



Mongolia Growth Group Ltd., Q4 2019 MD&A

Fourth Quarter 2019

MONGOLIA GROWTH GROUP LTD

TO THE SHAREHOLDERS OF MGG,

Frustratingly, yet another year has come and passed without any substantial progress at our business. Our capital continues to earn sub-par (ie. negative) returns and the vast majority of it remains stranded in Mongolia. Despite how bleak that sounds, our team has continued to perform admirably under difficult circumstances. During 2019, we kept our properties mostly full, had negligible bad debt expense, dramatically increased the returns from our 3rd party agency business and even managed to liquidate a number of properties near year-end. That said, I remain frustrated with our pace of progress, our continued losses and our inability to extract capital from Mongolia so that we can invest it somewhere else that has positive return expectations.

Let me start by talking about what's working. Gen and I spent 9 years building an amazing Mongolian team that is capable of nearly anything—unfortunately, this team has been hamstrung by repeated cycles of economic crisis. Despite this fact, over the past three years, they created a 3rd party agency business that literally did not exist previously—more importantly, our team on the ground mostly did it on their own, through trial and error, in a country that has never had a history of agency brokerage. This business produced approximately \$97,000 of revenue during the second half of 2019 (14% of our revenue in Mongolia) and did it at a decent gross margin. I am confident that this business will continue to grow and we remain focused on investing additional resources into this business while also trying to add property management services. We believe we're uniquely equipped to offer these management services to property owners and believe that much like the brokerage business; once we can prove ourselves on a handful of properties, we'll become dominant in this sector.

With the positives out of the way, let's return to reality—the Mongolian economy has continued to muddle along lethargically. While headline numbers show a mid-single-digit GDP growth rate, a more accurate reading would be that economic conditions have simply stopped getting worse—not gotten substantially better. Recent extraordinary measures taken by the Government of Mongolia to combat the Coronavirus have led to many of our tenants experiencing extreme financial strain—even beyond the worst of the crisis during 2015 and 2016. While our bad debt expense has been minimal to date, we are not optimistic about 2020. As always, we will soldier on, as best as possible. Besides; by now, economic crisis is our *modus operandi*. Our priorities are to protect our capital, retain our highly-skilled Mongolia team, ring-fence key property assets and divest non-core assets so that we can invest in something with economic returns. If the Mongolian Government takes actions to grow the economy, we will be in the unique position to rapidly pivot our attentions back to Mongolia—if not, hopefully we will have diversified and grown this company.

During the past few years, we have focused on extracting capital from Mongolia so that we could invest in something else. I apologize for being somewhat amorphous, but we still do not know what we want to invest in—only that it needs to be a business with positive cash flow that would stop our balance sheet from slowly shrinking. Unfortunately, to date, we are no further along in identifying this business. During 2019, we looked at a number of businesses but could not come to terms on any transaction. In a world awash with liquidity, we refuse to overpay. If we cannot get the deal we want, we'd prefer to let the capital remain invested in public securities—hopefully experiencing securities gains.

In order to fund any prospective acquisition that we may ultimately identify, we'll need capital. While we occasionally have gotten lucky over the past few years on a handful of asset sales, we have rarely sold enough assets to do much more than offset our operating cash burn annually—which isn't long-term sustainable. During this summer, Gen and I, with the guidance of our board, made the decision to dramatically reduce the offering prices of the assets that we'd like to sell. While these prices are below our carrying costs, we also value the ability to move forward with diversifying this business. During the fall of 2019, we began to aggressively market properties at unusually attractive prices and were able to finally increase the rate of asset sales. We are confident that there are cash-rich buyers in Mongolia and if we have to reduce our prices sufficiently to meet them, so be it. However, as a result of our own experiences along with reduced liquidity in the market, particularly for larger property assets, we recognized a reduction in carrying value of \$1,347,662. While I believe that we sold these assets for less than they were worth, I do not regret a single sale and accept the conservative judgement of our property valuation firm. Based on the prices that we sell future assets at, we may experience further impairments to our portfolio's carrying value.

Our securities portfolio produced a \$358,826 realized loss and a \$454,824 unrealized gain, along with a \$228,761 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. During 2019, sizable changes in our securities portfolio relate to two E&P companies that have continued to decline in value—one of which we realized for a substantial loss over the course of the year. Additional losses were realized in put spreads related to an automotive company along with put spreads on various equity indexes. Offsetting this, we had realized and unrealized gains in a number of shipping equities along with other smaller positions that do not deserve mention.

Overall, I'm unhappy with how our securities portfolio has performed over the past eighteen months. I am a value investor who focuses on undervalued businesses, particularly those undergoing some sort of business inflection. Over time, this strategy has worked well; however there are times when it is horribly out of favor—particularly when most global equity markets have continued marching higher, led by companies with accelerating losses. The pockets of value that I see, are in companies trading at low-single digit earnings multiples and substantial discounts to net asset value—unfortunately, these sorts of cash-generative businesses remain shunned by the market. Naturally, this has contributed to the poor performance of our public securities over the past eighteen months. Like all things in life, equity markets move in cycles. At some point in this cycle, our holdings will be in favor and we will see the benefits of owning what we own. While I like to bemoan our performance, after currency gains, we did produce a positive return in 2019, though first quarter 2020 results were less kind to us.

In terms of our balance sheet, during the fourth quarter of 2019, we used the proceeds from asset sales to retire the USD \$500,000 of debt that we had with a top-4 Mongolian bank. We originally entered into a USD \$1 million line of credit with this bank, only to learn that they expected us to draw USD \$500,000 against it so that they could earn interest beyond the facility stand-by fee. Adding to our frustration, a year later, when we actually wanted to use our remaining line of credit, a line that that we had been paying for access to, the bank refused to honor their written commitments to us. With an expensive loan and a pointless line of credit, we chose to repay the loan and move on.

