MONGOLIA GROWTH GROUP LTD.

MANAGEMENT DISCUSSION & ANALYSIS

Second Quarter 2016

Contents

To The Shareholders of MGG:

The second quarter of 2016 has seen us demonstrate continued progress in terms of reducing costs and improving efficiencies.

On the cost side, the second quarter of 2016 showed a $137,142 (21%) reduction in costs before depreciation and equity compensation when compared with the second quarter of 2015. We are continuing to work on making additional cost cuts however potential savings are beginning to be exhausted.

Adjusted Funds From Operations (AFFO) improved significantly year over year from a loss of $206,685 in Q2 2015 to a loss of $31,503 in Q2 2016.

Offsetting these improvements in our overall operations, our revenues in Mongolian Tögrög terms have continued to slide throughout 2016.

Unfortunately, this AFFO was still in the negative column and trends in the Mongolian economy indicate that this negative AFFO will accelerate from here—even before factoring in the rapidly depreciating Mongolian Tögrög. We've done all that we could to reduce costs, find new sources of revenue and insulate shareholders from the accelerating decline of the Mongolian economy. Unfortunately, I suspect that this will not be enough to get us to positive AFFO and the next few quarters will be quite bleak before the Mongolian economy hopefully bottoms.

As we look at our business, we have come to realize that without a substantial increase in rental revenues, the Company is unlikely to become substantially AFFO positive in its present format—especially as rental rates are very clearly going in the other direction. Now that our AFFO losses have stabilized at a much reduced level, we are in the process of undertaking a thorough overview of our operations with the goal of re-evaluating our long term strategy. We believe in the long-term future of Mongolia and believe that we have an outstanding portfolio of property assets along with a highly skilled team to manage them.

Unfortunately, we have not reached the scale needed to support our cost structure and are unlikely to do so without raising substantial additional capital—which is unlikely to be available to us on acceptable terms for quite some time.

While I am proud to say that we're losing less on an AFFO basis than we've ever lost, that isn't the sort of accomplishment that creates shareholder value. I clearly recognize this and we are focused on finding ways to once again build value.

Sincerely,

Harris Kupperman

MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis

June 30, 2016

The management of Mongolia Growth Group Ltd. ("MGG" or "the Corporation") presents the Corporation's management discussion and analysis for the three months ended June 30, 2016 (the "MD&A"), compared with the three months ended June 30, 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 Aug 15, 2016 and incorporates all relevant information and considerations to that date.

The following discussion and analysis should be read in conjunction with the Consolidated Condensed Financial Statements of the Corporation for the three months ended June 30, 2016 and June 30, 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 net of foreign exchange adjustments (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 revenue or expense items 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 second 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 declines in rental revenues on assets that were leased out during prior periods. Offsetting this, a number of properties that were developed by the Corporation in prior periods began to pay rent. During the second quarter, AFFO losses declined $175,182 to $31,503 when compared to the second quarter of 2015.

The Corporation's rental revenue decreased by 7.3% over the same quarter last year, which was largely as a result of increased vacancies, 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 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 experienced a low level of bad debt expense during the second quarter, an increased number of tenants are late on their rental payments. It is expected that bad debt expense will increase in future quarters if this delinquent rents are charged off. 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 80.9% at the end of the quarter dragging down the Corportion's overall weighted average occupancy rate to 86.0%.

Due to a significant deterioration of the local economy, the Corporation recorded an unrealized fair value loss of $5,916,360 on its investment properties portfolio at the end of the second quarter (Q2 2015-nil). If market values continue to decline, the Corporation will likely need to record unrealized fair value losses in future quarters.

During the quarter, the Corporation disposed of two non-core assets for proceeds of $849,560 at a loss of $150,901 (Q2 2015-nil). Proceeds from the sale were used for working capital 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 along with the NCIB program. As of June 30, 2016, the Corporation had six investment properties at a fair value of $2,871,243 classified as available for sale. (Q4 2015 – four classified as available for sale at a fair value of $2,970,114).

