



# Mongolia Growth Group Ltd., Q3 2020 MD&A

Third Quarter 2020

MONGOLIA GROWTH GROUP LTD

## TO THE SHAREHOLDERS OF MGG:

Our core Mongolian business suffered during the third quarter as the impact of quarantines and other restrictions upon businesses dramatically reduced rental revenue. We have done everything we can to reduce costs and blunt the impact of reduced revenue, but there is only so much we can do. Fortunately, the Mongolian economy does not seem to be worsening and over the third quarter, our rental revenues along with third party commissions improved somewhat when compared to the second quarter. This revenue improvement continued into October, though it is still dramatically below 2019 levels. At the same time, we worry that any recovery will be slow and uneven, particularly as so much of the economy relies on summer tourism which effectively did not happen this year.

During the recurring years of economic crisis within Mongolia, our focus has been on retaining stable tenants and working with them when they have short-term difficulties—as we know how difficult it is to find tenants who are reliable, especially as we want to avoid the costs associated with vacancy. COVID-19 has added a new dimension to this struggle. We have worked selectively with many of our best tenants to keep occupancy high and achieve any revenue we can, despite the fact that their businesses are also suffering. While bad debt expense has been low thus far, we have minimal visibility into bad debt in future quarters, particularly if new COVID-19 restrictions should be enacted. As a result of reduced revenues and roughly constant expenses, our losses from operations increased substantially. While we are hopeful that the situation in Mongolia continues to recover over the next few quarters, we expect a slow recovery. If there is an upside thus far, it is that most of our tenants are committed to continuing their current business operations and we hope that rental rates can return to prior levels at some point in the future.

Our securities portfolio produced a \$140,573 unrealized gain and a \$1,082,568 realized gain, along with a \$4,439 foreign exchange loss for the quarter. Additionally, the portfolio's value has continued to increase since the end of the third 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 fairly volatile 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. While our public securities investments have helped offset operating losses during 2020, there are legal and tax reasons why it is inadvisable to grow this portfolio beyond a certain point. Instead, we see public securities as a highly liquid alternative to owning cash as we seek out an operating business to launch or acquire in North America.

During prior years, our Mongolian operations produced moderate cashflow that somewhat offset losses on the Corporate side. Due to COVID-19, we no longer have certainty that our Mongolian operations will produce positive cashflow going forward. As a result, we are continuing to evaluate our corporate structure to see what else we can do to utilize our talented Mongolian team to create additional revenue opportunities. During the summer, we began producing a financial data product that is now undergoing a limited Beta test. Given the interest generated during this test, we believe there may be a commercial application for this product. We plan to continue the Beta test for the next few months and if interest remains high, we intend to commercialize this product sometime in 2021. While we do not anticipate material revenue from any potential commercialization, we do hope we can offset some of our continued operating losses and increase our liquidity runway while we seek out a more substantive business to purchase or initiate.

Unfortunately, despite much effort, we have not been able to find that perfect unicorn to acquire. We came close a few times, but either price or business attributes eventually negated a deal. As a result, we're increasingly leaning towards launching new businesses internally, though we will never shy away from the right acquisition.

Conceptually, as this Corporation continues to evolve, I see an entity with a core Mongolian presence, but also the ability to act like something of a Merchant Bank; having a strong and liquid capital base for launching and acquiring businesses, while using the flexibility of permanent capital to bridging the gap between public and private markets in terms of how we own these businesses. While this plan remains somewhat abstract, the launch of this first internally developed data business (however small), is the first concrete step in that direction. I hope to have more information in subsequent letters as we continue to refine the plan.

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 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. As a result, we remain focused on selling non-core property assets (particularly in office and re-development) so that we can diversify the business, while keeping our core portfolio and management team so that we can pivot back to Mongolia when the economy returns to attractive growth rates.

I remain of the opinion that our shares are undervalued. During the third quarter, the Company re-purchased 449,500 shares under our Normal Course Issuer Bid at a cost of \$92,551.

Sincerely,

A handwritten signature in blue ink, appearing to read 'HKA', is positioned above the printed name.

