

STATE MINING CORPORATION LIMITED

Annual Report 2016



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TABLE OF CONTENTS

FROM THE CEO'S DESK 2

COMPANY PROFILE..... 5

BOARD DIRECTORS' PAGE ... 8

MANAGEMENT PAGE..... 11

GALLERY..... 13

DIRECTORS' REPORT 14

ACKNOWLEDGMENT 18

CORPORATE GOVERNANCE 19

AUDITOR'S REPORT..... 22

FINANCIAL STATEMENT 31

FROM THE CEO'S DESK



I am honored as the Chief Executive Officer to share Management's endeavors and experiences for the Annual Report 2016. Right after joining office, I took stock of the work plan, which was consolidated as Compact 2016. Examining the activities of Compact 2016 and comparing them with progress, I could right away recognize a host of issues and challenges I have to deal with. On hindsight, to deal with these issues and challenges, I was fortunate to begin my tenure with a five day session on Senior Executive Development Program (SEDP) at the Royal Institute of Governance and Strategic Studies (RIGSS), barely a week after I joined the Company. Besides giving me a sound grounding on corporate governance principles and the best practices, it provided me the much-needed confidence to transit into the Corporate World.

Euphoria of joining a corporation was short lived. Common sense told me to carry out the reality check on Habrang Coal Mine by visiting it, the only activity under operation. I reached the site on 24th July 2016. If seeing is believing, reality of what I saw struck me. I had come to a steep landscape, abruptly rising from the right bank of the Nera Ama River, divided by a ravine with a muddy stream and this was the Habrang Coal Mine. Block A and Block B were perched on the right and left banks of the stream respectively. Block B had nine benches already developed, but no coal seams could be located for mining. At Block A, a coal seam was located and exposed at the fourth bench. The exposed bench could hardly accommodate 10 people for coal raising. There were about four excavators and 10 tippers to develop benches and carry the spoils to the OB dump-site. At the stockyard, 300-500 MT of coal was piled up against the annual target of 20000 MT.

After taking stock of the ground situation, I had to take a few quick decisions in consultation with the General Manager, Projects and Mines and the site staff. The first logical decision was to deploy more earth moving equipment (EME) and reduce the three benches at Block A to the fourth bench level to expose more coal seams and create ample space for coal raising laborers. It was agreed that this task should be completed within August 2016 to make up for the lost time and step up coal raising for the rest of the year, setting the stage to achieve the target of 20,000 MT. Consequently, coal

raising picked up after mid August 2016, but the total raising as on 31st December 2016 could reach only 12,292 MT. Coal raising has to be done manually due to narrow coal seams, occurring intermingled with host rocks, which restrict mass production by deploying machines.

The need to deploy EME efficiently struck me after I observed tippers lined up in front of the excavator for loading of loose spoils. If ten tippers are lined up for loading and loading one takes 3-5 minutes, 30-50 minutes waiting period is required for each cycle. When hiring charges are paid on hourly basis, waiting must be avoided by any means to reduce superfluous cost. Thus EME deployment must be based on the optimal cycle of operation or the number of trips per day worked out through operation-based information or data for that particular haulage distance. After much interaction with the site staff, operators/drivers and the EME contractor over a period, EME deployment has improved and is done at the near optimal or optima level. However, EME deployment is dynamic by nature and calls for constant reviews to operate at the most efficient level, to secure value for what we pay.

Common sense required the Management to secure and fix the variable components of operation costs in order to stabilize the narrow profit margin since the selling price of coal was fixed at the bare minimum. The major variable components of operation costs were on EME, transportation and labor. After apprising the Board and securing its approval, the EME cost was fixed at the existing rates by extending the contract for another year with the same contract firm. The benchmarking of EME rates at the local level indicated that the existing rates were reasonable and floating of fresh tenders would most likely result in higher costs.

Transportation of bulky minerals like coal adds more than 30% to the variable costs. The existing rate for carriage to Dungsum Cement Corporation Limited in Nganglam, over a one-way distance of about 216 Km was reasonable. However, the contract firm gave up the contract by third week of December 2016 after transporting for about four months. The Management requested and mobilized transporters from Nganglam and Samdrup Jongkhar to carry coal at the same rate by incentivizing through prompt payment of bills. If transport contract firms reduce their margin and incentivize through cash and carry system, freelance truckers are available to carry loads. This effort fulfilled our requirement of transporting coal for about two months. To continue the same effort through a formal contract, Management advertised for contract firms to register on “first come, first serve basis”, if they were interested in transport of about 45,000 MT at the same rate. Five transport contract firms registered and the offer was made to the first firm to enter into formal contract. After agreeing and giving him the offer letter, the firm declined to bring the performance security and sign the contract.

Subsequently, the same offer was made to the remaining four firms. All the firms declined the offer, saying that the rate was too low and they would be unable to fulfil the contract. The Management had no choice but to float fresh tenders. About a week after we floated the tender, a contract firm came forward to do the transport at the same rate. The contract firm even agreed to provide higher performance security amount. The Management conducted due diligence on the firm in terms of available trucks and financial position. After the Management was satisfied with the information we collected, the contract was signed with the firm. The contract firm is carrying out the transportation smoothly and the Management has secured the transport contract at the same rate till date.

