



Mongolia Growth Group Ltd., Q4 2017 MD&A

Fourth Quarter 2017

MONGOLIA GROWTH GROUP LTD

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MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis December 31, 2017

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, 2017 (the “MD&A”), compared with the year ended December 31, 2016. 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 23, 2018 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, 2017 and December 31, 2016 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

During 2017, the Corporation's rental revenues decreased by 18% when compared to 2016, which was largely as a result of lower rental rates, an increasing amount of rental discounts provided to tenants, a weaker local currency versus the Canadian dollar and fewer rental properties due to disposals. Throughout 2017, rental rates continued to decline, particularly in the office market, leading to an expectation that rental revenues may continue to decline in future years. Despite a very weak economy, the Corporation has been able to achieve almost full occupancy rates, with office space and retail occupancy rates of 96.2% and 100% respectively at year end.

Due to a deterioration of the local economy, the Corporation recorded an unrealized fair value loss of \$2,758,843 on its investment properties portfolio during the year (2016 - \$5,728,003). The majority of this impairment (\$1,585,120) (2016 - \$nil) was as a result of a 25% impairment to one of the Corporation's investment properties classified as land and redevelopment. The Corporation currently has a standing agreement with the former owner of a 42 sq. meter apartment, leading it to be included in this properties land title. 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. A liability of \$142,894 is currently included in the Corporation's balance sheet to reflect this liability. In addition, at year end, the Corporation recognized a \$1,585,120 unrealized fair value loss on this property in excess of the fair value adjustment calculated using the valuation approaches described in Note 8 of the financial statements. 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.

During the year, the Corporation acquired three properties for a total cost of \$131,387. The Corporation also paid full purchase proceeds of \$372,348 on a fourth property in a separate transaction, however has not yet received the official land title from the Mongolian Property office. Therefore, the fourth property is classified as a prepaid deposit on investment properties within other assets (note 7). During this period, the Corporation sold eight investment properties of which three had been purchased during this same period for total proceeds of \$3,095,071 resulting in a net gain of \$247,200 on these transactions. In comparison, during the year ended December 31, 2016, four investment properties were sold for cash consideration of \$970,241 resulting in net loss of \$223,532 on these transactions. Proceeds from the sales of assets during the year were used for working capital purposes, the acquisition of publicly traded securities, 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.

During the year, the Mongolian Tögrög depreciated versus the Canadian dollar from 1,848 MNT/CAD on December 31, 2016 to 1,927 on December 31, 2017; a 4.3% decrease during the year. This depreciation led to a \$1,299,746 other comprehensive loss (2016 – 10,651,263 loss) during the year. During the year, the Corporation has experienced some difficulty in converting Mongolian Tögrögs 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

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 has led to a noticeable decline in economic activity during recent months. Furthermore, changes to tax rates, particularly related to mining licenses, has served to further dissuade foreign investment.

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 for personal gain, hurting all investors—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 Foreign Direct Investment (“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 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 contracting in most markets.

Due to the glut 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 further 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.

Since inception, MGG has acquired a number of redevelopment properties. To date, the Corporation has also remodeled, rebuilt and completed additions on properties. During 2015, the Corporation spent substantial resources 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. The Corporation is evaluating its development pipeline to assess if it should dispose of these assets as the Corporation no longer has the internal resources to develop them and a monetization of these assets will increase the Corporation's liquidity. Additionally, it is unlikely that the city of Ulaanbaatar will need additional space for many years into the future.

