
- **Investing** – Investing cash outflow occurred during the period due to an increase in acquisitions of marketable securities during the same period in 2017.
- **Financing** – Financing cash outflows occurred due to the repurchase of 227,500 shares during the period. The Corporation repurchased 426,000 shares during the same period in 2017.

To date, the Corporation has been able to meet all of its capital and other cash requirements from its internal sources of cash. As at June 30, 2018, the Corporation had approximately $466,065 (Q4 2017 - $1,640,771) in cash and cash equivalents. Due to the expectation that the Corporation's cash position will worsen in future quarters, the Corporation is focused on increasing liquidity and cash reserves in Canada through asset sales and has taken on a $1,300,200 credit facility through a commercial bank in Mongolia. Furthermore, the Corporation considers its marketable securities holdings to be fairly liquid and can be sold should the Corporation need to increase its cash position.

Total Assets

As of June 30, 2018, the Corporation had $4,393,361 (Q4 2017 - $4,863,414) in Current Assets of which $466,065 were held in cash and cash equivalents (Q4 2017 – $1,640,771). The decrease in cash is due to the increase in marketable securities.

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 during the quarter to $24,039,467 (Q1 2018 -$23,813,855) due to transferring two properties into Investment Properties that were previously treated as other assets.

Property and Equipment, which primarily consists of properties that are measured at their cost base, decreased from $1,702,989 as at March 31, 2018 to $1,679,087 as at June 30, 2018 due to a decrease the Mongolian Tögrög versus the Canadian dollar.

Total Liabilities

As of June 30, 2018, the Corporation had current liabilities of $452,684 (December 31, 2017 – $517,077) consisting primarily of payables and accrued liabilities.

As of June 30, 2018, the only non-current liabilities on the balance sheet are long term debt outstanding and deferred income taxes. During 2017, the Corporation obtained a two year CDN$1,300,200 (USD $1,000,000) credit facility through a commercial bank in Mongolia. The loan is secured by various property assets and guarantees from Mongolian subsidiaries. The Corporation made an initial draw of USD $500,000 during the year ended December 31, 2017. As at June 30, 2018 the Corporation had $663,441 in long term debt outstanding (December 31, 2017-$629,748).

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

Total Equity

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

Outstanding	30-June-2018	31-Dec-2017
Common shares	33,379,499*	33,696,599
Options to buy common shares	3,103,000	3,103,000

* As at June 30, 2018, the Corporation held 26,500 of the common shares outstanding in Treasury to be cancelled during the third quarter of 2018 (Q2 2017-212,500).

Options Outstanding

At June 30, 2018, the Corporation had 3,103,000 options that were exercisable (December 31, 2017 – 3,103,000).

The Chart below shows the historical option grants and options outstanding as of June 30, 2018.

Option Price	Granted	Expired	Forfeited	Cancelled	Exercised	Total Options Outstanding	Total Exercisable	Non exercisable
1.64	100,000	-	-	-	100,000	-	-	-
1.75	300,000	50,000	-	-	250,000	-	-	-
1.9	1,363,000	35,000	85,000	-	200,000	1,043,000	1,043,000	-
4.2	900,000	205,000	408,000	287,000	-	-	-	-
4.77	175,000	20,000	100,000	55,000	-	-	-	-
4.25	150,000	5,000	50,000	95,000	-	-	-	-
4.0	190,000	-	-	190,000	-	-	-	-
4.13	475,000	125,000	75,000	275,000	-	-	-	-
1.09	375,000	-	75,000	-	-	300,000	300,000	-
0.72	935,000	-	20,000	-	-	915,000	915,000	-
0.74	640,000	-	75,000	-	-	565,000	565,000	-
0.38	350,000	-	70,000	-	-	280,000	280,000	-
Total	**5,953,000**	**440,000**	**958,000**	**902,000**	**550,000**	**3,103,000**	**3,103,000**	-

Acquisitions and Dispositions

During the first half of 2018, the Corporation did not acquire or sell any investment properties. In comparison, during the first half of 2017, the Company acquired four properties in two separate transactions for a total cost of $537,353 and sold seven investment properties of which three had been purchased during the same period for proceeds of $1,898,936 resulting in a net loss of $51,446 on the transactions.