Returning back to our overall business, my hope remains 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 along with the economic benefits of any business in North America that we may start or acquire.

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 we expect that when combined with our corporate overhead it will likely produce operating losses (excluding potential gains from our public securities portfolio) for the foreseeable future. The only viable business that we see in Mongolia is our 3rd party agency business. While we intend to keep some of our better property assets in hopes of a recovery in Mongolia, we remain focused on selling non-core property assets (particularly in office and re-development) so that we can diversify the business.

I remain of the opinion that our shares are undervalued. During the fourth quarter, the Company re-purchased 107,500 shares under our Normal Course Issuer Bid at a cost of \$25,802.50. However, this reduced pace of share re-purchases is primarily related to our desire to husband cash for future acquisitions.

Sincerely,



Harris Kupperman
CEO

MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis December 31, 2019

The management of Mongolia Growth Group Ltd. (“MGG” or “the Corporation”) presents the Corporation’s management discussion and analysis for the year ended December 31, 2019 (the “MD&A”), compared with the year ended December 31, 2018. As of January 1, 2011, the Corporation adopted International Financial Reporting Standards (“IFRS”). This MD&A provides an overall discussion, followed by analyses of the performance of the Corporation’s major reportable segments. The reporting and presentation currency in the consolidated financial statements and in this discussion and analysis is the Canadian dollar, unless otherwise noted.

This MD&A is dated April 7, 2020 and incorporates all relevant information and considerations to that date.

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2019 and December 31, 2018 together with all of the notes, risk factors and information contained therein, available on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

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

Forward Looking Statements

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

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

Forward looking statements are included within the Outlook and Executive Strategy sections of this MD&A.

Section 1 – Overview

During 2019, the Corporation's rental revenues decreased by 7% when compared to 2018, which was largely a result of lower rental rates and fewer rental properties due to disposals. Throughout 2019, rental rates were relatively stable. Despite a very weak economy, the Corporation has been able to achieve almost full occupancy rates, with office space and retail occupancy rates of 97% and 100% respectively at year end.

Due to a tightening in liquidity in the economy, the Corporation recorded an unrealized fair value loss of \$1,347,662 on its investment properties portfolio during the year (2018 – gain \$1,892,577) as larger value assets dropped in value.

During the year, the Corporation acquired one retail property (\$48,213) through a swap transaction on the sale of an office building and 75 meters in an office building (\$143,196) acquired through another swap transaction which was classified in accounts receivable at year end as the title was received in early 2020 (2018 - nil). During this period, the Corporation sold three investment properties for total proceeds of \$2,221,346 resulting in a net loss of \$302,959 on these transactions. In comparison, during the year ended December 31, 2018, three investment properties were sold for cash consideration of \$547,955 resulting in a net gain of \$38,592 on these transactions. Proceeds from the sales of assets during the year were used for working capital purposes, the repayment of all outstanding debt (USD \$500,000), the acquisition of publicly traded securities, and its Normal Course Issuer Bid (NCIB) program. It is anticipated that the Corporation will continue to dispose of properties in future quarters in order to fund working capital needs, future public securities purchases along with the renewed NCIB program.

During the year, the Mongolian Tögrög depreciated versus the Canadian dollar from 1,941 MNT/CAD on December 31, 2018 to 2,095 on December 31, 2019; an 8% decrease during the year. This depreciation led to a \$1,831,600 other comprehensive loss (2018– \$140,375).

Economic Overview

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

Despite official statistics that tended to show moderate economic growth, the Corporation is of the opinion that the economy had been in contraction from 2014 until mid-2018, though the rate of contraction had 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. Recent statements by prominent politicians that were designed to embarrass and belittle China have resulted in China dramatically reducing imports of raw commodities. This has led to a slowing in economic activity during recent months. Furthermore, changes to tax rates, particularly related to mining licenses has served to further dissuade foreign investment.

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

The two recent People's Party governments have made statements that are more supportive of foreign investment—however these statements have rarely been backed up by actions that would actually tempt anyone to invest in Mongolia. Furthermore, despite statements of support for foreign investment, multiple investors are waiting for government approvals for their businesses to move forward and there has been a continued net divestment amongst most existing foreign investors.

Management believes that the current economic slowdown is the result of policies that have discouraged Foreign Direct Investment (“FDI”). When the government takes the appropriate steps to stimulate FDI, it is expected that the economy can return to sustainable economic growth. Management remains a believer in the long-term growth potential of Mongolia.

Beginning in February of 2020, the Government of Mongolia undertook extra-ordinary actions in order 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.

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 recommence development at any time.

Despite substantial new supply over the past few years, well-placed office and retail space in the city-center has been absorbed with rental rates starting to stabilize at a new lower level. However, there is concern that stalled projects will enter the market during a period of weak demand, while banks may be forced to liquidate distressed property assets due to the IMF bailout. Due to insufficient liquidity in the banking system and tightened monetary policies, large property assets saw a decrease in value during the end of the year. Should liquidity start to flow back into the system, Management believes that well placed city-center properties will be the first to recover in valuation. However, the Corporation is unsure of the ultimate impact of COVID-19 on the economy of Mongolia.

Management cautions investors that it is focused on continuing to dispose of non-core property assets when possible in order to recycle capital into investments in North America including the potential acquisition or initiation of an operating business along with the purchase of publicly traded securities. Additionally, recycled capital will be used for the ongoing NCIB along with working capital needs.

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.

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, though the outcome of COVID-19 on collections is unclear at this time.

