Letter to Shareholders

Q1 2021 Letter to Shareholders - MD&A

Harris Kupperman
CEO and Chairman of the Board

Dear Shareholders

As we recently released an elongated business review with our 2020 annual report, I thought an abbreviated first quarter letter was more than justified.

The first quarter of 2021 was unusually difficult as a result of recurring periods of COVID-19 lock-downs and the inability for many of our tenants to operate their businesses. 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. I would like to highlight that despite the difficulties, our 3rd party business had a surprisingly strong quarter, primarily the result of one larger than normal property transaction that MGG Properties brokered. Despite the continued COVID-19 difficulties, I believe that we are continuing to build mind-share in Ulaanbaatar for when our sales and leasing operations can return to normal.

During the first quarter we reported $144,421 (Q1 2020 - $212,209) of leasing revenue and $105,440 (Q1 2020 - $12,929) of other revenue (primarily 3rd party), offset by $209,579 (Q1 2020 - $221,230) of expenses in Mongolia. Unfortunately, our rental revenue once again did not cover our property level operating expenses, even before including the burden of corporate level expenses. It goes without saying, but this is clearly not sustainable.

Offsetting these losses, our public securities portfolio had a surprisingly strong quarter and produced a $492,819 unrealized gain (Q1 2020 - $907,972 loss) and a $5,960,261 realized gain (Q1 2020 - $130,538 loss), along with a $69,650 foreign exchange loss (Q1 2020 - $45,722 loss). I would like to caution you strongly that returns like this are highly unlikely to be repeated in future quarters. At quarter-end, the portfolio's largest exposures were an entity that owns Bitcoin, a large land owner in Florida, a natural gas producer, a transporter of propane, gold ETFs and a company tied to housing and construction. While our public securities investments have helped offset operating losses during the first quarter, 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. Unfortunately, we have yet to identify such a business.

Our data analytics service, named KEDM, that tracks various Event-Driven strategies has continued to gain free subscribers and has thus far exceeded our expectations in terms of user engagement. We hope to initiate a paywall in June and start monetizing this service. However, we remain hopeful that KEDM will help to offset our operating losses until we can find a business to acquire. To learn more, subscribe at http://www.KEDM.COM

Returning back 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 the first quarter, the Company re-purchased 1,061,500 shares under our Normal Course Issuer Bid at a cost of $444,655.

Sincerely,

Harris Kupperman
CEO