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. As such, the Corporation is looking at various investment opportunities outside 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 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 the economic crisis deepens, 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 December 31, 2017;

2017			2016	
	# of Properties	Value at 31-Dec-17 \$CDN	# of Properties	Value at 31-Dec-16 \$CDN
Residential	-	-	2	250,320
Office	2	1,923,500	3	2,976,642
Retail	20	13,686,179	23	16,505,234
Land and Redevelopment	3	7,277,842	3	9,769,154
Total	25	22,887,521	31	29,501,350

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 December 31, 2017;

2017			2016	
	# of Properties	Value at 31-Dec-17 \$CDN	# of Properties	Value at 31-Dec-16 \$CDN
Office	1	1,576,744	1	1,672,645
Retail	-	-	-	-
Land and Redevelopment	-	-	-	-
Total	1	1,576,744	1	1,672,645

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, 2017;

	2017		2016	
	# of Properties	Value at 31-Dec-17 \$CDN	# of Properties	Value at 31-Dec-16 \$CDN
Residential	-	-	-	-
Office	-	-	-	-
Retail	-	-	-	-
Land and Redevelopment	2*	285,290	1*	42,759
Total	2	285,290	1	42,759

* 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-2017	31-Dec-2016	31-Dec-2015
	Occupancy Rate*	Occupancy Rate*	Occupancy Rate*
Office	97.2%	84.9%	91.7%
Retail	100.0%	95.1%	84.4%
Weighted Average**	98.5%	91.0%	87.4%

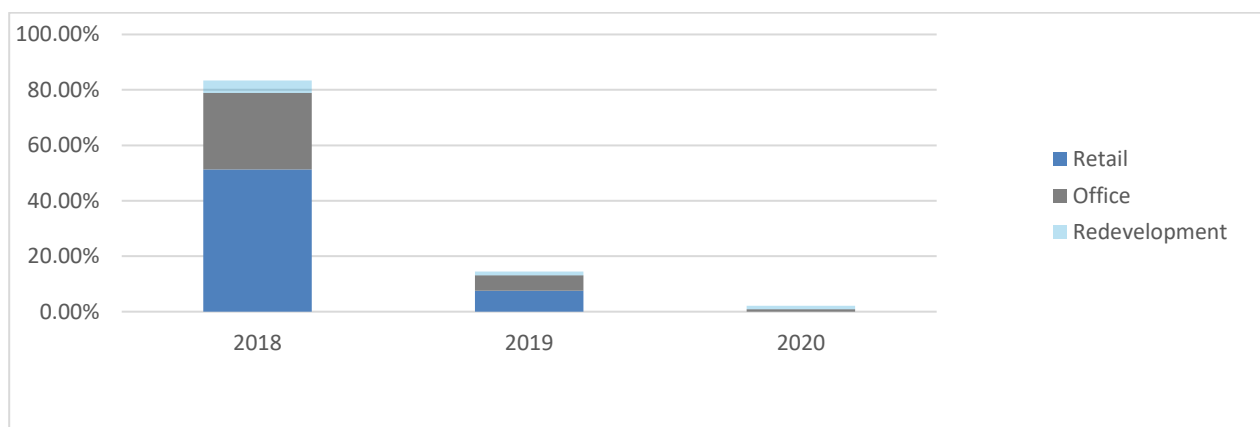
* Occupancy rates are calculated on a per meter basis;

** 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, excluding its headquarters building, continued to improve throughout the year 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 year 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 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.



The weighted average remaining lease length decreased slightly to 10.8 months in December 2017 compared to 10.9 months in December 2016, calculated as a percentage of monthly revenues.

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	Oct-17	21	28,571	20,000	-30.00%
Retail lease	Oct-17	28	21,429	21,429	0.00%
Office lease	Oct-17	21	28,571	20,000	-30.00%
Office lease	Oct-17	54	20,370	14,444	-29.09%
Office lease	Nov-17	40	20,000	20,000	0.00%
Office lease	Nov-17	21	28,571	20,000	-30.00%
Retail lease	Nov-17	125	42,169	42,169	0.00%
Office lease	Nov-17	24	20,000	20,000	0.00%
Office lease	Nov-17	24	10,000	10,000	0.00%
Office lease	Nov-17	44	24,659	30,000	21.66%
Retail lease	Nov-17	140	37,741	37,741	0.00%
Office lease	Nov-17	49	27,000	27,000	0.00%
Retail lease	Dec-17	201	32,200	32,200	0.00%
Retail lease	Dec-17	110	40,909	40,909	0.00%
Office lease	Dec-17	54	20,370	20,000	-1.82%
Office lease	Dec-17	31	35,000	30,000	-14.29%
Office lease	Dec-17	30	28,000	28,000	0.00%
Office lease	Dec-17	55	30,000	30,000	0.00%
Office lease	Dec-17	55	20,000	20,000	0.00%
Office lease	Dec-17	84	27,000	27,000	0.00%

It is Management's belief that some of the Corporation's existing leases are at rates that are above current prevailing market rates. With the ongoing 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, some of the Corporation's prior leases were signed at rates that did not reflect then current market rates.