Management 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 Mongolia, in order to diversify its business. During 2017, 2018 and 2019, Management spent substantial time evaluating a number of businesses, but has not decided to move forward on any acquisition. Additionally, the Corporation has made investments in certain publicly traded securities. Management plans to continue to dispose of property assets in order to increase its ownership of publicly traded securities and fund potential future investments outside Mongolia. The Corporation may be forced to take on additional borrowings or issue equity in order to finance these future investments.

The Corporation anticipates that revenues and EBITDA will decline in future quarters as properties are sold to fund working capital needs, investments in public securities, its NCIB program and future potential business acquisitions. Additionally, the Corporation anticipates an increase in operating expenses in future quarters, primarily as a result of an increase in payroll along with due diligence expenses related to potential acquisitions outside of Mongolia. The Corporation expects to finance losses with additional property sales, borrowings and potentially dilutive equity offerings.

Portfolio

Mongolia Growth Group's properties are located in the Downtown and the Central Business District of Ulaanbaatar. Within the financial statements, MGG classifies properties in each of the following categories; Investment Properties, Property and Equipment, and Other Assets. Fluctuations in the values of the Corporation's property portfolio during the year can be attributed to changes in valuations, properties 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 December 31, 2019;

2019			2018	
	# of Properties	Value at 31-Dec-19 \$CDN	# of Properties	Value at 31-Dec-18 \$CDN
Office	1	1,033,875	2	2,103,862
Retail	17	12,307,380	17	14,160,720
Land and Redevelopment	2	5,490,730	3	8,151,278
Total	20	18,831,985	22	24,415,860

Property and Equipment

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

The following table represents properties classified as Property and Equipment, as of December 31, 2019;

2019			2018	
	# of Properties	Value at 31-Dec-19 \$CDN	# of Properties	Value at 31-Dec-18 \$CDN
Office	1	1,389,068	1	1,723,044
Retail	-	-	-	-
Land and Redevelopment	-	-	-	-
Total	1	1,389,068	1	1,723,044

Occupancy Rates

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

	31-Dec-2019 Occupancy Rate*	31-Dec-2018 Occupancy Rate*	31-Dec-2017 Occupancy Rate*
Office	96.9%	94.9%	97.2%
Retail	100.0%	100.0%	100.0%
Weighted Average**	98.8%	98.1%	98.5%

* Occupancy rates are calculated on a per meter basis;

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

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

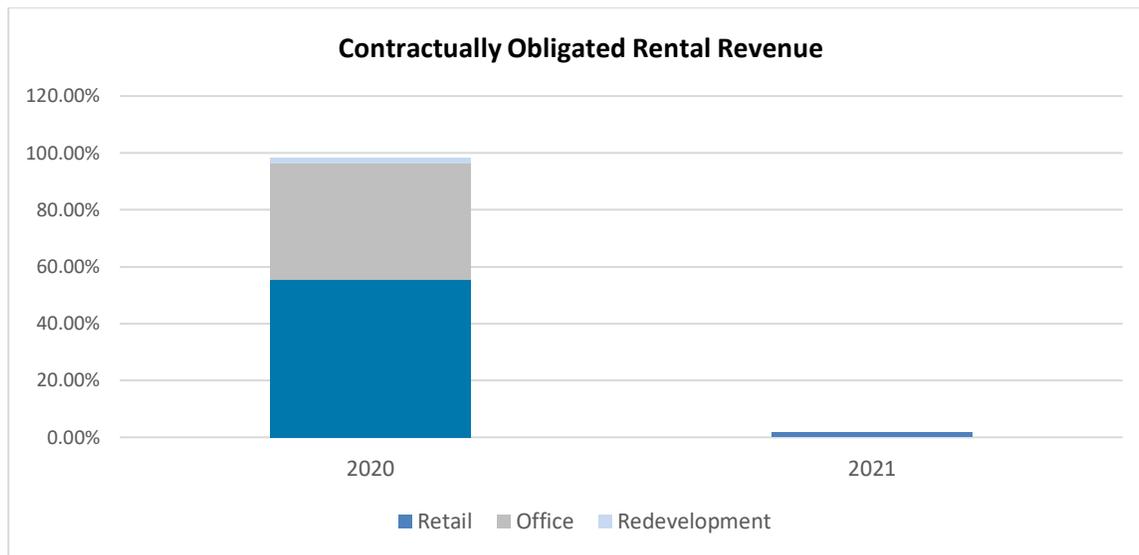
Management believes it is easier to sell properties when there is no tenant. Therefore, vacancy may increase as the Corporation chooses not to renew leases in order to dispose of properties. These properties are not included in the occupancy rate.

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 local industry standards, with the expectation that once leases expire, existing tenants are offered the first right to re-lease the space at the prevailing market rates.

Most Recent Retail Lease Signings						
Lease Type	Lease Renewal Date	SqM	Old Price Per Meter (Mongolian Tögrög)	New Price Per Meter (Mongolian Tögrög)	Percent Increase (decrease)	
Office Lease	Oct-19	31	35,000	35,000	0.00%	
Office Lease	Oct-19	100	25,000	25,000	0.00%	
Office Lease	Oct-19	21	20,000	20,000	0.00%	
Office Lease	Oct-19	15	25,000	25,000	0.00%	
Office Lease	Nov-19	90	25,000	25,000	0.00%	
Office Lease	Nov-19	14	25,000	25,000	0.00%	
Retail Lease	Nov-19	125	46,464	46,464	0.00%	
Retail Lease	Nov-19	300	2,000	2,000	0.00%	
Office Lease	Nov-19	12	22,000	22,000	0.00%	
Office Lease	Nov-19	60	22,801	22,801	0.00%	
Office Lease	Nov-19	24	20,000	20,000	0.00%	
Office Lease	Nov-19	39	25,000	25,000	0.00%	
Retail Lease	Dec-19	201	35,486	35,486	0.00%	
Office Lease	Dec-19	14	25,000	25,000	0.00%	
Office Lease	Dec-19	54	25,000	25,000	0.00%	
Office Lease	Dec-19	36	35,000	35,000	0.00%	

The weighted average remaining lease length increased to 8.1 months in December 2019 compared to 7.6 months in December 2018, calculated as a percentage of monthly revenues.