Coal raising has to be done manually; use of machine is practical only when thick seams are available. Thick seams are rarely encountered given the erratic nature of coal reserves in the foothills of Bhutan. The contract rate for coal raising was Nu. 480.00 per MT. While the rate is quite high, efficiency in coal raising was not observed. Basically it was due

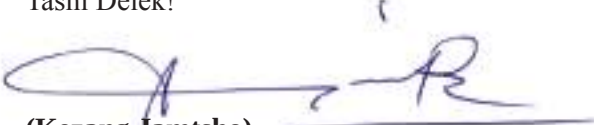
to nature of deployment of labor through a contract firm. While an Indian laborer in the beginning raised on average 2 MT per day, the Bhutanese laborer could achieve about 1 MT per day. The Board was informed of the situation and requested for departmental raising. The Board granted approval to raise coal departmentally with the condition that maximum rate should be much lower than the contract rate and must report back on the cost difference between contract and departmental raising. The Management is paying a much lower rate and it is raised if the extraction per laborer is more than 2 MT in a day. Departmental coal raising with a staggered rate in order to incentivize efficiency has stepped up production and reduced labor cost. The Management searched for Bhutanese laborers and convinced some students and off-season farm laborers, who have developed some liking to coal raising job due to good money that one can earn, depending on one's strength and willingness to work. The Management would continue to provide this opportunity to the Bhutanese work force at all times.

With securing and fixing of these three major variable components of operation costs, the elusive breakeven point was supposed to be under control. It was expected to breakeven in early 2017, provided the erratic nature of coal seams do not play the notorious game of hide and seek. Lessons have been learnt and experiences have been gained. The prospect for 2017 appears better. The coal production target has increased several folds. The Management is confident that we will achieve the target. This confidence comes from the notion that Tshophangma Coal Mine will also start production before the first half of 2017.

The responsibility to supply aggregates to Kholongchhu Hydro Electric Project (KHEP) presents challenges of its own, quite different from coal mining operation. The challenges emerge from the need to supply aggregates with stringent quality standards for hydropower infrastructures construction. The existing market environment negates quality. Acceptance of low quality product has spread a mindset, where people generally look at price irrespective of quality. Quality assurance has cost and benchmarking at the minimum must capture both cost and quality. Challenges were faced in costing aggregates with stringent quality standards in an environment of deficient information and experiences. Visits to several crushing plant sites in Bhutan and India were made to gain insights and share experiences before finalizing costing. After thorough benchmarking, rates for high quality aggregates were approved by the Multi-Sectoral Pricing Committee. Due diligence in procuring crushing plant machine is being exercised. The quarry access road construction is progressing well. Other ancillary infrastructure development activities are being put into sequence. We have a tight schedule to follow till the commissioning of the crushing plant and start of production.

The SMCL's mandate to manage mineral resources as a subsidiary Company under DHI, with separation of ownership and management roles, provides a conducive setting to operate within. Within this structure, the Board's oversight function is crucial and calls for a special mention. The Board has been exemplary in terms of knowledge, skills and experience combination, which has translated into quality decisions. It has been a privilege to work under the guidance of such a Board. Therefore, on behalf of the Management of SMCL, I would like to express our sincere gratitude to the Board and DHI for their unconditional support at all times. We would like to put on record the Management's appreciation of the line agencies in minerals resources regulation, namely the Department of Geology and Mines, National Environment Commission and the Local Governments for their support and cooperation. Finally, we commit ourselves to extract mineral resources in an efficient manner in the interests of all stakeholders, the people of Bhutan.

Tashi Delek!



(Kezang Jamtsho)
Chief Executive Officer

COMPANY PROFILE



Recognizing the potentials of mining sectors' contribution on the national socio-economic development, the Royal Government of Bhutan envisioned the noble concept of establishing a state entity. This entity shall participate along with private businesses and be the idol of operation leveraging best mining practices. Since then, during the 45th Lhengyel Zhungtshog, it was decided that State Mining Corporation Limited (SMCL) be instituted. SMCL was incorporated as DHI 100% subsidiary company on 31st December 2014. The Minister of Economic Affairs, Lyonpo Norbu Wangchuk handed over the certificate of incorporation to DHI/SMCL. Five stone quarry sites to supply the materials needed for Kholongchu Hydro Electric Project (KHEP) was also awarded to DHI/SMCL along with the certificate. SMCL is one of the newest companies formed under DHI and its corporate office is based in Samtse. Its 39 dedicated employees support the company.

RATIONALE FOR ESTABLISHING SMCL

The Hon'ble Lyonchen's report on The State of the Nation, presented on June 19th 2014. The need for state participation in the mining sector to ensure the sustainable development of the mining sector and contribution to the national economy. The establishment of the SMCL would expand economic opportunities, lead to job creation, and generate more revenue for the country. It shall be guided by:

POWER- BASED INVESTMENTS OPPORTUNITY:

Bhutan has clean and relatively cheap power. The expectation to generate 10000 MW of power by the year 2020 will attract potential investors from both outside and inside Bhutan to set up power intensive industries in Bhutan. Along with the power, the raw materials (mineral resources) for the industries need to be developed. SMCL would

develop strategic & industrial minerals, like, coal, gypsum, tungsten, limestone etc, to supply raw materials to domestic industries at competitive prices to promote industrial growth. In addition to the domestic market, the SMCL will also develop external markets.

