MONGOLIA GROWTH GROUP LTD.

MANAGEMENT DISCUSSION & ANALYSIS

December 31st 2016

Contents

MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis

December 31, 2016

The management of Mongolia Growth Group Ltd. ("MGG" or "the Corporation") presents the Corporation's management discussion and analysis for the year ended December 31, 2016 (the "MD&A"), compared with the year ended December 31, 2015. As of January 1, 2011, the Corporation adopted International Financial Reporting Standards ("IFRS"). This MD&A provides an overall discussion, followed by analyses of the performance of the Corporation's major reportable segments. The reporting and presentation currency in the consolidated financial statements and in this discussion and analysis is the Canadian dollar, unless otherwise noted.

This MD&A is dated March 30, 2017 and incorporates all relevant information and considerations to that date.

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2016 and December 31, 2015 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. 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. The Corporation also refers to Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO"). "FFO" is not defined under IFRS. The Corporation calculates FFO in accordance with the Real Property Association of Canada ("REALpac ") White Paper on Funds from Operations issued April 2014. FFO is defined by the Corporation as net income (loss) and comprehensive income (loss) calculated in accordance with IFRS, excluding: (i) Unrealized change in fair value of investment properties (ii) depreciation and amortization of investment properties; (iii) gains (or losses) from sales of investment properties and equipment; (iv) tax on gains or losses of sale on investment properties (v) deferred income tax (expense) recovery; (vi) impairment/losses on all real estate assets (vii) Gains or losses on PPE properties (viii) share based payments. "AFFO" is not defined under IFRS and may not be comparable to AFFO used by other issuers. The Corporation has defined AFFO as FFO subject to certain adjustments, including: development expenses not capitalized, large one-time expenses and other adjustments as determined by Management.

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 fourth quarter of 2016, the Corporation continued to focus on reducing costs in the midst of a weakening Mongolian economy; however cost reductions were partially offset by continued declines in rental revenues on assets that experienced lease renewals along with continued depreciation of the Mongolian Tögrög against the Canadian Dollar. Offsetting this, a number of properties that were developed by the Corporation in prior periods began to pay rent. During 2016, FFO improved significantly from a loss of $755,767 in 2015 to an FFO gain of $157,405 in 2016. AFFO improved from a loss of $581,338 in 2015 to a loss of $199,829 in 2016. These improvements were due to a 21.4% reduction in costs before depreciation, equity compensation and non-capitalized development expenses when compared with 2015 due to several one-time events captured in the expenses for the year.

The Corporation's rental revenue decreased by 10.9% compared to the prior year, which was largely as a result of increased vacancies in the office sector, increasing amount of rental discounts provided to tenants and a weaker currency. Additionally, the Corporation was forced to reduce rental rates on many property assets when leases came up for renewal. The Corporation's office space experienced higher vacancy rates than usual due to the departure of a significant tenant at the Corporation's head office. The Corporation is working to increase the occupancy at this property, but has struggled to fill this space due to an oversupply of office space and a weakening economy. Additionally, rental rates have continued to decline, particularly in the office market, leading to an expectation that rental revenue will continue to decline in future quarters. While the Corporation has experienced a low level of bad debt expense thus far in the economic crisis, an increasing number of tenants are showing stress in their businesses and there is no certainty on whether the Corporation's bad debt expense will increase in future periods. Weakness in the economy has led to decreases in the Corporation's occupancy rates particularly in the office space sector which had an occupancy rate of 84.9% at the end of the year dragging down the Corporation's overall weighted average occupancy rate to 91.0%.

Due to a significant deterioration of the local economy, the Corporation recorded an unrealized fair value loss of $5,728,003 on its investment properties portfolio during 2016 (2015-$7,926,701). If property values continue to decline, the Corporation will likely need to record unrealized fair value losses in future periods.

During the year, the Corporation disposed of 4 investment properties for proceeds of $970,241. Proceeds from the sales of assets during the year were used for working capital purposes and its Normal Course Issuer Bid (NCIB) program. It is anticipated that the Corporation will continue to dispose of properties in future quarters in order to fund working capital needs, future public securities purchases along with the renewed NCIB program. As of December 31, 2016, the Corporation had five investment properties at a fair value of $2,132,267 classified as available for sale. (Q4 2015 – four classified as available for sale at a fair value of $2,970,114).

During the year, the Mongolian Tögrög depreciated versus the Canadian dollar from 1,438 MNT/CAD on December 31, 2015 to 1,848 MNT/CAD on December 31 2016; a 28.5% decrease during the year. This depreciation led to a $10,651,263 other comprehensive loss (2015 – 6,471,774 gain) during the year. Subsequent to the end of the quarter, the Mongolian Tögrög has continued to experience a steady and continuous decline. During the year, the Corporation has experienced some difficulty in converting Mongolian Tögrög to U.S. Dollars as banks seem to have a shortage of U.S. Dollars. At times, banks have imposed various daily limits on convertibility that have hindered the Corporation's ability to convert even small quantities of currency. The Corporation continues to transfer money back to its Canadian headquarters, however there is no certainty that the Mongolian banks will continue to allow such transfers in the future. The Corporation tries to keep as little of its cash reserves in Mongolian Tögrög as is possible to operate the business.