As noted previously, the Corporation has been able to increase rental rates during 2019 in local currency terms; however, this increase in rental rates is only sustainable if the economy continues to recover. The Corporation believes that the majority of its existing leases are roughly at market rates.

Publicly Traded Securities

As at December 31, 2019, the Corporation held long positions in 14 different publicly traded companies including warrants and options with a total value of approximately \$4,275,000. The Corporation had a short put option position in one publicly traded company with a total value of approximately \$23,300.

The Corporation realized losses of \$358,826 (2018 – gain \$995,716) from realized sales of public securities during the year and a foreign exchange gain of \$228,761 (2018 – loss of \$147,335). At year end, the Corporation had unrealized gains on public securities of \$454,824 (2018 – loss of \$608,297). 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.

During 2019, the Corporation primarily experienced realized and unrealized losses in its holdings of two energy related securities, a put spread on an automotive company and various index put option spreads. During 2019, the Corporation primarily experienced realized and unrealized gains in investments in the shipping sector. These gains and losses were offset by less material gains and losses on other investments, some of which were unrealized at year-end. The Corporation primarily adheres to an investment style strongly grounded on a valuation framework that would often be classified as “value investing.” Additionally, the Corporation seeks out “event-driven” opportunities when appropriate.

Over the past few years, value investing has been out of favor and many companies with low price to cash flow or low price to book value multiples have seen their share prices continue to decline. Management believes that this is primarily responsible for investment returns that have underwhelmed since the summer of 2018. Management cannot determine when undervalued stocks will again appreciate but intends to continue with its rigorous valuation-based investment strategy.

The Corporation’s public securities as of December 31, 2019 are broken out in the following sectors;

Long Portfolio	
Industry Sector	Percentage
Transportation & logistics	38.5%
Financials	25.5%
Natural gas	13.2%
Uranium	11.2%
Consumer services	9.6%
Metals and Mining	7.2%
Electrical equipment	6.3%
Options	2.9%
Other long equities	1.2%

Short Put Option Portfolio	
Industry Sector	Percentage
Options	-0.6%

As at December 31, 2019, the Corporation had borrowed \$586,325 using margin supplied by its broker, which is included in the Corporation’s total Marketable Securities Portfolio value. Management considers its equity positions to be liquid and as such, these margin borrowings were netted out of the Corporation’s marketable securities and not reflected in the Corporation’s cash on the balance sheet.

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

Subsequent to year end, due to declines in global market indexes, the Corporation’s portfolio has experienced a decline in value.

Section 3 – Results of Operations

Selected Annual Financial Information (CAD)

	Year ended 31-Dec- 2019	Year ended 31-Dec- 2018	Year ended 31-Dec- 2017
Total Revenue	1,140,830	1,471,649	1,772,242
Income			
Net income attributable to equity holders of the Corporation	(3,250,446)	1,557,343	(3,097,214)
Total Comprehensive income/ (loss) attributable to equity holders of the Corporation	(4,257,182)	1,416,968	(4,396,960)
Basic earnings per share ("EPS") (in CAD)			
Net income/ (loss)	(0.10)	0.05	(0.09)
Diluted EPS (in CAD)			
Net Income/ (loss)	(0.10)	0.05	(0.09)
Balance Sheet			
Total Assets	26,077,221	31,017,823	29,405,831
Total liabilities	1,407,393	1,970,518	1,649,251
Total Equity	24,669,828	29,047,305	27,756,580
Shares Outstanding at year end	32,767,499	33,243,999	33,696,599
Book Value per share	0.75	0.87	0.83

Revenue from Investment Properties

For the year end December 31, 2019, rental revenue from Investment Properties were \$1,287,353 versus \$1,384,840 in the prior year. The decrease year-over-year was attributable to a decrease in the local currency and fewer investment properties.

Gain/loss on sale of Investment Properties

For the year end December 31, 2019, the Corporation reported a net loss of \$302,959 on the sale of three investment properties versus a gain of \$38,592 in the prior year on the sale of three properties. The loss was due to a decrease in value of the properties throughout the year.

Revenue from Other Sources

Revenue from other sources consists of late fees and other income, principally the Corporation's brokerage business. For the year ending December 31, 2019, revenues from other sources totaled \$156,436 compared to \$48,217 for the year ending December 31, 2018. Revenues increased due to increased traction in the Corporation's brokerage business.

Income Taxes

The Corporation has subsidiaries in Mongolia that are subject to income taxes and, accordingly, has provided for current and deferred income taxes with respect to those subsidiaries.

Differences between IFRS and statutory taxation regulations in Mongolia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The deferred tax liability on the balance sheet decreased by \$155,606 during the year (Q4 2018 - \$235,067 increase) primarily due to sale of investment properties and an unrealized loss on the fair value of investment properties.