Publicly Traded Securities

During 2016 and 2017, one of the Corporation's offshore subsidiaries purchased 45,000,000 shares (of which 19,000,000 were purchased in 2016) of Mongolian Mining Corporation at an average cost of approximately 16.8 Hong Kong cents for gross proceeds of \$1,219,932. As of the end of the year, the shares were worth \$1,507,054 for a pre-tax gain of \$287,121. However, as the share price decreased from 0.36 to 0.21 Hong Kong cents during the year, this investment contributed to the Corporation's unrealized loss of \$371,197 during period. 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. Management is continuously evaluating the situation and should it become apparent that the government will not be going ahead with the mega-projects, the Corporation will likely reduce its investment in the Company.

In addition to its position in Mongolian Mining Corporation, as at December 31, 2017, the Corporation also held positions in 13 different publicly traded companies with unrealized gains of \$124,329.

Additionally, the Corporation realized a gain of \$63,809 from sales of public securities during the year. 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 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. 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- 2017	Year ended 31-Dec- 2016	Year ended 31-Dec- 2015
Total Revenue	1,772,242	1,609,966	1,947,508
Income			
Net loss attributable to equity holders of the Corporation	(3,097,214)	(5,662,784)	(9,930,970)
Total Comprehensive income/ (loss) attributable to equity holders of the Corporation	(4,396,960)	(16,314,047)	(3,459,196)
Basic earnings per share ("EPS") (in CAD)			
Net income/ (loss)	(0.09)	(0.16)	(0.28)
Diluted EPS (in CAD)			
Net Income/ (loss)	(0.09)	(0.16)	(0.28)
Balance Sheet			
Total Assets	29,405,831	34,511,276	50,815,170
Total liabilities	1,649,251	1,978,836	1,840,825
Total Equity	27,756,580	32,532,440	48,974,345
Shares Outstanding at year end	33,696,599	34,806,599	35,512,829
Book Value per share	0.83	0.93	1.38

Revenue from Investment Properties

For the year end December 31, 2017, rental revenue from Investment Properties was \$1,471,344 versus \$1,783,896 in the prior year. The decrease year over year was attributable to a combination of leases being renewed at lower rates, fewer properties 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, 2017, the Corporation reported a net gain of \$247,200 on the sale of eight investment properties versus a net loss of \$223,532 in the prior year on the sale of four properties. The gain was primarily due to the sale of one of the Corporation's office buildings, which the Corporation sold as it found a buyer willing to purchase the asset at a significant premium to its fair market value.

Revenue from Other Sources

Revenue from other sources consists of late fees and other income, principally the Corporation's brokerage business. For the year ending December 31, 2017, revenues from other sources totaled \$53,698 compared to \$49,602 for the year ending December 31, 2016. Revenues increased due an increase in its 3rd party brokerage business.

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 \$121,909 during the year (Q4 2016 - \$365,774) primarily due to a decline in the fair value in investment properties, as well as investment properties disposed of during the year.

At year end, the Corporation 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 2018 (\$49,448) should be expensed and recorded as

doubtful receivables. In comparison, the Corporation expensed doubtful receivables in the amount of \$85,526 during 2016.

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, 2017, the Corporation had approximately 58% of its Investment Properties Portfolio in addition to its head office (classified in PP&E) valued by an international valuation firm and the remaining 42% were valued by Management. For the year ended December 31, 2017, the fair value adjustment to investment properties was a loss of \$2,758,843 compared to a loss of \$5,728,003 for the same period in 2016. The majority of this impairment (\$1,585,120) was as a result of a 25% impairment to one of the Corporation's investment properties classified as land and development. The Corporation currently has a standing agreement with the owner of a 42 sq. meter apartment leading it to be included in this properties land title. 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, at year end, the Corporation recognized an \$1,585,120 (2016 - \$nil) 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.