MAXIMIZATION OF STAKEHOLDER BENEFITS

Natural mineral resources belong to the people of Bhutan and as such they should be the main beneficiaries from its extraction. As a state entity, SMCL would ensure that the national resource endowments are exploited effectively through responsible mining, employment generation, foreign currency earning, and revenue contribution acceleration in the form of profit, taxes, dividend and royalties/mineral rents paid to the State. This modality would in fact contribute towards maintaining equity in the distribution of income generated from the national resource.

PROMOTION OF PRIVATE SECTOR

SMCL is envisioned to lead mineral development in the country by introducing new and improved mining technology, developing technical capacity, and identifying new domestic and export markets. Private sectors will benefit from the know-how and the opportunity to participate in projects as promoters or shareholders. Additionally, the SMCL will develop vertical integration through the provision of prospecting and exploration services, consulting services, mine development, and value addition ideas.

SOCIAL AND ENVIRONMENTAL IMPACT

Social and environmental considerations will be prioritized for all activities undertaken by the SMCL. SMCL operations will not only be required to carry out proper and comprehensive environmental and social impact studies to achieve the sustainable development vision but also proactively consult with stakeholders to protect the interest of the affected community. SMCL will ensure that the technology used in mining are of the acceptable standards resulting in minimum environmental impact.

VISION

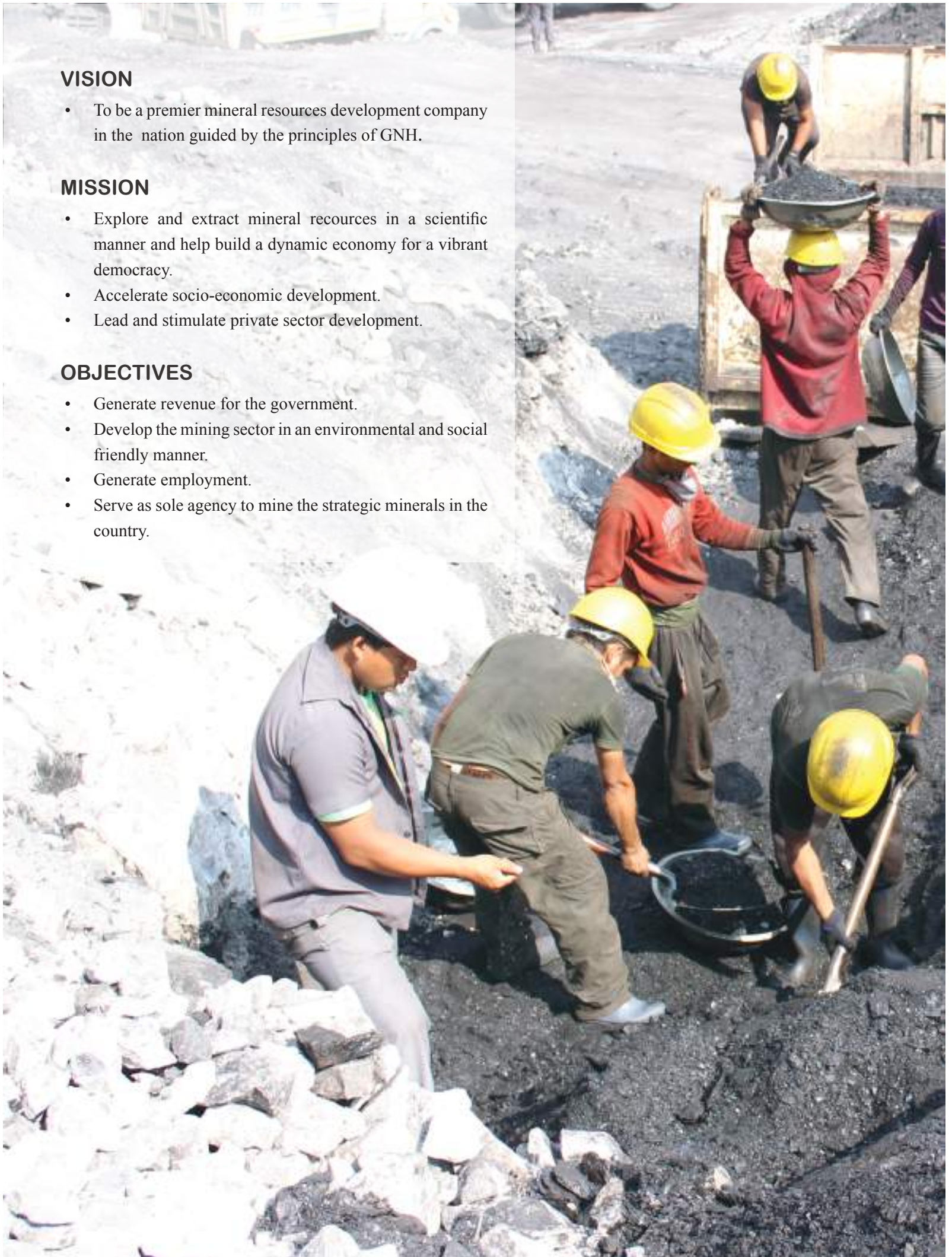
- To be a premier mineral resources development company in the nation guided by the principles of GNH.