Economic Overview

From 2009 until 2014, the Mongolian real estate sector benefitted from local economic growth. The majority of this growth was 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 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 led to a substantial increase in the gross production of the local economy.

Since 2015, according to official government statistics, the Mongolian economy has witnessed a decrease in its growth rate, with this decline accelerating since then. This slow-down has been caused by reduced prices for commodities, political uncertainty, the arrest of certain foreign executives, a decrease in bank lending, along with doubt over the timing of the continuation of the Oyu Tolgoi underground development. These factors have led to a substantial decline in foreign direct investment (FDI) which has reduced the rate of growth of the economy.

Despite government statistics indicating overall economic growth, many sectors of the economy are under severe economic distress, with most business people believing that the economy has in fact been experiencing a dramatic contraction since sometime in 2014. Additionally, statistical indexes that are not affiliated with the Mongolian Government, such as the World Economics Sales Managers Index, indicate that the economy has likely been contracting since early 2014. This economic contraction has impacted the property sector where vacancies have increased while rental rates have declined dramatically—even before taking into account the decline in the currency. It is anticipated that certain austerity initiatives undertaken related to the recently announced IMF loan, will serve to further impair current economic conditions. Additionally, there is uncertainty that the IMF package will be implemented.

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

Property Overview

The general property market continues to be influenced by the overall Mongolian economy. With the accelerating decline in the Mongolian economy, there has been a noticeable increase in vacancy, particularly in office and residential space. In the downtown core, this has led to a substantial decline in pricing for both rental rates and sales for those two asset classes. High street retail has seen less of an increase in supply, and demand for space remains adequate although lease rates have continued their decline throughout 2016. While most data is anecdotal, office rental prices in the downtown core have declined between 50-80%, while retail lease rates have declined by approximately a third in Mongolian Tögrög terms over the past 12-18 months. These declines are further magnified by the decline in the currency against the Canadian Dollar. 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. Additionally, there are a sizable number of office buildings and retail mini-malls that are expected to be completed before the end of 2017. These properties are expected to put substantial additional pressure on rental rates as they represent very sizable increases in supply at a time when demand continues to decline due to businesses downsizing or ceasing operations. 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 AFFO losses would expand dramatically from 2016 levels. Additionally, such lease rates may last for an elongated period of time and substantially deplete the Corporation’s liquidity.

Outside of the downtown of Ulaanbaatar, a noticeable increase in building activity has saturated most markets and led to a more substantial decline in prices. In addition, there has been a recent increase in office and residential construction activity that will likely lead to future saturation in those markets. Finally, there has been a noticeable increase in the number distressed property owners, including banks that are experiencing a rapidly increasing number of bad debts and foreclosures. It is likely that these individuals will be forced to liquidate their property assets, potentially at prices that are substantially below current market prices. Recently, a number of banks that had been hesitant to sell properties at a loss have begun to market these prices at sizable discounts to the valuations on their balance sheets. If sales are completed at large discounts to current prices, it would impact the fair value of the Corporation's assets and may lead to future sizable unrealized losses to the fair value of the Corporation's portfolio assets. Recent comments by the IMF have indicated that as part of the bail-out program, it intends to ensure that local banks are adequately capitalized and regulated. This may force domestic banks to raise additional capital and/or sell assets to improve their liquidity and risk capital levels. Such sales would severely impact current property values. Management cautions shareholders that property prices have historically been, and will continue to be, volatile. It is expected that property prices will continue to decline for the foreseeable future.

Management expects a continued demand for well-located street-level retail space, with a reduced demand level for office space. MGG continues to have below market rates of vacancy in all asset classes and believes that it is substantially outperforming the overall market in terms of occupancy and attributes its success to the size and capability of its leasing and marketing organization though it has often had to offer substantial discounts in order to fill spaces. For more information on leasing, visit http://www.MGGProperties.com.

The Corporation is focused on maintaining high levels of occupancy, even if it needs to continually lower rental rates.

MGG has seen a slight increase in bad debt and late payment of rent over the past year. Additionally, a large number of tenants are asking to have their rents reduced due to the economic crisis. MGG proactively evaluates tenants based on past rental history before changing the terms of rental contracts with a goal of keeping properties fully occupied at the cost of lowering rents. It is anticipated that many existing leases will be re-negotiated to substantially lower rates when they expire over the next few quarters.

It is expected that market rental rates will continue to decline, especially when converted back to Canadian dollars. Additionally, overall rental revenue is expected to decline as existing leases are re-signed at current market rates that are often substantially lower than the rates that existed when contracts were previously signed or existing tenants demand that the Corporation reduces rental rates.

Section 2 - Executing the Strategy

Core Business

During the past six 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 and development, through disposition and includes dedicated departments that manage maintenance, leasing, marketing and tenant management. Management believes it has a strong team in place to lead the Corporation into its next phase of growth.

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 more actively target this brokerage opportunity now that its website is renewed and relaunched at www.MGGproperties.com.

