



Harris Kupperman  
CEO and Chairman of the Board

# Letter to Shareholders

Q1 2017 Letter to Shareholders - MD&A

Dear Shareholders,

First quarter AFFO saw an improvement since previous quarters, improving from negative \$119,237 in the first quarter of 2016, to negative \$57,379 in 2017's first quarter. This was the result of the Corporation's efforts to reduce expenses offset by a continued decline in revenue due to Mongolia's economic crisis.

In order to offset the continued depreciation of the Mongolian currency, MGG enacted a broad-based compensation review that re-set most employee wages to higher rates adjusted for the past two years of currency depreciation, along with offering raises to certain key employees. Following what was effectively a salary freeze over the past two years. This initiative was well overdue and is expected to negatively impact our AFFO going forward. Other expenses were roughly in line with the levels of prior quarters and are expected to remain roughly similar going forward.

Offsetting these increases in expenses, the first quarter of 2017 saw a continued decline in our leasing revenues due to the economic crisis in Mongolia and lower rental rates that are prevailing across Ulaanbaatar. However, our occupancy continues to remain substantially higher than market rates. The first quarter was also the first quarter where our agency business showed material traction. MGG closed 7 transactions during the first quarter and earned approximately \$11,000 in revenue from brokerage transactions. While we expect this business to continue growing, we are being realistic in terms of its ultimate profit potential and see it more in terms of helping our agents to get deal flow to help our existing properties—rather than as a substantial profit center. Our goal is to operate this business at roughly break-even and continue to contribute all profits towards additional marketing resources.

In terms of our publicly traded securities holdings; during the quarter, MGG purchased an additional 1,000,000 shares of Mongolian Mining Corporation (975 – Hong Kong) at an average price of 27.8 Hong Kong cents. As at quarter end, MGG owned 20,000,000 shares. Based on recent management guidance of approximately 4.5 million tons of coal exports in 2017 and 7.0 million tons

in 2018, the shares are trading at between one and two times 2017 cash flow before tax and less than one times 2018 cash flow before tax, assuming that coal prices and operating costs remain at roughly current levels. Additionally, it is highly likely that if the Government of Mongolia is able to successfully conclude an international joint venture to operate the Tavan Tolgoi coal deposit, Mongolian Mining Corp will likely feature significantly in this joint venture as the most capable local Mongolian partner. While the value of our share position declined during the quarter, we believe that the shares remain undervalued. Over time, we anticipate that our current and future share ownership positions will be volatile, but likely to produce positive returns to shareholders.

During the first quarter, MGG sold one property asset for a value of \$1,448,995. MGG is focused on selling additional assets in order to increase liquidity and offset future anticipated operating losses, while ensuring that the Corporation has excess liquidity to invest in attractive future opportunities such as Mongolian Mining Corp. One of my regrets during 2016 was that we did not have enough liquidity to build a much larger position in that investment when the shares were around 11 cents. I do not intend for MGG to be in a similar position in the future—even if that means that we must sell property assets at sizable discounts to current carrying values in order to generate additional liquidity.

Unfortunately, the Mongolian economy continues to contract and is unlikely to bottom unless at least one mega-project is finalized. Until then, it is expected that our revenues will continue to decline while our costs are likely to be stable or increase going forward. As we are not AFFO positive currently and unlikely to be AFFO positive in the future, our goal is to continue selling assets in order to increase our liquidity and ride out the crisis as best as possible.

Despite everything that I've said above, I believe that our shares are highly undervalued. During the first quarter, the Corporation repurchased 196,000 at an average price of \$0.34. Despite our very limited liquidity, I believe that repurchasing shares remains a good use of our capital and

the Corporation will continue on this path as long as the shares remain highly undervalued and we have sufficient liquidity to continue repurchasing shares. The current economic situation in Mongolia is bleak and likely to get worse—yet I haven't lost hope in the ultimate future for MGG. As evidence of that, since the start of the year, I have also purchased additional shares and intend to continue to increase my shareholding in MGG over time.

Sincerely,

A handwritten signature in blue ink, appearing to read 'HKA', with a stylized flourish at the end.

**Harris Kupperman**  
**CEO and Chairman of the Board**