During the quarter, the Mongolian Tögrög appreciated versus the Canadian dollar, appreciating from 1,575 MNT/CAD on March 31, 2016 to 1,522 MNT/CAD on June 30 2016; a 3.4% increase during the quarter. This appreciation led to a $1,520,754 comprehensive gain during the quarter. Subsequent to the end of the quarter, the Mongolian Tögrög has experienced a steady and continuous decline. Furthermore, the Corporation has had difficulty in converting Mongolian Tögrög to U.S. Dollars as banks seem to have run out of Dollars. To date, banks have imposed various daily limits on convertibility that have hindered the Corporation's ability to convert even small quantities of currency. The Corporation ultimately was able to convert the desired quantity of currency, but it took nearly three weeks of continuous transactions with multiple banks. The Corporation continues 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.

Economic Overview

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

Since 2015, the Mongolian economy witnessed a decrease in its growth rate, with this decline accelerating in the second half of the year. 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.

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 during the second quarter of 2016. While most data is anecdotal, office rental prices in the downtown core have declined between 30-70%, while retail lease rates have declined by approximately a third in Mongolian Tögrög terms over the past 12-18 months. 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 quarters. 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.

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. Management cautions shareholders that property prices have historically been, and continue to be, volatile. It is expected that property prices may continue to decline for the foreseeable future.

Management expects a continued high demand for well-located retail space, with a lower 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, though it has often had to offer substantial discounts in order to fill spaces.

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 before they expire over the next few quarters.

It is expected that market rental rates will continue to decline. 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 five 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 is adding 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 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 second 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 evaluating its development pipeline to assess if it should dispose of these assets as the Corporation will no longer have the internal resources to develop these assets 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 eligible for capitalization. Investment Properties are subsequently valued at fair value, which reflects market conditions at the date of the statement of financial position.

The following table represents properties classified as Investment Properties, as of June 30, 2016:

	30-Jun-2016			31-Dec-2015		
	# of Properties	Value at 30-Jun-16 $CDN	Meters	# of Properties	Value at 31-Dec-15 $CDN	Meters
Residential	1	223,194	-	1	285,170	-
Office	3	3,906,669	2,650	3	4,649,657	2,650
Retail	23	20,297,700	7,987	26	25,842,765	8,532
Land and Redevelopment	4	12,873,543	7,086	4	15,696,158	7,058
Total	**31**	**37,301,106**	**-**	**34**	**46,473,750**	**-**

Overall, the investment portfolio performed substantially better than similar properties in Ulaanbaatar, with the exception of Tuguldur, which has continued to struggle with high turnover. The Corporation believes that this is a result of mistakes made during the initial lease-up phase, compounded by the fact that many long-term leases were signed at below-market rents. This asset has now stabilized at average weekly occupancy rates of between 60% and 70% and correcting these mistakes continues to be a focus of management. Additionally, the Corporations' headquarters building has seen an increase in vacancy as a sizable tenant ended its lease in March 2016.

Property and Equipment

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

The following table represents properties classified as Property and Equipment, as of June 30, 2016:

	30-Jun-2016			31-Dec-2015		
	# of Properties	Value at 30-Jun-16 $CDN	Meters	# of Properties	Value at 31-Dec -15 $CDN	Meters
Residential	1	90,387	-	1	99,316	-
Office	1	2,195,909	1,300	1	2,665,989	1,300
Retail	-	-	-	-	-	-
Land and Redevelopment	-	-	-	-	-	-
Total	**2**	**2,286,296**	**-**	**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 a Mongolian property office, are recorded at the lower of cost or fair market value as Prepaid Deposits on Investment Properties and are classified within other assets.

The following table represents properties classified as Prepaid Deposits on Investment Properties, as of June 30, 2016:

	30-Jun-2016			31-Dec-2015		
	# of Properties	Value at 30-Jun-16 $CDN	Meters	# of Properties	Value at 31-Dec-15 $CDN	Meters
Residential	-	-	-	-	-	-
Office	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Land and Redevelopment	1*	56,755	28	1*	69,727	28
Total	**1**	56,755	**-**	**1**	**69,727**	**-**

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

Occupancy Rates

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

	30 –Jun- 2016	31 –Dec- 2015	30 –Jun- 2015
	Occupancy Rate*	Occupancy Rate*	Occupancy Rate*
Office	80.9%	91.7%	94.7%
Retail	89.6%	84.4%	87.4%
Weighted Average**	**86.0%**	**87.4%**	**90.5%**

* 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. During 2015, the Corporation received the title to a large retail space, consisting of 379 square meters that was previously tied up in litigation between the former owner and tenant. This space has now been leased and the Corporation began to receive rental revenue in the second quarter of 2016. Occupancy levels for the Corporation's Office space, excluding its headquarters building which lost a major tenant at the end of the quarter, have been strong even while vacancy levels throughout the city have increased significantly throughout as additional supply entered the market. Management attributes its success due to increased marketing initiatives and realistic price expectations.