Fair Value Adjustment on Investment Properties

As elected under IFRS, the Corporation's investment portfolio is subsequently measured at fair value in the Corporation's financial statements. As of December 31, 2019, the Corporation had approximately 70% of its Investment Properties

Portfolio valued by an international valuation firm and the remaining 30% were valued by Management. For the year ended December 31, 2019, the fair value adjustment to investment properties was a loss of \$1,347,662 compared to a gain of \$1,892,577 for the same period in 2018. The Corporation currently has a standing agreement with the owner of a 42 sq. meter apartment leading it to be included in this property's land title. 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 has not yet been extended. The Corporation has incurred an unrealized fair value loss of \$1,436,256 (2018 - \$1,711,065) in excess of the fair value adjustment calculated by the international valuation firm and included a liability of \$131,438 (2018 - \$141,887) on the Corporation's balance sheet to reflect this liability. These adjustments are Management's estimate of the markets perception of the risk related to this agreement.

Unrealized public securities investment gain/loss

During the year, the Corporation had unrealized gains of \$454,824 (2018 - \$608,297 loss). This increase in value was primarily a result of appreciation in the value of various investments, particularly in the shipping sector.

Realized public securities investment gain/loss

During the year, the Corporation had a realized investment loss of \$358,826 compared to a realized investment gain of \$995,716 in 2018. This realized investment loss was primarily a result of the Corporation realizing losses on an investment in an energy producer, a put spread in the automobile sector and a put spread on index options, offset by other realized gains.

Share Repurchase

During the year, the Corporation repurchased 404,500 of its common shares under its Normal Course Issuer Bid (NCIB) at an average price of \$0.30 (2018-443,500, \$0.29 average). As at December 31, 2019, the Corporation held 35,000 shares in Treasury to be cancelled during the first quarter of 2020 (2018- 107,000).

Property Operating Expenses

Property Operating Expenses consist of repairs and maintenance, bad debts, utilities, salaries, as well as land and property taxes. For the year ending December 31, 2019, the property operating expenses were \$1,055,102 compared to \$860,376 during the same period in 2018, representing an increase of approximately 23%. This increase was primarily due to an increase in salaries and commissions paid in Mongolia.

Corporate Expenses

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

For the year ending December 31, 2019, general and administration expenses increased to \$1,067,158 from \$813,973 in 2018. This increase from the previous year is primarily attributed to commissions owed to a consulting Company not affiliated with senior management employees as well as investment research expenses incurred for managing the Corporation's marketable securities portfolio.

Currency

The Mongolian Tögrög has fluctuated significantly over the past five years. The Mongolian Tögrög has depreciated 6.8%, 5.1%, 11.5% and 5.3% in 2011, 2012, 2013 and 2014 respectively versus the Canadian Dollar while appreciating 11.4% in 2015 and depreciating 28.5% in 2016, a further 4.3% in 2017, 0.7% in 2018 and 8% in 2019. The fluctuation in the currency is reflected in the Corporation's financial statements, most notably in the investment property portfolio, as it is the largest item on the balance sheet. Note 8 in the financial statements discloses the foreign exchange adjustment, which flows through the investment property classification during each period. As at December 31, 2019, the Corporation recognized a foreign exchange adjustment loss of \$1,760,121 (2018 - loss of \$150,835) to its investment property portfolio due to the 8% depreciation of the local currency during the year.

Operating Profit (Loss)

Overall, the Corporation reported an Operating profit or an Adjusted EBITDA loss of \$929,972 during 2019 (2018 – loss of \$523,313). The decrease in EBITDA over the previous year was due to lower revenues and an increase in expenses compared to the previous year.

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

	2019	2018
	\$	\$
Net Income before Income taxes	(3,315,654)	1,815,069
Add Depreciation and Amortization	73,294	77,361
Add/Subtract Interest and Investment Income/gains / Finance Expense	(18,793)	(324,646)
EBITDA	(3,261,153)	1,567,784
Subtract Fair Value Adjustment Gain (Add back loss) on all properties including impairments on PPE and Other Assets	1,506,317	(2,091,097)
Add back reclassification of accumulated other comprehensive income on disposal of subsidiary	824,864	-
Total Adjusted EBITDA	(929,972)	(523,313)

Net Income

For the year ended December 31, 2019, the Corporation experienced a net loss of \$3,250,446 compared to a net income of \$1,557,343 for the year ended December 31, 2018. This difference is primarily attributed to the substantial unrealized loss on fair value adjustment on investment properties of \$1,347,662 during the year (2018 – gain of \$1,892,577), a reclassification of accumulated other comprehensive income on the disposal of a subsidiary (2018 – nil) as well as realized losses on marketable securities of \$358,826 (2018 - \$995,716 gain).

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 profitability.

Section 4 - Financial Condition

Cash Flow

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

The following table provides an overview of the Corporation's cash flows from operating, financing and investing activities for the year ended December 31, 2019 and 2018.

	31-Dec-19	For the year ending 31-Dec-18
	\$	\$
Net change in cash related to:		
Operating	(502,836)	(611,744)
Investing	1,487,827	(363,517)
Financing	(801,197)	(126,243)
Effects of exchange rates on cash	(191,950)	206,144
Net change in cash during the period	(8,156)	(895,360)

Overall, the Corporation had cash outflows of \$8,156 during 2019 compared to cash outflows of \$895,360 in 2018. The Corporation had significant cash inflows from Investing offset by outflows from Operating and Financing. The changes in components of cash flows for the year ended December 31, 2019, compared to the year ended December 31, 2018, were the result of the following factors:

- **Operating**—The Corporation experienced a moderate decrease in Operating cash outflows for the year ended 2019 versus outflows for the year ended 2018 due to an increase in non-cash working capital balances.
- **Investing**—The Corporation experienced significant Investing cash inflows for the year ended 2019 due to net sales of marketable securities and by the disposal of investment properties. In comparison, 2018 saw a net purchase of marketable securities offset by a net disposal of investment properties.
- **Financing**—Financing cash outflow occurred due to the repayment of the Corporation's bank loan combined with the repurchase of 404,500 shares during the year versus 443,500 shares during the 2018 year.

