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Mongolia Growth Group Ltd.

Mongolia Growth Group Ltd. Mongolia Growth Group Ltd. (MGG) is a leading publicly traded property investment company in Ulaanbaatar, Mongolia.

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 MGG undertakes its own property acquisitions and repositions outdated properties, relying on in-house services for all facets of both the investment portfolio and development side of the business.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



Harris Kupperman
CEO and Chairman of the Board

Letter to Shareholders

Dear Shareholders,

2020 was a difficult year for most businesses and ours was not spared. Between COVID-19 and repeated rounds of lock-downs, many of our tenants saw their businesses suffer. This was then compounded by travel restrictions and a declining economy. As a property company, we are only as successful as our tenants and when our tenants' businesses cannot operate, we are unable to charge the rent we are owed. Additionally, as the economy went into lock-down, our 3rd party sales and leasing business effectively ground to a halt—which is particularly frustrating as we were gaining real traction there.

Fortunately, we now have nine years of experience operating this business despite a never-ending series of economic crises. COVID-19 in many ways was just an average Tuesday at our company and our staff reacted intelligently and professionally in dealing with tenants who would have liked to have paid rent, yet couldn't due to the inability to operate their businesses. We offered various discounts to tenants and believe we have retained the majority of tenants assuming that things return to normal in the near future. Unfortunately, we have zero visibility into how long this COVID-19 crisis will last and when or even if business operations will return to normal. As a result, our focus remains on reducing costs in Mongolia and extending the runway on our liquidity situation as a result of our currently elevated burn rate.

During 2020 we reported \$756,283 of rental revenue and \$68,170 of other revenue, offset by \$860,936 of property operating expenses in Mongolia. For the first time in our Corporation's history, Mongolia produced negative cash flow (defined as total revenue minus property operating expenses), whereas previously, Mongolia partly offset negative cash flow at the corporate level. As I noted above, we have zero visibility into when or if this will change. As a result, we'll continue to soldier on under impossible circumstances—with the view that it often comes out even worse than our wildest expectations in Mongolia. Unfortunately, due to the economic situation in Mongolia, we experienced a \$2,700,069 fair value impairment to the portfolio and an additional \$36,426 fair value impairment to our headquarters building which

we classify as Property & Equipment. During the year, we sold 3 assets for \$690,134 and a gain on sale of \$106,762.

As our property revenues are largely out of our control, let's discuss what we're doing to diversify this business. Despite repeated efforts, to date, we have yet to find a business in North America that we can acquire. This inability is a combination of prudence on our side in terms of purchase price and a view that public market securities offer dramatically cheaper valuations along with immediate liquidity should we find an ideal acquisition. We remain focused on finding a business, but until valuations are reasonable, we will not purchase something just to keep ourselves busy. Instead, we have focused the past half year on building out a data-analytics service which tracks various Event-Driven strategies called KEDM. To learn more, subscribe at <http://www.KEDM.COM>

For the past few months, KEDM has been in an extended Beta test as we continue to onboard various data sets and respond to reader feedback which improves our data quality. To date, the reception to the free trial has dramatically exceeded our expectations, both in terms of total number of users and engagement. That said, we will not know the future revenue possibility of this service until we initiate a paywall and see what our conversion rate looks like—which will likely occur during the second quarter. Assuming that the uptake is acceptable, our plan is to reinvest a healthy percentage of the revenue in new hires in order to continue to build out additional data sets and improve KEDM. While it is far too early to say if this business will be profitable, it clearly has found an unmet demand amongst active investors and traders. My sincere hope is that it will generate enough cash flow to offset our corporate overhead, even after that overhead expands due to the increased needs of KEDM. That said, I do not believe that KEDM will ever really move the needle in terms of our overall business and should be seen as a way to hopefully reduce our burn rate while we seek out a business to launch or acquire.

Previously, the largest impediments to any diversification of our business were our burn rate and lack of liquidity.

I am hopeful that KEDM solves for the former and our public security holdings appear to slowly be solving for the latter. Our securities portfolio produced a \$4,265,403 unrealized gain and a \$3,288,803 realized gain. This is primarily the result of well-timed security purchases during the depths of the COVID-19 crisis along with the utilization of various Event-Driven strategies. Additionally, the portfolio's value has continued to increase since the end of the year. 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.

Starting with this annual letter, we will be giving additional details on any portfolio position that comprises more than 10% of our securities portfolio. At year-end, the portfolio's largest exposures were an entity that owns Bitcoin, a large landowner in Florida, a natural gas producer, a transporter of propane and a company tied to housing and construction. While our public securities investments have helped offset operating losses during 2020, there are legal and tax reasons why it is inadvisable to grow this portfolio beyond a certain point. Instead, we see public securities as a highly liquid alternative to owning cash as we seek out an operating business to launch or acquire in North America. Additionally, my expectation is that 2020 is an outlier in terms of what you should expect in terms of our public securities portfolio's performance—results are unlikely to be this good in future periods.

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

Returning to our overall business, while we remain optimistic about Mongolia's long-term future, we are realistic about our own company's predicament. Our property business is subscale and we expect that when combined with our corporate overhead, MGG will likely produce operating losses (excluding potential gains from our public securities portfolio) for the foreseeable future. As a result, we remain focused on selling non-core property assets (particularly in office and re-development) so that we can diversify the business, while keeping our core portfolio and management team so that we can pivot back to Mongolia when the economy returns

to attractive growth rates. I remain convinced that our team in Mongolia is our most valuable asset as it gives us the optionality to move rapidly should the economy ever stabilize. I hope that one day we will be able to prove that value to shareholders.

Finally, I remain of the opinion that our shares are undervalued. During 2020, the Company re-purchased 1,642,500 shares under our Normal Course Issuer Bid at a cost of \$339,688.

Sincerely,



Harris Kupperman

CEO and Chairman of the Board

MONGOLIA GROWTH GROUP LTD.

Management Discussion & Analysis December 31, 2020

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, 2020 (the “MD&A”), compared with the year ended December 31, 2019. 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 5, 2021 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, 2020 and December 31, 2019 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

Financial and Operational Overview

During 2020, the Corporation continued to focus on ensuring that occupancy remained high and outstanding rents were collected, despite the prevailing economic weakness.

The Corporation's rental revenue was down significantly when compared to 2019. While the Corporation managed to maintain a high occupancy rate, with 90.6% office and 100.0% retail occupancy rates, it had to offer significant discounts to tenants affected by closures due to Covid-19 heavily affecting revenue.

During the year, the Company sold three properties for cash consideration of \$690,134 and a net gain of \$106,762 (2019-\$302,959 loss). It is anticipated that the Corporation will continue to dispose of properties in future quarters in order to fund future working capital needs, the Normal Course Issuer Bid (NCIB) program, along with funding the start-up costs or capital cost of the acquisition of a business outside of Mongolia.

During the year, the Mongolian Tögrög decreased versus the Canadian dollar from 2,095 MNT/CAD on December 31, 2019 to 2,235 on December 31, 2020; a 6.7% decrease during the year. This depreciation led to a \$1,108,206 comprehensive unrealized loss (2019-\$1,831,600 loss) during the year.

Economic Overview

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

Despite official statistics that tended to show moderate economic growth, the Corporation is of the opinion that the economy 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.

Beginning in February of 2020, the Government of Mongolia undertook extra-ordinary actions to limit the spread of Covid-19. These actions included closing borders, closing schools, reducing gatherings and drastic limitations on business operations including the Corporation's operations. 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. Additionally, there is a question as to the duration of these efforts and if this will be a continued endeavour. Until the economy re-opens, the Corporation anticipates substantial declines in rental revenues against a fixed cost structure in Mongolia and at the corporate level. This is likely to lead to an elevated level of operating losses for the Corporation.

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

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

Management believes that the current economic crisis is the result of policies that have discouraged Foreign Direct Investment ("FDI") along with Covid-19. When the government takes the appropriate steps to stimulate FDI, it is expected that the economy can return to sustainable economic growth. Management remains a believer in the long-term growth potential of Mongolia.

Property Overview

During the boom years at the beginning of this decade, multiple sizable property developments were initiated. Despite an economic crisis that began in 2014, many of these developments were ultimately completed, while new projects have continually been initiated despite weak demand for these properties. There also remains a sizable shadow inventory of partially completed projects that may re-commence development at any time.

Despite substantial new supply over the past few years, before the economy was impacted by Covid-19, well-placed office and retail space in the city center was beginning to get absorbed with rental rates starting to increase. However, there is concern that stalled projects will enter the market during a period of weak demand and banks may be forced to liquidate distressed property

assets due to the IMF bailout. Management continues to monitor and evaluate the ultimate impact of Covid-19 on property prices and the Mongolian economy. While there have been very limited transactions since the onset of Covid-19, Management is of the opinion that property prices have declined as a result of the impacts of the global pandemic and the weakening Mongolian economy. As a result, during 2020, the Corporation recorded a Fair Value impairment to the carrying value of its portfolio and an impairment to its headquarters building's carrying value, which is accounted for as Property & Equipment.

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

Section 2 - Executing the Strategy

Core Business

During the past nine years, Management and employees have worked hard to build up the infrastructure needed to manage MGG's institutional property platform. This platform is unique in Mongolia and is one of the only platforms capable of managing assets through the full cycle of ownership from acquisition through disposition and includes dedicated departments that manage maintenance, leasing, marketing and tenant management. Management believes it has a strong team in place to manage the business on an ongoing basis.

Due to MGG's unique platform, the Corporation has added third party leasing and property management to its focus, in order to leverage its existing resources. Management believes that it has excess capacity to handle these functions and has seen a sizable increase in interest in using its brokerage operation as awareness spreads in the Ulaanbaatar market. The Corporation intends to aggressively target this brokerage opportunity through its website at www.MGGproperties.com.

The Corporation has continued to have occupancy levels that are in excess of current market conditions and it credits its leasing and property management teams with this success. Additionally, bad debt expense has remained below expectations; however, the Corporation has had to issue significant discounts to tenants most affected by the current pandemic. The Corporation is unsure as to when or if these discounts can be rolled back as there has been substantial variability in total discounts issued as the year progressed.

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 of Mongolia, in order to diversify its business and is considering adopting a Merchant Bank model. Since 2017, the Corporation spent substantial time evaluating a number of businesses, but has not decided to move forward on any acquisition. Additionally, the Corporation has incubated a financial data product known as KEDM.COM since the summer of 2020 and assuming that there is demand, it intends to commercialize this product during the second quarter of 2021. While KEDM.COM is not anticipated to materially impact overall revenues, it is indicative of the direction that the Corporation is headed as it diversifies its sources of revenue. In the meantime, the Corporation has invested its excess capital in certain publicly traded securities. The Corporation believes that over time, it will continue to dispose of property assets in order to fund potential future investments outside Mongolia. The Corporation may be forced to take on additional borrowings or issue equity in order to finance these future investments.

The Corporation anticipates that revenues and EBITDA will decline in future quarters as properties are sold to fund working capital needs, investments and future potential business acquisitions. Additionally, Management anticipates an increase in operating expenses in future quarters, primarily as a result of an increase in payroll along with due diligence expenses related to potential acquisitions outside of Mongolia along with potential start-up expenses related to any businesses started internally. Management expects to finance losses with additional property sales, borrowings, and potentially dilutive equity offerings.