Related Party Transactions

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

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

Related Party Transactions	30-June-2018 $	30-June-2017 $
Salaries and other short-term benefits to officers	200,423	107,072
Director fees	40,000	50,000
Total	**240,423**	**157,072**

Off-Balance Sheet Items

As of June 30, 2018 the Corporation had no off-balance sheet items.

Events Subsequent to Quarter End

Since July 1, 2018, the Corporation repurchased 48,500 of its shares at an average price of $0.25/share and did not cancel any shares.

Section 5 - Quarterly Information

Quarterly Results

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

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Revenue	357,051	356,748	662,458	370,354	338,352	401,078	348,301	433,302
Net income (loss)	128,671	(272,955)	(720,889)	401,886	(2,135,025)	(643,186)	196,138	434,059
Income (loss) per common share	0.00	(0.01)	(0.02)	0.01	(0.06)	(0.02)	0.00	0.01
Total Assets	30,111,915	30,142,591	29,405,831	29,377,211	31,397,409	33,268,754	34,511,276	36,767,186
Weighted Average Shares (No.)	33,464,179	33,530,605	34,342,059	34,486,152	34,571,610	34,633,899	35,297,108	35,430,404
Ending Shares (No.)	33,379,499	33,476,999	33,696,599	34,294,099	34,506,599	34,524,099	34,806,599	35,372,099

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 six month period ending June 30, 2018, the Corporation did not have a fair value adjustment on its investment properties (Q2 2017 – $1,810,714 impairment).

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, 2018, the cost of the share based payments were $nil (Q2 2017 - $nil).

Operating Environment of the Corporation

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

During 2017 and early 2018, the Corporation had difficulty in converting Mongolian Tögrög to U.S. Dollars at large Mongolian banks. This difficulty has persisted in subsequent periods, but to a lesser degree. There can be no certainty regarding the ability to convert or wire money from Mongolia in the future.

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

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

Deferred Tax Assets

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

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

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

As at June 30, 2018, Management has made the judgment that none of the Company's assets meet the criteria to be classified as held for sale. While this is due to a number of factors, a primary reason is that due to the conditions of the Mongolian economy and the lack of liquidity in the market, management was unable to conclude that the sale of any significant size asset could be considered highly probable.

Section 7 – Risk Management

Credit Risk

The Corporation's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio. For the quarter, most of the Corporation's credit risk consisted of institutional deposits. The majority of the funds invested are held in reputable Canadian or Mongolian banks. Recently, there have been rumors that various commercial banks in Mongolia could fail. There is no way to tell if these rumors are accurate however, from time to time, the Corporation has had difficulty in converting Mongolian Tögrög into U.S. Dollars. If banks are unwilling or unable to give the Corporation access to its U.S. Dollar deposits, the Corporation could experience severe liquidity issues.

The Corporation is exposed to credit risk as an owner of real estate in which tenants may become unable to pay contracted rents. The Corporation mitigates this risk by carrying out due diligence on significant tenants. The Corporation's properties are diversified across residential and commercial classes. Historically, bad debts have not been a substantial expense for the Corporation. During 2017 and early 2018, the Corporation experienced an increase in late rental payments. The Corporation believes that it will collect all of this debt, but there is no certainty that this will occur.

Liquidity Risk

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

The Corporation does not believe its current maturity profile lends itself to any material liquidity risk, taking into account the level of cash and cash equivalents, investments and marketable securities as at June 30, 2018.

As at June 30, 2018, the Corporation had working capital of $3,940,677 (Q2 2017 - $2,339,982) comprised of cash and cash equivalents, other assets, net of trade and accrued liabilities and income taxes payable. Management considers the funds on hand to be sufficient to meet its ongoing obligations.

As of June 30, 2018, the Corporation's only material contractual obligations is the repayment of its credit facility of approximately $1,300,000 in December 2019. To date the Corporation has only drawn on approximately $660,000 of this facility.