MISSION

- Explore and extract mineral resources in a scientific manner and help build a dynamic economy for a vibrant democracy.
- Accelerate socio-economic development.
- Lead and stimulate private sector development.

OBJECTIVES

- Generate revenue for the government.
- Develop the mining sector in an environmental and social friendly manner.
- Generate employment.
- Serve as sole agency to mine the strategic minerals in the country.



BOARD DIRECTORS' PAGE



DASHO KARMA YEZER RAYDI – CHAIRMAN CHIEF EXECUTIVE OFFICER -DHI

Dasho Karma Yezer Raydi is the Chief Executive Officer of Druk Holding and Investments Ltd. He has rich leadership experience acquired over the 27 years of service to the Tsa-Wa-Sum. He was awarded Blue Scarf by His Majesty the king on having been appointed as an eminent member of the National Council in 2008-2013. And conferred Red Scarf on 17th December, 2012. An engineer by education, he started his career as an Industrial Engineer for BDFC from 1989.

He worked as an Executive Engineer in the Department of National Properties, Ministry of Finance till 2000. From 2000 he joins and served the Department of Urban Development & Housing, Ministry of Works & Human Settlement and served for six years as a Superintendent Engineer, and later became the Director for Standard & Quality Control Authority, Thimphu. In 2006, he was appointed as the Chairman of Bank of Bhutan and served as Chairperson of the House Committee, National Council, in 2008.



**DASHO SONAM WANGYEL – DIRECTOR
DZONGDAG, DZONGKHAG ADMINISTRATION,
SAMTSE**

He joined the Civil Service in August 1993 and served at various capacities in Ministry of Education. Prior to appointment as Dzongdag for Samtse Dzongkhag, he also served in Lhuntse Dzongkhag as Dzongdag. Dasho has vast knowledge and experienced in HR management, public administration and local governance. He obtained Bachelor of Education from NIE, Samtse and Masters in Curriculum Studies from University of New England, Armidale, NSW, Australia.

**DR. DAMBER SINGH KHARKA – DIRECTOR
DIRECTOR - DHI**

Has a PhD in Financial Economics and is presently a Director at the Druk Holding and Investments (DHI). He started his current assignment in 2008 after serving the Royal Institute of Management (RIM) for 19 years as a faculty member. He is an economist by profession. He is very actively involved in managing corporate governance and performances of the SOEs. He is a certified trainer in Corporate Governance and several management disciplines. His long experiences as corporate board director in several companies representing different economic sectors including Bhutan Telecom and as a trainer of the board directors provided him with sound exposure to corporate governance and performance management systems. He is quite a popular person in the corporate world in Bhutan who advocates business reforms and corporate capacity development. He is frequently seen at the national and regional forums when it comes to speaking and writing on Corporate Governance. He has several papers published in the national, regional and international referred journals and presented papers in many national and international conferences.



**KARMA CHODEN – DIRECTOR
EXECUTIVE DIRECTOR, KESHET FOUNDATION**

Mrs. Karma Choden, Executive Director, Keshet Foundation, obtained her Bachelor in Commerce from Sherubtse College, Delhi University. She joined as trainee officer in 1991 and served in various positions under Credit Operations, Bhutan Development Bank Limited then Bhutan Development Finance Corporation Limited. She has extensive knowledge and experience in credit investment, project appraisal, money and banking, project supervision and international financing, asset liability management and worked as trainer financial sector in Bhutan.





**YESHI DORJI – DIRECTOR
CHIEF SURVEY ENGINEER, NLCS THIMPHU**

He served in the National Land Commission in various capacities and became the Chief Survey Engineer. He successfully managed nationwide cadastral resurvey under His Majesty's major land reform program and worked as a lead GIS officer for delimitation of electoral constituencies for the first parliamentary election. He completed his Bachelor of Science from Sherubtse College, Kanglung, followed by survey engineering course from Survey Training Institute, Hyderabad. He obtained his post-graduate degree in M.Sc. (GIS and Remote Sensing) from Asian Institute of Technology, Bangkok, Thailand).



**YESHI DORJI – DIRECTOR
GEO-TECHNICAL ADVISOR, DGPC**

He served in the Department of Geology and Mines (1984-2011) in various mineral exploration projects, and has been involved in many engineering geological studies. He was actively involved in the assessment of glacial lake outburst floods in Lunana after 1994 GLOF.

He also led the team to carry out mitigation of likely GLOF from Thorthormi Tsho. Since 2011 he is the Geotechnical Advisor to DGPC. He has B.Sc. in Applied Geology and M.Sc. in Advance Engineering Geology from the University of Leeds, UK.