Portfolio

Mongolia Growth Group's properties are located in the Downtown and the Central Business District of Ulaanbaatar. Within the financial statements, MGG classifies properties in each of the following categories; Investment Properties, Property and Equipment, and Other Assets. 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, 2020:

		2020		2019
	# of Properties	Value at 31-December-2020	# of Properties	Value at 31-December-2019
		\$CDN		\$CDN
Office	2	896,266	1	1,033,875
Retail	14	9,415,983	17	12,307,380
Land and Redevelopment	2	4,229,987	2	5,490,730
Total	18	14,542,236	20	18,831,985

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, 2020:

	2020		2019	
	# of Properties	Value at 31-December-2020 \$CDN	# of Properties	Value at 31-December-2019 \$CDN
Office	1	1,265,587	1	1,389,068
Retail	-	-	-	-
Land and Redevelopment	-	-	-	-
Total	1	1,265,587	1	1,389,068

Occupancy Rates

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

	31 –December- 2020	31 –December- 2019	31 –December- 2018
	Occupancy Rate*	Occupancy Rate*	Occupancy Rate*
Office	96.6%	96.9%	94.9%
Retail	100.0%	100.0%	100.0%
Weighted Average**	97.0%	98.8%	98.1%

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

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

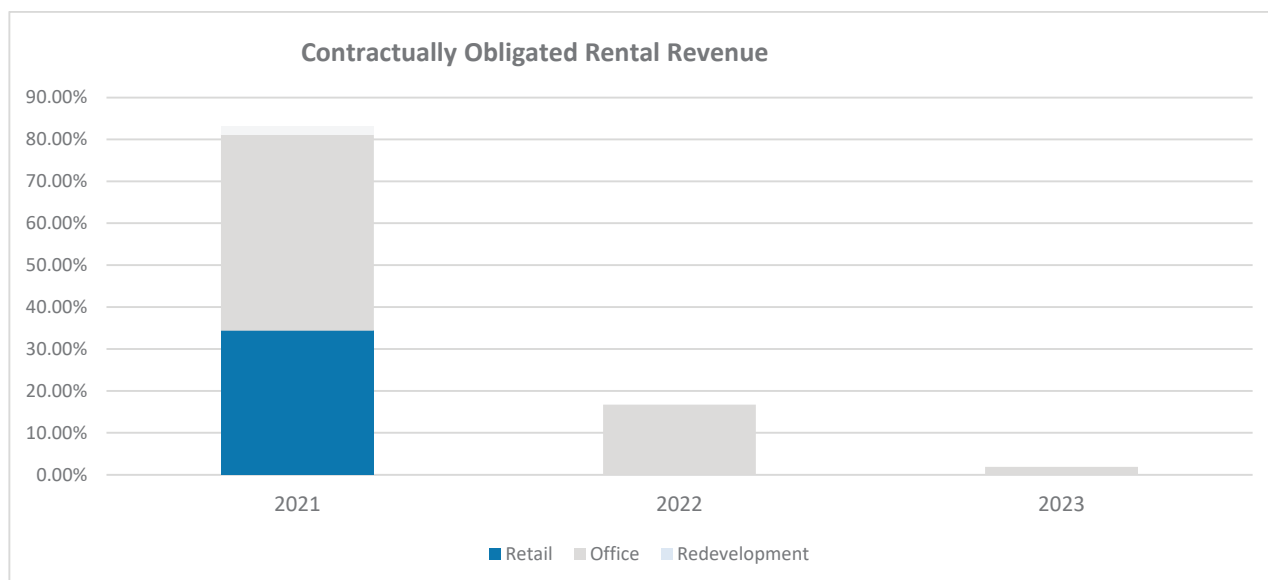
Demand for retail space has remained strong, despite a challenging economy. Occupancy levels for the Corporation's office space continues to be strong even while vacancy levels throughout the city have remained high as additional supply has entered the market. The Corporation's Tuguldur Center has been impacted by the closure of numerous schools that are nearby and a resulting lower level of foot traffic, leading to reduced occupancy that has fluctuated during the year. The Corporation has offered numerous tenant discounts in order to retain stable tenants. It is too soon to determine the ultimate impact of Covid-19 on Tuguldur Center and when or if rental rates can return to prior levels.

Leasing Schedule

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

A summary of the Corporation's lease signings by asset class is presented in the chart below (while these are contracted rates, it is anticipated that many tenants will pay reduced cash rates until the economic crisis concludes):

Most Recent Lease Signings						
Lease Type	Lease Renewal Date	SqM	Old Price Per Meter (Mongolian Tögrög)	New Price Per Meter (Mongolian Tögrög)	Percent Increase (decrease)	
Office Lease	Oct-20	33	35,000	30,000	-14.3%	
Office Lease	Oct-20	31	35,000	35,000	0.0%	
Office Lease	Oct-20	24	35,000	35,000	0.0%	
Retail Lease	Oct-20	90	25,666	29,333	14.3%	
Office Lease	Oct-20	70	42,000	42,000	0.0%	
Office Lease	Oct-20	22	25,000	25,000	0.0%	
Office Lease	Nov-20	183	30,000	30,000	0.0%	
Retail Lease	Nov-20	360	27,777	27,777	0.0%	
Office Lease	Nov-20	90	25,000	25,000	0.0%	
Retail Lease	Dec-20	113	17,699	17,699	0.0%	
Retail Lease	Dec-20	201	35,486	35,486	0.0%	



The weighted average remaining lease length, calculated as a percentage of monthly revenues, increased slightly during the year to 9.2 months in December 2020 compared to 8.1 months in December 2019.

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

Publicly Traded Securities

The Corporation has invested a portion of its excess capital in marketable securities. As at December 31, 2020, the Corporation held long positions in multiple different publicly traded companies. The value of marketable securities owned was \$10,613,444 and securities sold short was \$39,223.

The year saw a recovery in the value of the Corporation’s publicly traded securities holdings when compared to 2019. During the year, the Corporation realized gains of \$3,288,803 (2019- loss of \$358,826) from sales of public securities during the year, experienced unrealized gains of \$4,265,403 (2019 –\$454,824) and a foreign exchange loss of \$45,722 (2019 – gain of \$228,761).

At the end of the year, positions that were in excess of 10% of the portfolio included shares of companies and securities with exposure to crypto currency (Grayscale Bitcoin Trust – 91,436 shares) and real estate (St Joe Company – 56,162 shares).

The Corporation anticipates that its public security portfolio will experience volatility beyond the normal volatility of its property portfolio and the timing of gains and losses will be unpredictable.

The Corporation’s public securities weightings as of December 31, 2020 are broken out in the following sectors;

Long Portfolio	
Industry Sector	Percentage
Crypto currency	32.2%
Real Estate	26.2%
Natural gas	6.4%
Transportation & logistics	6.2%
Financials	5.8%
Consumer services	5.1%
Utilities	3.4%
Metals and mining	3.2%
Other long equities	3.2%
Short Put Option Portfolio	
Industry Sector	Percentage
Options	-0.3%

Management considers its marketable securities holdings to be fairly liquid and can be sold should the Corporation need to increase its cash position, launch a new business or find an attractive acquisition. For tax and regulatory reasons, the Corporation does not intend for its public securities portfolio to ever represent a majority of the total assets. Since the end of the year, the value of the public securities portfolio has appreciated considerably. As of March 31, 2021, the portfolio had a value in excess of \$17,000,000. In addition, during the first 2 months of 2021, the Corporation withdrew \$525,000 of cash from the investment account to fund working capital needs and the Corporation’s NCIB program.

Section 3 – Results of Operations

Selected Annual Financial Information (CAD)

	Year ended 31-Dec- 2020	Year ended 31-Dec- 2019	Year ended 31-Dec- 2018
Revenue and other income	931,215	1,140,830	1,471,649
Income			
Net income (loss) attributable to equity holders of the Corporation	3,727,544	(3,250,446)	1,557,343
Total Comprehensive income/ (loss) attributable to equity holders of the Corporation	2,516,287	(4,257,182)	1,416,968
Basic earnings per share ("EPS") (in CAD)			
Net income/ (loss)	0.12	(0.10)	0.05
Diluted EPS (in CAD)			
Net Income/ (loss)	0.12	(0.10)	0.05
Balance Sheet			
Total assets	27,970,421	26,077,221	31,017,823
Total liabilities	1,123,994	1,407,393	1,970,518
Total equity	26,846,427	24,669,828	29,047,305
Shares outstanding at year end	31,281,499	32,767,499	33,243,999
Book value per share	0.86	0.75	0.87

Revenue from Investment Properties

Rental revenue from Investment Properties decreased from \$1,287,353 in 2019 to \$756,283 in 2020. This is primarily due to discounts given to tenants due to Covid-19 restrictions, fewer investment properties along with the depreciation of the Mongolian Togrog.

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, 2020, revenues from other sources totaled \$68,170 compared to \$156,436 for the year ending December 31, 2019 as the number of real estate transactions stalled during the year.

Gain/loss on disposal of Investment Properties

During the year, the Corporation sold three properties for cash consideration of \$690,134 for a gain of \$106,762 (2019 – three properties sold for a loss of \$302,959).

Fair Value Adjustment on Investment Properties

The estimate of fair value of investment properties is a critical accounting estimate to the Corporation. An external appraiser estimates the fair value of the majority of the Investment Properties annually, the remainder are appraised internally by Management. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value of investment properties represents an estimate of the price that would be made in an arm's length transaction between knowledgeable, willing parties. The Corporation operates in the emerging real estate market of Mongolia, which given its current economic and industry conditions, has an increased inherent risk given the lack of reliable and comparable market information. For the year ended December 31, 2020, the Corporation recorded a valuation loss of \$2,700,069 (2019 – \$1,347,662 loss). Management continues to evaluate the impacts of Covid-19 on property prices.

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 \$103,051 during the year (Q4 2019 - \$155,606 decrease) primarily due to sale of investment properties and an unrealized loss on the fair value of investment properties.

Unrealized short-term investment gain/loss

During the year, the Corporation had unrealized gains of \$4,265,403 compared to an unrealized short-term investment gain of \$454,824 during 2019.

Realized public securities investment gain/loss

During the year, the Corporation had a realized investment gains of \$3,288,803 compared to a realized investment loss of \$358,826 in 2019.

Realized foreign currency gain/loss

During the year, the Corporation had a realized foreign currency loss of \$17,218 compared to a foreign currency gain of \$208,195 in 2019.

Share Repurchase

During 2020, the Corporation repurchased 1,642,500 of its common shares under its Normal Course Issuer Bid (NCIB) at an average price of \$0.21 (2019-404,500, \$0.30 average). As at December 31, 2020, the Corporation held 191,500 shares in Treasury to be cancelled during the first quarter of 2021 (2019- 35,000).

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, 2020, the property operating expenses were \$860,936 compared to \$1,055,102 during the same period in 2019. This decrease was primarily due to a decrease in salaries and commissions associated with the Company's third-party brokerage business along with fewer property assets due to disposals and a decrease in the local currency.

Corporate Expenses

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

For the year ending December 31, 2020, general and administration expenses were slightly decreased from \$1,067,158 in 2019 to \$910,968 in 2020 as a result of less travel, fewer conferences and reduced bonuses.

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, 8% in 2019 and 6.7% in 2020. 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, 2020, the Corporation recognized a foreign exchange adjustment loss of \$1,151,720 (2019 - loss of \$1,760,121) to its investment property portfolio due to the 6.7% depreciation of the local currency during the year.

