Mongolia Growth Group Ltd., Q2 2019 MD&A

Second Quarter 2019

MONGOLIA GROWTH GROUP LTD

TO THE SHAREHOLDERS OF MGG:

The second quarter of 2019 saw a continuation of the Mongolian economic recovery that began in 2018. This recovery has led to an increase in absorption of office and retail space in the downtown core of Ulaanbaatar where all of our properties are located. This increased absorption has in turn led to almost no vacancy in our portfolio while rental rates on renewals are continuing to increase. Unfortunately, this recovery has yet to lead to any asset sales during 2019. Fortunately, our 3rd party agency business has been particularly busy—as noted by the near doubling in "other revenue" compared to the first quarter and 4-fold increase since the second quarter last year. The leasing and marketing teams have done an outstanding job here and we are hopeful that 3rd party revenues will continue to increase in future quarters as our brand continues to gain exposure in the Mongolian market.

Turning to our financial results, second quarter 2019 financial results were roughly in-line with expectations and saw a slight decline in leasing revenues as a result of asset sales during 2018 along with weakness in the Mongolian Togrog when converted to Canadian Dollars—offset by increased lease rates on renewals. In addition to the overall decline in revenue, we experienced higher expenses as we continued to invest in our 3rd party agency business along with increased due diligence expenses as we look for potential acquisition targets outside of Mongolia.

Our securities portfolio produced a $58,409 unrealized loss, a $302,210 realized gain and a $159,860 foreign exchange gain for the quarter. I would like to note that our portfolio is invested in a highly concentrated manner and often a handful of positions comprise the majority of the portfolio. Therefore, I would expect the portfolio to be substantially more volatile than an index fund and focus your attention on realized gains—which are indicative of where investments were underwritten compared to fair value. Unrealized gains can and will fluctuate wildly based on movements in our holdings—however if we purchased these investments at an attractive enough valuation, they should eventually accrete towards fair value and allow us to continue realizing gains. In section two of our MD&A, we have added additional disclosure about the key portfolio components. Finally, I would be remiss if I didn't note that there is a certain cost to achieving these investment returns. Starting with this quarter's financial reporting, we have broken this expense out in "Note 17—Other Expenses," in our financial statements. My expectation is that these expenses will increase over time and we are exploring ways to find additional revenues that may offset some of these expenses.

Returning back to our overall business, the net gains in our securities portfolio have once again offset our company's operating losses and allowed us to somewhat tread water from a book value stand-point. While this is not ideal, it is preferable to seeing our book value continue to slowly sink. My hope is that as we successfully monetize certain property assets in Mongolia, we can increase the size of our public securities portfolio and begin to actually increase book value through future realized gains on our securities portfolio.

While our securities portfolio has performed admirably thus far in 2019, I recognize that there are regulatory and tax considerations for why a public company should not primarily be comprised of a basket of public securities. Therefore, we have continued to seek out the opportunity to buy some or all of an attractive business in North America, in order for us to diversify MGG. To date, despite having spent substantial efforts on this endeavor, we have yet to identify a business that is available at a price that we are willing to pay. Fortunately, we are in no hurry to consummate a transaction and will only do so if the terms are attractive to us. In the interim, we expect to use proceeds from asset sales to increase the size of our public securities portfolio.

Given the amount of time and capital we have spent on this process, I thought it would be useful to give some broad outlines as to what we're looking for in an acquisition. To start with, I am well aware of the past history of small-cap companies, such as ours, trying to diversify and ending up with a hodge-podge of subscale businesses with no uniting strategic focus. The stock market is littered with these holding companies that produce minimal cash flow, cannot access outside capital, cannot grow and always seek out some new business concept as a savior. We do not intend to go down this route. We are seeking out one or more cash-flow positive businesses, with a substantial addressable market opportunity, that we can incubate within MGG and then "set free" using outside capital to grow it—while MGG retains management responsibilities along with some sort of controlling ownership interest. Alternatively, we have also looked at acquiring "control blocks" along with assuming management responsibilities in various public companies. Given the high costs of being a public company, we believe that MGG can function in a "shared services" role and help a collection of businesses cost-effectively advance over time. This greatly narrows our number of potential acquisition targets as many small businesses are not capable of growing to a scale to be stand-alone public companies—even if they can acquire competitors.