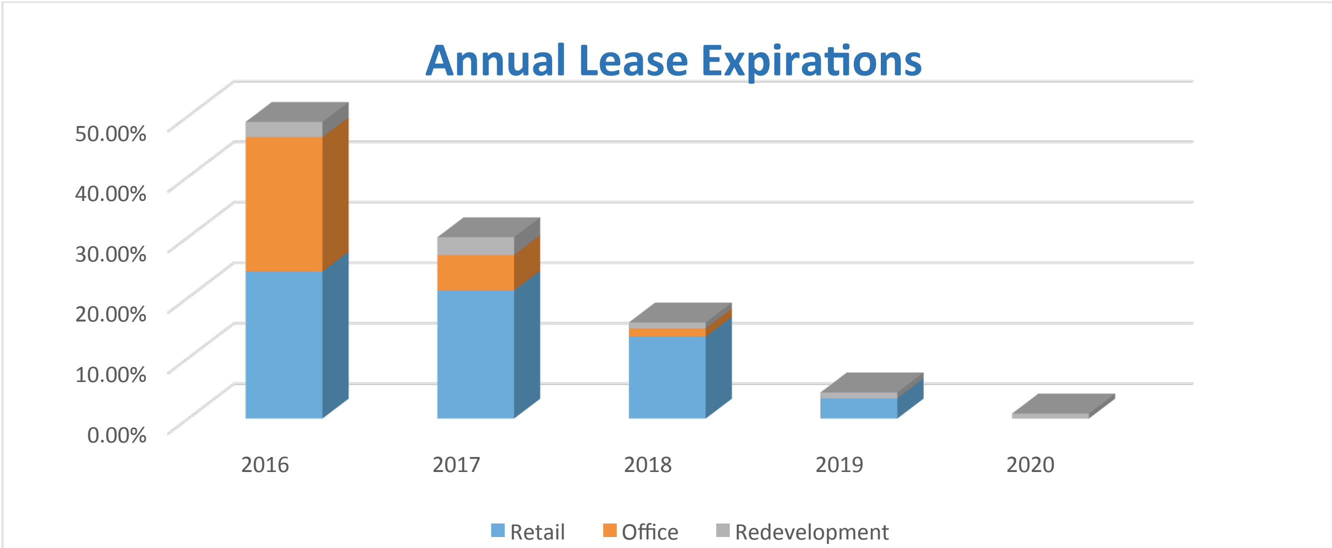
The Corporation would like to caution shareholders that it is experiencing abnormally high levels of tenant turnover and occupancy levels can fluctuate dramatically between months as tenants break leases. It is expected that turnover will increase as the economy continues to decline and it is uncertain if the Corporation will be able to continue to find new tenants due to the weak economy.

Leasing Schedule

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

During the third quarter of 2016, approximately 879 meters of leases, representing about $10,910 in monthly rental revenue will expire.

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



The weighted average remaining lease term decreased to 11.7 months at June 30, 2016, from 12.2 months at June 30, 2015, and 19.0 months at June 30, 2014 calculated as a percentage of monthly revenues. An increasing number of tenants are on month-to-month contracts as they evaluate if they can sustain their businesses, given the continued decline in economic activity. We anticipate that a number of these tenants will cease to be tenants in future months.

