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2020 ОУ, 03

No 20/36

Ulaanbaatar

**THE STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR PREPARING AND APPROVING THE FINANCIAL STATEMENTS
AS AT DECEMBER 31 2019**

We, the management of ARD FINANCIAL GROUP JSC, are responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards, whereas these responsibilities include protecting their assets and identifying and preventing from fraud and other errors.


At the end of the reporting date, we assess the ability to conduct continuously the activities of the company and we are responsible to present going concern in the financial statements in case of insolvency or ceasing its activities.

We are responsible for supervising and conducting control over the legal or constructive obligations as a result of past events or the events that may pose financial losses to the future activities of the company and in case of a legal or constructive obligation due to past events; we are responsible for reporting the contingency in the financial statements.

We, hereby, declare that in compliance with our responsibilities regarding the financial statements as at December 31, 2019, we prepared and presented the financial statements fairly in accordance with the International Financial Reporting Standards and Accounting Law of Mongolia.

These financial statements of ARD FINANCIAL GROUP JSC as at December 31, 2019, are therefore approved.


Chief Executive Officer
Ch. Ganhuyag


General Accountant
G. Selenge

March 25, 2020



DALAIVAN AUDIT

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INDEPENDENT AUDITOR'S REPORT

TO: THE BOARD OF DIRECTORS OF ARD FINANCIAL GROUP JSC

Opinions

We have audited the financial statements which comprise the statements of financial position as at December 31, 2019, the statements of profit or loss and other comprehensive income, the statements of changes in equity, the statements of cash flow for the year then ended and the notes to the financial statements including highly significant accounting policies of ARD FINANCIAL GROUP JSC.

In our opinion, the statement of financial position, profit or loss and other comprehensive income, changes in equity and cash flow of ARD FINANCIAL GROUP JSC as at December 31, 2019, present fairly and are, in all material respects, in compliance with the International Financial Reporting Standards.

Opinion basis

We conducted our audit in accordance with the International Standards on Auditing (ISA). According to the standards, our responsibilities are stated in the auditor's responsibility for the financial statement audit section of this financial statement. We have complied with the ethical requirements of financial statements auditing to be independent of our customers and comply with ethical responsibilities and other obligations under these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit key issues

The key issues, that draw our most attention, are identified by our professional solution during the auditing of financial statements for the reporting period. We, however, do not express any assurances regarding these issues. But, we disclose that the following issues are considered to be audit key issues during the auditing of financial statements as at 2019.

About business combination:

During the reporting period, ARD FINANCIAL GROUP Closed Joint Stock Company was merged into JINST UVS Joint Stock Company and the name of JINST UVS Joint Stock Company was changed to ARD FINANCIAL GROUP Joint Stock Company. JINST UVS JSC had acquired ARD FINANCIAL GROUP CJSC by issuing additional shares and after the merger; the shareholders of former ARD FINANCIAL GROUP CJSC had acquired 94.18% of the total shares of JINST UVS JSC. Thus, according to the IFRS 3 – Business Combination, the business combination was considered to be the reverse take-over and the acquirer of the merger was determined to be ARD FINANCIAL GROUP CJSC.

**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Audit key issues (continued)

As a result of the event mentioned above, these financial statements except the owner's equity section are considered to be the continuation of the financial statements of former ARD FINANCIAL GROUP Closed Joint Stock Company. Detailed information can be found in Notes 6.28.

Audit approach: We examined the appropriateness of the approval documents regarding the business combination issued by the regulatory bodies; the resolutions of the shareholders; regulation on business combination; transactions and their outstanding balances before the merger, and assets and liabilities that were recognized and written off during the business combination.

About investments in Ard coins:

During the reporting period, the company had acquired a total of 2,337,874,036.46 Ard coins (ARDX), issued by ARD BIT LLC, and, of which, had paid out a total of 1,673,202,472.21 Ard coins as a compensation to the customers and the payables to some related parties. The company held a total of 664,671,564.26 Ard coins at the reporting date and translated the coins using the exchange rate (4.71MNT per coin) from the website www.coinmarketcap.com and reported the coins in prepaid expense in the statement of financial position. Detailed information can be found in Notes 6.10.

The company made the fair value measurements respectively in the Q2 and annual financial statements and recognized the net value of 675,735,800MNT arising from valuation difference as other comprehensive income.

There are neither approved nor prohibited regulations regarding the activities of cryptocurrencies. There are as well as no accounting and reporting regulations in both IFRS and accounting law of Mongolia.

Audit approach: We examined the account balances regarding the coins, fair value information, and the information used in accounting and financial reporting during the audit and we believe it is an audit key issue since it is highly probable that there shall be increased and larger transactions in cryptocurrencies to affect the financial statements in a material respect.

Other information

The management is responsible for other information. Although other information comprises the information reported in the annual statement, the financial statements and auditor's report may not be included in the other information. Therefore, we do not express assurance over other information.

An audit includes reading the other information to consider whether this information complies with the financial statements in a material respect. If we have revealed that there is a misreporting in a material respect in other information based on our work, an audit must disclose those misreporting. During the audit, such a situation did not arise.