In terms of business sectors, we want something easy to understand and operate without specialist knowledge—we aren't looking at science projects. It must have cash flow today with the potential for the cash flow to increase going forward. It must be immune from obsolescence risk and have high returns on invested capital. Basically, we want the perfect business and we also don't intend to overpay for it—as you can imagine, this has made consummating an acquisition difficult. We don't mind waiting for the right deal.

With all acquisitions, initial valuation determines ultimate returns. We are in year ten of a global economic expansion. The time to buy businesses is near the bottom of the cycle—we're likely closer to the top today. While various industries have their own esoteric cycles, the availability of cheap capital has ensured that in an auction, we'll be out-bid. To date, we have issued a number of non-binding LOIs and have been rebuffed on each one. I want to make it clear that we will not overpay and we will not stretch our balance sheet to consummate a deal. When in a bad situation, the worst mistake possible is adding financial leverage—especially when we can buy small portions of businesses in the public markets at fractions of private market valuations, while having access to daily liquidity along with cheap margin debt. I have spent the past three paragraphs discussing my thoughts on this situation as we have spent over a year at this and have not identified an actionable target. We have a sizable shareholder base and are not embarrassed to ask others for ideas. If you know of an interesting target (public or private) that fits the above criteria, that you know to be for sale, please contact me at hkuppy@MongoliaGrowthGroup.com.

In summary, while we remain optimistic about Mongolia's long-term future, we are realistic about our own company's predicament. Our property business is subscale and despite an increase in rental rates, we expect that when combined with our corporate overhead, MGG will likely produce operating losses (excluding potential gains from our public securities portfolio) for the foreseeable future. Now that we have finally begun to see tangible signs of recovery in Mongolia, we are taking the necessary steps to grow our 3rd party agency business. At the same time, we remain focused on selling non-core property assets (particularly in office and re-development) so that we can diversify the business.

During the third quarter, the Company re-purchased 158,500 shares under our Normal Course Issuer Bid at an average price of $0.35/share. This reduced pace of share re-purchases is primarily related to our desire to husband cash for future acquisitions.

Sincerely,

Harris Kupperman
CEO

MONGOLIA GROWTH GROUP LTD

Management Discussion & Analysis
June 30, 2019

The management of Mongolia Growth Group Ltd. ("MGG" or "the Corporation") presents the Corporation's management discussion and analysis for the six months ended June 30, 2019 (the "MD&A"), compared with the six months ended June 30, 2018. As of January 1, 2011, the Corporation adopted International Financial Reporting Standards ("IFRS"). This MD&A provides an overall discussion, followed by analysis of the performance of the Corporation's major reportable segments. The reporting and presentation currency in the consolidated financial statements and in this discussion and analysis is the Canadian dollar, unless otherwise noted.

This MD&A is dated July 30, 2019 and incorporates all relevant information and considerations to that date.

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Corporation for the six months ended June 30, 2019 and June 30, 2018 together with all of the notes, risk factors and information contained therein, available on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

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

Forward Looking Statements

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

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

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

Section 1 – Overview

Financial and Operational Overview

During the second quarter of 2019, the Corporation continued to focus on ensuring that occupancy remained high and outstanding rents were collected, despite the prevailing economic weakness.

The Corporation's rental revenue was down slightly compared to the same quarter last year, however this was offset by an increase in other revenue earned during the quarter which comprises primarily of third party revenue. Rental rates appear to have stabilized at a low level, with some rental rates increasing, however recent weakness in commodity prices may impede any additional recovery in rental rates. Despite a weak economy, the Corporation has been able to achieve high occupancy rates, with office space and retail occupancy rates of 92% and 100% respectively.

During the second quarter, the Company did not acquire or sell any properties (Q2 2018 – nil). It is anticipated that the Corporation will continue to dispose of properties in future quarters in order to fund future working capital needs, and the Normal Course Issuer Bid (NCIB) program, along with future investments in public securities and any potential business acquisition outside of Mongolia.

During the quarter, the Mongolian Tögrög decreased versus the Canadian dollar from 1,959 MNT/CAD on March 31, 2019, to 2,030 MNT/CAD on June 30, 2019. This decrease during the quarter led to a $862,766 comprehensive unrealized loss (Q2 2018 – $76,247 loss) during the quarter.