Operating Profit (Loss)

Overall, the Corporation reported an Adjusted EBITDA loss of \$1,125,602 during 2020 (2019 – loss of \$929,972).

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

	2020	2019
	\$	\$
Net Income before Income taxes	3,625,805	(3,315,654)
Add Depreciation and Amortization	68,795	73,294
Subtract Interest and Investment Income/gains / finance expense	(7,556,697)	(18,793)
EBITDA	(3,862,097)	(3,261,153)
Subtract Fair Value Adjustment Gain (add back loss) on all properties including impairments on PPE and Other Assets	2,736,495	1,506,317
Add back reclassification of accumulated other comprehensive income on disposal of subsidiary	-	824,864
Total Adjusted EBITDA	(1,125,602)	(929,972)

Net Income

For the year ended December 31, 2020, the Corporation had a net gain of \$3,727,544 compared to a net loss of \$3,250,446 for the year ended December 31, 2019. This increase versus the same period last year is primarily due to the substantial unrealized

and realized gain on marketable securities of \$4,265,403 and \$3,288,803 respectively offset by an unrealized loss on fair value adjustment on investment properties of \$2,700,069 during the year (2019 – unrealized loss on fair value of investment property of \$1,347,662). Management cautions investors that the Corporation is primarily focused on increasing shareholder value on a per share basis. This means that operationally, Management is more concerned with long-term asset appreciation at the expense of short-term cash flow. Management expects this to be the case for the foreseeable future.

Section 4 - Financial Condition

Cash Flow

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

The following table provides an overview of the Corporation's cash flows from operating, financing and investing activities for the year ended December 31, 2020 and 2019.

	31-December-2020	For the year ending 31-December-2019
	\$	\$
Net change in cash related to:		
Operating	(353,812)	(502,836)
Investing	1,769,219	1,487,827
Financing	(886,013)	(801,197)
Effects of exchange rates on cash	95,122	(191,950)
Net change in cash during the period	624,516	(8,156)

Overall, the Corporation had cash inflows of \$624,516 during 2020 compared to cash outflows of \$8,156 in 2019. 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, 2020, compared to the year ended December 31, 2019, were the result of the following factors:

- **Operating** – The Corporation experienced a moderate decrease in Operating cash outflows for the year ended 2020 versus outflows for the year ended 2019 due to an increase in non-cash working capital balances.
- **Investing** – The Corporation experienced an increase in Investing cash inflows for the year ended 2020 primarily due to an increase in net sales of marketable securities offset by a smaller inflow from the disposal of investment properties.
- **Financing** – Financing cash outflow during the 2020 year were slightly larger than 2019 as the Corporation had a decrease in margin borrowings in 2020 offset by the receipt of a \$40,000 government loan while the Corporation repaid its bank debt in 2019.

To date, the Corporation has been able to meet all of its capital and other cash requirements from its internal sources of cash. As at December 31, 2020, the Corporation had \$1,361,771 (2019 - \$737,255) in cash and cash equivalents. Management considers its marketable securities' holdings to be fairly liquid and can be sold should the Corporation need to increase its cash position.

Total Assets

As of December 31, 2020, the Corporation had \$12,134,944 (2019 - \$5,809,586) in Current Assets out of which \$1,361,771 were held in cash and cash equivalents (2019 - \$737,255) and \$10,613,444 were held in marketable securities (Q4-2019 -\$3,689,304). The increase in cash and marketable securities are due to the realized and unrealized gains in marketable securities during the period.

The majority of the Corporation's assets are classified as Non-Current Assets, mainly Investment Properties. Investment Properties are carried at Fair Market Value and decreased to \$14,542,236 during the year (2019 -\$18,831,985) as a result of properties sold during the period, fair value impairments taken and a foreign exchange adjustment loss during the period.

Property and Equipment, which primarily consists of properties that are measured at their cost base, decreased from \$1,435,650 as at December 31, 2019 to \$1,293,241 as at December 31, 2020 due to a fair value impairment taken on the Corporation's headquarters at the end of the year and the decrease in the Mongolian Togrog exchange rate.

Total Liabilities

As of December 31, 2020, the Corporation had current liabilities of \$605,158 (2019 - \$825,506) consisting primarily of marketable securities sold short, payables and accrued liabilities.

As of December 31, 2020, the non-current liabilities on the balance sheet were deferred income taxes of \$478,836 (Q4 2019-\$581,887) and a long term CEBA loan of \$40,000 (Q4 2019-nil).

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-December- 2020	31-December-19
Common shares	31,281,499*	32,767,499*
Options to buy common shares	-	1,420,000

* As at December 31, 2020, the Corporation held 191,500 common shares in Treasury to be cancelled during the first quarter of 2021 (2019-35,000).

* As at April 6, 2021, the Corporation had 30,028,499 shares outstanding, no shares held in treasury and no options outstanding.

Options Outstanding

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

The chart below shows the historical option grants and options outstanding as of December 31, 2020.

Option Price	Granted	Expired	Forfeited	Cancelled	Exercised	Total Options Outstanding	Total Exercisable	Non exercisable
1.64	100,000	-	-	-	100,000	-	-	-
1.75	300,000	50,000	-	-	250,000	-	-	-
1.9	1,363,000	1,078,000	85,000	-	200,000	-	-	-
4.2	900,000	205,000	408,000	287,000	-	-	-	-
4.77	175,000	20,000	100,000	55,000	-	-	-	-
4.25	150,000	5,000	50,000	95,000	-	-	-	-
4.0	190,000	-	-	190,000	-	-	-	-
4.13	475,000	125,000	75,000	275,000	-	-	-	-
1.09	375,000	300,000	75,000	-	-	-	-	-
0.72	935,000	855,000	80,000	-	-	-	-	-
0.74	640,000	565,000	75,000	-	-	-	-	-
0.38	350,000	280,000	70,000	-	-	-	-	-
Total	5,953,000	3,483,000	1,018,000	902,000	550,000	-	-	-

Acquisitions and Dispositions

During the year, the Company sold three properties for cash consideration of \$690,134 and a net gain of \$106,762 (2019-\$302,959 loss).

In comparison, during the year ended December 31, 2019, three investment properties were sold for cash and property considerations of \$2,221,346 resulting in net loss of \$302,959 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	2020 \$	2019 \$
Salaries and other short-term benefits to officers	479,281	481,213
Director fees	40,000	40,000
Total	519,281	521,213

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

Off-Balance Sheet Items

As of December 31, 2020, the Corporation had no off-balance sheet items.

COVID-19

Beginning in February of 2020, the Government of Mongolia undertook extra-ordinary actions in order to limit the spread of COVID-19. These actions included closing borders, closing schools, reducing gatherings and drastic limitations on business operations. As long-term investors in Mongolia, the Corporation welcomes these actions that keep the people of Mongolia safe from COVID-19; however, it is anticipated that these actions will lead to a severe economic crisis. Since the initiation of these actions, the Company has experienced a material reduction in rental revenues received. It is also reasonable to expect there could be a material negative impact on the fair values of investment properties in future periods; 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. In addition, there is no way to know the duration of these extra-ordinary actions that are destroying the Mongolian economy.

Events Subsequent to Year End

- The Company has repurchased 1,061,500 of its shares at an average price of \$0.42/share and cancelled 1,253,000 shares.
- The Company sold one property for total proceeds of approximately \$396,000 and a net gain of \$nil.
- As disclosed in the Corporation's March 18, 2021 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 TSX.

Securities Sought: Up to 2,250,000 common shares, representing up to approximately 7.4% of the 30,481,499 Common Shares of the Issuer currently issued and outstanding, or approximately 10.0% of the 22,545,249 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: N/A

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 5, 2020, which ascribed a value of 872,000,000 MNT (Mongolian Togrogs) to the Issuer's material retail real estate investment assets as at December 31, 2019;
- Report entitled "Land Valuation Report – Ulaanbaatar, Mongolia", dated March 5, 2020, which ascribed a value of 27,653,000,000 MNT (Mongolian Togrogs) to the Issuer's material land investment assets as at December 31, 2019; and
- Report entitled "Office Valuation Report – Ulaanbaatar, Mongolia", dated March 5, 2020, which ascribed an aggregate value of 2,166,000,000 MNT (Mongolian Togrogs) to the Issuer's material office real estate investment assets as at December 31, 2019.

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 2,370,000 of its common shares at an average price of \$0.30 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 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenue	182,989	324,695	198,393	225,138	30,194	377,605	372,167	360,864
Net income (loss)	5,257,076	1,048,297	(1,279,482)	(1,298,347)	(3,013,557)	(679,160)	178,237	264,034
Income (loss) per common share	0.17	0.03	(0.04)	(0.04)	(0.10)	(0.02)	0.01	0.01
Total Assets	27,970,421	23,992,584	23,427,206	25,832,058	26,077,221	31,942,398	30,121,056	30,969,616
Weighted Average Shares (No.)	32,102,372	32,312,665	32,455,903	32,665,532	32,989,169	33,049,028	33,104,645	33,113,966
Ending Shares (No.)	31,281,499	31,856,999	32,132,499	32,398,499	32,767,499	32,891,499	32,954,499	33,136,999

Revenue

During the fourth quarter, the Corporation's real estate subsidiary earned total revenue of \$182,989 (Q4 2019 - \$30,194) of which rental revenue was \$170,183 (Q4 2019 - \$301,771). This rental income decrease is largely attributed to discounts given to tenants due to government-imposed lockdowns during the quarter. The quarterly revenue number also includes other revenue earned from miscellaneous sources such as late fees, brokerage fees and gains/losses from the sale of investment properties. During the fourth quarter, the Corporation did not sell any properties compared to a loss of \$302,959 on the sale of investment properties during the fourth quarter of 2019 which negatively affected the Corporation's revenue.

During the quarter, the Corporation also incurred an unrealized loss on fair value adjustment on investment properties and impairment of PP&E of \$647,298 (Q4 2019 - \$1,506,317).

Lastly, during the quarter, the Corporation had unrealized gains of \$5,012,686 and realized gains of \$1,293,328 in its marketable securities portfolio (Q4-2019 – unrealized: \$461,441, realized: \$477,851 loss).

Expenses

Quarterly expenses totaled \$672,723 (Q4 2019 - \$760,365). This decrease was due to a reduction in commissions.

Net Income

During the quarter, the Corporation experienced a gain of \$5,154,025 in comparison to a loss of \$3,013,557 in the same quarter of the previous year. This difference is mainly attributed to significant gains in the marketable securities portfolio compared to a large loss recorded during the fourth quarter of 2019.

Section 6 – Critical Estimates

Critical Accounting Estimates

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

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

Fair value 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 2020, 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.

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, 2020 and 2019, 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, 2020 and 2019, 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, American or Mongolian banks.

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, 2020.

As at December 31, 2020, the Corporation had working capital of \$11,529,785 (2019- \$4,984,080) 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 2020 was a decrease of 5.3% year-over-year, while inflation estimates were 2.3% 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, 2020 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 \$223,693 (2019 - \$131,438) is currently included in the Corporation's balance sheet to reflect this liability. In addition, the Corporation has recognized a \$1,108,907 (2019 - \$1,436,256) 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 (3.3 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.

PFIC Risk

The Corporation has not undertaken an analysis to determine if it is a Passive Foreign Income Company (PFIC) under United States tax statutes, nor does it intend to. US shareholders are advised to consult with tax professionals to determine the risks and potential penalties that could be applicable if the Corporation is determined to be a PFIC at a later date.