Since inception, MGG has acquired a number of redevelopment properties. To date, the Corporation has also remodeled, rebuilt and completed additions on properties. During 2014 and 2015, the Corporation spent substantial resources on redeveloping its Tuguldur retail center property; however these redevelopment efforts have been put on hold due to a slowing economy and uncertainty regarding the ability to lease added space due to the rapidly increasing vacancy level in the city. The Corporation did complete a 334 meter extension to Tuguldur during early 2016 and a lease was signed with a well-respected Mongolian tenant in early 2016. This tenant began to pay rent during the third quarter of 2016. Due to the project going over budget and the sizable decline in market rents from when the project began until a lease was signed, this development project did not hit internal return targets, further validating the Corporation's decision to cease all further development spending. As part of its cost savings initiative, the Corporation has eliminated its development department as it is expected that there will be no need for additional space in Ulaanbaatar for many years into the future. The Corporation is currently evaluating its strategy for the Corporation's development pipeline as it will no longer have the internal resources to develop them and a monetization of these assets will increase the Corporation's liquidity.

Portfolio

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

Investment Properties

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

The following table represents properties classified as Investment Properties, as of December 31, 2016;

		2016		2015
	# of Properties	Value at 31-Dec-16 $CDN	# of Properties	Value at 31-Dec-15 $CDN
Residential	2	250,320	1	285,170
Office	3	2,976,642	3	4,649,657
Retail	23	16,505,234	26	25,842,765
Land and Redevelopment	3	9,769,154	4	15,696,158
Total	**31**	**29,501,350**	**34**	**46,473,750**

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. During the year, the Corporation's headquarters building has experienced an increase in vacancy as a sizable tenant ended its lease in March 2016 and the Corporation has struggled to lease the space since this time.

The following table represents properties classified as Property and Equipment, as of December 31, 2016;

	2016		2015	
	# of Properties	Value at 31-Dec-16 $CDN	# of Properties	Value at 31-Dec-15 $CDN
Residential	-	-	1	99,316
Office	1	1,672,645	1	2,665,989
Retail	-	-	-	-
Land and Redevelopment	-	-	-	-
Total	**1**	**1,672,645**	**2**	**2,765,305**

Other Assets/ Prepaid Deposits

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

The following table represents properties classified as Prepaid Deposits on Investment Properties, as of December 31, 2016;

	2016		2015	
	# of Properties	Value at 31-Dec-16 $CDN	# of Properties	Value at 31-Dec-15 $CDN
Residential	-	-	-	-
Office	-	-	-	-
Retail	-	-	-	-
Land and Redevelopment	1*	42,759	1*	69,727
Total	1	42,759	1	69,727

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

Occupancy Rates

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

	31 –Dec- 2016	31 –Dec- 2015	31 –Dec- 2014
	Occupancy Rate*	Occupancy Rate*	Occupancy Rate*
Office	84.9%	91.7%	98.2%
Retail	95.1%	84.4%	91.2%
Weighted Average**	**91.0%**	**87.4%**	**94.2%**

* Occupancy rates are calculated on a per meter basis;

** Weighted Average is calculated based on total meters available for lease

Demand for retail space has remained strong, despite a difficult economy. Occupancy levels for the Corporation's office space, excluding its headquarters building, which lost a major tenant at the beginning of the year, have been good even while vacancy levels throughout the city have increased significantly as additional supply has entered the market. The Corporation's Tuguldur Center has experienced a continued improvement in occupancy throughout the year and ended the year with average weekly occupancy of over 90% compared with occupancy of approximately

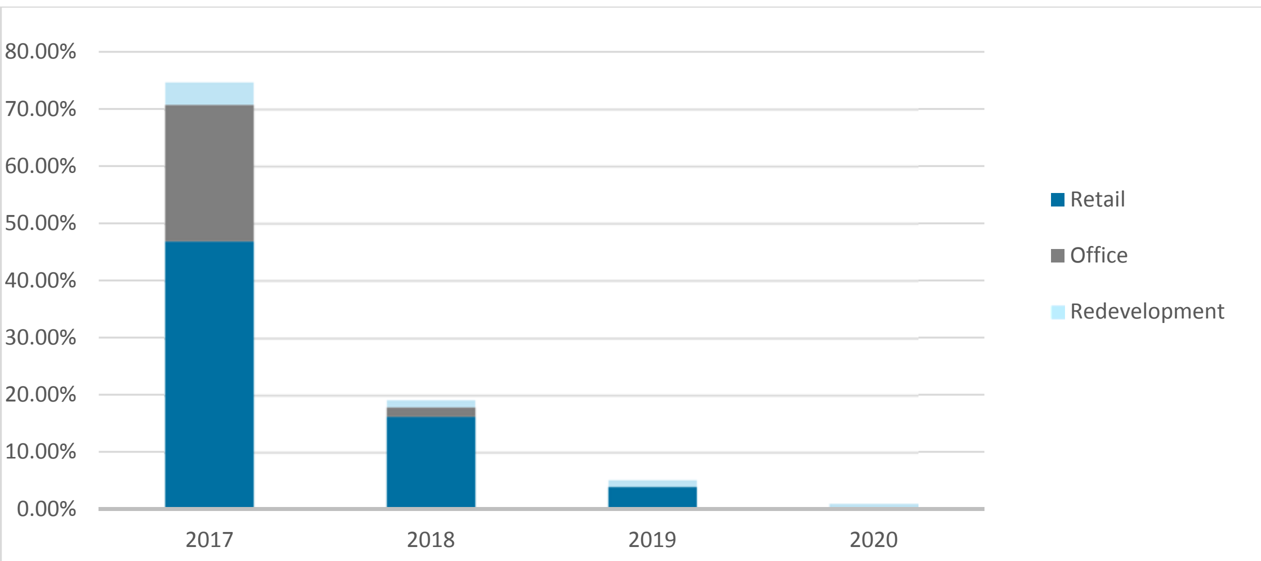
60% for much of 2015. Management attributes its success throughout the portfolio due to increased marketing initiatives, industry leading property management and realistic price expectations.

