Harris Kupperman
CEO and Chairman of the Board

Letter to Shareholders

Q2 2018 Letter to Shareholders - MD&A

Dear Shareholders,

The second quarter of 2018 results were roughly in-line with expectations and saw a continued decline in revenues offset by a small increase in expenses when compared to 2017. The reduced revenue was the result of the economic crisis which has impacted lease rates, along with reduced revenues due to asset sales to fund working capital—offset by a slight increase in expenses mostly related to compensation—some of which is now classified as “professional fees.” I believe that current run-rates are somewhat indicative of where quarterly results should be going forward, excluding the continued reduction in revenues as we sell assets—potentially offset by an increase in expenses as we research other businesses to enter, to continue the focus on diversifying our company.

During late March of 2018, Prime Minister Khurelsukh Ukhnaa had high level meetings with various Chinese leaders regarding the semi-embargo at the border. Following these meetings, commodity exports increased dramatically and this increase in volume has continued as of today. With 4 months of increased export volumes, the economy has seen some signs of a recovery. While the property sector normally lags in a recovery, we have also seen some benefits of the improved economic mood. In particular; many of our tenants are now caught up on delinquent rents and near quarter end, we began to successfully pass along slight rent increases upon renewals. While there has been some push-back on rent increases, the majority have been accepted by tenants.

While this quarter marks the first quarter in many years where we have successfully increased rents, it is important to realize that rental rates have declined for the better part of 5 years and there is no way to know if this trend is sustainable—particularly as various commodities that Mongolia relies upon for exports (coal, copper, gold, etc.) have declined dramatically in price on global markets over the past month—which will naturally have an impact on export values and the economy

While any recovery in the Mongolian economy, no matter how slight, is more than welcome, a recovery based on restoring export volumes at existing mines will only take the economy so far. For the Mongolian economy to return to real growth, it will require bold leadership from the government in re-starting the many stalled mega-projects. Unfortunately, due to a combination of government corruption and incompetence over the past 5 years, many of the former investors and partners in these mega-projects have long since left Mongolia for countries more supportive of foreign investment. These investors will not soon return.

During the quarter, we were unable to sell any property assets. To date, our primary focus has been to increase liquidity so that we can move the business forward—either through investments in public securities or the diversification of our business through the acquisition of all or part of a business that is not in Mongolia. That said, our primary focus is to first increase liquidity while keeping costs contained as that gives us the flexibility to act in the future.

Our securities portfolio produced a small unrealized gain and a slightly larger realized gain for the quarter. Our unrealized gain was the result of most positions appreciating in value during the quarter, offset by a 24% decline in shares of Mongolian Mining Corp (975 – Hong Kong). The shares have declined 38% during the first half of the year. As this is by far our largest position, it has negatively impacted the overall portfolio. During the quarter, weWe have continued to add to shares of Mongolian Mining Corp as the shares declined and as of this writing, we own 60,000,000 shares. The shares declined due to a decline in exports that have impacted profitability starting during the late summer of 2017. However, border exports have improved dramatically during the second quarter (up 98% over the first quarter) and appear to be at an elevated level into July. We see tremendous opportunity in the shares as market participants recognize the recovery in exports and profitability. We believe that if washed coal exports return to a 6 million ton run-rate, the shares trading at 12.8 Hong Kong cents at the end of June 30, 2018, trade for less than 1 times normalized earnings, when a more appropriate multiple would be between 3 and 6 times earnings. Our expectation remains that while this portfolio will be volatile on a quarterly basis, particularly due to the size of our position in Mongolian Mining, the investment portfolio should produce gains over time that may hopefully offset some of the future expected losses from our Mongolian operations.

In summary, while we remain optimistic about Mongolia's long-term future, we are realistic about our own company's predicament. Until the government becomes supportive of economic growth, the economy will muddle along—at best. The longer this takes; the more capital we will lose as we wait for a recovery. Despite this outlook, I continue to believe that our shares are undervalued. During the first half of the year, the Company re-purchased 227,500 shares under our Normal Course Issuer Bid at a cost of $55,295.

Sincerely,

Harris Kupperman

CEO and Chairman of the Board