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The responsibilities of the management and governing management for the financial statements

The management is responsible for the preparation and fair presentation of financial statements in accordance with the IFRS, whereas these responsibilities include identifying the internal control relevant to the preparation and fair presentation of financial statements that are free from fraud and error incurred from material misstatement.

The management is responsible for conducting the operations following the principle of continuous financial statement preparation based on going concern and constantly evaluating the company's ability management financial statements, except the cases of insolvency, or ceasing its activities, and to have to disclose additional clarification relevant to the continuity of the accounting basis used for accounting.

Corporate governance is responsible for the supervision of the financial reporting process.

Auditor's responsibility in financial statement audit

Our goal is to prepare the auditor's report indicating our opinion with the assurance that financial statements in the whole that are free from fraud and error incurred from material misstatement. Most reasonable assurance is the highest guarantee with a high level of assurance, but it does not detect all misstatements upon an audit conducted under ISA. If it is considered that error or fraud is in a substantial amount, then it may influence the economic decisions of users of financial statements.

According to ISA, we had a professional skeptical approach throughout the audit. And we have performed the following tasks:

- We have assessed whether the financial statements have material misstatement incurred from fraud or error, undertaken audit procedures to determine its response, obtained sufficient appropriate audit evidence as to the basis for the opinion. An alleged conspiracy to forging operations, and deliberate neglect, ignorance of internal controls has risks of not detecting material misstatements and misreporting, instead of one error.
- To develop appropriate audit procedures we have gained an understanding of the company's internal control system, but we have no intention to evaluate the effectiveness of internal control.
- We have assessed the appropriateness of the Company's accounting policies and accounting estimates and disclosures used.
- If the company is going concern has a material uncertainty, then we will focus on the relevant disclosure of financial statements. If this is enough to mention the relevant disclosures, we shall change our opinions. Our audit report related to the audit findings based on evidence until the date of the auditor's report. Therefore, their ability to influence the situation on a going concern basis the company may arise in the future.
- We reviewed the entire structure, content, presentation, and disclosure of financial statements and assessed the accuracy of transactions and events financial statement presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

STATEMENT OF FINANCIAL POSITION

Items	Notes	2019.12.31. <u>MNT thousands</u>	2018.12.31. <u>MNT thousands</u>
ASSETS			
Current assets			
Cash and cash equivalents	6.1.	43,235.6	2,034.8
Trade and other receivables	6.2.	4,902,640.1	3,001,265.8
Loan and interest receivables	6.2.	403,269.0	6,820,414.5
Tax and contribution receivables	6.9.	6,864.8	14,941.4
Inventories	6.11.	6,231.1	36,364.2
Prepaid expense	6.10.	3,685,467.0	830,472.0
Short-term investments	6.3.	13,989,498.9	146,055.7
Non-current assets held for sale	6.12.		2,400,000.0
Total current assets		<u>23,037,206.5</u>	<u>13,251,548.4</u>
Non-current assets			
Property, plant, and equipment – net	6.13.	642,006.7	739,940.7
Intangible assets – net	6.14.	127,431.2	246,604.6
Long-term investments	6.3.	54,265,176.2	43,810,718.8
Investment properties	6.15.		2,417,832.1
Total non-current assets		<u>55,034,614.1</u>	<u>47,215,096.2</u>
TOTAL ASSETS		<u>78,071,820.6</u>	<u>60,466,644.6</u>
LIABILITIES			
Short-term liabilities			
Trade and other payables	6.4.	2,333,638.6	131,267.0
Other payables	6.4.	12,901.7	12,675.8
Short-term loan payables	6.5.	1,082,465.3	1,814,620.0
Short-term lease payables	6.6.	41,096.3	
Interest payables	6.7.	198,315.5	251,491.3
Tax payables	6.9.	68,822.0	23,877.4
Total short-term liabilities		<u>3,737,239.4</u>	<u>2,233,931.5</u>
Long-term liabilities			
Long-term loans	6.5.	2,236,039.0	240,370.2
Lease payables	6.6.	261,389.7	
Other long-term loans	6.8.	12,183,954.7	5,524,671.1
Deferred tax liabilities	6.16.	3,070,863.0	1,957,039.5
Total long-term liabilities		<u>17,752,246.4</u>	<u>7,722,080.8</u>
TOTAL LIABILITIES		<u>21,489,485.8</u>	<u>9,956,012.3</u>

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STATEMENT OF FINANCIAL POSITION (CONTINUED)

Items	Notes	2019.12.31. MNT thousands	2018.12.31. MNT thousands
<u>EQUITY</u>			
Share capital	6.17.	28,590,335.0	1,879,652.8
Treasury shares	6.17.	(1,414,706.0)	(160,216.4)
Paid-in capital	6.17.		9,929,060.7
Fair value adjustment reserve	6.17.	16,124,512.7	14,081,066.0
Other equity instruments	6.17.	13,799.1	13,799.1
Retained earnings	6.17.	13,268,394.0	24,767,270.2
TOTAL EQUITY		<u>56,582,334.8</u>	<u>50,510,632.4</u>
TOTAL LIABILITIES AND EQUITY		<u>78,071,820.6</u>	<u>60,466,644.7</u>