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 December 31, 2019, the Corporation had approximately \$737,255 (2018 - \$745,411) in cash and cash equivalents as well as \$3,689,304 in marketable securities, which it considers to be liquid and available to be sold at any time should the Corporation require cash. Due to the expectation that the Corporation's cash position will worsen in future quarters, the Corporation is focused on increasing liquidity and cash reserves in Canada through asset sales.

Total Assets

As of December 31, 2019, the Corporation had \$5,809,586 (2018 - \$4,809,169) in current assets out of which \$737,255 (2018 - \$745,411) was held in cash. The increase in current assets is due to an increase in accounts receivable (other assets) for the sale of a property that took place at the end of the year.

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 during the year to \$18,831,985 (2018 - \$24,415,860) due to a reduction in the number of properties as well as a significant unrealized loss on fair value adjustment.

Property and Equipment, which primarily consists of properties that are measured at their cost base, decreased from \$1,792,794 in 2018 to \$1,435,650 in 2019 primarily due to an impairment on the Corporation's headquarters in line with the unrealized loss on fair value adjustment of its Investment Properties.

Total Liabilities

As of December 31, 2019, the Corporation had current liabilities of \$825,506 (2018 - \$1,233,025) consisting primarily of payables and accrued liabilities. The decrease was due to the Corporation's loan which was classified as short term debt at the end of 2018 and repaid in December 2019.

As of December 31, 2019, the only non-current liability on the balance sheet are deferred income taxes of \$581,887 (Q4 2018-\$737,493).

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

Total Equity

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

Outstanding	31-Dec 19	31-Dec-18
Common shares	32,767,499*	33,243,999*
Options to buy common shares	1,420,000	3,103,000

* As at December 31, 2019, the Corporation held 35,000 of the common shares outstanding in Treasury to be cancelled during the first quarter of 2020 (2018-107,000).

* As of April 7, 2020, the Corporation had 32,398,499 shares outstanding, no shares held in treasury, and no options outstanding.

Options Outstanding

At December 31, 2019, the Corporation had 1,420,000 options that were exercisable (December 31, 2018; 3,103,000).

The chart below shows the historical option grants and options outstanding as of December 31, 2019.

Option Price	Granted	Expired	Forfeited	Cancelled	Exercised	Total Options Outstanding	Total Exercisable	Non exercisable
1.64	100,000	-	-	-	100,000	-	-	-
1.75	300,000	50,000	-	-	250,000	-	-	-
1.9	1,363,000	1,078,000	85,000	-	200,000	-	-	-
4.2	900,000	205,000	408,000	287,000	-	-	-	-
4.77	175,000	20,000	100,000	55,000	-	-	-	-
4.25	150,000	5,000	50,000	95,000	-	-	-	-
4.0	190,000	-	-	190,000	-	-	-	-
4.13	475,000	125,000	75,000	275,000	-	-	-	-
1.09	375,000	300,000	75,000	-	-	-	-	-
0.72	935,000	-	80,000	-	-	855,000	855,000	-
0.74	640,000	-	75,000	-	-	565,000	565,000	-
0.38	350,000	280,000	70,000	-	-	-	-	-
Total	5,953,000	2,063,000	1,018,000	902,000	550,000	1,420,000	1,420,000	-

Acquisitions and Dispositions

During the year ended December 31, 2019, the Company sold three investment properties for proceeds with a value of \$2,221,346 resulting in a net loss of \$302,959 on these transactions. One of these properties was disposed of through its interest in its Endymion LLC (note 21). The proceeds received consisted of \$2,029,937 in cash, and \$191,409 in investment properties, of which \$1,145,568 and \$143,196 respectively are classified within accounts receivable at December 31, 2019 (note 7).

In comparison, during the year ended December 31, 2018, three investment properties were sold for cash consideration of \$547,955 resulting in net gain of \$38,592 on these transactions.

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 and executive management. The summary of compensation for key management personnel is as follows:

Related Party Transactions	2019 \$	2018 \$
Salaries and other short-term benefits to officers	481,213	340,439
Director fees	40,000	40,000
Share-based payments to directors and officers	-	-
	521,213	380,439

As at December 31, 2019, amounts due to related parties totaled approximately \$48,118, comprised of accrued directors fees and fees owed to management (2018 - \$57,000) were included in trade payables and accrued liabilities. An amount of \$20,867 is owed to the Company by a company controlled by the CEO.

Off-Balance Sheet Items

As of December 31, 2019, the Corporation had no off-balance sheet items.

Events Subsequent to Year End

- Since January 1, 2020, the Corporation has repurchased 334,000 of its shares at an average price of \$0.22/share and cancelled 369,000 shares.
- The Corporation sold 2 properties for proceeds of approximately \$413,000 and a net gain of \$nil
- The Corporation partially suspended operations at its headquarters and reduced its agency brokerage operation in order to reduce the potential for the spread of COVID-19. Additionally, numerous tenants have been unable to pay contracted rents. The Corporation is actively working with tenants during this difficult environment but does not believe that it will be able to collect a material percentage of rent that was due in the first quarter. The Corporation is unable to determine future collection rates. 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 and/or marketable securities, 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.
- As disclosed in the Corporation's March 16, 2020 press release, the Corporation announced that the TSX Venture Exchange (the "Exchange") had accepted a Notice of Intention to renew its normal course issuer bid to purchase outstanding common shares of the Corporation on the open market in accordance with the policies of the TSXV.