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.

Additional Information

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

Mongolia Growth Group Ltd.
Consolidated Financial Statements

December 31, 2020
(expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Mongolia Growth Group Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Mongolia Growth Group Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.


As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Erez Bahar.



Vancouver, Canada

Chartered Professional Accountants

April 5, 2021

Mongolia Growth Group Ltd.

Consolidated Statements of Financial Position

As at December 31

(Expressed in Canadian dollars)

	2020	2019
	\$	\$
Assets		
Current assets		
Cash (note 5)	1,361,771	737,255
Marketable securities owned (note 6)	10,613,444	3,689,304
Other assets (note 7)	159,729	1,383,027
	<u>12,134,944</u>	<u>5,809,586</u>
Non-current assets		
Investment properties (note 8)	14,542,236	18,831,985
Property and equipment (note 9)	1,293,241	1,435,650
	<u>15,835,477</u>	<u>20,267,635</u>
Total assets	<u>27,970,421</u>	<u>26,077,221</u>
Liabilities		
Current liabilities		
Trade payables and accrued liabilities (note 10)	564,542	767,732
Marketable securities sold short (note 6)	39,223	23,340
Income taxes payable	1,393	34,434
	<u>605,158</u>	<u>825,506</u>
Non-current liabilities		
Long Term CEBA Loan (note 11)	40,000	-
Deferred income tax liability (note 12)	478,836	581,887
	<u>1,123,994</u>	<u>1,407,393</u>
Total liabilities	<u>1,123,994</u>	<u>1,407,393</u>
Equity		
Share capital (note 13)	53,165,247	53,504,935
Contributed surplus	6,849,976	6,849,976
Accumulated other comprehensive loss	(15,444,642)	(14,233,385)
Deficit	(17,724,154)	(21,451,698)
	<u>26,846,427</u>	<u>24,669,828</u>
Total equity	<u>26,846,427</u>	<u>24,669,828</u>
Total equity and liabilities	<u>27,970,421</u>	<u>26,077,221</u>

Commitment and contingencies (note 17)

Subsequent events (note 23)

Approved by the Board of Directors

"Harris Kupperman"

Director

"James Dwyer"

Director

The accompanying notes are an integral part of these consolidated financial statements.

Mongolia Growth Group Ltd.

Consolidated Statements of Operations

For the years ended December 31

(Expressed in Canadian dollars)

	2020	2019
	\$	\$
Revenue		
Rental income	756,283	1,287,353
Other revenue	68,170	156,436
Gain (loss) on disposal of investment property (note 8)	106,762	(302,959)
Total revenue	931,215	1,140,830
Expenses		
Salaries and wages	599,199	693,852
Other expenses (note 20)	1,440,400	1,585,145
Depreciation (note 9)	68,795	73,294
Total operating expenses	(2,108,394)	(2,352,291)
Interest income	2,512	5,617
Unrealized loss on fair value adjustment on Investment properties (note 8)	(2,700,069)	(1,347,662)
Impairment of property and equipment (note 9)	(36,426)	(158,655)
Unrealized gain on short term investments (note 6)	4,265,403	454,824
Realized gain (loss) on short term investments (note 6)	3,288,803	(358,826)
Foreign currency gain (loss)	(17,218)	208,195
Finance costs	(21)	(82,822)
Reclassification of accumulated other comprehensive income on disposal of subsidiary (note 21)	-	(824,864)
Total other income (loss)	4,802,984	(2,104,193)
Net income (loss) before income taxes	3,625,805	(3,315,654)
Income taxes (note 12)	101,739	65,208
Net income (loss) for the year	3,727,544	(3,250,446)
Net income (loss) per share (note 13)		
Basic		
From net income (loss) for the year	0.12	(0.10)
Diluted		
From net income (loss) for the year	0.12	(0.10)

The accompanying notes are an integral part of these consolidated financial statements.

Mongolia Growth Group Ltd.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31

(Expressed in Canadian dollars)

	2020	2019
	\$	\$
Net income (loss) for the year	3,727,544	(3,250,446)
Other comprehensive loss		
Items that may be subsequently reclassified to income or loss		
Unrealized losses on translation of financial statement operations with Mongolian Tögrög functional currency to Canadian dollar reporting currency	(1,211,257)	(1,831,600)
Items subsequently reclassified to income or loss		
Reclassification of accumulated other comprehensive income on disposal of subsidiary (note 21)	-	824,864
Total comprehensive income (loss)	<u>2,516,287</u>	<u>(4,257,182)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mongolia Growth Group Ltd.
Consolidated Statements of Changes in Equity
For the years ended December 31

(Expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance at January 1, 2019	53,625,230	6,849,976	(13,226,649)	(18,201,252)	29,047,305
Net loss for the year	-	-	-	(3,250,446)	(3,250,446)
Reclassification (note 21)	-	-	824,864	-	824,864
Other comprehensive loss	-	-	(1,831,600)	-	(1,831,600)
	<u>53,625,230</u>	<u>6,849,976</u>	<u>(14,233,385)</u>	<u>(21,451,698)</u>	<u>24,790,123</u>
Share repurchase	(120,295)	-	-	-	(120,295)
Balance at December 31, 2019	<u>53,504,935</u>	<u>6,849,976</u>	<u>(14,233,385)</u>	<u>(21,451,698)</u>	<u>24,669,828</u>

	Share capital \$	Contributed surplus \$	Accumulated other comprehensive loss \$	Deficit \$	Total \$
Balance at January 1, 2020	53,504,935	6,849,976	(14,233,385)	(21,451,698)	24,669,828
Net income for the year	-	-	-	3,727,544	3,727,544
Other comprehensive loss	-	-	(1,211,257)	-	(1,211,257)
	<u>53,504,935</u>	<u>6,849,976</u>	<u>(15,444,642)</u>	<u>(17,724,154)</u>	<u>27,186,115</u>
Share repurchase	(339,688)	-	-	-	(339,688)
Balance at December 31, 2020	<u>53,165,247</u>	<u>6,849,976</u>	<u>(15,444,642)</u>	<u>(17,724,154)</u>	<u>26,846,427</u>

The accompanying notes are an integral part of these consolidated financial statements.

Mongolia Growth Group Ltd.

Consolidated Statements of Cash Flow

As at December 31, 2020

	2020	2019
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	3,727,544	(3,250,446)
Items not affecting cash		
Depreciation (note 9)	68,795	73,294
Deferred taxes	(103,051)	(155,606)
Allowance for doubtful tax receivables (note 7)	-	(13,806)
Realized (gain) loss on disposal of investment properties (note 8)	(106,762)	302,959
Impairment of property and equipment (note 9)	36,426	158,655
Unrealized (gain) loss on marketable securities (note 6)	(4,265,403)	(454,824)
Realized (gain) loss on marketable securities (note 6)	(3,288,803)	358,826
Unrealized loss on fair value adjustment on investment properties (note 8)	2,700,069	1,347,662
Reclassification of accumulated other comprehensive income on disposal of subsidiary (note 21)	-	824,864
	<u>(1,231,185)</u>	<u>(808,422)</u>
Net change in non-cash working capital balances (note 18)	<u>877,373</u>	<u>305,586</u>
	(353,812)	(502,836)
Financing activities		
Share repurchase (note 13)	(339,688)	(120,295)
Decrease in margin borrowing for marketable securities	(586,325)	-
Long term CEBA loan (note 11)	40,000	-
Loan payment	-	(680,902)
	<u>(886,013)</u>	<u>(801,197)</u>
Investing activities		
Net sale of marketable securities (note 6)	1,186,552	604,998
Net proceeds on acquisition of property and equipment	(705)	(1,540)
Net proceeds on sale of investment properties	583,372	884,369
	<u>1,769,219</u>	<u>1,487,827</u>
	529,394	183,794
Effect of exchange rates on cash	<u>95,122</u>	<u>(191,950)</u>
Increase (decrease) in cash	624,516	(8,156)
Cash – Beginning of year	<u>737,255</u>	<u>745,411</u>
Cash – End of year	<u>1,361,771</u>	<u>737,255</u>

*Supplementary cash flow information (note 18)

The accompanying notes are an integral part of these consolidated financial statements.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

1 Corporate information

Mongolia Growth Group Ltd. (MGG or the Company) was incorporated in Alberta on December 17, 2007, and is a real estate investment and development Company operating through the ownership of commercial investment property assets in Ulaanbaatar, Mongolia.

The Company's common shares were previously listed on the Canadian Securities Exchange (CSE). On January 9, 2013, the Company filed an application for the de-listing of the common shares from the CSE and filed an application for the listing of common shares on the TSX Venture Exchange (TSXV). The Company is now listed on the TSXV, having the symbol YAK.

MGG has one wholly-owned subsidiary at December 31, 2020, Mongolia (Barbados) Corp. Mongolia (Barbados) Corp. owns the wholly-owned subsidiaries MGG Properties LLC and Big Sky Capital LLC. Big Sky Capital LLC owns the wholly-owned subsidiaries, Carrollton LLC, Biggie Industries LLC, Orpheus LLC, Zulu LLC, Crescent City LLC and Oceanus LLC (together "the investment property operations"). The investment property operations are conducted in Big Sky Capital LLC and its subsidiaries. No active business operations occur in Oceanus LLC at this time. MGG's marketable securities are currently held in a brokerage account owned by Mongolia (Barbados) Corp.

At December 31, 2020 and 2019, the principal subsidiaries of the Company, their geographic locations, and the ownership interest held by the Company, were as follows:

Name	Principal Activity	Ownership		Location
		December 31, 2020	December 31, 2019	
Mongolia (Barbados) Corp.	Holding Company and Brokerage Account	100%	100%	Barbados
MGG Properties LLC	Holding Company and Real estate operations	100%	100%	Mongolia
Big Sky Capital LLC	Holding Company and Real estate operations	100%	100%	Mongolia
Carrollton LLC	Real estate operations	100%	100%	Mongolia
Biggie Industries LLC	Real estate operations	100%	100%	Mongolia
Orpheus LLC	Real estate operations	100%	100%	Mongolia
Zulu LLC	Real estate operations	100%	100%	Mongolia
Crescent City	Real estate operations	100%	100%	Mongolia
Oceanus	Real estate operations	100%	100%	Mongolia

The Company is registered in Alberta, Canada, with its Head Office at its registered and records address at Centennial Place, East Tower, 1900, 520 - 3rd Avenue S.W. Calgary, Alberta, Canada T2P 0R3. The Company's Canadian headquarters are located at 100 King Street West, Suite 5600, Toronto, Ontario, M5X 1C9, Canada. The Company's Mongolian investment property operations are based out of its office located at the MGG Properties Building on Seoul St. in Ulaanbaatar, Mongolia.

At December 31, 2020, the Company is organized into two segments based on the business operations:

- Big Sky Capital LLC and its subsidiaries own investment properties which are located in Ulaanbaatar, Mongolia and are held for the purpose of generating rental revenue, capital appreciation, and/or redevelopment; and
- The MGG Corporate office is located in Toronto, Canada.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

2 Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The significant accounting policies used in the preparation of these consolidated financial statements are summarized in note 3.

These financial statements have been prepared on a going concern basis, meaning that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations.

The consolidated financial statements, including the notes to the consolidated financial statements, are presented in Canadian dollars (\$) which is the Company's presentation currency and the functional currency of the parent Company. The functional currency of the Company's operating subsidiaries is the Mongolian National Tögrög (MNT). The functional currency of the Company's operating subsidiary in Barbados is the Canadian Dollar.