**KEZANG JAMTSHO - DIRECTOR
CHIEF EXECUTIVE OFFICER**

He worked in various capacities in the Ministry of Agriculture and Forests. A key post he held was as the lead officer on water resources management in the Policy and Planning Division. During this assignment he served as the Secretary to Bhutan Water Partnership, a multi-stakeholder platform, which prepared the Bhutan Water Policy, Bhutan Water Vision and Water Act of the Kingdom of Bhutan. He also worked as the Project Director for Decentralized Natural Resources Management Project, funded by the World Bank. Before he joined the State Mining Corporation Limited, he served and completed his term as the Commissioner, Anti-Corruption Commission of Bhutan.

He holds a bachelor's degree in Civil Engineering from Regional Engineering College, Silchar, India and Master's Degree in Irrigation Engineering and Management from Asian Institute of Technology, Bangkok, Thailand.

MANAGEMENT PAGE



CHHIMI RINZIN, GENERAL MANAGER (HR & A)

He has obtained Bachelor of Arts in Geography (Hons) from Sherubtse College, Delhi University, India in 2000 and Masters in Human Resource Management from Curtin University of Technology, Western Australia in 2006. He started his career as Trainee Officer and served various ministries and agencies in different positions in HR management and administration. Prior to appointment as the General Manager, SMCL he served as the Head, Human Resource Management Division, Royal Civil Service Commission till March, 2015.

SANGAY RINZIN - GENERAL MANAGER (MARKETING AND SALES)

He has obtained Bachelor of Commerce (Hons) from Sherubtse College, Delhi University, India in 2000 and Masters in Accounting from Curtin University of Technology, Western Australia in 2005. He started his career in teaching profession and served various schools. He served as lecturer in Sherubtse College and Gaeddu College of Business Studies, Royal University of Bhutan. He also worked as the Dean, Research and Industrial Linkages and as Research Consultant for Institute of Management Studies in Marketing and Management. He has experience in training and researches in business and entrepreneurship development field.

SANGAY TSHERING - GENERAL MANAGER (PROJECT)

He completed his middle secondary study from Drugyel High School, higher secondary from Sherubtse College, Bhutan, Bachelors of Engineering in Mining from Nagpur University, Maharashtra, India, and Masters in Engineering Science in Mining Industry Management from University of New South Wales at Sydney, Australia. Before joining the company he served as the Head of the Mining Division under the Department of Geology and Mines, Ministry of Economic Affairs.

DECHEN - HEAD (ACCOUNTS & FINANCE)

She obtained Bachelor of Business Administration from Gaeddu College of Business Studies, Royal University of Bhutan.

Before taking up as Head (Accounts & Finance) at the SMCL, she worked as Finance Manager in Dungsum Cement Corporation Limited. She joined SMCL in November, 2015.

GALLERY



Habrang Coal Mine Staff.



Honourable Chair and CEO DHI with SMCL Staffs during the launch of eMines ERP.



Recreational & Entertainment.

DIRECTORS' REPORT

On behalf of the Board and the Management of State Mining Corporation Limited (SMCL), it is a pleasure to report to Druk Holding and Investments Limited (DHI), the shareholder of SMCL, on the performance of the Company from 1st January till 31st December 2016. This is the 2nd Annual Report since its incorporation.

SMCL was formed under the DHI with the mandate to foster best mining practices and to generate revenue for the government by carrying out activities in an environmentally and socially responsive manners. The company's performance is assessed with 85% for non-financial targets and 15% on financial areas.

HIGHLIGHTS

INSTITUTIONAL DEVELOPMENT

Mr. Kinzang Norbu, Chief Executive Officer (Interim) was relieved from 30th June, 2016 and Mr. Kezang Jamtsho was appointed as the new Chief Executive Officer of State Mining Corporation Limited from 1st July, 2016.

- » Approved and implemented SMCL HR Manual 2016.
- » Approved and implemented Procurement Manuals for Works, Goods and Services.
- » The Company has net fixed asset worth Nu. 30.8 million.
- » The Board approved human resource requirement for seven mines/quarries.
- » Established Habrang Coal Mine Office in January and started mining of coal from August 2016.
- » Developed and launched eMines (ERP) on 5th September, 2016.
- » Recruited 22 employees in 2016 and the total staff strength as on 31st December, 2016 is 39.

CORPORATE GOVERNANCE.

The following Board Level Committees were instituted to ensure good governance of the company:

- » Nomination and Governance Committee
- » Human Resource Committee
- » Finance and Budget Committee
- » Project Technical Committee
- » Tender Committee
- » Audit Committee

Total of seven Board Meetings were conducted during the period. Except for two Board Directors, five of them have successfully attended Board Directors Training and the Division heads and other employees were educated on the Corporate Governance and the amendments issued from time to time.

FINANCIAL HIGHLIGHTS

The production of coal at Habrang Coal Mine was started from August 2016 and generated gross revenue of Nu. 67.698 Million during five months of its operation. During the financial year, SMCL incurred loss of Nu. 3.89 million primarily due to offset of expenses from revenue generated from a sole project operated just for five months.