Harris Kupperman  
CEO

## MONGOLIA GROWTH GROUP LTD

### Management Discussion & Analysis September 30, 2020

The management of Mongolia Growth Group Ltd. (“MGG” or “the Corporation”) presents the Corporation’s management discussion and analysis for the nine months ended September 30, 2020 (the “MD&A”), compared with the nine months ended September 30, 2019. 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 November 11, 2020 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 nine months ended September 30, 2020 and September 30, 2019 together with all of the notes, risk factors and information contained therein, available on SEDAR at [www.sedar.com](http://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 third quarter of 2020, 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 significantly compared to the same quarter last year. While the Corporation managed to maintain a high occupancy rate, with 98.6% office and 100% retail occupancy rates, it had to offer significant discounts to tenants affected by closures due to Covid-19.

During the third quarter, the Company sold one property for cash consideration of \$279,510 and a net gain of \$109,375 (Q3 2019 – nil). It is anticipated that the Corporation will continue to dispose of properties in future quarters in order to fund future working capital needs, the Normal Course Issuer Bid (NCIB) program, along with funding the start-up costs or capital cost of the acquisition of a business outside of Mongolia.

During the quarter, the Mongolian Tögrög decreased versus the Canadian dollar from 2,065 MNT/CAD on June 30, 2020, to 2,130 MNT/CAD on September 30, 2020. This decrease during the quarter led to a \$491,730 comprehensive unrealized loss (Q3 2019 – \$156,446 gain) 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 quickly, 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 of 2019, 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.

Beginning in February of 2020, the Government of Mongolia undertook extra-ordinary actions to limit the spread of COVID-19 or other COVID-19 related impacts. These actions included closing borders, closing schools, reducing gatherings and drastic limitations on business operations. As long-term investors in Mongolia, the Corporation welcomes these actions that keep the people of Mongolia safe from COVID-19; however, it is anticipated that these actions will lead to a severe economic crisis. Since the initiation of these actions, the Corporation has experienced a material reduction in rental revenues received. At this time, there is no way to know the ultimate impact of these extra-ordinary actions upon the economy or the Corporation.

To date, the Corporation has experienced a low level of bad debt expense; however, it has had to offer a significant number of discounts to tenants affected by the economic crisis. Additionally, many tenants have struggled to operate their businesses and the Corporation anticipates that a number of tenants may exit leases prematurely over the next few quarters, leading to an increase in vacancy. The Corporation remains focused on filling leases as rapidly as possible, but cautions shareholders that future rental rates may decline substantially from currently contracted rates. Additionally, certain tenants may require rent discounts in order to stabilize their businesses. The Corporation intends to review each tenants' circumstances when determining the appropriate course of action.

Additionally, travel restrictions have made it impossible for members of senior management to travel to Mongolia and the overall operation of the business may suffer if travel restrictions are continued for a prolonged period of time. To date, the Corporation believes that its Mongolian staff have performed well during the crisis. Fortunately, at least

one of the Corporation's board members is expected to be in Mongolia during the period when senior management cannot visit.

Management believes that the current economic slowdown is the result of policies that have discouraged Foreign Direct Investment ("FDI") along with Covid-19. 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, before the economy was impacted by Covid-19, well-placed office and retail space in the city center was 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 and banks may be forced to liquidate distressed property assets due to the IMF bailout. Management continues to monitor and evaluate the ultimate impact of Covid-19 on property prices and the Mongolian economy. While there have been very limited transactions since the onset of Covid-19, Management is of the opinion that property prices have declined as a result of the impacts of the global pandemic. As a result, during the second quarter, the Corporation recorded Fair Value impairment to the carrying values of its portfolio and an impairment to its headquarters building's carrying value, which is accounted for as Property & Equipment. The Corporation did not record a further Fair Value impairment during the third quarter.

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 nine 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](http://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; however, the Corporation has had to issue significant discounts to tenants most affected by the current pandemic. The Corporation is unsure as to when or if these discounts can be rolled back, though there has been a reduction in total discounts issued as the quarter progressed.