Economic Overview

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

Despite official statistics that tended to show moderate economic growth, the Corporation is of the opinion that the economy contracted from 2014 until mid-2018, though the rate of contraction varied based on economic policy. During the second half of 2018, the Corporation noticed the first green shoots in many years, though there is no way to know if the recovery will be sustainable. Offsetting these green shoots, early in the third quarter, Turquoise Hill announced that its Oyu Tolgoi copper project is behind schedule and over budget. There is no way to quantify the impact of these facts on future potential economic performance of the Mongolian economy.

During the past eight years, Mongolia has had five Prime Ministers, seven Cabinets and even more substantial turnover within most ministries. This has led to inconsistent policy-making, arbitrary decision-making and a general focus among ministers for personal gain, hurting all investors—as their tenures tend to be short.

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 among most existing foreign investors.

Management believes that the current economic slowdown 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 sustainable 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 weak demand for these properties. There also remains a sizable shadow inventory of partially completed projects that may re-commence development at any time.

Despite substantial new supply over the past few years, well-placed office and retail space in the city center is beginning to get absorbed with rental rates starting to increase. However, there is concern that stalled projects will enter the market during a period of weak demand, while banks may be forced to liquidate distressed property assets due to the IMF bailout. Therefore, there was no increase in property valuations during the second quarter of 2019 in local currency terms. Should the recently witnessed economic recovery gather strength, management believes that well placed city-center properties will be the first to recover in valuation.

Management cautions investors that it is focused on continuing to dispose of non-core property assets, when possible, in order to recycle capital.

Section 2 - Executing the Strategy

Core Business

During the past eight 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. 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.

The Corporation believes that its current property operations are not at a sufficient scale to be cash flow positive. As such, the Corporation is looking at various investment opportunities outside of Mongolia, in order to diversify its business. Since 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 will decline in future quarters as properties are sold to fund working capital needs, investments in public securities, and future potential business acquisitions. 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 and increased spending on researching investments in public securities. The Corporation expects to finance losses with additional property sales, borrowings, and potentially dilutive equity offerings.

Portfolio

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

Investment Properties

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

The following table represents properties classified as Investment Properties, as of June 30, 2019;

		30-June-2019		31-December-2018
	# of Properties	Value at 30-June-19 $CDN	# of Properties	Value at 31-Dec-18 $CDN
Office	2	2,011,454	2	2,103,862
Retail	17	13,538,737	17	14,160,720
Land and Redevelopment	3	7,793,248	3	8,151,278
Total	**22**	**23,343,439**	**22**	**24,415,860**

Property and Equipment

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

The following table represents properties classified as Property and Equipment, as of June 30, 2019;

		30-June-2019		31-December-2018
	# of Properties	Value at 30-June-19 $CDN	# of Properties	Value at 31-Dec -18 $CDN
Office	1	1,647,364	1	1,723,044
Retail	-	-	-	-
Land and Redevelopment	-	-	-	-
Total	**1**	**1,647,364**	**1**	**1,723,044**

Occupancy Rates

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

	30-June-2019	31 –December-2018	30-June-2018
	Occupancy Rate*	Occupancy Rate*	Occupancy Rate*
Office	91.8%	94.9%	94.9%
Retail	100.0%	100.0%	100.0%
Weighted Average**	**96.8%**	**98.1%**	**97.9%**

* Occupancy rates are calculated on a per meter basis;