The summary of financial performance for FY16 is provided below:

Particulars	Amount
Total Income	63,698,544
Total Expenditure	66,928,965
Profit /(Loss) Before Income Tax	(3,230,421)
Income Tax expenses	757,778
Profit/ (Loss) After Income Tax	(3,988,199)
Actuarial Gain/(Loss) on post-employment benefit obligations	101,280
Total Comprehensive Income/(Loss)	(3,886,919)

During the year DHI injected Nu. 90.41 million against the subscribed share capital of Nu. 243.99 million. Working capital loan of Nu.10 million have been availed from Bank of Bhutan to meet the operating expenses and was liquidated during the year itself. The uses of fund comprises of Nu. 30.80 million on property, plant and equipment(net block), capital work in progress of Nu. 22.38 million, pre-mine development cost of Habrang Coal Mine of Nu. 22.21 million, environment restoration bond of Nu. 12.30 million and balance Nu. 62.13 million in the form of current asset.

MARKETING AND SALES.

The revenue from sale of coal for the year was Nu. 67.70 Million. The Multi Sectoral Pricing Committee (MSPC) constituting members from Ministries, Regulatory Institutes, and Private Sector representation fixed the price of coal. The coal supply to Dungsam Cement Corporation Limited (DCCL) began from 18th August 2016. The company is in the process of building business links with other cement industries in Bhutan. Coal sold within 5 months of operation of Habrang coal mine is 10,059 MT. In spite of stringent quality management, the inherent higher ash content has resulted adjustment from revenue as compensation for coal quality worth Nu. 4.80 Million (727.41MT). Four transporting agents were engaged in transportation of coal generating employment opportunities for about 634 trucks.

PROJECTS

HABRANG COAL MINE

Habrang Coal Mine was leased on 5th January 2016 to SMCL for a period of 10 years for extraction and sale of coal. The development works, such as construction of the approach road, site office and mine waste dumpsite was commenced in March, 2016. The coal production from the mine started in full swing from August, 2016. Within the period of five months 12,292.318 MT of coal was raised.

TSHOPHANGMA COAL MINE

The National Environment Commission Secretariat (NECS) accorded the environment clearance of the project on 29th August, 2016 and the approach road construction was commenced immediately. After all the stakeholder clearances were obtained, including the land clearance from National Land Commission Secretariat (NLCS), the Department of Geology and Mines granted the mining lease on 27th December, 2016.

DZONGTHUNG STONE QUARRY

As mandated to supply stones and products to the hydropower projects in the country, the company is taking up the Dzongthung Stone Quarry Project, extract boulders and produce aggregates and crushed sand for supply to the Kholongchu

Hydro Energy Limited (KHEL). All sectoral clearances were successfully obtained. The geological investigation, the feasibility study of the project and the environment impact assessment were completed and the reports submitted to the DGM and the NECS for review and approval.

SMCL had invested its maximum time and effort for the project. A lot of time was spent on bench-marking and performance appraisal of mining equipment and the crushing plant. Visits to the manufacturing industries of the crushing plants in India were also made.

DUMSIDARA DOLOMITE MINE

Although, SMCL was uncertain about the value addition of the dolomite, the Board, during its 9th meeting held in November, 2015 directed the company to complete the process of the environment impact assessment (EIA) and feasibility study (FMFS) of the mine. The company was further directed by the Board Committee for Performance Management (BCPM) during its meeting held on 9th August, 2016 to complete the leasing process and obtain the mining lease from the DGM. Having obtained all sectoral clearances the first draft FMFS and EIA reports of the mine were prepared and submitted to the DGM and the NECS for review and approval.

KAMJI STONE QUARRY

On 14th November, 2014 the mining application for operation of a quartzite quarry at Kamji under Geling Gewog of Chukha Dzongkhag was made to the DGM for extraction and export of boulders to Bangladesh. The proposal was turned down by the local community who declared the proposed mining site as a 'Nye' area. The matter was reported to the BCPM during its 78th meeting and the project was dropped. Urulludara Quartzite Quarry at Devitar under Lhamoizingkha Gewog, Dagana was taken up as a replacement.

URULLUDARA QUARTZITE QUARRY

The local public and forest clearances for the stone quarry were obtained. The Dzongkhag Tshogdu (DT) endorsement was not accorded as the DT could not be convened.

A market study carried out by SMCL showed the project not viable, in terms of the distance and transportation cost, for export to Bangladesh. However, the SMCL has been processing for the mining lease for supply of boulders and aggregates to the upcoming Wangchu Hydro-electric Project.

STONE QUARRIES FOR CHAMKHARCHU HYDRO-ELECTRIC PROJECT

The DGM had already studied number of quarries in Chamkharchu area for the Department of Power and Power Systems on behalf of the Chamkharchu Hydro-electric Project. The DGM is in the process of transferring the ownership of the quarries to SMCL.

URICHU GYPSUM MINE

The proposed gypsum deposit is located at the right bank of Urichu river and below Nangkhon and Borangchelo villages, Pemagatshel. The mining application was made to the DGM on 10th February 2015. The pre-feasibility study (PFS) was conducted by the DGM and the SMCL in June 2016. The PFS report was released by DGM on 28th November 2016 for obtaining the local sectoral clearances.

