Dear Shareholders,

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 and Chairman of the Board