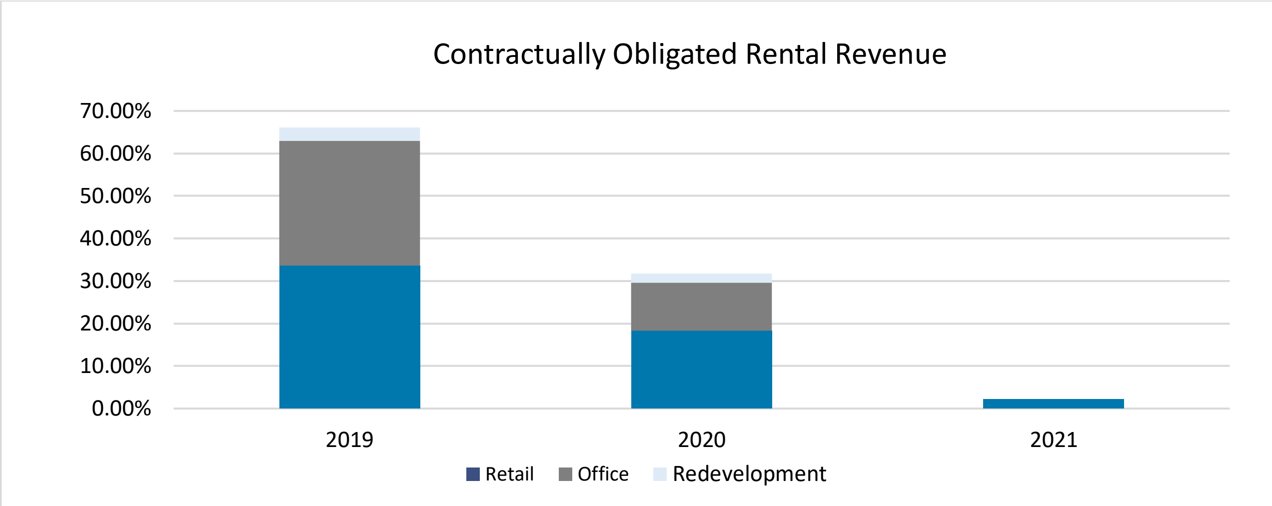
** Weighted Average is calculated based on total meters available for lease

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

Leasing Schedule

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

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



The weighted average remaining lease length, calculated as a percentage of monthly revenues, decreased during the second quarter of 2019 to 7.2 months from 8.1 months at June 30, 2018 as many of the Corporation's leases are set to expire during the 2019 year.

Most Recent Retail and Office Lease Signings

Lease Type	Lease Renewal Date	SqM	Old Price Per Meter (Mongolian Tögrög)	New Price Per Meter (Mongolian Tögrög)	Percent Increase in MNT (decrease)
Office Lease	Apr-19	14	25,000	25,000	0.00%
Office Lease	Apr-19	20	20,000	25,000	25.00%
Office Lease	Apr-19	43	30,000	30,000	0.00%
Retail Lease	Apr-19	178	36,516	40,168	10.00%
Office Lease	May-19	484	6,198	10,330	66.67%
Retail Lease	May-19	140	37,714	41,485	10.00%
Retail Lease	May-19	426	12,394	12,394	0.00%
Retail Lease	May-19	18	44,444	44,444	0.00%
Retail Lease	May-19	300	2,000	2,000	0.00%
Retail Lease	May-19	360	37,500	37,500	0.00%
Office Lease	May-19	30	35,000	35,000	0.00%
Office Lease	May-19	85	22,000	22,000	0.00%
Office Lease	May-19	9	16,888	25,000	48.03%
Office Lease	Jun-19	13	20,000	25,000	25.00%
Office Lease	Jun-19	43	23,255	25,000	7.50%
Office Lease	Jun-19	60	16,666	16,666	0.00%
Retail Lease	Jun-19	152	45,052	39,473	-12.38%
Retail Lease	Jun-19	142	22,775	22,775	0.00%

It is Management's belief that the majority of the Corporation's existing leases are at rates that are in-line with current prevailing market rates. While rental rates appear to have recovered in recent quarters, future changes in lease rates are dependent on economic conditions.

Publicly Traded Securities

From 2016 to 2018, one of the Corporation's offshore subsidiaries purchased shares of Mongolian Mining Corporation. The shares were purchased for investment purposes as the Corporation remained hopeful that the shares would be worth substantially more should the Mongolian government approve a railroad from the mine to the Chinese border that was previously in discussions. During the 4th quarter of 2018, Management began to reduce its position due to the slowdown of export volumes at the Chinese border and the decline in probability of the approval of the railroad.

During the second quarter, the Corporation sold the remainder of its shares in Mongolian Mining Corporation.

As at June 30, 2019, the Corporation held equity, option and futures positions in 20 different publicly traded companies with a total net value of $5,272,722 offset by a net margin balance of $496,717. This margin balance is reflected in the value of the Marketable Securities Portfolio and not the cash position on the balance sheet.

During the quarter, the Corporation realized gains of $302,210 (Q2 2018- gain of $215,784) from sales of public securities during the quarter, experienced unrealized losses of $58,409 (Q2 2018 – loss of $53,443) and a foreign exchange gain of $159,860 (Q2 2018 – loss of $41,023). The Corporation anticipates that its public security portfolio will experience volatility beyond the normal volatility of its property portfolio and the timing of gains and losses will be unpredictable.