EXPLORATION FOR A STRATEGIC MINERAL

SMCL, DGM and an Australian freelance geologist carried out a prospective study to identify an area of interest of tungsten occurrence at Bhurkhola and Dholpani area under Jigmeling Gewog, Sarpang Dzongkhag. The team recommended further prospecting by the method of aerial magnetic and radiometric surveying. It was informed that DGM is in the process of taking up a joint exploratory study of the mineral in the area with the Japanese. Therefore, the project was dropped during the 78th BCPM meeting and was replaced by talc mines under Samtse Dzongkhag. Mining applications for two talc mine in Samtse Dzongkhag was made to the DGM.

COMPACT SIGNED WITH DHI

Compact for 2016 was signed for non-financial targets for 85% and financial target for 15% with the shareholder. During the 18th Board Meeting held on 17th February, 2017, the Board assessed the achievement of Company's compact for 2016, and was presented during the Annual General Meeting held on 10th March 2017. The final achievement of the compact for 2016 was agreed at 76%.

CHALLENGES

In absence of Mineral Development Policy, it is difficult to make realistic investment plans, which affects the overall company's activities and performance. The MDP will give strategic directions for better planning and execution for SMCL, particularly as desired by the Royal Government to spearhead mineral development programs.

Mineral extractions demand numerous clearances from local communities and government agencies. Lengthy approval processes and coordination issues across ministries and sectors is still continuing. The systemic processes are diligent enough to conserve the valuable and limited resources. Nevertheless, procedural aspects of seeking approval from various stakeholders are often subject to individual interpretations and local politics. Poor precedents on compensation and other mining related issues to the project affected family have developed strong resistance to mining proposals. These issues are repeatedly echoed over discussions. Same regulations and procedures are explained and interpreted contrarily. It is difficult to recruit people in the field of mining and geology. Acute shortages of professionals available in the market have limited the company in manpower planning.

The laborers available are seasonal, irregular and inefficient. The Output per Man per Shift (OMS) of Bhutanese laborer, on an average, is 1 MT of coal. Whereas, the average OMS for Indian laborer is 2 MT. Coal mining has its inherent challenges due to erratic nature of coal reserves. Mine feasibility studies have limited degree of certainty due to swelling and pinching nature of coal seams. Faced with high degree of uncertainty on coal reserves, mine plans require frequent revisions and updates, which puts pressure on time and resources.

Mining business by nature involves transportation of bulky minerals. Transportation cost is about 30-40% of total cost. The low carrying capacity of existing bridges and road conditions, increases transport cost, sometimes even to the extent of making the overall business not viable.

ACKNOWLEDGMENT

On behalf of the Board of Directors and the Management of SMCL, I would like to sincerely value and thank the Royal Government of Bhutan and DHI for having entrusted with full faith on us in developing SMCL. Further, Board would also like to thank all regulatory institutes and stakeholders like DGM, NECS, Dzongkhags, and Communities for the support rendered to shape and embrace the Company till date.

Let me also place on the record, the enormous contribution made by the Board of Directors in providing strategic directions and unfailing support, particularly when the company is in the critical and initial phase of establishment. Your contributions are true reflections on the success of smooth establishment of SMCL, followed by venturing into operation phase with confidence.

The Chair and the Board of Directors would like to acknowledge the hard work and leadership provided by the Chief Executive Officer and his team towards realizing the aspirations of our Government, People and the Shareholder. Further, the Board and management also express our sincere thanks to Mr. Kinzang Norbu, former CEO for his dedicated service, sacrifice and leadership he had provided till first half of 2016. As the company enters into its vital operational phase, I urge the SMCL team to maintain utmost professionalism, dedication and hard work for the continued success of our company for years to come.

Tashi Delek!



(Dasho Karma Yezer Raydi)
Chairman.

CORPORATE GOVERNANCE

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled to ensure accountability, fairness, and transparency in a company's relationship with stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. Board of Directors are responsible for the governance of the company.

SMCL is guided by the laws, principles and policies enshrined in The Constitution of the Kingdom of Bhutan, Royal Charter, Companies Act of Bhutan 2016, DHI Ownership Policy and the Corporate Governance Code for DHI portfolio companies to ensure operational efficiency and maximize economic value of the limited available resources.

BOARD OF DIRECTORS AND MEETINGS

SMCL's governing Board comprises of seven members including the chairman and the CEO. The Board met seven times during the year and quorums for each of these meetings were duly met. The dates for the Board Meetings are decided in advance and communicated to the Directors. Agenda, along with necessary explanatory notes are sent to the Directors before the meetings. The Annual General Meeting for 2016 was held on 10th March, 2017.