The Corporation would like to caution shareholders that it is experiencing abnormally high levels of tenant turnover and occupancy levels can fluctuate dramatically between months as tenants break leases. It is expected that turnover will increase as the economy continues to decline and it is uncertain if the Corporation will be able to continue to find new tenants due to the weak economy. Additionally, the Corporation often experiences added tenant improvement expenses when tenants break leases. During 2016, this expense was unusually elevated compared to prior years and may continue in 2017.

Leasing Schedule

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

During the first quarter of 2017, approximately 699 meters of leases, representing about $12,000 in monthly rental revenue will expire.



The weighted average remaining lease increased to 10.9 months in December 2016 from 10.4 months in December 2015, calculated as a percentage of monthly revenues.

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

Most Recent Retail Lease Signings					
Lease Type	Lease Renewal Date	SqM	Old Price Per Meter (Mongolian Tögrög)	New Price Per Meter (Mongolian Tögrög)	Percent Increase (decrease)
Office Lease	16-Oct	22	30,000	22,727	-24.24%
Office Lease	16-Oct	54	30,000	20,370	-32.10%
Office lease	16-Oct	12	35,000	35,000	0.00%
Retail Lease	16-Nov	169	35,608	36,795	3.33%
Office lease	16-Nov	24	31,958	20,000	-37.42%
Office lease	16-Nov	20	30,000	25,000	-16.67%
Office lease	16-Nov	60	25,000	20,000	-20.00%
Office lease	16-Nov	24	25,000	20,000	-20.00%
Office lease	16-Nov	55	25,454	20,000	-21.43%
Office lease	16-Nov	33	39,393	30,000	-23.84%
Office lease	16-Nov	30	40,000	28,000	-30.00%
Office lease	16-Dec	23	30,000	20,000	-33.33%
Office lease	16-Dec	85	30,000	20,000	-33.33%
Office lease	16-Dec	54	40,000	27,000	-32.50%

Publicly Traded Securities

During the year, one of the Corporation's offshore subsidiaries purchased 19,000,000 shares of Mongolian Mining Corporation at an average cost of approximately 14.2 Hong Kong cents for gross proceeds of $453,698. As of the end of the year, the shares were worth $1,184,825 for a pre-tax gain of $731,041. These shares were purchased for investment purposes.

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

Section 3 – Results of Operations

Selected Annual Financial Information (CAD)

	Year ended 31-Dec- 2016	Year ended 31-Dec- 2015	Year ended 31-Dec- 2014
Total Revenue	1,609,966	1,947,508	1,918,916
Income			
Net Income/ (loss) attributable to equity holders of the Corporation	(5,662,784)	(9,930,970)	4,151,782
Total Comprehensive income/ (loss) attributable to equity holders of the Corporation	(16,314,047)	(3,459,196)	2,631,084
Basic earnings per share ("EPS") (in CAD)			
Net income/ (loss)	(0.16)	(0.28)	0.12
Diluted EPS (in CAD)			
Net Income/ (loss)	(0.16)	(0.28)	0.12
Balance Sheet			
Total Assets	34,511,276	50,815,170	54,106,591
Total liabilities	1,978,836	1,840,825	3,176,142
Total Equity	32,532,440	48,974,345	50,930,449
Shares Outstanding at year end	34,806,599	35,512,829	34,848,745
Book Value per share	0.93	1.38	1.46

Revenue from Investment Properties

For the year end December 31, 2016, rental revenue from Investment Properties was $1,783,896 versus $2,002,512 in the prior year. The decrease year over year was primarily attributable to leases being renewed at lower rates as well as a decrease in the local currency versus the Canadian dollar.

Gain/loss on sale of Investment Properties

For the year end December 31, 2016, the Corporation reported a net loss of $223,532 on the sale of four investment properties versus a net loss of $116,182 in the prior year on the sale of ten properties.

Revenue from Other Sources

Revenue from other sources consists of late fees and other income. For the year ending December 31, 2016, revenues from other sources totaled $49,602 compared to $61,178 for the year ending December 31, 2015. Revenues decreased due to a lower gain on disposal of fixed asset than the previous year.

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 income of $143,126 for the year ended December 31, 2016 (2015 $238,472 income), is due to a difference in the fair value of the properties in Mongolia and depreciation claimed for income tax purposes. The deferred tax liability on the balance sheet decreased $365,774 during the year (Q4 2015 -109,032). The foreign exchange impact of the deferred tax liability of $222,648 (2015 $129,440) for the year ending December 31, 2016, is recorded in other comprehensive loss.

Following an internal review in early 2015, the Corporation determined that it had been overpaying certain taxes to the Canadian government during the period from 2011 until early 2015. The Tax Authorities agreed with the Corporation's findings related to this tax issue. On October 3, 2016, the Corporation received a refund for $333,475. The Corporation intends to continue to monitor its tax liabilities.