The Corporation's public securities as of June 30, 2019 are broken out in the following sectors;

Industry Sector	Percentage
Natural Gas Producers	29.4%
Financials	27.4%
Transportation and Logistics	22.3%
Options Put Spread Auto Sector	11.2%
Consumer Services	10.2%
Electrical Equipment	6.5%
Media & Communications	3.7%

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

Section 3 - Results of Operations

Selected Quarterly Financial Information (CAD)

	Quarter ended 30-June-2019 ($)	Quarter ended 30-June-2018 ($)	Quarter ended 30-June-2017 ($)
Revenue and other income	372,167	357,051	338,352
Income			
Net income (loss) attributable to equity holders of the Corporation	178,237	128,671	(2,135,025)
Total Comprehensive income/ (loss) attributable to equity holders of the Corporation	(684,529)	52,424	(1,599,130)
Basic earnings per share ("EPS") (in CAD)			
Net income/ (loss)	0.01	0.00	(0.06)
Diluted EPS (in CAD)			
Net Income/ (loss)	0.01	0.00	(0.06)
Balance Sheet			
Total assets	30,121,056	30,111,915	31,397,409
Total liabilities	1,808,319	1,637,341	945,108
Total equity	28,312,737	28,474,574	30,452,301
Shares outstanding at quarter end	32,954,499	33,379,499	34,506,599
Book value per share	0.86	0.85	0.88

Rental Revenue from Investment Properties

Rental revenue from Investment Properties decreased from $333,657 in the second quarter of 2018 to $334,063 in the second quarter of 2019. This is primarily due to the Corporation having fewer rental properties.

Revenue from Other Sources

Revenue from other sources consist of late fees and fees earned for third party leasing and property management. For the second quarter of 2019, revenues from other sources totaled $38,510 compared to $9,993 for the second quarter of 2018 as the Corporation's third-party brokerage operation continues to experience positive transaction momentum.

Gain/Loss on disposal of Investment Properties

During the quarter, the Corporation did not sell any properties (Q2 2018 – nil).

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, 2019, the Corporation did not record any valuation gain/loss (Q2 2018 – nil).

Unrealized short-term investment gain/loss

During the quarter, the Corporation had an unrealized short-term investment loss of $58,409 compared to an unrealized short-term investment gain of $37,004 during the second quarter of 2018.

Realized public securities investment gain/loss

During the quarter, the Corporation had realized investment gains of $302,210 compared to a realized investment gain of $241,399 in Q2 2018.

Realized foreign currency gain/loss

During the quarter, the Corporation had realized foreign currency gains of $159,860 compared to realized foreign currency losses of $41,023 in Q2 2018.

Share Repurchase

During the quarter, the Corporation repurchased 158,500 common shares under its Normal Course Issuer Bid (NCIB) at an average price of $0.35 (Q2 2018-119,000, $0.22 average). As at June 30, 2019, the Corporation held 49,500 shares in Treasury to be cancelled during the third quarter of 2019 (Q2 2018- 26,500).

Property Operating Expenses

Property Operating Expenses consist of repairs and maintenance, bad debts, utilities, salaries, as well as land and property taxes. For the quarter ending June 30, 2019, the property operating expenses were $284,731 compared to $198,083 during the same period in 2018.

Corporate Expenses

Corporate expenses include senior management and board of director compensation, share-based expenses, listing fees, professional fees, technology, travel, investment research expenses, and administrative costs.

For the quarter ending June 30, 2019, general and administration expenses were relatively unchanged from $206,687 in 2018 to $218,819 in 2019.