Most Recent Retail and Office Lease Signings

Lease Type	Lease Renewal Date	SqM	Old Price Per Meter (Mongolian Tögrög)	New Price Per Meter (Mongolian Tögrög)	Percent Increase (decrease)
Office Lease	Apr-16	9	27,777	22,222	-19.99%
Office Lease	Apr-16	60	36,533	16,666	-54.38%
Office Lease	Apr-16	32.5	40,000	40,000	0%
Office Lease	Apr-16	72	40,000	35,000	-12.50%
Retail Lease	Apr-16	178	39,887	36,516	-8.45%
Office Lease	May-16	43	27,906	24,418	-12.49%
Retail Lease*	May-16	334.51	-	32,385	-
Retail Lease*	May-16	360	-	37,500	-
Office Lease	May-16	17	40,000	35,000	-12.50%
Office Lease	June-16	65	40,000	37,000	-7.50
Office Lease	June-16	9	22,222	22,222	0%

*Properties not previously leased

Section 3 - Results of Operations

Selected Quarterly Financial Information (CAD)

	Quarter ended 30-Jun- 2016 ($)	Quarter ended 30-Jun- 2015 ($)	Quarter ended 30-Jun - 2014 ($)
Revenue and other income	338,203	501,936	542,837
Income			
Income/ (loss) from continuing operations attributable to equity holders of the Corporation	(6,017,609)	(1,352,996)	4,547,664
Net Income/ (loss) attributable to equity holders of the Corporation	(6,017,609)	(1,352,996)	4,547,664
Comprehensive income/ (loss) attributable to equity holders of the Corporation	(4,496,855)	(1,518,920)	2,383,702
Basic earnings per share ("EPS") (in CAD)			
Net income/ (loss)	(0.17)	(0.04)	0.13
Diluted EPS (in CAD)			
Net Income/ (loss)	(0.17)	(0.04)	0.13
Balance Sheet			
Total Assets	41,480,240	54,790,433	54,965,199
Total liabilities	1,440,525	1,981,963	6,306,483
Total Equity	40,039,715	52,808,470	48,658,716
Shares Outstanding at quarter end	35,397,599	35,512,829	34,748,745
Book Value per share	1.13	1.49	1.40

Rental Revenue from Investment Properties

Rental revenue from Investment Properties decreased from $493,678 in the second quarter of 2015 to $457,804 in the second quarter of 2016. The decrease during the quarter was primarily attributable to an increase in vacancy and rental discounts provided to tenants due to the economic downturn offset by initiatives that have successfully increased revenues.

Revenue from Other Sources

Revenue from other sources consists of late fees and other income. For the second quarter of 2016, revenues from other sources totaled $31,300 compared to $8,258 for the second quarter of 2015. The majority of this increase was due to a penalty received for the breaking of a sales contract for one of the company's properties for which a deposit had already been received.

Gain/Loss on disposal of Investment Properties

The Corporation disposed of two properties for a net loss of $150,901 during the quarter. During the second quarter of 2015, the Corporation had not disposed of any investment properties.

Fair Value Adjustment on Investment Properties

The estimate of fair value of investment properties is a critical accounting estimate to the Corporation. An external appraiser estimates the fair value of the majority of the Investment Properties annually, the remainder are appraised internally by Management. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value of investment properties represents an estimate of the price that would be made in an arm's length transaction between knowledgeable, willing parties. The Corporation operates in the emerging real estate market of Mongolia, which given its current economic and industry conditions, has an increased inherent risk given the lack of reliable and comparable market information. For the quarter ending June 30, 2016, the fair value adjustment to investment properties was $5,916,360 (2015 Q2 - nil). The majority of this impairment ($5,616,104) took place on properties classified as Investment Properties, a $291,127 impairment was taken on properties classified as PP&E, and a $9,129 impairment on properties classified as other assets.

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. During the first quarter of 2016, the local currency declined 9.4% from 1,440 to 1,575, bouncing back 3.4% to 1,522 during the second quarter. Subsequent to June 30th 2016, the Mongolian Tögrög has been on a steady decline and Management believes this decline could continue and potentially accelerate. The Depreciation of the Mongolian Tögrög tends to negatively impact the Corporation's financial performance including its AFFO as approximately half of the Corporation's expenses are in US and Canadian Dollars while all of the Corporation's revenues are in Mongolian Tögrög. The fluctuation in the currency is reflected in the Corporation's financial statements, most notably in the investment property portfolio, as it is the largest item on the balance sheet. Note 5 in the financial statements disclose the foreign exchange adjustment, which flows through the investment property classification during each period. During the quarter, the Corporation recognized a foreign exchange adjustment gain of $1,520,754, however since the beginning of the year, the Corporation has incurred a foreign adjustment loss of $2,733,997 to due an depreciation of the Mongolian Tögrög relative to the Canadian dollar.

