



Harris Kupperman  
CEO and Chairman of the Board

# Letter to Shareholders

Q1 2018 Letter to Shareholders - MD&A

Dear Shareholders,

First quarter 2018 results were in-line with expectations and saw a continued decline in revenues offset by a decline in expenses when compared to 2017, due to certain one-time expenses incurred in the first quarter of 2017. The reduced revenue was the result of the continuing economic crisis which is impacting lease rates, along with reduced revenues as a result of asset sales to fund working capital—offset by reduced expenses as a result of our continuing focus on minimizing costs. 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.

Following some faint glimmers of economic recovery in the early summer of 2017, due to an increase in coal shipments, the mood has returned to one of uncertainty for the economy. Between repeated verbal attacks on foreigners, arrests of prominent Mongolians who have supported economic growth, attacks on small-scale gold miners, new taxes imposed upon large mining companies and the Chinese decision to partially close the border to exports for most of the fall and winter, the Mongolian economy is once again suffering. 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.

During the quarter, we were unable to sell any property assets due to political uncertainty and the continuing economic crisis—which has dissuaded most Mongolians from making long-term investments. 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 realized and unrealized loss for the quarter. Our expectation remains that while this portfolio will be volatile on a quarterly basis, it 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 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 first quarter, the Company re-purchased 527,000 shares under our Normal Course Issuer Bid at a cost of \$175,714.

Sincerely,

**Harris Kupperman**

**CEO and Chairman of the Board**