



Dear Shareholders,

Another year has come and gone. For better or worse (mostly worse) the majority of our capital continues to earn unacceptable returns in Mongolia. Despite how bleak that sounds, 2018 was the first year in many years that our company did not lose value—in fact book value increased slightly. This was the result of an increase in the carrying value of our assets and gains on our public securities portfolio, offset by continued operating losses. Most importantly, our cash and investments balance outside of Mongolia has increased yet again, giving us increased flexibility to diversify our company in the future.

Despite an optimistic outlook for Mongolia's economic growth in our Q3 shareholder letter, Mongolia's government returned to its strong tradition of political instability almost immediately following the release of that letter. Despite this instability, the pace of economic growth only slowed moderately during the fourth quarter. I believe this is the result of the Mongolian people becoming somewhat inured to the tribulations foisted upon them by their government. At the same time, hope of mega-projects or anything actually positive is simply that—hope. Unfortunately, hope doesn't produce returns for shareholders. Genevieve and I are more than cognizant of this fact and remain focused on diversifying our business (more on that below).

Turning to our property business, we have continued to be able to increase rental rates upon renewal (in local currency terms) while maintaining almost complete occupancy. Our 3rd party leasing business continues to gain traction in terms of transaction volume and public awareness, and I remain impressed by what our team has been able to accomplish despite constant economic adversity. Given the capital light nature of the 3rd party business, we have continued to invest resources into it. While we showed an increase in the carrying value of our property portfolio, this increase was less than I would have expected due to a slow-down in comparable transaction volume, caused by government instability. During 2018, we were able to sell three store fronts for net proceeds of \$547,955. While every bit of cash helps us to diversify the company, this isn't enough to allow us to pivot like I would want to.

Genevieve and I are acutely aware that we are not cash flow positive and will almost certainly never be cash flow positive based upon our current property portfolio. Our two options are; to wait for a recovery that may never happen, or to dispose of property assets so that we may diversify the business into something that does produce cash flow. Unfortunately, when we sell property assets, we also reduce our rental revenue, which increases our cash flow losses, making our cash flow problem intensify. In some ways, this is a self-imposed acceleration of the situation that we have been in for the past few years—however the alternative is likely a similar result spread over a longer time-frame. We have chosen to accept the former as the potential for a positive outcome is preferable to an almost certain negative outcome. As a result, we've targeted the sale of certain non-core assets, while maintaining our core property portfolio so that we retain upside optionality should Mongolia ever recover. Unfortunately, this process has been intolerably slower than we anticipated and the slower this process goes, the more capital we will lose due to operating losses. I know that I have repeated this fact many times in the past few years, but it is worth reminding you of the predicament that we remain in. Let's move on to what is working for MGG.

In rough numbers, during 2018, our public securities portfolio generated approximately \$1,000,000 in realized gains, offset by approximately \$600,000 in unrealized losses and foreign exchanges losses of about \$150,000 for a positive impact of about \$250,000. I prefer to focus your attention on the realized gains and losses as opposed to unrealized gains and losses. This is because the stock market is volatile and arbitrary in the short-term, yet realized results show that we have underwritten various investments at attractive valuations and ultimately realized a positive outcome. Our gains during 2018 were generated on roughly half of our starting capital base of \$2,800,000 as the remainder was invested in shares of Mongolian Mining Corp (975 – HK) which declined in value during 2018. While MMC is highly undervalued on almost any metric, the re-emergence of border issues and unlikelihood of a railroad deal have somewhat impaired the thesis and we reduced this position near year-end (incurring a small loss) so that we can manage a more diversified portfolio going forward.

At year end, excluding our ownership of MMC shares, the portfolio was concentrated in various US natural gas producers, a product tanker company, various small cap equity longs and a put spread position in a likely automotive fraud. My expectation remains that over time, our public securities investments will produce a positive outcome,

but will also be highly volatile from quarter to quarter—particularly as the portfolio is likely to remain highly concentrated in a handful of individual stocks or sector themes. Despite my expectation that our public securities will perform well over time, my goal isn't to turn MGG into a collection of publicly traded securities, as there are tax and regulatory reasons why this is inadvisable. Rather, I see investments in public securities as an avenue to utilize our cash balance while we seek out the purchase of some or all of an operating business.

While we are not yet in a liquidity position to substantially diversify our business, we have continued to explore various business ideas. During 2018, we hired a consultant to help speed up this process. While the consultant's efforts have increased the number of businesses we have looked at, we have not identified a business that is willing to sell to us at our demanding valuation terms. Fortunately, we have kept our spending on this endeavor principally to travel expenses and a monthly retainer for the consultant. You may ask why we are spending capital to look at businesses when we don't have the capital to close on any business that we may identify. This is a good question. My answer would be that I believe that with the right business, we could attract outside capital to co-invest in some format. In a worst-case scenario, we could raise additional equity capital at the MGG level. While such a move would be dilutive from a strictly book value standpoint, any cash flow generated from the new business would help us in out-running the recurring losses from our existing property business and would therefore be long-run accretive. That said, I am the largest shareholder of MGG and do not intend to dilute myself (or other shareholders) unless the deal is particularly attractive.

Unfortunately, unless the Mongolian economy recovers, we have a number of pretty bad choices ahead of us. Our goal is to choose the least bad one while tenaciously trying to create shareholder value along the way. This narrative is not meant to be all dour; instead, it is meant to show that we are realistic about our own company's predicament. Our property business is subscale and despite an increase in rental rates, we expect that when combined with our corporate overhead, MGG will likely produce operating losses (excluding potential gains from our public securities portfolio) for the foreseeable future.

Despite all of this, I believe that our shares are undervalued. During the fourth quarter, the company re-purchased 107,000 shares under our Normal Course Issuer Bid at a cost of \$37,410. You will notice that the pace of our NCIB has slowed over the past few quarters. This is somewhat deliberate as we have chosen to increase our focus on growing our cash balance so that we may acquire a business in the future and hopefully put the company back on a path to growth for the first time in many years.

Sincerely,

A handwritten signature in blue ink, appearing to read 'HK 1', is positioned above the typed name.

**Harris Kupperman**

**CEO and Chairman of the Board**