These consolidated financial statements were approved by the Board of Directors of the Company for issue on April 5, 2021.

3 Significant accounting policies

a. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of investment properties and marketable securities at fair value.

b. Basis of consolidation

These consolidated financial statements include the accounts of MGG and its wholly-owned subsidiaries. Subsidiaries are entities controlled by MGG. Control exists when MGG is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are prepared for the same reporting year as MGG, using consistent accounting policies. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Upon the disposal of a subsidiary, amounts previously recognized in other comprehensive income in respect of that entity, are reclassified to profit and loss.

c. Financial instruments

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

c. Financial instruments (continued)

instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the balance sheet subsequent to inception and how changes in value are recorded. Cash and receivables are measured at amortized cost with subsequent impairments recognized in profit or loss and marketable securities are classified as FVTPL.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the balance sheet subsequent to inception and how changes in value are recorded. Trade payables and accrued liabilities, short term debt and long term CEBA loan are classified as other financial liabilities and carried on the balance sheet at amortized cost. Marketable securities sold short are carried FVTPL.

As at December 31, 2020, the Company does not have any derivative financial liabilities.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Marketable securities are classified as fair value through profit or loss. All financial instruments which are measured at their amortized cost approximate their fair value due to the short term nature of those instruments. Financial assets and liabilities recorded at fair value in the consolidated statement of financial position are measured and classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are defined as follows:

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

c. Financial instruments (continued)

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

- The Company defines active markets based on the frequency of valuation and any restrictions or illiquidity on disposition of investments. The size of the bid/ask spread is used as an indicator of market activity for fixed maturity securities. Fair value is based on market price data for identical assets obtained from the investment custodian, investment managers or dealer markets. The Company does not adjust the quoted price for such instruments.

Level 2: Quoted prices in markets that are not active or inputs that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 2 inputs include observable market information, including quoted prices for assets in markets that are considered less active. Fair value is based on or derived from market price data for same or similar instruments obtained from the investment custodian, investment managers or dealer markets.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the estimated fair value of the assets or liabilities

- Level 3 assets and liabilities would include financial instruments whose values are determined using internal pricing models, discounted cash flow methodologies, or similar techniques that are not based on observable market data, as well as assets or liabilities for which the determination of estimated fair value requires significant management judgement or estimation.

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies.

The levels of the fair value inputs used in determining estimated fair value of the Company's financial assets at fair value through profit or loss as at December 31, 2020 and 2019, is shown below.

	Estimated fair values			
	December 31, 2020	Level 1	Level 2	Level 3
Marketable securities	\$10,613,444	\$10,613,444	-	-
Marketable securities sold short	\$39,223	\$39,223	-	-
	\$10,574,221	\$10,574,221	-	-

	Estimated fair values			
	December 31, 2019	Level 1	Level 2	Level 3
Marketable securities	\$3,689,304	\$3,689,304	-	-
Marketable Securities sold short	\$23,340	\$23,340	-	-
	\$3,665,964	\$3,665,964	-	-

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

c. Financial instruments (continued)

At December 31, 2020 and 2019 there were no financial assets or liabilities measured and recognized in the statement of financial position at fair value that would be categorized as level 2 and 3 in the fair value hierarchy above.

d. Investment properties

Investment properties include properties held to earn rental revenue, for capital appreciation, and/or for redevelopment. Investment properties are initially measured at fair which is most often the purchase price plus any directly attributable expenditures. Investment properties are subsequently measured at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are recognized in the consolidated statement of operations in the year they arise. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated statement of operations during the financial period in which they occur.

Substantially all of the Company's income generating properties and properties under development are investment properties.

Properties under development are measured at cost.

Certain land leases held under an operating lease are classified as investment properties when the definition of an investment property is met. At inception these leases are recognized at the lower of the fair value of the property and the present value of the minimum lease payments.

Some properties may be partially occupied by the Company, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Company can be sold separately, the Company accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income, capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Company considers the owner-occupied portion as insignificant when the property is more than 90% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Company uses the size of the property measured in square metres.

The fair value of investment properties was based on the nature, location and condition of the specific asset. The fair value is calculated at December 31 on the majority of investment properties by an independent, professional, qualified appraisal firm, whose appraisers hold recognized relevant, professional qualifications and who have recent experience in the locations and categories of the investment properties valued. The remaining investment properties' fair value was calculated by Management and was performed by qualified individuals with recent experience in the locations and categories of the investment properties valued.

e. Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are categorized as held for sale at the point in time when the asset or disposal group is available for immediate

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

e. Assets held for sale (continued)

sale, Management has committed to a plan to sell and is actively locating a buyer at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and expected to be completed within a one year period. Investment properties measured under the fair value model and held for sale continue to be measured by the guidelines of IAS 40 – Investment Property. All other assets held for sale are stated at the lower of carrying amounts and fair value less selling costs. An asset that is subsequently reclassified as held and in use, with the exception of investment property measured under the fair value model, is measured at the lower of its recoverable amount and the carrying value that would have been recognized had the asset never been classified as held for sale.

f. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The Company's specific revenue recognition criteria are as follows:

i) Rental revenue

The Company has not transferred substantially all of the benefits and risk of ownership of its investment properties, and therefore, the Company accounts for leases with its tenants as operating leases. Rental revenue includes all amounts earned from tenants related to lease agreements including property tax and operating cost recoveries.

The Company reports rental revenue on a straight-line basis, whereby the total amount of cash to be received under a lease is recognized into earnings in equal periodic amounts over the term of the lease.

Contingent rents are recognized as revenue in the period in which they are earned.

Amounts payable by tenants to terminate their lease prior to their contractual expiry date (lease cancellation fees) are included in rental revenue at the time of cancellation.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset. Tenant incentives and discounts are recognized as a reduction of rental revenue on a straight-line basis over the term of the lease.

ii) Investment income

Investment income is recorded as it accrues using the effective interest method.

g. Cash

Cash includes cash held at banks or on hand and demand deposits.

h. Property and equipment

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

h. Property and equipment (continued)

location and condition necessary to be capable of operating in a manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses. All repairs and maintenance costs are charged to the consolidated statement of operations during the period in which they occur.

Depreciation is recognized in the consolidated statement of operations and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	Straight-line over 40 years
Furniture and fixtures	Straight-line over 5 to 10 years
Equipment	Straight-line over 1 to 5 years

Impairment reviews are performed when there are indicators that the net recoverable amount of an asset may be less than the carrying value. The net recoverable amount is determined as the higher of an asset's fair value less cost to dispose and value in use. Impairment is recognized in the consolidated statement of operations, when there is objective evidence that a loss event has occurred which has impaired future cash flows of an asset. In the event that the value of previously impaired assets recovers, the previously recognized impairment loss is recovered in the consolidated statement of operations at that time.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of operations in the period the asset is derecognized.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

i. Income taxes

Income taxes are comprised of both current and deferred taxes. Current tax and deferred tax are recognized in the statement of operations except to the extent that it relates to items recognized in Other Comprehensive Income ("OCI") or directly in equity. In this case, the tax is recognized in OCI or directly in equity respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income and are measured at the amount expected to be recovered from or paid to the taxation authorities for the current and prior periods.

Deferred income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary

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For the year ended December 31

i. Income taxes (continued)

differences between the tax and financial statement bases for assets and liabilities and for certain carry-forward items, such as losses and tax credits not utilized from prior years. However, if the deferred income tax arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income, it is not accounted for.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where, in the opinion of Management, it is probable that future taxable profit will be available against which the deferred tax asset can be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date the changes in tax laws and rates have been enacted or substantively enacted.

j. Foreign exchange transactions

Foreign currency transactions are translated at the rate of exchange in effect on the dates they occur. Gains and losses arising as a result of foreign currency transactions are recognized in the current year consolidated statement of operations. At reporting dates, monetary items are translated at the closing rate of exchange in effect at the consolidated statement of financial position date.

Translation of foreign operations

For the purpose of the consolidated financial statements, the results and financial position of the Mongolian operations are expressed in Canadian dollars, which is the functional currency of the parent, and the presentation currency of the consolidated financial statements.

The Company translates the assets, liabilities, income and expenses of its Mongolian operations which have a functional currency of Mongolian Tögrög, to Canadian dollars on the following basis:

- Assets and liabilities are translated at the closing rate of exchange in effect at the consolidated statement of financial position date.
- Income and expense items are translated using the average rate for the month in which they occur, which is considered to be a reasonable approximation of actual rates.
- Equity items are translated at their historical rates.
- The translation adjustment from the use of different rates is included as a separate component of equity, in accumulated other comprehensive income.

k. Comprehensive income

Comprehensive income consists of net income (loss) and OCI. OCI includes changes in unrealized gains (losses) on the translation of financial statement operations with Mongolian Tögrög functional currency.

l. Share capital and deferred share issuance costs

Ordinary shares issued by the Company are classified as equity. Costs directly identifiable with the raising of capital will be charged against the related share issue, net of any tax effect.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

l. Share capital and deferred share issuance costs (continued)

Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share issuance or charged to operations if the shares are not issued.

m. Earnings (loss) per share

For both continuing and discontinued operations, the Company presents basic and diluted earnings (loss) per share (EPS) data for its common shares. Basic EPS is calculated by dividing the results of operations attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the results of operations attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, which comprise share options.

n. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Chief Executive Officer. The Company is now managed as two operating segments based on how information is produced internally for the purpose of making operating decisions. The segments are defined as investment property operations and corporate.

o. Leases

IFRS 16, Leases ("IFRS 16") sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor.

From a lessee point of view, the Company has entered into Mongolian government land leases on some of its investment properties. The Company, as a lessee, has determined, based on an evaluation of the terms and conditions of the arrangements, that these land leases meet the definition of an investment property and has classified them as such; therefore, the fair value model is applied to those assets, and gains and losses on changes in fair value are recorded in profit or loss. The payments on these leases are nominal, and are therefore exempt from recognition as low-value leases.

The Company has also entered into commercial and residential property leases on its investment properties. The Company as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains the significant risks and rewards of ownership of these properties and therefore accounts for these agreements as operating leases.

For other leases of low-value assets or short-term leases that end within 12 months of the commencement date and which have no renewal or purchase option, the Company has elected to apply the recognition exemptions specified in IFRS 16, allowing the Company to continue to expense the lease payments in the period in which they are incurred. The total of such expenses was \$9,109 for the 2020 fiscal year (2019 - \$10,662).

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Notes to the Consolidated Financial Statements

For the year ended December 31

p. Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense of any provision is recognized in the consolidated statement of operations net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

q. Marketable Securities

The Company presents results from trading marketable securities on both a realized and unrealized basis separately in profit and loss. A realized gain or loss is recorded upon transfer of ownership of a marketable security, calculated as proceeds (net of broker fees) less its cost which is measured on a first-in-first-out (“FIFO”) basis. Unrealized gains and losses are the fair value adjustments to positions still held at reporting dates. Any margin borrowings are offset to marketable securities because the Company has both the legal right and intention to settle these positions on a net basis with the related marketable securities.

r. Current Accounting Policy Changes

There were no accounting policy changes which impacted the Company in the December 31, 2020 fiscal year.

s. Future Accounting Policy Changes

IAS 1, Presentation of Financial Statements (“IAS 1”) The IASB issued ‘Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)’ in January 2020, affecting the presentation of liabilities in the statement of financial position. The narrow-scope amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendments also clarify what IAS 1 means when it refers to the ‘settlement’ of a liability. The amendments must be applied retrospectively in accordance with the normal requirements of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”). The amendments are effective for annual periods beginning on or after January 1, 2023 (in accordance with ‘Classification of Liabilities as Current or Non-Current – Deferral of Effective Date (Amendment to IAS 1) issued by the IASB in July 2020), with earlier application permitted. The amendments have not been early adopted by the Company. The Company is currently assessing any potential impact of this amendment.