Currency

The Mongolian Tögrög has fluctuated significantly over the past seven years. The Mongolian Tögrög has depreciated 6.8%, 5.1%, 11.5% and 5.3% in 2011, 2012, 2013 and 2014 respectively versus the Canadian Dollar while appreciating 11.4% in 2015 and depreciating 28.5% in 2016 and a further 4.3% in 2017and 0.7% in 2018. During the quarter, the Mongolian Tögrög decreased 3.6% versus the Canadian dollar from 1,959 MNT/CAD on March 31, 2019, to 2030 MNT/CAD on June 30, 2019. This decrease led to a $876,170 comprehensive unrealized loss (Q2 2018 – $76,247 loss) during the quarter. Depreciation of the Mongolian Tögrög tends to negatively impact the Corporation's financial performance including its EBITDA as approximately half of the Corporation's expenses are in U.S. and Canadian Dollars while all of the Corporation's revenues are in Mongolian Tögrög. The fluctuation in the currency is reflected in the Corporation's financial statements, most notably in the investment property portfolio, as it is the largest item on the Balance Sheet. Note 8 in the Financial Statements discloses the foreign exchange adjustment, which flows through the investment property classification during each period. During the three-month period, the Corporation recognized a foreign exchange adjustment loss of $1,072,421 (Q2 2018 gain of $855,986) to its investment property portfolio.

Operating Profit (Loss)

Overall, the Corporation reported an Adjusted EBITDA loss of $175,462 during the second quarter of 2019 (Q2 2018 – loss of $94,546).

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

	Q2 2019 $	Q2 2018 $
Net Income before Income taxes	186,999	132,937
Add Depreciation and Amortization	19,085	19,524
Subtract Interest and Investment Income/gains/FX gains/finance expense	(381,556)	(247,007)
EBITDA	**(175,462)**	**(94,546)**
Subtract Fair Value Adjustment Gain (add back loss) on all properties	-	-
Including reversal of impairments on PPE and Other Assets	-	-
Total Adjusted EBITDA	**(175,462)**	**(94,546)**

Net Income

For the quarter ended June 30, 2019, the Corporation had a net income of $178,237 compared to a net income of $128,671 for the quarter ending June 30, 2018. The improvement in performance versus the same period last year is primarily due to a higher realized gain on short term securities as well as gain on foreign currency 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, investing, 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 three month period ended June 30, 2019 and 2018.

	30-June-2019 $	30-June-2018 $
Net change in cash related to:		
Operating	(437,748)	(289,737)
Investing	(1,591)	(887,363)
Financing	(78,703)	(55,296)
Effects of exchange rates on cash	(16,725)	57,690
Net change in cash during the period	**(534,767)**	**(1,174,706)**

Overall, the Corporation had cash outflows of $534,767 during the second quarter of 2019 primarily due to the operating cash outflows. The changes in components of cash flows for the period ended June 30, 2019, compared to the period ended June 30, 2018, were the result of the following factors:

- **Operating** – Operating cash outflows during the three-month period were greater than the previous year due to a decrease in revenue from investment properties and an increase in expenses incurred from the management of the Company's marketable securities portfolio.
- **Investing** – Investing cash outflows were negligible during the quarter as net purchases of marketable securities were offset by in increase in trading margin during the period. During the same period in 2018, the Corporation had significant larger net purchases of marketable securities.
- **Financing** – Financing cash outflows occurred due to the repurchase of 158,500 shares during the period. The Corporation repurchased 119,000 shares during the same period in 2018.

To date, the Corporation has been able to meet all of its capital and other cash requirements from its internal sources of cash. As at June 30, 2019, the Corporation had $210,644 (Q4 2018 - $745,411) in cash and cash equivalents. Due to the expectation that the Corporation's cash position will worsen in future quarters, Management 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. However, during the second quarter of 2019, the Corporation's bank was unable to fulfil a request by the Corporation to further drawdown on this previously approved credit facility due to increased regulatory scrutiny of the bank by the Mongolian central bank. The Corporation is currently working on transferring this credit facility to another local bank. Management considers its marketable securities holdings to be fairly liquid and can be sold should the Corporation need to increase its cash position.

Total Assets

As of June 30, 2019, the Corporation had $5,097,964 (Q4 2018 - $4,809,169) in Current Assets of which $210,644 were held in cash and cash equivalents (Q4 2018 – $745,411). The decrease in cash is due to the working capital needs during the quarter, net purchases of marketable securities as well as shares repurchased through its NCIB program.

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 to $23,343,439 during the quarter (Q4 2018 -$24,415,860) due to a foreign exchange loss.

Property and Equipment, which primarily consists of properties that are measured at their cost base, decreased from $1,792,794 as at December 31, 2018 to $1,679,653 as at June 30, 2019 due to a depreciation in the local currency.