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 and is considering adopting a Merchant Bank model. 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 incubated a financial data product during the summer of 2020 and assuming that there is demand, it intends to commercialize this product at some time during 2021. While the product is not anticipated to materially impact overall revenues, it is indicative of the direction that the Corporation is headed as it diversifies its sources of revenue. In the meantime, the Corporation has invested its excess capital in certain publicly traded securities. The Corporation believes that over time, it will continue to dispose of property assets in order to 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 and future potential business acquisitions. Additionally, Management 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 along with potential start-up expenses related to any businesses started internally. Management 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 September 30, 2020:

	30-September-2020		31-December-2019	
	# of Properties	\$CDN	# of Properties	\$CDN
Office	2	1,028,678	1	1,033,875
Retail	14	10,453,034	17	12,307,380
Land and Redevelopment	2	4,628,415	2	5,490,730
<b>Total</b>	<b>18</b>	<b>16,110,127</b>	<b>20</b>	<b>18,831,985</b>

## 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 September 30, 2020:

	30-September-2020		31-December-2019	
	# of Properties	\$CDN	# of Properties	\$CDN
Office	1	1,272,665	1	1,389,068
Retail	-	-	-	-
Land and Redevelopment	-	-	-	-
<b>Total</b>	<b>1</b>	<b>1,272,665</b>	<b>1</b>	<b>1,389,068</b>

## Occupancy Rates

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

	30-September-2020	31-December-2019	30-September-2019
	Occupancy Rate*	Occupancy Rate*	Occupancy Rate*
Office	98.6%	96.9%	90.2%
Retail	100%	100.0%	93.8%
<b>Weighted Average**</b>	<b>99.6%</b>	<b>98.8%</b>	<b>93.4%</b>

\* Occupancy rates are calculated on a per meter basis and only include properties in the rental pool. It does not include those currently listed for sale.

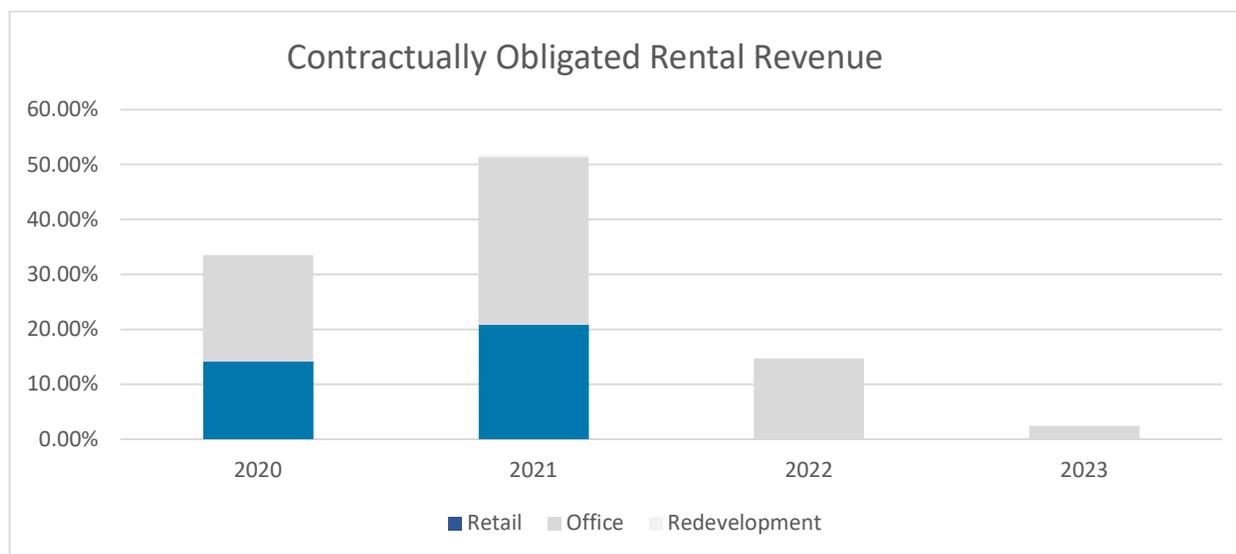
\*\* Weighted Average is calculated based on total meters available for lease

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 been impacted by the closure of numerous schools that are nearby and a resulting lower level of foot traffic, leading to reduced occupancy that has fluctuated during the quarter. The Corporation has offered numerous tenant discounts in order to retain stable tenants. It is too soon to determine the ultimate impact of Covid-19 on Tuguldur Center and when rental rates can return to prior levels.