At year end, the Company reviewed its taxes receivable and determined that the Value Added Tax (VAT) amount that was not projected to be received/offset by the end of 2017 ($85,526) should be expensed and recorded as doubtful receivables.

Fair Value Adjustment on Investment Properties

As elected under IFRS, the Corporation's investment portfolio is subsequently measured at fair value in the Corporation's financial statements. As of December 31, 2016, the Corporation had approximately 58% of its Investment Properties Portfolio including its head office (classified in PP&E) valued by an international valuation firm and the remaining 42% (27 properties) were valued by Management. For the year ended December 31, 2016, the fair value adjustment to investment properties was a loss of $5,728,003 compared to a loss of $7,926,701 for the same period in 2015.

Unrealized short-term investment gain

During the year, one of the Corporation's offshore subsidiaries purchased 19,000,000 shares of Mongolian Mining Corporation (Ticker Symbol 975: Hong Kong Stock Exchange) at an average price of approximately 14.2 Hong Kong cents. At the end of the quarter, the shares closed at 36.0 Hong Kong cents, leading to a pre-tax gain after currency adjustments of CDN $731,041. The Corporation currently has no other publicly traded security positions, but continues to evaluate potential additional investments in publicly traded securities.

Share Repurchase

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

Property Operating Expenses

Property Operating Expenses consist of repairs and maintenance, bad debts, utilities, salaries, as well as land and property taxes. For the year ending December 31, 2016 the property operating expenses were $1,354,014 compared to $1,576,751 during the same period in 2015, representing a decrease of approximately 14%. This decrease was primarily due to a reduction in the number of properties in the portfolio along with certain expense reductions as the Corporation becomes more efficient.

Corporate Expenses

Corporate expenses include senior management's compensation, share-based costs, listing fees, professional fees, technology, travel and administrative costs.

For the year ending December 31, 2016 general and administration expenses decreased to $503,987 from $1,291,511 in 2015. This decrease from the previous year is primarily attributed to a reduction in share based payment expense, a reversal in corporate tax expense as well as ongoing cost cutting initiatives.

Currency

The Mongolian Tögrög has fluctuated significantly over the past five years. The Mongolian Tögrög has depreciated 6.8%, 5.1%, 11.5% and 5.3% in 2011, 2012, 2013 and 2014 respectively versus the Canadian Dollar while appreciating 11.4% in 2015 and depreciating 28.5% in 2016. The fluctuation in the currency is reflected in the Corporation's financial statements, most notably in the investment property portfolio, as it is the largest item on the balance sheet.

Note 8 in the financial statements discloses the foreign exchange adjustment, which flows through the investment property classification during each period. As at December 31, 2016 the Corporation recognized a significant foreign exchange adjustment loss of $10,148,384 (2015 -gain of $6,144,456) to its investment property portfolio due to the 28.5% depreciation of the local currency during the year.

Operating Profit (Loss)

In total the Corporation reported an Operating loss or an Adjusted EBITDA loss $307,586 during 2016 (2015 – loss of $1,869,811). The Improvement in EBITDA since last year is due to the cost saving initiatives implemented during the year.

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

	2016 $	2015 $
Net Income before Income taxes	(5,763,752)	(10,123,298)
Add Depreciation and Amortization	124,523	137,608
Subtract Interest and Investment Income/gains / Finance Expense	(751,311)	(30,571)
EBITDA	**(6,390,540)**	**(10,016,261)**
Subtract Fair Value Adjustment Gain (Add back loss) on all properties including impairments on PPE and Other Assets	6,082,954	8,146,450
Total Adjusted EBITDA	**(307,586)**	**(1,869,811)**

Funds From Operations ("FFO")

While FFO does not have a standardized meaning prescribed by IFRS, it is a non-IFRS financial measure of operating performance widely used by the real estate industry. The Real Property Association of Canada (REALpac) recommends that FFO be determined by reconciling FFO from net income.

During 2016, negative FFO improved to an income of $157,405 in 2016 from a loss of $755,767 in 2015. The improvement is primary due to a continued reduction in expenses.

Adjusted Funds From Operations ("AFFO")

Since FFO does not consider capital expenditures and other one-time expenses. AFFO is presented herein as an alternative measure of determining available cash flow. AFFO is not defined by IFRS but the Corporation follows recommendations by REALpac. During 2016, the Company's AFFO loss decreased from $581,338 in 2015 to $199,829.

It should be noted that FFO and AFFO include certain one-time costs related to the Corporation's cost cutting plan that were not sufficiently large to be broken out, but their exclusion would have further reduced the Corporation's AFFO loss for the year.