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**STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

Items	Notes	2019.12.31.	2018.12.31.
		<u>MNT thousands</u>	<u>MNT thousands</u>
Sales revenue	6.18.	1,569,829.5	3,863,044.9
Cost of sales			
Profit (loss)		<u>1,569,829.5</u>	<u>3,863,044.9</u>
Interest income	6.19.	304,891.3	351,531.9
Dividend income	6.19.	537,156.7	897,653.7
Other income	6.20.	87,252.3	296,165.6
Sales and marketing expense	6.21.	(1,262,376.9)	(322,092.8)
General and administrative expense	6.21.	(4,441,981.1)	(3,209,382.0)
Interest expense	6.19.	(1,454,685.7)	(854,143.2)
Other expense	6.22.	(132,645.1)	(104,602.4)
Gain (loss) on foreign currency exchange differences	6.19.	(20,035.5)	54,643.7
Gain(loss) on disposal of property, plant, and equipment	6.23.	(34,430.2)	
Gain (loss) on disposal of intangible assets			
Gain (loss) on sale of investment	6.23.	163,761.1	
Gain (loss) on investment valuation	6.23.	9,059,062.8	(180,267.9)
Profit (loss) before tax		<u>4,375,799.2</u>	<u>792,551.6</u>
Income tax expense	6.24.	(970,978.2)	(124,918.6)
Profit (loss) for the year - net		<u>3,404,821.0</u>	<u>667,633.0</u>
Other comprehensive income:			
Increase in fair value adjustment reserve – net		2,043,446.8	6,730,845.0
Total comprehensive income		<u>5,448,267.8</u>	<u>7,398,478.1</u>
Earnings per share (base)	6.25.	<u>155.17</u>	<u>38.83</u>

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STATEMENT OF CASH FLOWS

	2019.12.31.	2018.12.31.
	MNT thousands	MNT thousands
1.CASH FLOW FROM OPERATING ACTIVITIES		
<i>1.1 Cash received from primary operating activities</i>	307,609.9	849,588.4
Revenue from sales and services rendered		442,380.4
Revenue from royalties		
Revenue from insurance claims		
Revenue from taxes		
Revenue from subsidy		
Other revenue	307,609.9	407,208.0
<i>1.2 Cash paid for primary operating activities</i>	(4,294,615.9)	(3,834,173.7)
Cash paid to employees	(453,807.8)	(722,458.0)
Cash paid to the social insurance organization	(167,721.6)	(118,098.7)
Cash paid to the acquisition of inventories	(28,927.9)	(638,929.0)
Cash paid to utilities	(369,112.2)	(859,013.4)
Cash paid to fuel and spare parts	(35,281.5)	(28,787.5)
Interest paid	(1,345,981.8)	(660,395.8)
Taxes paid	(127,467.0)	(162,124.0)
Insurance premiums paid	(18,269.7)	
Other cash expense	(1,748,046.4)	(644,367.3)
Cash flow from operating activities – net	(3,987,006.0)	(2,984,585.3)
2.CASH FLOW FROM INVESTING ACTIVITIES		
Interest received	8,986.5	84,575.0
Dividend received	485,721.6	93,406.4
Repayment of loan and advances received	3,555,791.9	8,467.3
Proceeds from the sale of property, plant, and equipment	132,951.9	
Proceeds from the sale of investment	497,756.6	
Acquisition of property, plant, and equipment	(69,197.2)	(230,045.3)
Acquisition of intangible assets	(11,027.1)	(6,180.3)
Loan and advances	(4,151,021.9)	(622,520.7)
Acquisition of investment	(2,490,212.6)	(469,000.0)
Acquisition of other long-term assets	(1,366,018.1)	
Cash flow from investing activities – net	(3,406,268.4)	(1,141,297.6)

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STATEMENT OF CASH FLOWS (CONTINUED)

	2019.12.31.	2018.12.31.
	<u>MNT thousands</u>	<u>MNT thousands</u>
3.CASH FLOW FROM FINANCING ACTIVITIES		
Cash received from loans and issuing bonds	8,468,672.8	4,425,231.9
Cash paid as the repayment of loans and bonds	(1,032,546.6)	(825,778.7)
Cash received from issuing shares		
Cash paid to the acquisition of shares and bonds	(1,651.0)	(160,601.9)
Other cash revenue from financing activities		
Cash flow from financing activities - net	<u>7,434,475.2</u>	<u>3,438,851.3</u>
Cash flows – net	<u>41,200.8</u>	<u>(687,031.6)</u>
<i>Cash and cash equivalents at 1 January</i>	<i>2,034.8</i>	<i>689,066.4</i>
<i>Cash and cash equivalents at 31 December</i>	<u>43,235.6</u>	<u>2,034.8</u>

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