



Harris Kupperman
CEO and Chairman of the Board

Letter to Shareholders

Q3 2017 Letter to Shareholders - MD&A

Dear Shareholders,

Third quarter AFFO was in-line with expectations and saw a continued improvement since previous quarters, improving from negative \$42,162 in the second quarter of 2017 to positive \$3,906 in 2017's third quarter. This was the result of the Corporation's efforts to reduce expenses, lower seasonal expenses during the summer and a decline in USD denominated expenses, offset by a continued decline in revenue due to Mongolia's economic crisis. I am proud of the hard work that everyone has undertaken in the two years since I returned as CEO, as the Corporation has finally achieved positive AFFO performance despite the continuing economic crisis. Unfortunately, we believe that this quarter will represent something of a high-water mark for our AFFO and we expect a continued worsening of our AFFO position in future quarters.

Following some faint glimmers of economic recovery in the early summer, due to an increase in coal shipments, the mood has returned to one of uncertainty for the economy. Between repeated verbal attacks on foreigners during the Presidential election, a 4-month disruption to choose a new government, attacks on small-scale gold miners, a postponement of the IMF bailout program and the Chinese decision to partially close the border to exports, the Mongolian economy is once again reeling. While some believe that the economy may be in the process of bottoming—it is just as likely that early summer's uptick was the lull before a whole new leg down begins. While I believe that Mongolia will ultimately thrive, it will not happen without 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.

As we look at the property sector, we remain stunned by the number of new developments that are advancing during a time when demand for new commercial property is virtually non-existent and many potential tenants are downsizing or going out of business.

As a result of this, property prices could continue to decline in value for the foreseeable future. Even if policy decisions are made that are supportive of the economy, it is unlikely that property prices will appreciate materially for many years into the future due to the increasing quantity of new supply that continues to be built. Furthermore, should such positive economic decisions be made, the most obvious and likely one will involve approval of a railroad to help transport coal to the Chinese border. Such a decision would likely lead to substantial appreciation in our sizable (45,000,000 shares) position in Mongolian Mining Corp. (975 – Hong Kong), long before it would trickle down to the property sector, many years later. Unfortunately, some in the Mongolian government are focused on senseless attacks on Chinese trade that will only serve to further scare potential investors and tighten the noose around Mongolian coal and copper sales.

After taking into account the situation that I've described above, we've continued with our plans to dispose of low-yielding property assets, while maintaining our core retail portfolio. Cash proceeds have been re-invested into publicly traded securities. To date, our pace of asset sales has underwhelmed even my pessimistic assumptions, due to the very weak economy. This may necessitate us selling assets below current carrying values, leading to further impairments to our Net Asset Value during our year-end valuations.

While we are laser focused on costs, it is likely that our corporate cost structure will increase in future quarters as we allocate resources towards searching for investment opportunities. Additionally, disposing of assets will further reduce our rental revenue. As these two metrics diverge, after three years of convergence, we expect that our negative AFFO will continue to worsen, however we hope that eventually, these increased costs will be outweighed by future investment gains. We believe that continuing to sell assets in order to reduce potential losses if property prices continue to decline as well as having additional liquid capital at this part of the crisis, will give us the flexibility to find more attractive investment opportunities at some point in the

future—especially if an economic recovery is many years in the future.

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 that we will lose as we wait for a recovery. Despite this gloomy outlook, I continue to believe that our shares are undervalued. During the third quarter, the Company re-purchased 527,000 shares under our Normal Course Issuer Bid at a cost of \$175,714.

We've waited many years for the economy of Mongolia to recover. The solutions are quite simple—the problems are mostly self-inflicted. One day, hopefully, the politicians will allow it to recover. Until then, the best that we can do is hunker down and try to survive.

Sincerely,



Harris Kupperman

CEO and Chairman of the Board