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Notes to the Consolidated Financial Statements

For the year ended December 31

4 Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires Management to make estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements 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 these consolidated financial statements include the following areas:

- 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.

- The Company operates in the emerging real estate market of Mongolia, which given its current economic, political and industry conditions, gives rise to an increased inherent risk given the lack of reliable and comparable market information. The significant estimates underlying the fair value determination are disclosed in note 8. Changes in assumptions about these factors could materially affect the carrying value of investment properties. In addition, the significant global uncertainty resulting from the novel coronavirus ("COVID-19") pandemic has reduced the availability of reliable market metrics to inform opinions, and therefore a higher degree of judgment must be applied. Consequently, fair values are subject to significant change.
- 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.
- Operating environment of the Company - 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 the continuing demand from China and global prices for commodities as well as being dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

4 Significant accounting estimates and judgements (continued)

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 Company.

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

- 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 time frame of one year and the period of time any amounts have been classified within assets held for sale. The Company reviews the criteria for assets held for sale each quarter and reclassifies such assets to or from this financial position category as appropriate. On completion of the sale, management exercises judgement as to whether the sale qualifies as a discontinued operation.

As at December 31, 2020 and 2019, Management has made the judgment that none of the Company's assets meet the criteria to be classified as held for sale. While this is due to a number of factors, a primary reason is that due to the conditions of the Mongolian economy and the lack of liquidity in the market, management was unable to conclude that the sale of any significant 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, 2020 and 2019, 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.

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For the year ended December 31

5 Cash

Cash at banks earns interest at floating rates based on daily bank deposit rates. The component of cash accounts currently consists only of cash amounts held in banks or on hand.

The following table discloses the geographical location of cash:

	2020	2019
	\$	\$
Barbados	1,006,689	1,475
Canada	218,694	33,018
Mongolia	136,388	702,762
Total cash	1,361,771	737,255

Cash is not collateralized. The carrying amount of cash approximates fair value.

The credit quality of cash balances may be summarized based on Standard and Poor's ratings or equivalents of Moody's and/or Fitch ratings. The credit quality at December 31 was as follows:

	2020	2019
	\$	\$
Cash on hand	1,916	2,154
A or A+ rated	199,491	31,600
B- or B+ rated	134,471	700,609
BBB+ rated	1,005,228	-
Unrated	20,665	2,892
Total cash	1,361,771	737,255

The unrated balance relates to one private bank in Barbados (2019 – one) and one brokerage company in Canada (2019 – one). The BBB+ rating relates to a brokerage company in the United States which was previously unrated.

6 Marketable Securities

The following table shows the continuity of the Company's brokerage account.

	Cash	Marketable securities Long	Marketable securities Short	Interest Accruals	Total
December 31, 2019	(586,325)	4,275,629	(23,340)	-	3,665,964
Unrealized (loss) gain	-	4,265,403	-	-	4,265,403
Realized gain (loss)	-	3,288,803	-	-	3,288,803
FX gain (loss)	-	(45,722)	-	-	(45,722)
Interest Accrual	-	-	-	1,374	1,373
Net cash transferred in (out)	405,000	-	-	-	405,000
(Purchases)/sales	1,186,553	(1,170,669)	(15,883)	-	-
December 31, 2020	1,005,228	10,613,444	(39,223)	1,374	11,580,822

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Notes to the Consolidated Financial Statements

For the year ended December 31

6 Marketable Securities (continued)

	Cash	Marketable securities Long	Marketable securities Short	Interest Accruals	Total
December 31, 2018	(221,875)	4,253,481	(85,404)	-	3,946,202
Unrealized (loss) gain	-	454,824	-	-	454,824
Realized gain (loss)	-	(358,826)	-	-	(358,826)
FX gain (loss)	-	228,761	-	-	228,761
Interest Accrual	2,133	(2,130)	-	-	3
Net cash transferred in (out)	(605,000)	-	-	-	(605,000)
(Purchases)/sales	238,417	(300,481)	62,064	-	-
December 31, 2019	(586,325)	4,275,629	(23,340)	-	3,665,964

Cash balances in the Company's brokerage account are classified within cash on the statement of financial position (Note 5). A negative cash balance represents borrowing on margin, which is presented net against marketable securities because the Company has the legal right and intention to close out margin balances on a net basis with the related marketable securities.

7 Other assets

	2020 \$	2019 \$
Accounts receivable	134,869	1,342,624
Prepaid expenses	24,860	40,403
	159,729	1,383,027

In 2019, included in accounts receivable were proceeds of \$954,640 which was received during the first week of 2020, one investment property to be transferred to the Company with a value of \$143,196 and \$190,928 receivable to be paid in monthly instalments during the first eight months of the year, for the sale of a property which was received subsequent to year end. Due to the current pandemic, only \$79,082 of the receivable was received and \$111,846 is still outstanding. Management is of the opinion that it will receive the remainder of the receivable within the following twelve months.

8 Investment properties

	2020 \$	2019 \$
Balance - beginning of year	18,831,985	24,415,860
Additions		
Acquisitions	145,412	48,213
Disposals	(583,372)	(2,524,305)
Fair value adjustment	(2,700,069)	(1,347,662)
Foreign exchange adjustments	(1,151,720)	(1,760,121)
Balance – end of year	14,542,236	18,831,985

Mongolia Growth Group Ltd.

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8 Investment properties (continued)

During the twelve-month period ended December 31, 2020, the Company transferred a property acquired through the sale of a property during the prior year from other assets to investment properties as the Company obtained its property title during the first quarter. During the year the Company sold three properties for total proceeds of \$690,134 resulting in a net gain of \$106,762 (2019 - three sold for a loss of \$302,959). During the twelve-month period, the Company recognized an unrealized fair value adjustment impairment loss of \$2,700,069 on its property portfolio (2019 - \$1,347,662).

Investment properties by major category are as follows:

	2020	2019
	\$	\$
Office	896,266	1,033,875
Retail	9,415,983	12,307,380
Land and redevelopment sites	4,229,987	5,490,730
	<u>14,542,236</u>	<u>18,831,985</u>

Investment properties with an aggregate fair value of \$9,245,117 (2019 - \$13,213,176) in addition to the Company's headquarters of \$1,191,341 were valued by an external independent valuation professional who is deemed to be a qualified appraiser who holds a recognized, relevant, professional qualification and who has recent experience in the locations and categories of the investment properties valued. The remaining balance of investment properties were valued internally.

The Company determined the fair value of investment properties using the income approach and the sales comparison approach, which are generally accepted appraisal methodologies.

Under the income approach, the methodology used was the direct capitalization approach which is based on rental income and yields. Rental incomes were based on current rent and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future rent in light of current conditions adjusted for non-recoverable property costs. Yields were determined using data from real estate agencies, market reports and property location among other things in determining the appropriate assumptions. Under this method, year one income is stabilized and capped at a rate deemed appropriate for each investment property.

The sales comparison approach analyzes all available information of sales of comparable properties that have recently taken place or have recently been marketed and adjusts the price to reflect differences in the property valued and sold.

The entire portfolio of investment properties has been valued using the income approach, the sales comparison approach or a combination thereof.

Due to the COVID-19 pandemic and its ongoing impact on the economy, and specifically its unknown future impact on the real estate market, there is heightened uncertainty surrounding the valuation of the investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie the Company's valuation methodologies. In addition, less weight can be ascribed to previous market evidence, for comparative purposes, to inform opinions of value.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

8 Investment properties (continued)

Given this impact on the availability of reliable market metrics, fair values at December 31, 2020 may be subject to material change.

The Company currently has a standing agreement with the owner of a 42 sq. meter apartment which has been included in one of the Company's properties classified as land and redevelopment. 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 Company had an obligation to complete the construction of a new building by the end of fiscal 2017 and the agreement was not extended. A liability of \$223,693 (2019 - \$131,438) is currently included in the Company's trade payables and accrued liabilities (note 10) to reflect this liability. In addition, the Company has recognized an unrealized fair value loss of \$1,108,907 (2019 - \$1,436,256) in excess of the fair value adjustment calculated using the valuation approaches described. This adjustment is Management's estimate of the markets perception of the risk related to this agreement, and is included within the unrealized gain (loss) on fair value adjustment on Investment properties within profit and loss. Refer to Note 17 for additional information.

Under the fair value hierarchy, the fair value of the Company's investment properties is considered a level three, as defined in note 3.

The key valuation assumptions for commercial investment properties are as follows:

	2020		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.0%	8.9%	9.7%
	2019		
	Maximum	Minimum	Weighted-average
Capitalization rate	11.25%	9.5%	9.6%

The following sensitivity table outlines the impact of a 0.25% change in the weighted average capitalization rate on investment properties at 2020:

	Change to fair value if capitalization rate increased 0.25%	Change to fair value if capitalization rate decreases 0.25%
Investment property	(56,209)	59,187

Additional valuation assumptions include the rental revenue per square meter, grade quality of the property and comparable market data.

Investment properties of \$3,455,674 (2019 - \$4,308,769) have no rental revenue associated with them at December 31, 2020.

Investment properties include land use rights held under operating leases with an aggregate fair value of \$4,229,987 (2019 - \$5,490,730) at December 31, 2020.

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Notes to the Consolidated Financial Statements

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8 Investment properties (continued)

Certain investment properties held by the Company are leased out (the Company is the lessor) under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	2020	2019
	\$	\$
Less than 1 year	769,266	772,222
Between 1 and 5 years	158,875	299,333
Beyond 5 years	-	-
	<hr/>	<hr/>
	928,141	1,071,555

Direct operating expenses arising from investment properties that generated rental income during the year was \$855,822 (2019 – \$1,050,283). Direct operating expenses arising from investment properties that did not generate rental income during the year was \$5,114 (2019 - \$4,819).

The Company's operating leases, in which the Company is the lessor, are structured such that the weighted average length of the leases as at December 31, 2020 was 9.2 months (8.1 months as at December 2019), calculated as a percentage of monthly revenues.