## 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:



Most Recent Lease Signings					
Lease Type	Lease Renewal Date	SqM	Old Price Per Meter (Mongolian Tögrög)	New Price Per Meter (Mongolian Tögrög)	Percent Increase (decrease)
Retail Lease	Jul-20	249	30,321	14,056	-53.64%
Office Lease	Jul-20	204	30,000	30,000	0.00%
Retail Lease	Aug-20	360	27,777	27,777	0.00%
Office Lease	Aug-20	63	35,000	35,000	0.00%
Office Lease	Sep-20	24	31,250	25,000	-20.00%
Office Lease	Sep-20	100	25,000	25,000	0.00%
Retail Lease	Sep-20	249	14,056	14,056	0.00%
Retail Lease	Sep-20	90	36,666	29,333	-20.00%

The weighted average remaining lease length, calculated as a percentage of monthly revenues, increased slightly during the third quarter of 2020 to 7.5 months from 7.3 months at September 30, 2019.

Due to the impacts of Covid-19, Management is unable to determine current market rates as many tenants in Mongolia are operating under some form of discount or rental holiday. It is Management's belief that the majority of the Corporation's existing leases are at rates that are in-line with prevailing market rates that existed before Covid-19. Future changes in lease rates are dependent on economic conditions.

## Publicly Traded Securities

The Corporation has invested a portion of its excess capital in marketable securities. As at September 30, 2020, the Corporation held positions in multiple different publicly traded companies with the values of marketable securities owned of \$5,597,662 and securities sold short of \$318,947.

The third quarter saw a recovery in the value of the Corporation's publicly traded securities holdings when compared to the second quarter. During the quarter, the Corporation realized gains of \$1,082,568 (Q3 2019- loss of \$184,861) from sales of public securities during the quarter, experienced unrealized gains of \$140,573 (Q3 2019 – loss of \$308,997) and a foreign exchange loss of \$40,409 (Q3 2019 – loss of \$7,166).

At the end of the third quarter, the portfolio was invested primarily in shares of companies and securities with exposure to real estate, bitcoin, tankers, and oil & gas.

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 September 30, 2020 are broken out in the following sectors:

Long Portfolio	
Industry Sector	Percentage
Real Estate	29.2%
Crypto-Currency	24.4%
Transportation & Logistics	19.9%
Consumer Services	17.1%
Natural Gas	8.8%
Financials	6.5%
Oil & Gas	5.5%
Other long equities	9.4%

Short Portfolio	
Industry Sector	Percentage
Short options	-4.8%

Management considers its marketable securities holdings to be fairly liquid and can be sold should the Corporation need to increase its cash position, launch a new business or find an attractive acquisition. For tax and regulatory reasons, the Corporation does not intend for its public securities portfolio to ever represent a majority of the total assets.

Since the end of the third quarter, the value of the public securities portfolio has appreciated.

## Section 3 - Results of Operations

### Selected Quarterly Financial Information (CAD)

	Quarter ended 30-September-2020 (\$)	Quarter ended 30-September-2019 (\$)	Quarter ended 30-September-2018 (\$)
<b>Revenue and other income</b>	192,485	377,605	389,934
<b>Income</b>			
Net income (loss) attributable to equity holders of the Corporation	1,048,297	(679,160)	2,279,078
Total Comprehensive income/ (loss) attributable to equity holders of the Corporation	556,567	(522,714)	1,669,985
<b>Basic earnings per share ("EPS") (in CAD)</b>			
Net income/ (loss)	0.03	(0.02)	0.08
<b>Diluted EPS (in CAD)</b>			
Net Income/ (loss)	0.03	(0.02)	0.08
<b>Balance Sheet</b>			
Total assets	23,992,584	31,942,398	31,844,685
Total liabilities	1,318,599	4,168,165	1,733,664
Total equity	22,673,985	27,774,233	30,111,012
Shares outstanding at quarter end	31,856,999	32,891,499	33,379,499
Book value per share	0.71	0.84	0.90

### Rental Revenue from Investment Properties

Rental revenue from Investment Properties decreased from \$311,596 in the third quarter of 2019 to \$192,485 in the third quarter of 2020. This is primarily due to discounts given to tenants due to Covid-19 restrictions as well as fewer investment properties along with the depreciation of the Mongolian Togrog.