Unrealized short-term investment gain/loss

During the year, the Corporation had an unrealized short-term investment loss of \$371,197 compared to an unrealized short-term investment gain of \$731,041 in the year 2016. This unrealized short-term investment loss was the result of the Corporation's significant investment in Mongolia Mining Corporation whose share price went from 0.36 to 0.21 Hong Kong cents during the year. This loss was offset by unrealized short-term investment gains made in the Corporation's other non-core holdings.

Share Repurchase

During the year, the Corporation repurchased 1,139,600 of its common shares under its Normal Course Issuer Bid (NCIB) at an average price of \$0.33 (2016-812,500, \$0.35 average). As at December 31, 2017, the Corporation held 116,100 shares in Treasury to be cancelled during the first quarter of 2017 (2016- 86,500).

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, 2017, the property operating expenses were \$1,081,444 compared to \$1,354,014 during the same period in 2016, representing a decrease of approximately 22%. 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 and board of director compensation, share-based expenses, listing fees, professional fees, technology, travel and administrative costs.

For the year ending December 31, 2017, general and administration expenses increased to \$551,764 from \$503,987 in 2016. This increase from the previous year is primarily attributed due to a reallocation of Management salaries from its Mongolian operations to its Canadian operations offset by a reduction in share based payment expense.

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 and a further 4.3% in 2017. 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, 2017, the Corporation

recognized a foreign exchange adjustment loss of \$1,138,502 (2016 - loss of \$10,148,384) to its investment property portfolio due to the 4.3% depreciation of the local currency during the year.

Operating Profit (Loss)

Overall, the Corporation reported an Operating loss or an Adjusted EBITDA profit of \$159,363 during 2017 (2016 – loss of \$307,586). 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.

	2017	2016
	\$	\$
Net Income before Income taxes	(3,177,966)	(5,763,752)
Add Depreciation and Amortization	81,249	124,523
Add/Subtract Interest and Investment Income/gains / Finance Expense	287,049	(751,311)
EBITDA	(2,809,668)	(6,390,540)
Subtract Fair Value Adjustment Gain (Add back loss) on all properties including impairments on PPE and Other Assets	2,969,031	6,082,954
Total Adjusted EBITDA	159,363	(307,586)

Net Income

For the year ended December 31, 2017, the Corporation incurred a net loss of \$3,097,214, compared to a net loss of \$5,662,784 for the year ended December 31, 2016. This significant loss is primarily attributed to the substantial unrealized loss on fair value adjustment on investment properties portfolio of \$2,758,843 (2016 – loss of \$5,728,003).

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, 2017 and 2016.

	For the year ending	
	31-Dec-17	31-Dec-16
	\$	\$
Net change in cash related to:		
Operating	(345,038)	713,163
Investing	(7,023)	475,685
Financing	269,980	(285,023)
Effects of exchange rates on cash	(158,635)	(57,610)
Net change in cash during the period	(240,716)	846,215

Overall, the Corporation had cash outflows of \$240,716 during 2017 compared to cash inflows of \$842,215 in 2016. The Corporation's cash outflows were generated through the significant operating cash outflows versus significant operating cash inflows during 2016 through a decrease in non-cash working capital balance. The changes in components of cash flows for the year ended December 31, 2017, compared to the year ended December 31, 2016, were the result of the following factors:

- **Operating**—The Corporation experienced significant Operating cash outflows for the year ended 2017 versus significant cash inflows for the year ended 2016 due to a negative change in non-cash working capital and the completion of the sale of an investment property during the year versus receiving the deposit for this property during the 2016 year.
- **Investing**—The Corporation experienced Investing cash outflows for the year ended 2017 due to the purchase of marketable securities and other assets compared to investing cash inflows in 2016 due to the sale of investment properties.
- **Financing**—Financing cash inflows occurred due to the proceeds from the bank loan offset by an increase in the repurchase of 1,139,600 shares during the year versus 812,500 shares during the 2016 year.