Operating Profit/(Loss)

The Company generated an Adjusted EBITDA loss of $185,587 during Q2 2016 compared to a loss of $319,196 during Q2 2015. This reflects overall cost reduction in the quarter compared to the same quarter last year offset by lower revenue.

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

	Q2 2016 $	Q2 2015 $
Net Income / (loss) before Income taxes	(6,153,061)	(1,341,417)
Add Depreciation and Amortization	49,255	38,066
Subtract Interest and Investment Income	3,394	6,881
EBITDA	**(6,107,200)**	**(1,310,232)**
Subtract Fair Value Adjustment	(5,916,360)	-
Add Share Based Payments	5,253	991,036
Total Adjusted EBITDA	**(185,587)**	**(319,196)**

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.

For the three months ended June 30, 2016, improved significantly from a loss of $366,684 in Q2 2015 to a loss of $7,744 in Q2 2016. The improvement is primarily due to a reduction in expenses due to cost cutting measures initiated since the beginning of the year offset by a decline in revenue.

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 Q2 2016, the Company's AFFO numbers improved from a loss of $206,685 in Q2 2015 to a loss of $31,503 in Q2 2016.

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

Reconciliation of FFO and AFFO

The analysis below shows a reconciliation of the Corporation's net income to FFO and AFFO for the quarters ended June 30, 2016 and June 30, 2015;

	Quarter ended 30-Jun- 2016 ($)	Quarter ended 30-Jun- 2015 ($)
Net loss before income tax for the period	**(6,017,609)**	**(1,352,996)**
Add (deduct) items not affecting case		
Unrealized change in fair value of investment properties	5,616,104	-
Unrealized change in fair value of PP&E properties	291,127	-
Unrealized change in fair value of other asset properties	9,129	-
Depreciation and amortization of Investment properties	34,219	18,483
Loss from sales of investment properties	150,901	-
Tax on sales on investment property	11,934	-
Deferred Taxes	(114,075)	(23,407)
Loss on PPE properties	5,273	-
Share based payments	5,253	991,036
FFO	**(7,744)**	**(366,844)**
Add (deduct)		
Development costs not capitalized	-	160,199
Forfeited purchase down payment	(23,759)	-
AFFO	**(31,503)**	**(206,685)**
Per Unit – basic		
FFO	(0.00)	(0.01)
AFFO	(0.00)	(0.01)
Per Unit – diluted		
FFO	(0.00)	(0.01)
AFFO	(0.00)	(0.01)

Net Income

For the quarter ending June 30, 2016, the Corporation incurred a net loss of $6,017,609 compared to a net loss of $1,352,996 for the quarter ending June 30, 2015. The significant loss difference is due to due to the large unrealized loss adjustment that took place during the quarter offset by a significant decrease in share based payments during the quarter.

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

Section 4 - Financial Condition

Cash Flow

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

The following table provides an overview of the Corporation's cash flows from operating, financing and investing activities for the six month period ended June 30, 2016 and June 30, 2015.

Net change in cash related to:	June 30, 2016 ($)	June 30, 2015 ($)
Operating	(200,193)	(1,163,823)
Investing	693,964	334,040
Financing	(64,818)	-
Effects of exchange rates on cash	(51,467)	44,281
Net change in cash during the period	**377,486**	**(785,502)**

Overall, the Corporation experienced an increase in cash inflows during the first half of 2016 due to significant Investing inflows from the sale of properties offset by cash outflow from operating and investing activities as well as negative exchange rate effects. The changes in components of cash flows for the period ended June 30, 2016 compared to the period ended June 30, 2015 were the result of the following factors:

- **Operating** – Operating cash outflows during the six month period decreased significantly mainly due to a lower net change in non-cash working capital as well as lower operating costs.
- **Investing –** Investing cash inflows increased during the six month period due to a higher disposal of investment properties.
- **Financing** – Financing cash outflows occurred due to the repurchase of 160,500 shares during the six month period. The Corporation did not repurchase any shares during the same period in 2015.