Total Liabilities

As of June 30, 2019, the Corporation had current liabilities of $1,103,219 (Q4 2018 – $1,233,025) consisting primarily of payables, accrued liabilities and a short-term bank loan. In 2017, the Corporation obtained a two year CDN$1,300,200 (USD $1,000,000) credit facility through a commercial bank in Mongolia. The loan is secured by various property assets and guarantees from Mongolian subsidiaries. The Corporation made an initial draw of USD $500,000 during the year ended December 31, 2017. As at June 30, 2019, the Corporation had CDN $654,650 debt outstanding (Q4 2018- $680,902). During the second quarter of 2019, the Corporation's bank was unable to fulfil a request by the Corporation to further drawdown on this previously approved credit facility due to increased regulatory scrutiny of the bank by the Mongolian central bank. The Corporation is currently working on transferring this credit facility to another local bank.

As of June 30, 2019, the only non-current liabilities on the balance sheet are deferred income taxes of $705,100 (Q4 2018 - $737,493).

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

Total Equity

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

Outstanding	30-June-2019	31-Dec-2018
Common shares	32,954,499*	33,243,999
Options to buy common shares	1,720,000	3,103,000

* As at June 30, 2019, the Corporation held 49,500 of the common shares outstanding in Treasury to be cancelled during the third quarter of 2019 (Q2 2018-26,500).

Options Outstanding

At June 30, 2019, the Corporation had 1,720,000 options that were exercisable (December 31, 2018 – 3,103,000).

The chart below shows the historical option grants and options outstanding as of June 30, 2019.

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	1,078,000	85,000	-	200,000	-	-	-
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	-	80,000	-	-	855,000	855,000	-
0.74	640,000	-	75,000	-	-	565,000	565,000	-
0.38	350,000	280,000	70,000	-	-	-	-	-
Total	**5,953,000**	**1,763,000**	**1,018,000**	**902,000**	**550,000**	**1,720,000**	**1,720,000**	-

Acquisitions and Dispositions

During the first six months of 2019, the Company did not acquire or sell any properties (Q2 2018 – nil).

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, executive management and persons related to directors and executive management. The summary of compensation for key management personnel is as follows:

Related Party Transactions	30-June-2019 $	June 30-2018 $
Salaries and other short-term benefits to officers	239,543	200,423
Director fees	20,000	40,000
Total	**259,543**	**240,423**

Starting in 2019, certain entities affiliated with Harris Kupperman, the Corporation's Chairman and CEO, have agreed to share certain expenses related to the Corporation's investments in public securities. Management expects that this will reduce MGG's investment related expenses for a similar level of research capabilities.

Off-Balance Sheet Items

As of June 30, 2019 the Corporation had no off-balance sheet items.

Events Subsequent to Quarter End

Since July 1, 2019, the Corporation has not repurchased or cancelled any shares.

Section 5 - Quarterly Information

Quarterly Results

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

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Revenue	372,167	360,864	367,916	389,934	357,051	356,748	662,458	370,354
Net income (loss)	178,237	264,034	(577,451)	2,279,078	128,671	(272,955)	(720,889)	401,886
Income (loss) per common share	0.01	0.01	(0.02)	0.08	0.00	(0.01)	(0.02)	0.01
Total Assets	30,121,056	30,969,616	31,017,823	31,844,685	30,111,915	30,142,591	29,405,831	29,377,211
Weighted Average Shares (No.)	33,104,645	33,113,966	33,352,911	33,412,466	33,464,179	33,530,605	34,342,059	34,486,152
Ending Shares (No.)	32,954,499	33,136,999	33,243,999	33,379,499	33,379,499	33,476,999	33,696,599	34,294,099

Section 6 – Critical Estimates

Critical Accounting Estimates

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

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

Fair Value Adjustment on Investment Properties

The estimate of fair value of investment properties is the most critical accounting estimate to the Corporation. An external appraiser estimates the fair value of the majority of the Investment Properties annually, the remainder are appraised internally by Management. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value of investment properties represents an estimate of the price that would be made in an arm's length transaction between knowledgeable, willing parties. The Corporation operates in the emerging real estate market of Mongolia, which given its current economic and industry conditions, has an increased inherent risk given the lack of reliable and comparable market information. For the six month period ending June 30, 2019, the Corporation did not record a valuation gain/loss (Q2 2018 – $nil).