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, 2017, the Corporation had approximately \$1,640,771 (2016 - \$1,881,487) in cash and cash equivalents. Due to the expectation that 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.

Total Assets

As of December 31, 2017, the Corporation had \$4,863,414 (2016 - \$3,204,065) in Current Assets out of which \$1,640,771 (2016 - \$1,881,487) was held in cash. The decrease in cash is primarily due to purchase of marketable securities offset by the sale of investment properties during the year. Management considers its marketable securities 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 \$22,887,521 (2016 - \$29,501,350) by way of a dispositions, an unrealized loss on fair value adjustment further magnified by a 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 \$1,805,861 in 2016 to \$1,654,896 in 2017 primarily due to a decrease the Mongolian Tögrög versus the Canadian dollar.

Total Liabilities

As of December 31, 2017, the Corporation had current liabilities of \$517,077 (2016 - \$1,354,501) consisting of payables and accrued liabilities. The decrease was due to a deposit of \$673,585 for the sale of an investment property that had been received in 2016 which was settled during the 2017 year.

As of December 31, 2017, the only non-current liabilities on the balance sheet are long term debt outstanding and deferred income taxes. During the period, 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 the end of the year, the Corporation had \$629,748 in long term debt outstanding (2016-\$0).

Deferred tax liabilities decreased slightly during the year to \$502,426 in 2017 (2016 - \$624,335) 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-16
Common shares	33,696,599*	34,806,599*
Options to buy common shares	3,103,000	3,358,000

* As at December 31, 2017, the Corporation held 116,100 of the common shares outstanding in Treasury to be cancelled during the first quarter of 2018 (2016-86,500).

* As of March 23, 2018, the Company had 33,580,499 shares outstanding, 108,500 shares held in treasury, and 3,103,000 options outstanding.

Options Outstanding

At December 31, 2017, the Corporation had 3,103,000 options that were exercisable (December 31, 2016; 3,358,000).

The chart below shows the historical option grants and options outstanding as of December 31, 2017.

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	1,043,000	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	-	75,000	-	-	280,000	280,000	-
Total	5,953,000	405,000	963,000	902,000	550,000	3,103,000	3,103,000	-

Acquisitions and Dispositions

During the year, the Corporation acquired three properties for a total cost of \$131,387. The Corporation also paid full purchase proceeds of \$372,348 on a fourth property in a separate transaction, however has not yet received the official land title from the Mongolian Property office. Therefore, the fourth property is classified as a Prepaid deposit on investment properties within other assets (note 7). During this period, the Corporation sold eight investment properties of which three had been purchased during this same period for total proceeds of \$3,095,071 resulting in a net gain of \$247,200 on these transactions. A deposit of \$673,585 had been received in November 2016 for the sale of one of these properties. In comparison, during the year ended December 31, 2016, four investment properties were sold for cash consideration of \$970,241 resulting in net loss of \$223,532 on these transactions.

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	2017 \$	2016 \$
Salaries and other short-term benefits to officers	202,039	186,341
Director fees	50,000	-
Share-based payments to directors and officers	-	107,722
	252,039	294,063

As at December 31, 2017, amounts due to related parties totaled \$40,000, comprised entirely of accrued directors fees (2016 - \$nil) and were included in trade payables and accrued liabilities.

Off-Balance Sheet Items

As of December 31, 2017, the Corporation had no off-balance sheet items.

Events Subsequent to Year End

Since January 1, 2018, the Corporation repurchased 108,500 of its shares at an average price of \$0.27/share and cancelled 219,600 shares.