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Notes to the Consolidated Financial Statements

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9 Property and equipment

	2020			
	Furniture and fixtures	Equipment	Buildings	Total
	\$	\$	\$	\$
Cost				
At January 1	70,944	128,444	1,800,646	2,000,034
Additions	-	705	-	705
Disposals	-	(2,858)	-	(2,858)
Impairment	-	-	(36,426)	(36,426)
Foreign exchange adjustment	1,250	250	(30,921)	(29,421)
At December 31	72,194	126,541	1,733,299	1,932,034
	2020			
	Furniture and fixtures	Equipment	Buildings	Total
	\$	\$	\$	\$
Accumulated depreciation				
At January 1	45,047	107,759	411,578	564,384
Depreciation	6,901	11,525	50,369	68,795
Disposals	-	(2,858)	-	(2,858)
Foreign exchange adjustment	2,453	254	5,765	8,472
At December 31	54,401	116,680	467,712	638,793
Net book value at December 31	17,793	9,861	1,265,587	1,293,241

During the year ended December 31, 2020 the Company recognized an impairment on its corporate office building of \$36,426 (2019 – impairment of \$158,655) which was implied by the same valuation methodology described in note 8.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

9 Property and equipment (continued)

	2019			
	Furniture and fixtures \$	Equipment \$	Buildings \$	Total \$
Cost				
December 31	73,702	135,758	2,110,307	2,319,767
Additions	-	1,540	-	1,540
Disposals	-	(4,994)	-	(4,994)
Reversal of impairment	-	-	(158,655)	(158,655)
Foreign exchange adjustment	(2,758)	(3,860)	(151,006)	(157,624)
At December 31	70,944	128,444	1,800,646	2,000,034
				2019
	Furniture and fixtures \$	Equipment \$	Buildings \$	Total \$
Accumulated depreciation				
At January 1	38,507	101,203	387,263	526,973
Depreciation	7,000	13,808	52,486	73,294
Disposals	-	(4,994)	-	(4,994)
Foreign exchange adjustment	(460)	(2,258)	(28,171)	(30,889)
At December 31	45,047	107,759	411,578	564,384
Net book value at December 31	25,897	20,685	1,389,068	1,435,650

10 Trade payables and accrued liabilities

	2020 \$	2019 \$
Trade and accrued payables	232,302	506,351
Property commitment (note 8)	223,693	131,438
Security deposits	88,437	107,023
Unearned revenue	20,110	22,920
	564,542	767,732

The carrying amounts above reasonably approximate fair value at the consolidated statement of financial position date. All trade and other payables are current.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

11 Short term and long term debt

	2020	2019
	\$	\$
Current	-	-
Non-current	40,000	-
	40,000	-

During the year ended December 31, 2020, the Company qualified for a government-guaranteed line of credit (Canada Emergency Business Account “CEBA”) of \$40,000 which was interest-free until December 31, 2020. On January 1, 2021, the line of credit converted to a 2-year, 0% interest term loan to be repaid by December 31, 2022 at which time a 25% balance forgiveness (\$10,000) will apply if the loan is repaid by such date. The Company has the option to exercise a 3-year term extension on the loan by December 31, 2022, if the loan is not repaid by then. At which time, the remaining unpaid balance of the loan will bear interest at 5% interest per annum during the extension period and must be paid in full by December 31, 2025. Funds can be used to pay non-deferrable operating expenses include payroll.

12 Income taxes

a) Effective tax rate

The income tax expense reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

	2020	2019
	\$	\$
Net income (loss) before income taxes	3,625,805	(3,315,654)
Combined statutory tax rate	26.5%	26.5%
Tax payable (recoverable) based on statutory tax rate	961,000	(879,000)
Effect of:		
Permanent differences	690,000	(99,000)
Change in statutory, foreign tax, foreign exchange rates and other	(1,157,739)	527,792
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	48,000	(139,000)
Change in unrecognised deductible tax differences	(643,000)	524,000
Total income tax expense (recovery)	(101,739)	(65,208)
Provision for (recovery of) income taxes		
Current	1,312	90,398
Deferred	(103,051)	(155,606)

b) Deferred income taxes

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.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

12 Income taxes (continued)

The Company did not recognize a deferred tax asset in these Consolidated Financial Statements as there is uncertainty with regard to the recoverability of the asset for both the Canadian and Mongolian entities.

The significant components of the Company's deferred tax assets and liabilities are as follows:

	2020 \$	2019 \$
Deferred Tax Assets (liabilities)		
Property and equipment	51,000	51,000
Investment properties	(478,836)	(581,887)
Allowable capital losses	98,000	98,000
Non-capital losses available for future period	2,393,000	3,036,000
	2,063,164	2,603,113
Unrecognized deferred tax assets	(2,542,000)	(3,185,000)
Net deferred tax liability	(478,836)	(581,887)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

Temporary Differences	2020	Expiry Date Range	2019	Expiry Date Range
Property and equipment	194,000	No expiry date	194,000	No expiry date
Allowable capital losses	371,000	No expiry date	371,000	No expiry date
Non-capital losses available for future period	9,028,000	2030 to 2040	11,458,000	2030 to 2039

Tax attributes are subject to review, and potential adjustment by tax authorities.

13 Share capital and contributed surplus

Common shares

The Company is authorized to issue an unlimited number of common and preferred shares.

The issued and outstanding common shares are as follows:

	Number of shares	Amount \$
Balance, December 31, 2018	33,243,999	53,625,230
Shares re-purchased	-	(120,295)
Treasury stock cancelled	(476,500)	-
Balance, December 31, 2019	32,767,499	593,504,935
Shares re-purchased	-	(339,688)
Treasury stock cancelled	(1,486,000)	-
Balance, December 31, 2020	31,281,499	53,165,247

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

13 Share capital and contributed surplus (continued)

As at December 31, 2020, the Company held 191,500 (2019 -35,000) shares in treasury to be cancelled during the first quarter of 2021.

Stock options

The Company has established a share based payment plan (the "Plan") to encourage ownership of its shares by key management personnel (directors and executive management), employees and other key service providers, and to provide compensation for certain services. The Plan provides for the issuance of stock options in an aggregate number of up to 10% of the Company's issued and outstanding shares, calculated from time to time and are exercisable within a maximum of ten (10) years. The vesting period for all options is at the discretion of the directors. The exercise price will be set by the directors at the time of grant and cannot be less than the discounted market price of the Company's common shares. At December 31, 2020, the Company had 3,128,150 (2019 – 1,856,750) common shares available for the granting of future options under the new plan. The Company does not have any cash-settled transactions. Full details of the Company's option plan can be found in "Schedule C" of the Management Information Circular on the Company's website and filed on Sedar.

A summary of the Company's options as at December 31 and changes during the years then ended follows:

	December 31, 2020	Weighted average exercise price \$	December 31, 2019	Weighted average exercise price \$
Balance, beginning of the year	1,420,000	0.73	3,103,000	1.13
Options expired	1,420,000	0.73	(1,623,000)	1.49
Options cancelled	-	-	-	-
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options forfeited	-	-	(60,000)	0.72
Balance, end of the year	-	-	1,420,000	0.73
Exercisable	-	-	1,420,000	0.73
Weighted remaining average life (years)	-	-	-	0.26

There are no options outstanding as of December 31, 2020.

Options outstanding December 31, 2019

Number outstanding	Number exercisable	Weighted average remaining life (years)	Weighted average exercise price \$
855,000	855,000	0.25	0.72
565,000	565,000	0.27	0.74
1,420,000	1,420,000	0.26	0.73

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

13 Share capital and contributed surplus (continued)

Earnings per share

The following table summarizes the shares used in calculating earnings (loss) per share:

	2020	2019
Weighted average number of shares - basic	32,102,372	32,989,169
Effect of dilutive stock options	-	-
	<hr/>	<hr/>
Weighted average number of shares - diluted	32,102,372	32,989,169

Basic earnings (loss) per share are derived by dividing net income (loss) for the year by the weighted average number of common shares outstanding for the period.

14 Management of capital structure

The Company's objective when managing capital is to ensure the Company is capitalized in a manner which provides a strong financial position for its shareholders.

The Company's capital structure includes equity and working capital. In managing its capital structure, the Company considers future investment and acquisition opportunities, potential credit available and potential issuances of new equity. The Company's objective is to maintain a flexible capital structure that will allow it to execute its stated business. There was no change in the Company's strategy or objective in managing capital since the prior year. There are no externally imposed capital requirements at year end. Upon acquiring investment properties and operating businesses, the Company will strive to balance its proportion of debt and equity within its capital structure in accordance with the needs of the continuing business. The Company may, from time to time, issue shares and adjust its spending to manage current and projected proportions as deemed appropriate.

	2020	2019
	\$	\$
Current assets	12,134,944	5,809,586
Current liabilities	<u>(605,158)</u>	<u>(825,506)</u>
Working capital	<u>11,529,786</u>	<u>4,984,080</u>

The method used by the Company to monitor its capital is based on an assessment of the Company's working capital position relative to its projected obligations.

15 Financial risk management

The Board of Directors ensures that management has put appropriate risk management processes in place. Through the Audit Committee, the Board oversees such risk management procedures and controls. Management provides updates to the Audit Committee on a quarterly basis with respect to risk management.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

15 Financial risk management (continued)

Catastrophe risk

The Company has obtained insurance on buildings and all permanent fixtures totalling approximately \$8,300,000 effective May 8th 2021 (\$11,700,000 - May 7th 2020).

Credit risk

Credit risk is the risk of an unexpected financial loss to the Company if a third party fails to fulfill its performance obligations under the terms of a financial instrument. The Company's credit risk arises principally from the Company's cash and receivables as well as its marketable securities portfolio.

The Company's maximum exposure to credit risk comprises the carrying values of cash, accounts receivable, and marketable securities; in total \$12,110,083 at December 31, 2020 (December 31, 2019 - \$5,769,183).

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio. The majority of the funds invested are held in reputable Barbadian, American, Canadian or Mongolian banks (note 5).

The Company is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. The Company mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The Company's properties are diversified across commercial classes.

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial obligations without raising funds at unfavourable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business are met primarily by funds generated from operations, liquid investments and income and other returns received on investments. Cash provided from these sources is used primarily for investment property operating expenses.

As at December 31, 2020, the Company does not believe the current maturity profile of the Company lends itself to any material liquidity risk, taking into account the level of cash and marketable securities as at December 31, 2020.

All financial assets and liabilities have contractual or expected maturities within 12 months, except for the CEBA loan which has repayment terms described in Note 11. Due to the short term nature of the Company's financial instruments, there is no material impact due to discounting or the time value of money to disclose.

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

15 Financial risk management (continued)

Market risk

i) Other price risk

Other price risk market fluctuation risk is where fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. The Company's marketable securities are exposed to other price risk. The approximate impact of a fluctuation of 10% in the price of the marketable securities would impact the value of the marketable securities by \$1,057,422 (2019 - \$425,226).

Economic risk

Mongolian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by tax authorities.

Mongolian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged by tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Mongolian tax legislation does not provide definitive guidance in certain areas, specifically in areas such as Value added tax (VAT), corporate income tax, personal income tax and other areas. From time to time, the Company adopts interpretations of such uncertain areas that reduce the overall tax rate of the Company. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Company's management believes that its interpretation of the relevant legislation is appropriate and the Company's tax positions will be sustained.

Management performs regular re-assessments of tax risk and its position may change in the future as a result of the change in conditions that cannot be anticipated with sufficient certainty at present.

16 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 Company include all directors and executive management. The summary of compensation for key management personnel is as follows:

Mongolia Growth Group Ltd.
Notes to the Consolidated Financial Statements
For the year ended December 31

16 Related party transactions (continued)

	2020	2019
	\$	\$
Salaries and other short-term employee benefits	479,281	481,213
Director fees	40,000	40,000
	519,281	521,213

As at December 31, 2020, amounts due to related parties totaled approximately \$45,013 comprised of accrued directors fees and fees owed to management (2019 - \$48,118) were included in trade payables and accrued liabilities. In 2019, an amount of \$20,867 was owed to the Company by a company controlled by the CEO.