### Revenue from Other Sources

Revenue from other sources consist of late fees and fees earned for third party leasing and property management. For the third quarter of 2020, revenues from other sources decreased to \$22,835 compared to \$66,009 for the third quarter of 2019 as the number of real estate transactions stalled during the quarter.

### Gain/Loss on disposal of Investment Properties

During the quarter, the Corporation sold one property for cash consideration of \$279,510 for a gain of \$109,375 (Q3 2019 – \$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 September 30, 2020, the Corporation did not record any valuation gain/loss (Q3 2019 – nil). Management continues to evaluate the impacts of Covid-19 on property prices.

### Unrealized short-term investment gain/loss

During the quarter, the Corporation had an unrealized short-term investment gain of \$140,573 compared to an unrealized short-term investment loss of \$308,997 during the third quarter of 2019.

### Realized public securities investment gain/loss

During the quarter, the Corporation had a realized investment gain of \$1,082,568 compared to a realized investment loss of \$184,861 in Q3 2019.

### Realized foreign currency gain/loss

During the quarter, the Corporation had a realized foreign currency loss of \$32,916 compared to a realized foreign currency loss of \$145 in Q3 2019.

### Share Repurchase

During the quarter, the Corporation repurchased 449,500 common shares under its Normal Course Issuer Bid (NCIB) at an average price of \$0.21 (Q3 2019-65,000, \$0.24 average). As at September 30, 2020, the Corporation held 278,500 shares in Treasury to be cancelled during the fourth quarter of 2020 (Q3 2019- 51,500).

### 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 September 30, 2020, property operating expenses were \$179,439 compared to \$263,313 during the same period in 2019. This decrease is primarily attributed to a decrease in salaries and commissions associated with the company's third-party brokerage business along with fewer property assets due to disposals.

### Corporate Expenses

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

For the quarter ending September 30, 2020, general and administration expenses were slightly decreased from \$210,192 in 2019 to \$207,266 in 2020 as a result of rigid expense control.

### Currency

The Mongolian Tögrög has fluctuated significantly over the past nine years. The Mongolian Tögrög has depreciated 6.8%, 5.1%, 11.5% and 5.3% in 2011, 2012, 2013 and 2014 respectively versus the Canadian Dollar while appreciating 11.4% in 2015 and depreciating 28.5% in 2016 and a further 4.3% in 2017 and 0.7% in 2018 and 8% in 2019. During the quarter, the Mongolian Tögrög decreased 3.1% versus the Canadian dollar from 2,065 MNT/CAD on Jun 30, 2020, to 2,130 MNT/CAD on Sept 30, 2020. This decrease led to a \$491,730 comprehensive unrealized loss (Q3 2019 – \$156,446 gain) 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 disclose the foreign exchange adjustment, which flows through the investment property classification during each period. During the third quarter, the Corporation recognized a foreign exchange adjustment loss of \$599,463 (Q3 2019 gain of \$162,465) to its investment property portfolio.

## Operating Profit (Loss)

Overall, the Corporation reported an Adjusted EBITDA loss of \$121,398 during the third quarter of 2020 (Q3 2019 –loss of \$136,647).

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

	Q3 2020 \$	Q3 2019 \$
Net Income before Income taxes	1,080,355	(668,014)
Add Depreciation and Amortization	16,949	18,412
Subtract Interest and Investment Income/gains/finance expense	(1,218,702)	512,955
<b>EBITDA</b>	<b>(121,398)</b>	<b>(136,647)</b>
Subtract Fair Value Adjustment Gain (add back loss) on all properties Including impairments on PPE and Other Assets	-	-
<b>Total Adjusted EBITDA</b>	<b>(121,398)</b>	<b>(136,647)</b>

## Net Income

For the quarter ended September 30, 2020, the Corporation had a net income of \$1,048,297 compared to a net loss of \$679,160 for the quarter ending September 30, 2019. The increase versus the same period last year is primarily due to the realized investment gains earned during the period. 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 nine-month period ended September 30, 2020 and 2019.