As at June 30, 2016, the Corporation had approximately $1,412,758 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, in case banks refuse to allow money to leave Mongolia.

Total Assets

As of June 30, 2016, the Corporation had $1,736,337 in Current Assets of which approximately 81% were held in cash and cash equivalents (Q4 2015 –$1,363,271 and 76%).

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 throughout the quarter by way of dispositions and the depreciation of the local currency.

In the second quarter of 2016, assets classified as Investment Properties decreased to $37,301,106 from $46,473,749 as at December 31, 2015, primarily due to a significant impairment on the value of its

Investment properties. Property and Equipment decreased to $2,442,797 (December 31, 2015 - $2,978,150) due to an impairment on the value of two properties classified as Property and Equipment.

Total Financial Liabilities

As of June 30, 2016, the Corporation had current liabilities of $662,955 (December 31, 2015 – $850,716) consisting primarily of payables and accrued liabilities.

As of June 30, 2016, the Corporation had no long-term debt outstanding; as such the only non-current liability on the balance sheet was deferred income taxes. Deferred tax liabilities decreased during the period to $777,570 in Q2 2016 (Q4 2015 - $990,109) due to the decrease in value of the Corporation's property portfolio.

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

Total Equity

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

Outstanding	30-Jun-16	31-Dec-15
Common shares	35,397,599	35,512,829
Options to buy common shares	3,383,000	3,288,000

Options Outstanding

At period-end, the Corporation had 3,383,000 options that were exercisable (December 31, 2015 – 2,510,500).

The Chart below shows the historical option grants and options outstanding as of June 30, 2016.

Option Price	Granted	Forfeited	Cancelled	Exercised	Total Options Outstanding	Total Exercisable	Non exercisable
1.64	100,000	0	0	100,000	0	0	0
1.75	300,000	0	50,000	250,000	0	0	0
1.9	1,363,000	85,000	0	200,000	1,078,000	1,078,000	0
4.2	900,000	408,000	492,000	0	0	0	0
4.77	175,000	100,000	55,000	0	20,000	20,000	0
4.25	150,000	50,000	95,000	0	5,000	5,000	0
4.0	190,000	0	190,000	0	0	0	0
4.13	475,000	75,000	400,000	0	0	0	0
1.09	375,000	0	0	0	375,000	375,000	0
0.72	935,000	20,000	0	0	915,000	915,000	
0.74	640,000	0	0	0	640,000	640,000	0
0.38	350,000	0	0	0	350,000	350,000	0
Total	**5,953,000**	**738,000**	**1,282,000**	**550,000**	**3,383,000**	**3,383,000**	**0**

Acquisitions and Dispositions

During the first half of 2016, the Corporation did not purchase any properties and spent a net amount of $14,638 on capital expenditures compared to capital expenditures of $479,912 during the first half of 2015 spent to further develop one of its redevelopment assets.

During the first half of 2016, three investment property were sold for cash considerations of $849,560 resulting in a net loss of $161,253 on the transactions. In comparison, during the first half of 2015, four investment properties were sold for cash consideration of $1,007,445 resulting in net gains of $15,175 on these transactions.

Off-Balance Sheet Items

As of June 30, 2016 the Corporation had no off-balance sheet items.

Events Subsequent to Quarter End

The Mongolian Tögrög has been on a steady decline, decreasing to 1,660 on August 12th from 1522 on June 30, 2016. As the currency depreciates, the Corporation has experienced some difficulty converting Mongolian Tögrögs into U.S. Dollars as there appears to be a shortage of U.S. Dollars at the local banks. Management is continuing to closely monitor the situation and plans on converting its local currency in excess of working capital needs into U.S. Dollars and sending the money to its Canadian headquarters.