Securities Sought

Up to 2,500,000 common shares, representing up to approximately 7.7% of the 32,569,499 Common Shares as of March 16th, 2020, of the Issuer currently issued and outstanding, or approximately 9.9% of the 25,292,549 common shares constituting the Issuer's current Public Float (as defined in the Policies of the Exchange).

Duration

The Issuer intends to commence purchasing its common shares under the Normal Course Issuer Bid three clear trading days following acceptance of the same by the TSX Venture Exchange (the "Exchange") The Normal Course Issuer Bid will terminate on the date that is one year from the date on which purchases commence.

Method of Acquisition

Purchases will be affected through the facilities of the Exchange. Purchase and payment for the common shares of the Issuer will be made by the Issuer in accordance with Exchange requirements.

Member and Broker

The Normal Course Issuer Bid will be conducted by M Partners Inc. of 70 York Street, Suite 1560, Toronto ON M5J 1S9; Phone: (416) 603-7381.

Consideration Offered

Purchases of common shares under the Normal Course Issuer Bid will be conducted at applicable Market Prices in accordance with Exchange requirements. Completion of purchases under the bid will be subject to the Issuer having sufficient funds to acquire the common shares and continue to meet its working capital requirements throughout the course of the bid. The Issuer may in the normal course of its business operations, subject to market conditions, sell one or more of its investment properties to fund acquisitions throughout the course of the bid.

Reasons for the Normal Course Issuer Bid

The Issuer is undertaking the bid because, in the opinion of its board of directors, the market price of its common shares, from time to time, may not fully reflect the underlying value of its operations and future growth prospects. The Issuer believes that in such circumstances, the purchase of the common shares of the Issuer may represent an appropriate and desirable use of the Issuer's funds and further enhance market stability.

Persons Acting Jointly or in Concert with the Issuer

No person is acting jointly and in concert with the Corporation in connection with the Bid.

Valuation

After making reasonable enquiry, the Issuer is not aware of any appraisal or valuation of the Issuer's securities that has been prepared within the preceding two years.

In connection with the preparation of its audited financial statements for the financial year ending December 31, 2019, the Issuer engaged CBRE Limited, an arm's length property valuator, to prepare the following independent valuation reports (the "**Valuation**") in respect of the Issuer's Mongolian real estate investment assets:

- report entitled "*Retail Valuation Report – Ulaanbaatar, Mongolia*", dated March 13, 2018, which ascribed a value of 591,000,000 MNT (Mongolian Togrogs) to the Issuer's material retail real estate investment assets as at December 31, 2018;
- report entitled "*Land Valuation Report – Ulaanbaatar, Mongolia*", dated March 13, 2018, which ascribed a value of 30,070,000,000 MNT (Mongolian Togrogs) to the Issuer's material land investment assets as at December 31, 2018;
- report entitled "*Office Valuation Report – Ulaanbaatar, Mongolia*", dated March 13, 2018, which ascribed an aggregate value of 3,344,000,000 MNT (Mongolian Togrogs) to the Issuer's material office real estate investment assets as at December 31, 2018

The Valuations were prepared for internal accounting purposes and the Issuer does not have permission to share the Valuations externally.

Previous Purchases

The Issuer has purchased 665,000 of its common shares at an average price of \$0.25 within the past 12 months.

Acceptance by Insiders, Affiliates and Associates

To the knowledge of the Issuer, no director, senior officer or other Insider of the Issuer or any associate or affiliate of the Issuer or any insider of the Issuer currently intends to sell common shares under the Normal Course Issuer Bid. However, such sales by persons through the facilities of the Exchange may occur if the personal circumstances of such persons change or any such person makes a decision to sell shares as market circumstances may warrant. The benefits to any such person whose shares are purchased under the bid would be the same as the benefits available to all other holders of the Issuer's common shares whose shares are purchased under the bid.

Section 5 - Quarterly Information

Quarterly Results

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

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue	30,194	377,605	372,167	360,864	367,916	389,934	357,051	356,748
Net income (loss)	(3,013,557)	(679,160)	178,237	264,034	(577,451)	2,279,078	128,671	(272,955)
Income (loss) per common share	(0.10)	(0.02)	0.01	0.01	(0.02)	0.08	0.00	(0.01)
Total Assets	26,077,221	31,942,398	30,121,056	30,969,616	31,017,823	31,844,685	30,111,915	30,142,591
Weighted Average Shares (No.)	32,989,169	33,049,028	33,104,645	33,113,966	33,352,911	33,412,466	33,464,179	33,530,605
Ending Shares (No.)	32,767,499	32,891,499	32,954,499	33,136,999	33,243,999	33,379,499	33,379,499	33,476,999

Revenue

During the fourth quarter, the Corporation's real estate subsidiary earned total revenue of \$30,194 (Q4 2018 - \$367,916) of which rental income earned was \$301,771 (Q4 2018 - \$338,500). This rental income decrease is attributed to lower rental rates as well as fewer investment properties. The quarterly revenue number also includes other revenue earned from miscellaneous sources such as late fees, advertising and from the sale of investment properties. During the fourth quarter, the Corporation experienced a loss on the sale of investment properties of \$302,959 (2018 – gain of \$10,110), which negatively affected the Corporation's revenue.

During the 4th quarter of 2019, the Corporation also incurred an unrealized loss on fair value adjustment on investment properties and impairment of PP&E of \$1,506,317 compared to an unrealized gain on fair value adjustment of \$855,161 during Q4 2018.

Expenses

Quarterly expenses related to corporate operations totaled \$438,214 (Q4 2018 - \$193,871). This increase was due to commissions owed to a consulting Company not affiliated with senior management employees.

