

Mongolia Growth Group

Announces Second Quarter 2016 Results

TORONTO, CANADA, August 15, 2016 /FSC/ - Mongolia Growth Group Ltd.

(YAK - TSXV and MNGGF - USA) ("MGG") or ("the Company") a commercial real estate investment and development company participating in the growth of the Mongolian economy, announces its financial results for the second quarter of 2016 and is pleased to report continued progress on improving operations and reducing costs along with improvement in Adjusted Funds From Operations (AFFO)*.

Highlights for the quarter:

- Improvements in operational performance have reduced negative quarterly AFFO from \$206,685 in Q2 2015 to \$31,503 in Q2 2016
- Reduced expenses excluding non-cash expense from \$660,932 to \$523,790 when compared to the second quarter of 2015, a decrease of 20.7%, despite the cost of various marketing initiatives
- Rental revenue only declined by 7.3% when compared to the second quarter of 2015 despite a substantially more rapid deterioration in market lease rates

"We are proud to report continued progress in reducing negative AFFO despite the continuing weakness in the Mongolian economy," said Harris Kupperman, Chairman and CEO of MGG. "Starting in early 2015, we implemented a plan to dramatically reduce costs along with improve utilization of existing assets. Those efforts have culminated in this quarter's results.

"Unfortunately, after having reduced cash expenses by approximately 50% when compared to the second quarter of 2014, we have run out of logical places to cut and prior cuts have now been fully implemented. Additionally, our portfolio that existed in January of 2015 has seen its revenues shrink significantly in Mongolian Tögrög terms, especially in the office sector where there is an abundance of supply. These declines have been offset by new sources of revenue from better usage of existing assets along with properties that we have developed, but going forward, we do not anticipate any new sources of revenue from our existing portfolio.

"It seems very clear that the economy has not yet bottomed. We remain committed to doing the best that we can in this amazingly difficult environment, but expect to see sizable declines in our revenues going forward as rental rates continue to decline, vacancy increases and the Mongolian Tögrög depreciates against the Canadian dollar.

"Our goal during this downturn is to lose as little as possible and preserve the value of our company for when the recovery arrives."

Overall Property Market

Over the past two years, a glut of property developments started during better economic conditions have come online during a time when many businesses are either downsizing or shutting down operations. This has put considerable pressure on rental rates for all property classes, with the greatest

pressure on the office market. Since the beginning of 2016, office rental rates have dropped by almost half, with retail and residential rents experiencing slightly lower declines in rates. The Company has done an outstanding job of keeping occupancy at above market levels, but has been forced to lower lease rates to be competitive. These lower lease rates will continue to filter through the Company's revenues over the next few quarters, leading to rather sizable declines in revenue, before adjusting for the decline in the Mongolian Tögrög against the Canadian Dollar.

Agency Business

The Company continues to increase the number of listings and invest resources into its agency business, including the redesign of its leasing site at www.MGGProperties.com. Unfortunately, demand for properties is low and with lease and sale prices declining rapidly, potential tenants and purchasers are holding off for lower prices, leading to less transaction volume than originally anticipated.

Unrealized Change in Fair Value of Properties

During the quarter, the Company recognized a total impairment of \$5,916,360 to the fair value of its properties. The Company continues to monitor property values and based on declines in lease rates and property values since the end of the second quarter, it is anticipated that the Company will experience future impairments to its portfolio.

Liquidity and Capital Resources

The Company ended the quarter with \$1,412,758 of cash and cash equivalents and no debt. The Company intends to continue to sell additional assets during the latter half of 2016 to further increase its cash reserves. Unfortunately, overall transaction liquidity in the marketplace has materially declined except for properties offered at substantial discounts to existing market prices. The Corporation is committed to maintaining sufficient liquidity so that it is not forced to make sales at disadvantageous prices and intends to focus on increasing its liquidity buffer.

Normal Course Issuer Bid

During the quarter, the Company repurchased 142,000 shares at a gross cost of CDN \$57,417. Despite the expectation that the economy will continue to worsen for the foreseeable future, the Company believes that its shares are undervalued. However, the Company intends to be highly disciplined about its purchases due to its limited cash reserves and the continued economic uncertainty.

Outlook

The recent parliamentary election has led to a renewed sense of optimism regarding the future of the Mongolian economy. Based on preliminary statements by the newly formed government, they intend to bring much needed political stability to Mongolia while adopting a pragmatic approach to foreign investment. Unfortunately, even if mega-projects that were obstructed by the prior government get approved to move forward, it is unlikely that they will lead to a substantial recovery in the economy for a number of years. Rather, it seems that any near-term growth in the Mongolian economy will be powered by tourism and productivity improvements in the agricultural sector, both of which already account for large portions of the economy.

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. 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.