Reconciliation of FFO and AFFO

The analysis below shows a reconciliation of the Corporation's net income to FFO and AFFO for the year ended December 31, 2016

	Year ended 31-December 2016 ($)	Year ended 31-December 2015 ($)
Net Income for the period	**(5,662,784)**	**(9,930,970)**
Add (deduct) items not affecting cash		
Unrealized loss on fair value adjustment of investment properties	5,728,003	7,926,701
Impairment of property and equipment	343,506	219,749
Impairment of other assets	11,445	-
Unrealized change in short-term investments	(731,041)	-
Depreciation and amortization	124,523	137,608
Loss (gain) from sales of investment properties	223,532	116,182
Tax on sales on investment property	20,656	35,710
Deferred Taxes	(143,126)	(238,472)
Allowance for doubtful VAT Receivable	85,526	
Share Based Payments	157,165	977,725
Funds From Operations	**157,405**	**(755,767)**
Add (deduct)		
Development costs not capitalized	-	174,429
Corporate tax refund	(333,475)	
Forfeited purchase down payment	(23,759)	-
Adjusted Funds From Operations	**(199,829)**	**(581,338)**
Per Unit – Basic		
Funds From Operations	(0.00)	(0.02)
Adjusted Funds From Operations	(0.01)	(0.01)
Per Unit – Diluted		
Funds From Operations	(0.00)	(0.02)
Adjusted Funds From Operations	(0.01)	(0.01)

*As of Q3 2016, the Company changed its policy on the calculation of deferred taxes in the calculation of FFO and AFFO. The Company now calculates the change in deferred taxes by adding back the effects of foreign exchange movements to change in deferred tax on the balance sheet. As such, the 2015 deferred tax number does not match the number reported in the 2015 MD&A (-$109,032). For further information on the calculation of deferred tax, please see the income tax note on page 12 of the MD&A.

Net Income

For the year ended December 31, 2016, the Corporation incurred a net loss of $5,662,784, compared to a net loss of $9,930,970 for the year ended December 31, 2015. This significant loss is attributed to the substantial unrealized loss on fair value adjustment on investment properties portfolio of $5,728,003 (2015 – loss of $7,926,701).

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

Section 4 - Financial Condition

Cash Flow

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

The following table provides an overview of the Corporation's cash flows from operating, financing and investing activities for the year ended December 31, 2016 and 2015.

		For the year ending
	31-Dec-16 $	31-Dec-15 $
Net change in cash related to:		
Operating	713,163	(1,391,362)
Investing	475,685	642,001
Financing	(285,023)	-
Effects of exchange rates on cash	(57,610)	139,212
Net change in cash during the period	**846,215**	**(610,149)**

Overall, the Corporation had cash inflows during 2016 compared to cash outflows in 2015. The Company's cash inflows were generated through investing activities from the disposal of investment properties and through an increase in non-cash working capital balance. The changes in components of cash flows for the year ended December 31, 2016 compared to the year ended December 31, 2015 were the result of the following factors:

- **Operating**–Operating cash inflows for the year ended 2016 increased primarily due to a positive change in non-cash working capital due to a deposit received on the sale of an investment property, as well as lower operating costs.
- **Investing**–Investing cash inflows for the year ended 2016 decreased due to short-term investments in marketable securities made during the year offset by a lower disposal of investment properties than the previous year.
- **Financing**–Financing cash outflows occurred due to the repurchase of 812,500 shares during the year. The Corporation did not repurchase any shares during the same period in 2015.

To date, the Corporation has been able to meet all of its capital and other cash requirements from its internal sources of cash. As at December 31, 2016, the Corporation had approximately $1,881,487 (2015 - $1,035,272) in cash and cash equivalents. Due to the expectation that AFFO will worsen in future quarters, the Corporation is focused on increasing liquidity and cash reserves in Canada through asset sales.

Total Assets

As of December 31, 2016, the Corporation had $3,204,065 (2015 - $1,363,271) in Current Assets out of which $1,881,487 (2015 - $1,035,272) was held in cash and cash equivalents. The increase in cash is due to the selling of 4 investment properties during the year as well as a cash deposit received prior to year-end for the sale of an investment. In addition, during the year, the Corporation purchased short term investments which Management considers to be liquid and available to be sold at any time should the Corporation require cash.

The majority of the Corporation's assets are classified as Non-Current Assets, mainly Investment Properties. Investment Properties are carried at Fair Market Value and decreased during the year to $29,501,350 (2015 - $46,473,749) the year by way of a dispositions, a large unrealized loss on fair value adjustment further magnified by an large decrease in the Mongolian Tögrög versus the Canadian dollar during the year.

Property and Equipment, which primarily consists of properties that are measured at their cost base, decreased from $2,978,150 in 2015 to $1,805,861 in 2016 primarily due to a decrease in the Canadian dollar versus the Mongolian Tögrög.

Total Liabilities

As of December 31, 2016, the Corporation had current liabilities of $1,354,501 (2015 - $850,716) consisting of payables and accrued liabilities. The increase is due to a deposit of $673,585 received for the sale of an investment property.

As of December 31, 2016, the Corporation had no long term debt outstanding. The only non-current liability on the balance sheet is deferred income taxes. Deferred tax liabilities decreased slightly during the year to $624,335 in 2016 (2015 - $990,109) due to the decrease in value of the Corporation's property portfolio.

Total Equity

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

Outstanding	31-Dec 16	31-Dec-15
Common shares	34,806,599*	35,512,829
Options to buy common shares	3,358,000	3,288,000

* As at December 31, 2016, the Company held 86,500 of the common shares outstanding in Treasury to be cancelled during the first quarter of 2017.

Options Outstanding

At December 31, 2016, the Corporation had 3,358,000 options that were exercisable (December 31, 2015; 2,510,500).