Net Income

During the quarter, the Corporation experienced a loss of \$3,013,557 in comparison to a loss of \$577,451 in the same quarter of the previous year. This difference is mainly attributed to the significant fair value adjustment loss recorded during the fourth quarter of 2019 compared to a fair value adjustment gain recorded during the fourth quarter of 2018.

Section 6 – Significant Accounting Estimates and Judgements

Significant 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 effect of a change in an accounting estimate is recognized prospectively by including it in net income (loss) in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

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

Fair value of investment properties

Fair value of investment properties - The estimate of fair value of investment properties is the most critical accounting estimate to the Company. An external appraiser estimates the fair value of the majority of investment properties by dollar value annually.

The remaining balance of investment properties was valued internally. 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. This fair value assumes that the Company is in possession of the property's land and property titles where applicable. Management judges that the Company has the appropriate titles for each of the properties classified as Investment Properties. Properties whereby Management judges that the Company's titles are at risk, have been impaired to reflect the level of risk estimated by Management.

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.

From 2016 to 2019, the Corporation has had difficulty in converting Mongolian Tögrög to U.S. Dollars at large Mongolian banks. This difficulty has persisted in subsequent periods, but to a lesser degree. There can be no certainty regarding the ability to convert or wire money from Mongolia in the future.

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

Due to the economic crisis, businesses are increasingly paying for transactions using various forms of barter such as used equipment, apartments, vehicles, future services and livestock. To date, the Corporation has only agreed to receive barter items in extreme circumstances and has a strong preference to avoid using barter in transactions. As the economic crisis worsens, barter transactions may 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.

Beginning in February of 2020, the Government of Mongolia undertook extra-ordinary actions in order 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.

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. Management 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.

Valuation of Marketable Securities

The Company recognizes marketable securities at fair value. Fair value is determined on the basis of market prices from independent sources, if available. If there is no market price, then the fair value is determined by using valuation models with inputs derived from observable market data where possible but where observable data is not available, judgement is required to establish fair values.

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. Management 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 December 31, 2019 and 2018, Management has made the judgment that none of the Corporation'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 size 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 December 31, 2019 and 2018, Management has made the judgment that Investment Properties whereby the land title has recently expired but is expected to be renewed in the near future should continue to be classified as Investment Properties. Properties whereby 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 year, 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, starting in early July, the Corporation has had difficulty in converting Mongolian Tögrög into U.S. Dollars. If banks are unwilling or unable to give the Corporation access to its U.S. Dollar deposits, the Corporation could experience severe liquidity issues.

The Corporation is exposed to credit risk as an owner of real estate in which tenants may become unable to pay contracted rents. The Corporation mitigates this risk by carrying out due diligence on significant tenants. The Corporation's properties are diversified across residential and commercial classes. Historically, bad debts have not been a substantial expense for the Corporation. Recently, the Corporation has experienced an increase in late rental payments. The Corporation believes that it will collect all of this debt, but there is no certainty that this will occur.

Liquidity Risk

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 December 31, 2019.

As at December 31, 2019, the Corporation had working capital of \$4,984,080 (2018- \$3,576,144) comprised of cash and cash equivalents, other assets, net of trade and accrued liabilities and income taxes payable. 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, the Corporation 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. The Corporation 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. All of the Corporation's 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 volatility may continue for the foreseeable future.

Economic Volatility and Uncertainty

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

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

Preliminary growth estimates according to the National Statistics Office for 2019 2019 was 5.1% year-over-year, while inflation estimates were 5.2% according to Mongol Bank. Management cautions investors that official economic numbers often deviate materially from actual underlying economic conditions. Additionally, the Corporation is not able to accurately predict the ultimate impact of COVID-19 on the economy of Mongolia.

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

Risks and Uncertainties

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

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

Financial Instruments

The Corporation's financial instruments consist of cash and cash equivalents, investments and marketable securities, accounts receivable and trade and accrued payables. The Corporation is subject to interest risk as it earns interest income from its cash deposits. It is Management's opinion that the Corporation is not exposed to significant credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values. Management believes that there are material currency risks associated to certain Financial Instruments of the Corporation as they are held in Mongolian Tögrög. For further discussion of financial instrument risks, see the Insurance and Financial Risk Management note (Note 15 on December 31, 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 \$131,438 is currently included in the Corporation's balance sheet to reflect this liability. In addition, the Corporation has recognized a \$1,436,256 (2018 - \$1,711,065) unrealized fair value loss on this property in excess of the fair value adjustment calculated using the valuation approaches described. 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. The Corporation cautions investors that should it lose this property, it would result in a material reduction in the Corporation's overall assets and fair value (4.3 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.

Changes in accounting policies including initial adoption

The following accounting policies were adopted during the year ended December 31, 2019:

IFRS 16 – Leases

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

IFRS 16 replaces IAS 17 Leases and related interpretations. The core principle is that a lessee recognize assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The new standard is intended to provide a faithful representation of leasing transactions, in particular those that do not currently require the lessees to recognize an asset and liability arising from an operating lease. IFRS 16 is effective for annual periods beginning on January 1, 2019.

To prepare for this standard the Company reviewed its existing agreements to determine whether the accounting for any leases would be impacted from adopting IFRS 16. The Company is primarily party to agreements in which it is the lessor, for which the accounting has remained substantially unchanged. The agreements to which the Company is a lessee relate to Mongolian government land leases, however the lease payments are nominal and did not qualify for recognition. There was no impact on the Company's consolidated financial statements from the adoption of IFRS 16.

IFRIC 23 - Uncertainty over Income Tax Treatments

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

The Corporation is not aware of any upcoming standards or policy changes expected to have a material impact on its financial statements.

Additional Information

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