Selected Annual Financial Information (CAD)

	Quarter Ended	Quarter Ended
	30-Jun 2016 (\$)	30-Jun 2015 (\$)
Total Revenue		
Rental Revenue	457,804	493,678
Gain (loss) on Disposal of investment property	(150,901)	-
Other revenue	31,300	8,258
Total Revenue	338,203	501,936
Expenses		
Salaries and wages	209,118	258,922
Share based payment	5,253	991,036
Depreciation	49,255	38,066
Development expense	-	160,199
Investor Relations	7,152	28,652
Repairs and maintenance	20,111	24,014
Office	20,527	22,622
Professional fees	117,000	158,805
Travel	13,717	36,036
Advertising	5,865	2,436
Land and property tax	51,967	41,913
Insurance	14,894	15,557
Utilities	37,299	40,091
Other	26,140	31,884
Total Expenses	578,298	1,850,233
Net Investment income	3,394	6,881
Unrealized gain (loss) on fair value adjustment of investment properties	(5,916,360)	-
Net income(loss) before income tax	(6,153,061)	4,473,714
Recovery of (provision for) income taxes	135,452	(11,579)
Net income (loss) for the period	(6,017,609)	(1,352,996)
Net Income (loss) per share (basic)	(0.17)	(0.04)
Net income (loss) per share (diluted)	(0.17)	(0.04)

Funds From Operations (FFO) And Adjusted Funds From Operations (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	Quarter ended
	30-Jun- 2016	30-Jun- 2015
	(\$)	(\$)
Net loss before income tax for the period	(6,017,609)	(1,352,996)
<i>Add (deduct) items not affecting case</i>		
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)
<i>Add (deduct)</i>		
Development costs not capitalized	-	160,199
Forfeited purchase down payment	(23,759)	-
AFFO	(31,503)	(206,685)
<i>Per Unit – basic</i>		
FFO	(0.00)	(0.01)
AFFO	(0.00)	(0.01)
<i>Per Unit – diluted</i>		
FFO	(0.00)	(0.01)
AFFO	(0.00)	(0.01)

Overall AFFO showed a significant improvement due to a 21% decline in expenses excluding share based payments and depreciation.

Balance Sheet

	30-Jun-2016 (\$)	31-Dec-2015 (\$)
Current Assets		
Cash and cash equivalents	1,412,758	1,035,272
Other assets	323,579	327,999
Non-current assets		
Investment properties	37,301,106	46,473,749
Property and equipment	2,442,797	2,978,150
Total assets	41,480,240	50,815,170
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	491,030	704,426
Income taxes payable	171,925	146,290
Non-current liabilities		
Deferred income tax liability	777,570	990,109
Total liabilities	1,440,525	3,176,142
Equity		
Share capital	54,304,514	54,369,332
Contributed surplus	6,896,041	6,738,875
Accumulated other comprehensive loss	(3,869,262)	(1,135,265)
Deficit	(17,291,578)	(10,998,597)
Total equity	40,039,715	48,974,345
Total equity and liabilities	41,480,240	50,815,170

Portfolio Data

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	-

Please see the Company's audited financial statements (the "Financial Statements") and related Management's Discussion & Analysis ("MD&A") for the financial year ended December 31, 2015 for more details. The Financial Statements and MD&A have been reviewed and approved by the Company's Audit Committee and Board of Directors. The Company has prepared this news release to alert shareholders to the foregoing and a more detailed explanation and analysis is readily available in the MD&A. These Financial Statements and MD&A are available for viewing under the Company's profile on SEDAR at www.sedar.com.

Non IFRS Measures

The Corporation 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 as net income (loss) and comprehensive income (loss) calculated in accordance with IFRS, excluding: (i) Unrealized change in fair value of investment properties (ii) depreciation and amortization of investment properties; (iii) gains (or losses) from sales of investment properties and equipment; (iv) tax on gains or losses of sale on investment properties (v) deferred income tax (expense) recovery; (vi) impairment/losses on all real estate assets (vii) Gains or losses on PPE properties (viii) share based payments. "AFFO" is not defined under IFRS and may not be comparable to AFFO used by other issuers. The Corporation has defined AFFO as FFO subject to certain adjustments, including: development expenses not capitalized, large one-time expenses and other adjustments as determined by Management.

For further information please contact:

Ms. Genevieve Walkden, Corporate Secretary
 (877) 644-1186
gwalkden@MongoliaGrowthGroup.com

Mongolia Growth Group Ltd. is a publicly traded and leading property investment and development company in Ulaanbaatar, Mongolia. MGG owns an extensive property portfolio in diversified segments of the property market, with an emphasis on institutional-grade commercial assets.

MGG undertakes its own property acquisitions, develops brownfield land assets and repositions outdated properties, relying on in-house services for all facets of both the investment portfolio and development side of the business. In addition, MGG acts as a full-service third-party provider for institutional clients

and tailors transactions covering acquisition-to-suit, build-to-suit, as well as refurbish-to-suit, for property owners and major tenants.

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Forward-looking Information and Statements

Information and statements contained in this news release that are not historical facts are “forward-looking information” within the meaning of applicable Canadian securities legislation and involve risks and uncertainties. Forward-looking information and statements contained in this news release include information with respect to our intention to move forward into the construction of international standard properties in Mongolia.

Forward-looking information is necessarily based upon a number of assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties and contingencies. MGG cautions the reader that such forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results and developments to differ materially from those expressed or implied by such forward-looking information. Such risks and uncertainties include, but are not limited to: risks associated with investment in and development of real property in Mongolia; competition, financing and refinancing risks; risks related to economic conditions; risks related to regulation of the real estate business in Mongolia; political risk in Mongolia; changes in Mongolian taxation rules; reliance on key personnel; environmental matters; tenant risks; and other risk factors more particularly described in in MGG’s filings with Canadian securities regulators, which filings are available at www.sedar.com. Additional risks and uncertainties not presently known to MGG or that MGG currently believes to be less significant may also adversely affect MGG. Forward-looking information is designed to help you understand management’s current views of our near and longer term prospects, and it may not be appropriate for other purposes. MGG does not undertake any obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except to the extent legally required.

The TSXV has not reviewed and does not accept responsibility for the adequacy or accuracy of this release.