	30-September-2020	30-September-2019
	\$	\$
Net change in cash related to:		
Operating	(49,591)	(421,441)
Investing	177,700	2,069,572
Financing	(231,342)	(160,309)
Effects of exchange rates on cash	169,072	(22,153)
<b>Net change in cash during the period</b>	<b>65,839</b>	<b>1,465,669</b>

Overall, the Corporation had cash inflow of \$65,839 during the first nine months of 2020 primarily due to an increase in non-cash working capital balances. The changes in components of cash flows for the period ended September 30, 2020, compared to the period ended September 30, 2019, were the result of the following factors:

- **Operating** – Operating cash outflows decreased during the nine-month period due to significant positive non-cash working capital balances compared to a decrease in non-cash working capital balances in the prior year.
- **Investing** – Investing cash inflows occurred from sale of investment properties and an increase in trading margin offset by the purchase of marketable securities. During the same period in 2019, sale of marketable securities were offset by a decrease in margin borrowings.
- **Financing** – Financing cash outflows occurred due to the repurchase of 449,500 shares, while the Corporation repurchased 65,000 shares during the same period in 2019.

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 September 30, 2020, the Corporation had \$803,094 (Q4 2019 - \$737,255) in cash and cash equivalents. 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 September 30, 2020, the Corporation had \$6,576,799 (Q4 2019 - \$5,809,586) in Current Assets of which \$803,094 were held in cash and cash equivalents (Q4 2019 – \$737,255) and \$5,597,662 were held in marketable securities (Q4 2019 - \$3,689,304). The increase in cash and marketable securities are due to the sale of investment properties and the realized gains in marketable securities during the period.

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 \$16,110,127 during the quarter (Q4 2019 -\$18,831,985) due properties sold during the period, a fair value impairment taken at the end of second quarter and a foreign exchange adjustment loss taken during the period.

Property and Equipment, which primarily consists of properties that are measured at their cost base, decreased from \$1,435,650 as at December 31, 2019 to \$1,305,658 as at September 30, 2020 due to a fair value impairment taken on the Corporation's headquarters at the end of the second quarter and the decrease in local currency.

## Total Liabilities

As of September 30, 2020, the Corporation had current liabilities of \$797,409 (Q4 2019 – \$825,506) consisting primarily of marketable securities sold short, payables and accrued liabilities.

As of September 30, 2020, the only non-current liabilities on the balance sheet are deferred income taxes of \$521,190 (Q4 2019 - \$581,887).

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-September-2020	31-December-2019
Common shares	31,856,999*	32,767,499
Options to buy common shares	-	1,420,000

\* As at September 30, 2020, the Corporation held 278,500 common shares in Treasury to be cancelled during the fourth quarter of 2020 (Q3 2019-51,500).

## Options Outstanding

At September 30, 2020, the Corporation had nil options that were exercisable (December 31, 2019 – 1,420,000).

The chart below shows the historical option grants and options outstanding as of September 30, 2020.

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	300,000	75,000	-	-	-	-	-
0.72	935,000	855,000	80,000	-	-	-	-	-
0.74	640,000	565,000	75,000	-	-	-	-	-
0.38	350,000	280,000	70,000	-	-	-	-	-
<b>Total</b>	<b>5,953,000</b>	<b>3,483,000</b>	<b>1,018,000</b>	<b>902,000</b>	<b>550,000</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Acquisitions and Dispositions

During the period ended September 30, 2020, the Company transferred a property acquired through the sale of a property prior to year-end from other assets to investment properties as the Company obtained its property title during the first quarter. During the first quarter, the Company sold two properties with a value of \$413,237 at a net gain of \$nil. The Company also sold one property during the third quarter for cash consideration of \$279,510 resulting net gain of \$109,375 (Q3 2019 - \$nil). The Company did not buy or sell any properties during the second quarter (Q2 2019 – \$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-September-2020 \$	30-September- 2019 \$
Salaries and other short-term benefits to officers	342,473	349,421
Director fees	30,000	30,000
<b>Total</b>	<b>372,473</b>	<b>379,421</b>

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 September 30, 2020, the Corporation had no off-balance sheet items.