Section 5 - Quarterly Information

Quarterly Results

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

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue	662,458	370,354	338,352	401,078	348,301	433,302	338,203	490,160
Net income (loss)	(720,889)	401,886	(2,135,025)	(643,186)	196,138	434,059	(6,017,609)	(275,372)
Income (loss) per common share	(0.02)	0.01	(0.06)	(0.02)	0.00	0.01	(0.17)	(0.01)
Total Assets	29,405,831	29,377,211	31,397,409	33,268,754	34,511,276	36,767,186	41,480,240	46,241,247
Weighted Average Shares (No.)	34,342,059	34,486,152	34,571,610	34,633,899	35,297,108	35,430,404	35,444,217	35,512,829
Ending Shares (No.)	33,696,599	34,294,099	34,506,599	34,524,099	34,806,599	35,372,099	35,397,599	35,512,829

Revenue

During the fourth quarter, the Corporation's real estate subsidiary earned total revenue of \$662,458 (Q4 2016 - \$348,301) of which rental income earned was \$353,279 (Q4 2016 - \$406,410). 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 fees, advertising and from sale of investment properties. During the fourth quarter, the Corporation experienced a gain on sale of investment properties of \$298,646 (2016 – loss of \$62,279), which positively affected the Corporation's revenue.

During the 4th quarter of 2017, the Corporation also incurred an unrealized loss on fair value adjustment of \$1,107,674 compared to an unrealized loss on fair value adjustment of \$166,594 during Q4 2016.

Expenses

Quarterly expenses related to corporate operations totaled \$151,106 (Q4 2016 - \$71,328). This increase was due to a reallocation of Management salaries from its Mongolian operations to its Canadian operations.

Net Income

During the quarter, the Corporation experienced loss of \$720,889 in comparison to an income of \$196,138 in the same quarter of the previous year. This difference is mainly attributed to the significant fair value adjustments loss recorded in the fourth quarter of 2017 compared to the fourth quarter of 2016.

Section 6 – Critical Estimates and Judgements

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, 2017, the unrealized loss on fair value adjustment is \$2,758,843 (2016 - loss of \$5,728,003).

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, 2017, there were no share based payment costs (2016 - \$157,165).

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 and early 2017, 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 worsens, barter transactions may 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 December 31, 2017 and 2016 management has made the judgment that none of the Company's assets meet the criteria to be classified as held for sale. While this is due to a number of factors, a primary reason is that due to the conditions of the Mongolian economy and the lack of liquidity in the market, management was unable to conclude that the sale of any significant size asset could be considered highly probable.

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, 2017.

As at December 31, 2017, the Corporation had working capital of \$4,346,337 (2016- \$1,849,564) 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, 2017, the Corporation's only material contractual obligations is the repayment of its credit facility of up to \$1,300,200 in December 2019. To date the Corporation has only drawn on \$629,748 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 AFFO. The exchange rate continues to be volatile and there is an expectation that volatility may continue for the foreseeable future.

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 2017 was 5.1% year over year, while inflation estimates were 6.4% according to Mongol Bank. Management cautions investors that official economic numbers often deviate materially from actual underlying economic conditions.

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, the Corporation has recognized a \$1,585,120 (2016 - \$nil) unrealized fair value loss on this property in excess of the fair value adjustment calculated using the valuation approaches described. This adjustment is management's estimate of the markets perception of the risk related to this agreement. 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.

Future Acquisitions and Business Diversification

Management is currently evaluating future acquisitions of businesses and operating assets that are not related to investments within Mongolia. There can be no certainty that the Corporation will acquire any business. Additionally, if the Corporation acquires part or all of a business outside of Mongolia, it may dilute management's focus on current operations within Mongolia. Additionally, shareholders who desire a Mongolia focused investment vehicle may sell shares of the Corporation if they do not desire investments outside of Mongolia. There can be no certainty that the Corporation can raise adequate funding to finance an acquisition of a business outside of Mongolia or that diversification of the Corporation's business is in the best interest of the Corporation. Capital spent on researching businesses outside of Mongolia will increase operating expenses and operating losses as long as such due diligence is ongoing.

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, 2018 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 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 Corporation has performed a preliminary assessment and expects no material impact from adopting IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized 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 recognizing 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 Corporation has performed a preliminary assessment and expects no material impact from adopting IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 – Leases

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

Additional Information

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