Section 5 - Quarterly Information

Quarterly Results

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

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Revenue	338,203	490,160	526,949	340,871	501,936	577,752	316,712	424,787
Net income (loss)	(6,017,609)	(275,372)	(5,503,493)	(2,701,490)	(1,352,996)	(372,991)	117,251	(1,489,119)
Income (loss) per common share	(0.17)	(0.01)	(0.16)	(0.08)	(0.04)	(0.01)	0.00	(0.04)
Total Assets	41,480,240	46,241,247	50,815,170	54,495,461	54,790,433	55,548,676	54,106,591	55,523,885
Weighted Average Shares (No.)	35,444,217	35,512,829	35,315,357	35,248,810	35,114,612	34,848,745	34,652,992	35,800,084
Ending Shares (No.)	35,397,599	35,512,829	35,512,829	35,512,829	35,512,829	34,848,745	34,848,745	34.848,745

Section 6 – Critical Estimates

Critical Accounting Estimates

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

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

Fair Value Adjustment on Investment Properties

The estimate of fair value of investment properties is the most critical accounting estimate to the Corporation. An external appraiser estimates the fair value of the majority of the Investment Properties annually, the remainder are appraised internally by Management. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value of investment properties represents an estimate of the price that would be made in an arm's length transaction between knowledgeable, willing parties. The Corporation operates in the emerging real estate market of Mongolia, which given its current economic and industry conditions, has an increased inherent risk given the lack of reliable and comparable market information. For the three month period ending June 30, 2016, the Corporation had a total fair value adjustment of $5,916,360 on its investment properties (Q2 2015 – nil). The majority of this impairment ($5,616,104) took place on properties classified as Investment Properties, a $291,127 impairment was taken on properties classified as PP&E, and a $9,129 impairment on properties classified as other assets.

Accuracy of Share Based Compensation Expense

The estimate of the ultimate expense arising from share based compensation plans is another critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the share based compensation expense recorded by the Corporation. The ultimate expense is estimated by using a number of key assumptions such as the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate for the expected life of the options and future forfeiture rates. For the quarter ending June 30, 2016, the cost of the share based payments totaled $5,253 (Q2 2015 - $991,036).

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 increasing 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. Recently, the Corporation has had difficulty in converting Mongolian Tögrög to U.S. Dollars at large Mongolian banks. There can be no certainty regarding the ability to convert or wire money from Mongolia in the future.

Assets and Liabilities Held for Sale

The Corporation makes judgments in determining whether certain non-current assets or group of assets and liabilities meet the specified criteria under IFRS for classification as held for sale. At June 30, 2016, the Corporation has identified six investment properties which meet the specified criteria and has accounted for them as assets held for sale.

Deferred Tax Assets

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

Section 7 – Risk Management

Credit risk

The Corporation's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio. For the quarter, most of the Corporation's investments consisted of institutional deposits. The majority of the funds invested are held in reputable Canadian or Mongolian banks. Recently, there have been rumors that various commercial banks in Mongolia could fail. Additionally, it has been rumored that the Mongolian Central Bank is out of U.S. Dollars and not honoring swap agreements with local Mongolian commercial banks. 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 primarily across 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

The Corporation does not believe its current maturity profile lends itself to any material liquidity risk, taking into account the level of cash and cash equivalents, investments and marketable securities and long term debt as at June 30, 2016.

As at June 30, 2016, MGG had working capital of $1,073,382 (December 31, 2015- $512,555) comprised of cash and cash equivalents, investments and marketable securities, other assets, net of trade and accrued liabilities, income taxes payable and long term debt (current portion).

Currency risk

The Corporation owns properties located in Mongolia and collects rental revenue in Mongolian Tögrög, and is therefore subject to foreign currency fluctuations that may impact its financial position and results. Changes in the Mongolian Tögrög, U.S. dollar and Canadian dollar foreign currency exchange rates impact the fair value of securities denominated in Mongolian Tögrög and in U.S. dollars. All of the Corporation's revenues are received in Mongolian Tögrög while approximately half of the Corporation's expenses are incurred in US 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.

Coinciding with the slowdown in the economy, Inflation has dropped significantly since the start of 2015 from 9.8% in January 2015 to 1.6% in June 2016.

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 are filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be reviewed at comprehensive set of risk disclosures are included in the Corporation's most recently filed annual MD&A.

Financial Instruments

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

Internal Controls over Financial Reporting

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

Recent Accounting Pronouncements

IFRS9, *Financial Instruments* ("IFRS9"), On July 24, 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace International Accounting Standard 39, *"Financial Instruments: Recognition and Measurement*". IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Corporation is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.
The Corporation is currently evaluating the impact of IFRS 9 on its condensed consolidated interim financial statements.

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

Additional Information

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