The Chart below shows the historical option grants and options outstanding as of December 31, 2016.

Option Price	Granted	Expired	Forfeited	Cancelled	Exercised	Total Options Outstanding	Total Exercisable	Non exercisable
1.64	100,000	-	-	-	100,000	-	-	-
1.75	300,000	50,000	-	-	250,000	-	-	-
1.9	1,363,000	-	85,000	-	200,000	1,078,000	1,078,000	-
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	-	275,000	-	-	-	-
1.09	375,000	-	-	-	-	375,000	375,000	-
0.72	935,000	-	20,000	-	-	915,000	915,000	-
0.74	640,000	-	-	-	-	640,000	640,000	-
0.38	350,000	-	-	-	-	350,000	350,000	-
Total	**5,953,000**	**405,000**	**738,000**	**902,000**	**550,000**	**3,358,000**	**3,358,000**	**-**

Acquisitions and Dispositions

During 2016, the Corporation did not acquire any properties (2015 – nil). During the period, the company had capital expenditures of $77,839, however these expenditures were offset by the cancellation of an unfinished contract of $55,222, resulting in net capital expenditures of $22,617 during the period. (2015 - $832,245) During the year, the Corporation disposed of four investment properties for cash proceeds of $970,241, resulting in a net loss of $223,532. During 2015, ten investment properties were sold for cash consideration of $1,669,455 resulting in net loss of $116,182.

Related Party Transactions

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

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

Related Party Transactions	2016 $	2015 $
Salaries and other short-term benefits to officers	186,341	170,685
Share-based payments to directors and officers	107,722	492,661
	294,063	**663,346**

Off-Balance Sheet Items

As of December 31, 2016, the Corporation had no off-balance sheet items.

Events Subsequent to Year End

- Subsequent to year end, the Corporation disposed of one property for $1,441,660 with a book value at year end of $1,481,887. The Corporation had received a deposit of $669,800 during Q4 2016.

- As disclosed in the Corporation's February 28, 2017 News Release, the Corporation announced that the TSX Venture Exchange (the "Exchange") had accepted a Notice of Intention to renew its normal course issuer bid to purchase outstanding common shares of the Company on the open market in accordance with the policies of the TSXV.

  Securities Sought: Up to 2,850,000 common shares (representing up to approximately 8.3% of the 34,524,099 common shares of the Corporation currently issued and outstanding, or approximately 9.9% of the 28,592,349 common shares constituting the Corporation's current Public Float (as that term is defined in the policies of the Exchange).

  Duration of the Bid: Purchases under the Bid would begin on the date that is three clear trading days following receipt of Exchange approval and would terminate on the date that is one year from the date on which purchases began. Following receipt of Exchange Approval, the Corporation announced that purchases under the Bid were permitted to commence on March 1, 2017, and the Bid will end no later than March 1, 2018.

  Method of Acquisition & Member Broker: The Corporation has retained M Partners Inc. of Toronto, Ontario as its broker Member for the purposes of conducting the Bid. Purchases under the Bid will be conducted on the open market through the facilities of the Exchange.

  Consideration Offered: The common shares will be purchased for cancellation at market price.

  Reasons for the Bid: The Corporation is undertaking the Bid because, in the opinion of its board of directors, the market price of its common shares, from time to time, may not fully reflect the underlying value of its operations and future growth prospects. The Corporation believes that in such circumstances, the purchase of the common shares of the Corporation may represent an appropriate and desirable use of the Corporation's funds and further enhance market stability.

  Persons Acting Jointly & in Concert: No person is acting jointly and in concert with the Corporation in connection with the Bid.

  Previous Purchases: In the 12 months preceding the commencement of the Bid, the Corporation has purchased 1,008,500 of its shares at an average price of $0.37 per common share.

  Valuation: After making reasonable enquiry, the Corporation is not aware of any appraisal or valuation of the Corporation's securities that has been prepared within the two years preceding the date of the NCIB Form. In connection with the preparation of its audited financial statements for the financial year ending December 31, 2015, the Corporation engaged, an arm's length property valuator, to prepare three independent valuation reports in respect of the Corporation's Mongolian real estate investment assets. The valuations were prepared for internal accounting purposes.

Acceptance by Insiders, Affiliates and Associates & Benefits: To the knowledge of the Corporation at the time of filing the NCIB Form, no director, senior officer or other Insider of the Corporation or any associate or affiliate of the Corporation or any insider of the Corporation currently intends to sell common shares under the Bid. However, such sales by persons through the facilities of the Exchange may occur if the personal circumstances of such persons change or any such person makes a decision to sell shares as market circumstances may warrant. The benefits to any such person whose shares are purchased under the bid would be the same as the benefits available to all other holders of the Corporation's common shares whose shares are purchased under the Bid.

Shareholders may obtain a copy of the NCIB Form from the Corporation, without charge, by contacting info@mongoliagrowthgroup.com

- The Corporation repurchased 196,000 of its shares at an average price of $0.34/share.