## COVID-19

Beginning in February of 2020, the Government of Mongolia undertook extra-ordinary actions in order to limit the spread of COVID-19. These actions included closing borders, closing schools, reducing gatherings and drastic limitations on business operations. As long-term investors in Mongolia, the Corporation welcomes these actions that keep the people of Mongolia safe from COVID-19; however, it is anticipated that these actions will lead to a severe economic crisis. Since the initiation of these actions, the Company has experienced a material reduction in rental revenues received. It is reasonable to expect there could be a material negative impact on the fair values of investment properties; however, at this time the potential effect cannot be quantified. At this time, there is no way to know the ultimate impact of these extra-ordinary actions upon the economy or the Company.

## Events Subsequent to Quarter End

Subsequent to September 30, 2020, the Corporation repurchased 207,500 shares at an average price of \$0.20/share.

## Section 5 - Quarterly Information

### Quarterly Results

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

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Revenue	324,695	198,393	225,138	30,194	377,605	372,167	360,864	367,916
Net income (loss)	1,048,297	(1,279,482)	(1,298,347)	(3,013,557)	(679,160)	178,237	264,034	(577,451)
Income (loss) per common share	0.03	(0.04)	(0.04)	(0.10)	(0.02)	0.01	0.01	(0.02)
Total Assets	23,992,584	23,427,206	25,832,058	26,077,221	31,942,398	30,121,056	30,969,616	31,017,823
Weighted Average Shares (No.)	32,312,665	32,455,903	32,665,532	32,989,169	33,049,028	33,104,645	33,113,966	33,352,911
Ending Shares (No.)	31,856,999	32,132,499	32,398,499	32,767,499	32,891,499	32,954,499	33,136,999	33,243,999

## 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 nine-month period ending September 30, 2020, the Corporation recorded a fair value impairment loss of \$2,031,102 (Q3 2019 – \$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 September 30, 2020, the cost of the share based payments was \$nil (Q3 2019- \$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.

The Corporation has again recently experienced difficulty in converting Mongolian Tögrög to U.S. Dollars at large Mongolian banks. There can be no certainty regarding the ability to convert or wire money from Mongolia in the future.

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.

During October 2019, Mongolia was added to the FATF “grey-list” for countries with weak anti-money laundering laws and prevention practices. Though Mongolia was recently removed from the “grey-list,” the Corporation is unsure of how this will impact its ability to convert currency or transfer funds internationally. Additionally, the Corporation is unsure of what other impacts this may have upon its business.

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 September 30, 2020, 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 September 30, 2020 and 2019, 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 September 30, 2020.

As at September 30, 2020, the Corporation had working capital of \$5,779,390 (Q3 2019 - \$3,305,437) 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.

### 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.

## 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.

The Corporation is currently suffering the effects of Covid-19, leading to reduced rental and 3<sup>rd</sup> party commission revenue along with difficulty in collecting certain owed rents and a portion of the proceeds of a property sale. There can be no certainty as to the ultimate impact caused by Covid-19 or the government's response to it in Mongolia and globally.

## 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](http://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 with 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, 2019 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 \$129,296 is currently included in the Corporation's balance sheet to reflect this liability. In addition, the Corporation has recognized a \$1,253,415 (2018 - \$1,711,065) unrealized fair value loss on this property in excess of the fair value adjustment calculated using the valuation approaches described during 2019. 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 (3.6 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.

### **Significant Accounting Policies**

The Company has applied the same accounting policies in these condensed interim consolidated financial statements as those applied in the Company's annual audited consolidated financial statements as at and for the year ended December 31, 2019.

### **Additional Information**

Additional information relating to Mongolia Growth Group Ltd., including its Interim Financial Statements, are available on SEDAR at [www.sedar.com](http://www.sedar.com).