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, 2019, the cost of the share based payments was $nil (Q2 2018- $nil).

Operating Environment of the Corporation

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

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

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

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

Deferred Tax Assets

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

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

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

As at June 30, 2019, 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 sized asset could be considered highly probable.

Judgement is required in determining whether the Company's Investment Property and land use rights' titles are at risk. As at June 30, 2019 and 2018, Management has made the judgment that Investment Properties for which the land title has recently expired, but is expected to be renewed in the near future should continue to be classified as Investment Properties. Newly acquired properties for which the Company is not currently in possession of the appropriate titles but does not expect there to be issues in receiving the titles, are classified as Prepaid Deposits on Investment Properties. Properties for which Management judges that the Company's titles are at risk, have been impaired to reflect the level of risk estimated by Management.

Section 7 – Risk Management

Credit Risk

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

The Corporation is exposed to credit risk as an owner of real estate in which tenants may become unable to pay contracted rents. The Corporation mitigates this risk by carrying out due diligence on significant tenants. The Corporation's properties are diversified across residential and commercial classes. Historically, bad debts have not been a substantial expense for the Corporation.

Liquidity Risk

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

The Corporation does not believe its current maturity profile lends itself to any material liquidity risk, taking into account the level of cash and cash equivalents, investments and marketable securities as at June 30, 2019.

As at June 30, 2019, the Corporation had working capital of $3,994,745 (Q2 2018 - $3,940,677) comprised of cash and cash equivalents, other assets, net of trade and accrued liabilities, income taxes payable and short term bank loan. Management considers the funds on hand to be sufficient to meet its ongoing obligations.

As of June 30, 2019, the Corporation's only material contractual obligation is the repayment of its credit facility of approximately $1,300,000 in December 2019. To date the Corporation has only drawn on approximately $654,650 of this facility. During the second quarter of 2019, the Corporation's bank was unable to fulfil a request by the Corporation to further drawdown on this previously approved credit facility due to increased regulatory scrutiny of the bank by the Mongolian central bank. The Company is currently working on transferring this credit facility to another local bank.

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 Management 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. Management is currently not aware of any individual asset that is in imminent danger of being confiscated or stolen. Management was recently notified by city of Ulaanbaatar officials that they may reduce the size of one of the Corporation's land titles due to a road expansion. Management does not believe that the city is justified in this action and intends to dispute any change in title size.

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. The Corporation's rental revenues are received in Mongolian Tögrög while approximately half of the Corporation's expenses are incurred in U.S. and Canadian Dollars. Therefore, a depreciation in the Mongolian Tögrög against the US and Canadian Dollar will reduce EBITDA. The exchange rate continues to be volatile and there is an expectation that the rate of currency depreciation could increase.

Economic Volatility and Uncertainty

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

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

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

Risks and Uncertainties

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

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

Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, investments and marketable securities, accounts receivable and trade and accrued payables. The Corporation is subject to interest risk as it earns interest income from its cash deposits. It is Management's opinion that the Corporation is not exposed to significant credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values. Management believes that there are material currency risks associated to certain Financial Instruments of the Corporation as they are held in Mongolian Tögrög. For further discussion of financial instrument risks, see the Insurance and Financial Risk Management note (Note 15 on December 31, 2018 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 $135,655 is currently included in the Corporation's balance sheet to reflect this liability. In addition, the Corporation has recognized a $1,711,065 (2017 - $1,585,120) unrealized fair value loss on this property in excess of the fair value adjustment calculated using the valuation approaches described during 2018. This adjustment is Management's estimate of the market's 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. Management 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.

Current Accounting Policy Changes

The Company has adopted the following revised standards, along with any consequential amendments, effective January 1, 2019.

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.

To prepare for this standard the Company reviewed its existing agreements to determine whether the accounting for any leases would be impacted from adopting IFRS 16. The Company is primarily party to agreements in which it is the lessor, for which the accounting has remained substantially unchanged. There was no impact on the Company's consolidation financial statements from adoption of IFRS 16.

IFRIC 23 - Uncertainty over Income Tax Treatments

New standard to clarify the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12 "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019. There was no impact on the Company's consolidation financial statements from adoption of IFRIC 23.

Additional Information

Additional information relating to Mongolia Growth Group Ltd., including its Interim Financial Statements, are available on SEDAR at www.sedar.com.