Market Risk

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

Property Title Risk

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

Currency Risk

The Corporation owns properties located in Mongolia and collects rental revenue in Mongolian Tögrög, and is therefore subject to foreign currency fluctuations that may impact its financial position and results. Changes in the Mongolian Tögrög, U.S. dollar and Canadian dollar foreign currency exchange rates impact the fair value of securities denominated in Mongolian Tögrög and in U.S. dollars. All of the Corporation's revenues are received in Mongolian Tögrög while approximately half of the Corporation's expenses are incurred in U.S. and Canadian Dollars. Therefore, a depreciation in the Mongolian Tögrög against the US and Canadian Dollar will reduce EBITDA. The exchange rate continues to be volatile and there is an expectation that the rate of currency depreciation could increase.

Economic Volatility and Uncertainty

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

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

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

Risks and Uncertainties

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

Further information related to Mongolia Growth Group Ltd. and the risks and uncertainties of MGG is filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be reviewed at www.sedar.com.

Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, investments and marketable securities, accounts receivable and trade and accrued payables. The Corporation is subject to interest risk as it earns interest income from its cash deposits. It is Management's opinion that the Corporation is not exposed to significant credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values. Management believes that there are material currency risks associated to certain Financial Instruments of the Corporation as they are held in Mongolian Tögrög. For further discussion of financial instrument risks, see the Insurance and Financial Risk Management note (Note 15 on December 31, 2017 Financial Statements).

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

Changes in Investment Strategies

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

Possible Negative Impact of Regulation

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

Property Specific Risk

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

Use of Derivatives

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

Custody Risk and Broker or Dealer Insolvency

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

Investment and Trading Risks in General

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

General Economic and Market Conditions

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

Issuer–Specific Changes

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

Portfolio Turnover

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

Liquidity of Underlying Investments

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

Highly Volatile Markets

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

Emerging Markets

The Corporation may invest in the securities of companies which operate in some emerging markets. Operating in emerging markets involves additional risks because companies in emerging markets may be less regulated and not subject to the same standards, reporting practices and disclosure requirements that apply in more developed markets. In addition, some emerging markets and legal systems may not adequately protect investor rights.

Small- to Medium- Capitalization Companies

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

Fixed Income Securities

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

Equity Securities

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

Options

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

Shorting

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

Trading Costs

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

Currency and Exchange Rate Risks

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

Leverage

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

Internal Controls over Financial Reporting

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

Instead, an optional form of certification has been made available to junior reporting issuers and has been used by the Corporation's certifying officers since December 31, 2013 annual filings. The new certification reflects what the Corporation considers to be a more appropriate level of CEO and CFO certification given the size and nature of the Corporation's operations. This certification requires the certifying officers to state that: they have reviewed the interim MD&A and consolidated financial statements; they have determined that there is no untrue statement of a material fact, or any omission of material fact required to be stated which would make a statement or its omission misleading in light of the circumstances under which it was made within the interim MD&A and consolidated financial statements; based on their knowledge, the interim filings, together with the other financial information included in the interim filings, fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation as of the date and for the periods presented in the filings.

Current Accounting Policy Changes

The Company has adopted the following revised standards, along with any consequential amendments, effective January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

In accordance with this new standard, the Company adopted IFRS 15 using the modified retrospective method. In applying IFRS 15, the Company used the practical expedient that permits contracts which were completed prior to the transition date to not be assessed. As a result of adopting IFRS 15, there were no adjustments to the balance sheet as at January 1, 2018.

IFRS 9 Financial Instruments

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

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

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

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

The Company has adopted IFRS 9, "Financial Instruments" ("IFRS 9"), effective January 1, 2018. As the Company has historically classified its marketable securities as FVTPL, the adoption of IFRS 9 has not resulted in adjustments to the balance sheet as at January 1, 2018.

IAS 40 Investment Properties

IAS 40, "Investment Properties" ("IAS 40"), was amended to clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The revised standard states that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

This amendment did not have an impact on the Company's condensed consolidated financial statements.

Accounting standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019 or later and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

IFRS 16 – Leases

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

Additional Information

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