Section 5 - Quarterly Information

Quarterly Results

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

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenue	348,301	433,302	338,203	490,160	526,949	340,871	501,936	577,752
Net income (loss)	196,138	434,059	(6,017,609)	(275,372)	(5,503,493)	(2,701,490)	(1,352,996)	(372,991)
Income (loss) per common share	0.00	0.01	(0.17)	(0.01)	(0.16)	(0.08)	(0.04)	(0.01)
Total Assets	34,511,276	36,767,186	41,480,240	46,241,247	50,815,170	54,495,461	54,790,433	55,548,676
Weighted Average Shares (No.)	35,297,108	35,430,404	35,444,217	35,512,829	35,315,357	35,248,810	35,114,612	34,848,745
Ending Shares (No.)	34,806,599	35,372,099	35,397,599	35,512,829	35,512,829	35,512,829	35,512,829	34,848,745

Revenue

During the fourth quarter, the Corporation's real estate subsidiary earned total revenue of $348,301 (Q4 2015 - $526,949) of which rental income earned was $406,410 (Q4 2015 - $491,837). The majority of this rental income decrease is attributed to lower rental rates and a decline in the currency. The quarterly revenue number also includes other revenue earned from miscellaneous sources such as late fee, advertising and from sale of investment properties. During the fourth quarter, the Corporation experienced a loss on sale of investment properties of $62,279 (2015 – gain of $22,455), which negatively affected the Corporation's revenue.

During the 4th quarter of 2016, the Corporation also incurred an unrealized loss on fair value adjustment of $166,594 compared to an unrealized loss on fair value adjustment of $5,655,640 during Q4 2015. During the 2016 year, a large part of the unrealized fair value adjustment loss was taken during the second quarter.

Expenses

Quarterly expenses related to corporate operations totaled $71,328 (Q4 2015 - $38,119). This increase is due to an increase in legal expenses during the quarter.

Net Income

During the quarter, the Corporation experienced an income of $196,138 in comparison to a loss of $5,503,493 in the same quarter of the previous year. This difference is manly attributed to the significant fair value adjustments loss recorded in the fourth quarter of 2015 compared to the second quarter 2016.

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 of investment properties

The estimate of fair value of investment properties is the most critical accounting estimate to the Corporation. An external appraiser estimates the fair value of the majority of the Investment Properties annually, the remainder are appraised internally by Management. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value of investment properties represents an estimate of the price that would be made in an arm's length transaction between knowledgeable, willing parties. The Corporation operates in the emerging real estate market of Mongolia, which given its current economic and industry conditions, has an increased inherent risk resulting from the lack of reliable and comparable market information. At December 31, 2016, the unrealized loss on fair value adjustment of $5,728,003 (2015 - loss of $7,926,701).

Accuracy of Share Based Compensation Expense

The estimate of the expense arising from share based compensation plans is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the share based compensation expense recorded by the Corporation. The ultimate expense is estimated by using a number of key assumptions such as the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the expected life of the options and future forfeiture rates. For the year ending December 31, 2016, the cost of the share based payments totaled $157,165 (2015 - $977,725).

Operating Environment of the Corporation

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

During 2016, the Corporation has had difficulty in converting Mongolian Tögrög to U.S. Dollars at large Mongolian banks or to wire that money to Canada. 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.

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 December 31, 2016, the Corporation has identified five (2015-four) investment properties, with a fair value of $2,132,267 (December 31, 2015 - $2,970,114), 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 year, most of the Corporation's credit risk consisted of institutional deposits. The majority of the funds invested are held in reputable Canadian or Mongolian banks. Recently, there have been rumors that various commercial banks in Mongolia could fail. There is no way to tell if these rumors are accurate however, starting in early July, the Corporation has had difficulty in converting Mongolian Tögrög into U.S. Dollars. If banks are unwilling or unable to give the Corporation access to its U.S. Dollar deposits, the Corporation could experience severe liquidity issues.

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

Liquidity Risk

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

The Corporation does not believe its current maturity profile lends itself to any material liquidity risk, taking into account the level of cash and cash equivalents, investments and marketable securities as at December 31, 2016.

As at December 31, 2016, the Corporation had working capital of $1,849,564 (2015- $512,555) comprised of cash and cash equivalents, other assets, net of trade and accrued liabilities and income taxes payable. Management considers the funds on hand to be sufficient to meet its ongoing obligations.

As of December 31, 2016, the Corporation does not have any material contractual obligations.

Market Risk

Market risk is the risk that the fair value of, or future cash flows from, the Company'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 Company is exposed to market risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices.

Currency Risk

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

Preliminary growth estimates according to the National Statistics Office for 2016 was 1% while year over year inflation estimates were 1.1% according to Mongol Bank.

Recently, Mongolia reached an initial agreement with the International Monetary Fund for a three-year program that includes a $440 million loan package as part of a $5.5 billion bailout. However, there is no certainty that this bailout will be finalized.

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 14 on December 31, 2016 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 Company currently has a standing agreement with the owner of a 42 sq. meter apartment which has been included in one of the Company's properties classified as land and 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. The agreement expires at the end of 2017 and has not yet been extended. A liability of $149,081 is currently included in the Company's balance sheet to reflect this liability. Management has no certainty that the agreement will be extended beyond 2017.

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 company 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.

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, 2017 or later and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Company are set out below. The Company does not plan to adopt these standards early and is continuing to evaluate the impact of such standards.

IFRS 9 Financial Instruments

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

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

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

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

The Company is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 – Leases

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

Additional Information

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