17 Commitments and contingencies

From time to time and in the normal course of business, claims against the Company may be received. Management is not aware of any pending, or threatened litigation that, if resolved against us, would have a material adverse effect on our consolidated financial position, results of operations, or cash flows, except with regards to the matter described below:

The Company currently has a standing agreement with the owner of a 42 sq. meter apartment which has been included in one of the Company's properties classified as land and redevelopment. 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 Company had an obligation to complete the construction of a new building by the end of fiscal 2017 and the agreement was not extended. The Company has received a demand letter from the owner of the apartment in November 2020 in an amount of approximately \$508,000 in compensation for lost rental income since the Company signed the agreement in 2013. Management believes that the majority of the claim is without merit and will not be successful, and therefore has not recognized a provision with regards to this claim.

However, \$223,693 is currently included in the Company's trade payables and accrued liabilities (note 10) to reflect the contractual liability to provide an apartment.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law.

18 Supplementary cash flow information

	2020	2019
	\$	\$
Changes in non-working capital arising from		
Other assets	1,064,637	(25,230)
Trade payables and accrued liabilities	(178,941)	252,461
Income tax payable	(8,323)	78,355
Changes in non-cash working capital from operating activities	877,373	305,586

Non cash considerations in the form of investment properties for sale of an investment property was classified as other assets (note 7) at December 31, 2019 and received in 2020, totalling \$145,492. Income tax paid during the year was \$32,914 (2019 - \$32,637).

Interest paid during the year was \$21 (2019 - \$82,776).

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

19 Segment information

The Company's operations are conducted in two reportable segments; Investment Property Operations and Corporate. The Company reports information about its operating segments based on the way Management organizes and reports the segments within the organization for making operating decisions and evaluating performance. Investment Property operations consist of commercial and residential investment property in Mongolia held for the purposes of rental revenue, capital appreciation or redevelopment. These properties are managed by Big Sky Capital LLC and its subsidiaries. The Company evaluates performance based on net income (loss) before income taxes.

	2020		
	Investment Property	Corporate	Total
	\$	\$	\$
Rental income	756,283	-	756,283
Property operating expenses	(860,936)	-	(860,936)
Unrealized gain on investment properties	(2,700,069)	-	(2,700,069)
Impairment of PPE	(36,426)	-	(36,426)
Unrealized mark to market gain	-	4,265,403	4,265,403
Other expenses	(267,695)	(910,968)	(1,178,662)
Depreciation	(68,795)	-	(68,795)
Interest income	2,443	69	2,512
Gain on disposal of investment property	106,762	-	106,762
Other revenue	68,170	-	68,170
Realized gain on marketable securities	-	3,288,803	3,288,803
Finance cost	-	(21)	(21)
Foreign currency gain (loss)	4,281	(21,499)	(17,219)
Net income (loss) before income taxes	(2,995,982)	6,621,787	3,625,805

	2019		
	Investment Property	Corporate	Total
	\$	\$	\$
Rental income	1,287,353	-	1,287,353
Property operating expenses	(1,055,102)	-	(1,055,102)
Unrealized loss on investment properties	(1,347,662)	-	(1,347,662)
Impairment of PPE	(158,655)	-	(158,655)
Unrealized mark to market gain	-	454,824	454,824
Other expenses	(156,737)	(1,067,158)	(1,223,895)
Depreciation	(73,294)	-	(73,294)
Interest income	5,489	128	5,617
loss on disposal of investment property	(302,959)	-	(302,959)
Other revenue	156,433	3	156,436
Foreign currency gain (loss)	(10,601)	218,796	208,195
Realized loss on marketable securities	-	(358,826)	(358,826)
Finance cost	(82,775)	(47)	(82,822)
Reclassification of accumulated other comprehensive income on disposal of subsidiary	(824,864)	-	(824,864)
Net income (loss) before income taxes	(2,563,374)	(752,280)	(3,315,654)

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

19 Segment information (continued)

Balance as of December 31, 2020	Investment Property \$	Corporate \$	Total \$
Total assets	16,126,640	11,843,781	27,970,421
Property and equipment	1,293,241	-	1,293,241
Investment properties	14,542,236	-	14,542,236
Expenditures			
Property and equipment	705	-	705
Investment properties	145,412	-	145,412
Total liabilities	922,514	201,479	1,123,993

Balance as of December 31, 2019	Investment Property \$	Corporate \$	Total \$
Total assets	22,329,807	3,747,414	26,077,221
Property and equipment	1,435,650	-	1,435,650
Investment properties	18,831,985	-	18,831,985
Expenditures			
Property and equipment	1,540	-	1,540
Investment properties	48,213	-	48,213
Total liabilities	981,946	425,447	1,407,393

	Trade payables and accrued liabilities		Revenue		Property and equipment		Investment property	
	2020 \$	2019 \$	2020 \$	2019 \$	2020 \$	2019 \$	2020 \$	2019 \$
Canada	201,479	402,107	-	-	-	-	-	-
Mongolia	363,063	365,625	931,215	1,140,830	1,293,241	1,435,650	14,564,844	18,831,985
	564,542	767,732	931,215	1,140,830	1,293,241	1,435,650	14,564,844	18,831,985

Mongolia Growth Group Ltd.

Notes to the Consolidated Financial Statements

For the year ended December 31

20 Other expenses

	2020	2019
	\$	\$
Investor relations	22,537	25,808
Investment research expense	49,772	53,194
Repairs and maintenance	25,122	66,858
Office	69,448	70,633
Professional fees	771,864	888,056
Travel	18,835	51,626
Advertising	10,609	22,832
Land and property tax	77,262	115,250
Insurance	70,858	65,889
Utilities	127,173	156,489
Allowance for doubtful tax receivables	-	(13,807)
Other	196,920	82,317
	<u>1,440,400</u>	<u>1,585,145</u>

21 Disposal of subsidiary

On December 26th, 2019, the Company disposed of its interest in its Endymion LLC subsidiary as a result of the sale of one of its land packages. The Company held 100% of the shares of Endymion LLC where the only assets and liabilities were related to the property. In connection with the sale, the Company received consideration of \$1,288,764 compared to net assets of \$1,502,981 resulting in a loss of \$214,217 classified within loss on disposal of investment property in profit and loss. Endymion LLC had \$824,864 other comprehensive income and it was reclassified to profit and loss.

22 COVID-19

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 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.

23 Subsequent events

- Since January 1, 2021, the Company has repurchased 1,061,500 of its shares at an average price of \$0.42/share and cancelled 1,253,000 shares.
- The Company sold one property for total proceeds of approximately \$396,000 and a net gain of \$nil.

Board of Directors



Harris Kupperman
CEO and Chairman of Mongolia Growth Group Ltd

Mr. Kupperman is a co-founder of Mongolia Growth Group and has been the Executive Chairman of the Corporation since March 2014. Mr. Kupperman was the President and CEO of the Corporation from February 2011 to March 2014 and returned as CEO in December 2014. Mr. Kupperman publishes AdventuresInCapitalism.com; a site dedicated to uncovering unique opportunities around the world. He is currently the President of Praetorian Capital Management, which manages Praetorian Capital Fund, a small cap, event-driven hedge fund based in Florida. He graduated from Tulane University College with a history degree. Mr. Kupperman served as a Director at Aeroquest International Limited (TSX:AQL) from 2010-2011.



Nick Cousyn
Independent Director

Mr. Cousyn is a Capital Markets' professional with 15 years of alternatives and traditional industry experience. Before moving to Mongolia, Mr. Cousyn was a licensed securities professional in the U.S. with extensive experience in relationship management and trading which spanned equities, fixed income, derivatives and distressed debt. While based in the US, some of the firms he worked for included Deutsche Bank, Banque Populaire, Wells Fargo and First Horizon National Bank. During his tenure in Mongolia, Mr. Cousyn has served as Chief Communications Officer for Petro Matad and Chief Operating Officer and head of research for BDSec (MO:BDS), Mongolia's largest broker and investment bank. Mr. Cousyn also served as Co-Chair of the Business Council of Mongolia Capital Market Working Group and was a Senior Council Member and guest lecturer at Mongolia's Institute for Finance and Economics. Mr. Cousyn holds a BA in Economics from the University of California at Riverside and is the co-founder of Terra Explorers, a London registered company focused on Oil Exploration and Production in Mongolia.



Jim Dwyer
Independent Director

Mr. Dwyer is Chairman of Mongoljin Private Capital Ltd. in Ulaanbaatar. Jim was a New York-based investment banker specializing in mergers and acquisitions for 30 years and completed over 100 M&A transactions. In addition, he founded and managed M&A departments for two major investment banking firms: Shearson Loeb Rhoades and UBS-North America. Mr. Dwyer first visited Mongolia in 2001 to represent the Government of Mongolia as lead investment banker for the privatization of its largest bank, Trade & Development Bank. Thereafter, he served as lead investment banker for the privatization of the largest Government-owned retail bank, Khan Bank. He co-founded the Business Council of Mongolia (BCM) and served as Executive Director from its formation in 2007 to 2016. He is also an independent director of other Mongolian-based entities including Golomt Bank, Mandal Insurance and Mongolian Mutual Finance Group. Mr. Dwyer received a BBA from the University of Notre Dame and an MBA from Columbia Graduate School of Business (Columbia University).



Brad Farquhar
Independent Director

Mr. Farquhar is Executive Vice-President and Chief Financial Officer of Input Capital Corp. (TSXV: INP). He previously co-founded Assiniboia Capital Corp., which built Canada's largest farmland fund before selling it to the Canada Pension Plan Investment Board in 2014. Mr. Farquhar is a trained financial planner who spent over 10 years as a senior advisor to senior political leaders in Saskatchewan and Canada prior to going into business. He received a MPA in Electoral Governance from Griffith University in Australia, studied political science at Carleton University, and completed a BA at Providence College. He currently also serves as Executive in Residence in Agribusiness at the University of Regina. Mr. Farquhar is a Director of Input Capital Corp., Luxxfolio Holdings Inc. (CSE: LUXX), Radicle Group Inc., and on the advisory board of AgFunder.com.



Robert Scott
Independent Director

Mr. Scott, CPA, CA, CFA brings more than 20 years of professional experience in accounting, corporate finance, and merchant and commercial banking. Mr. Scott earned his CFA in 2001, his CA designation in 1998 and has a B.Sc. from the University of British Columbia. He is a Founder and President of Corex Management Inc., a private company providing accounting, administration, and corporate compliance services to privately held and publicly traded companies, and has served on the management teams and boards of numerous Canadian publicly traded companies with a strong track record of cost effectively running operations. Mr. Scott has also listed several companies on the TSX Venture Exchange gaining extensive IPO, RTO, regulatory and reporting experience, and currently holds senior management and board positions with a number of issuers on the TSX Venture Exchange & the Canadian Securities Exchange.

Officers

Harris Kupperman
CEO and Chairman of the Board

Genevieve Walkden, MBA, CFP, CAIA
CFO and Corporate Secretary

Auditors

Davidson & Company LLP
Vancouver, BC

Legal

Borden Ladner Gervais LLP
Calgary, AB

Farris, Vaughan, Wills & Murphy LLP
Vancouver, BC

Transfer Agent

Computershare Investor Services
100 University Ave., 8th Floor
Toronto, ON M5J 2Y1
Tel: 1 800 564 6253
www.investorcentre.com/service



TSX - Venture

Canada: YAK

USA: MNGGF

MONGOLIA GROWTH GROUP Ltd.

First Canadian Place, 100 King Street West,
56th Floor, Toronto, Ontario M5X 1C9, Canada

Tel: (877) 644-1186

Fax: (866) 468-9119