Attendance details and remuneration paid for the Board Meetings held in the year 2016 are given below:

Sl. No.	Board Meetings Held	Board Directors	Remuneration (Nu)	Attendance
1	11 th Board Meeting Venue: RMA Hall, Thimphu Date: 02/02/2016	Dasho Penjore, Chairman	Nu. 8000.00	Present
		Mrs. Karma Choden	Nu. 8000.00	Present
		Mr. Yeshey Dorji (NLCS)	Nu. 8000.00	Present
		Mr. Kinzang Norbu	Nu. 8000.00	Present
		Mr. Thukten Choeda	Nu. 8000.00	Present
		Dasho Karma Weezir	NA	Apologies
		Mr. Yeshi Dorji (DGPC)	NA	Apologies
2	12 th Board Meeting Venue: SMCL Conference Hall, Samtse Date: 19/03/2016	Dasho Penjore, Chairman	Nu. 8000.00	Present
		Dasho Karma Weezir	Nu. 8000.00	Present
		Mr. Yeshey Dorji (NLCS)	Nu. 8000.00	Present
		Mrs. Karma Choden	Nu. 8000.00	Present
		Mr. Kinzang Norbu	Nu. 8000.00	Present
		Mr. Thukten Choeda	Nu. 8000.00	Present
		Mr. Yeshi Dorji (DGPC)	Nu. 8000.00	Present
3	13 th Board Meeting Venue: DHI Conference Hall, Thimphu Date: 21/04/2016	Dasho Karma Yezer Raydi, Chairman	Nu. 8000.00	Present
		Mr. Kinzang Norbu	Nu. 8000.00	Present
		Dr. Damber S Kharka	Nu. 8000.00	Present
		Mr. Yeshey Dorji (NLCS)	Nu. 8000.00	Present
		Mr. Yeshi Dorji (DGPC)	Nu. 8000.00	Present
		Mrs. Karma Choden	Nu. 8000.00	Present
		Dasho Karma Weezir	NA	Apologies

4	14 th Board Meeting Venue: DHI Conference Hall, Thimphu Date: 30/05/2016	Dasho Karma Yezer Raydi, Chairman	Nu. 8000.00	Present
		Dasho Karma Weezir	Nu. 8000.00	Present
		Mr. Kinzang Norbu	Nu. 8000.00	Present
		Mr. Yeshey Dorji (NLCS)	Nu. 8000.00	Present
		Mr. Yeshi Dorji (DGPC)	Nu. 8000.00	Present
		Mrs. Karma Choden	Nu. 8000.00	Present
		Dr. Damber S Kharka	NA	Apologies
5	15 th Board Meeting Venue: DHI Conference Hall, Thimphu Date: 06/08/2016	Dasho Karma Yezer Raydi, Chairman	Nu. 8000.00	Present
		Dr. Damber S Kharka	Nu. 8000.00	Present
		Mr. Kezang Jamtsho	Nu. 8000.00	Present
		Mr. Yeshey Dorji (NLCS)	Nu. 8000.00	Present
		Mr. Yeshi Dorji (DGPC)	Nu. 8000.00	Present
		Mrs. Karma Choden	Nu. 8000.00	Present
		Dasho Sonam Wangyel	NA	Apologies
6	16 th Board Meeting Venue: DHI Conference Hall, Thimphu Date: 19/10/2016	Dasho Karma Yezer Raydi, Chairman	Nu. 8000.00	Present
		Dasho Sonam Wangyel	Nu. 8000.00	Present
		Dr. Damber S Kharka	Nu. 8000.00	Present
		Mr. Kezang Jamtsho	Nu. 8000.00	Present
		Mr. Yeshey Dorji (NLCS)	Nu. 8000.00	Present
		Mr. Yeshi Dorji (DGPC)	Nu. 8000.00	Present
		Mrs. Karma Choden	Nu. 8000.00	Present
7	17 th Board Meeting Venue: DHI Conference Hall, Thimphu Date: 23/12/2016	Dasho Karma Yezer Raydi, Chairman	Nu. 8000.00	Present
		Dasho Sonam Wangyel	Nu. 8000.00	Present
		Mr. Kezang Jamtsho	Nu. 8000.00	Present
		Mr. Yeshi Dorji (DGPC)	Nu. 8000.00	Present
		Mrs. Karma Choden	Nu. 8000.00	Present
		Dr. Damber S Kharka	NA	Apologies

OTHER COMMITTEES

NOMINATION AND GOVERNANCE COMMITTEE

The key responsibilities of Nomination and Governance Committee shall be to:

- Review the CEO's Terms of Reference and Selection Criteria;
- Select appropriate CEO selection process methods;
- Shortlist candidates, conduct due diligence and interview candidates; and
- Select the most suitable candidate and recommend to SMCL Board for ratification.
- During the reporting period, NGC met three times to complete the selection process of the CEO.

HUMAN RESOURCE COMMITTEE

The primary responsibility of the Board HR Committee is to:

- Advise the Board on effective implementation and application of sound human resource policies that are aligned with the organization's vision, mission, values and aspirations;

- Recommend to the Board, for its consideration, matters relating to the Company's HR and Compensation Policies as applicable to the function of the company to achieve its short and long term business objectives; and carry out any other related initiatives as may be necessary or desirable to enhance Board Performance. The committee met two times for the selection interviews for general manager and specialist (Geologist).

FINANCE AND BUDGET COMMITTEE

Finance and Budget Committee was instituted to review and make recommendations to the Board on the preparation and implementation of the Annual Budget of the Company for employee remuneration, projects/mines, machineries, review financial reports and related documents submitted by the management and any related issue referred to the committee by the Board. The committee met two times in 2016.

PROJECT TECHNICAL COMMITTEE.

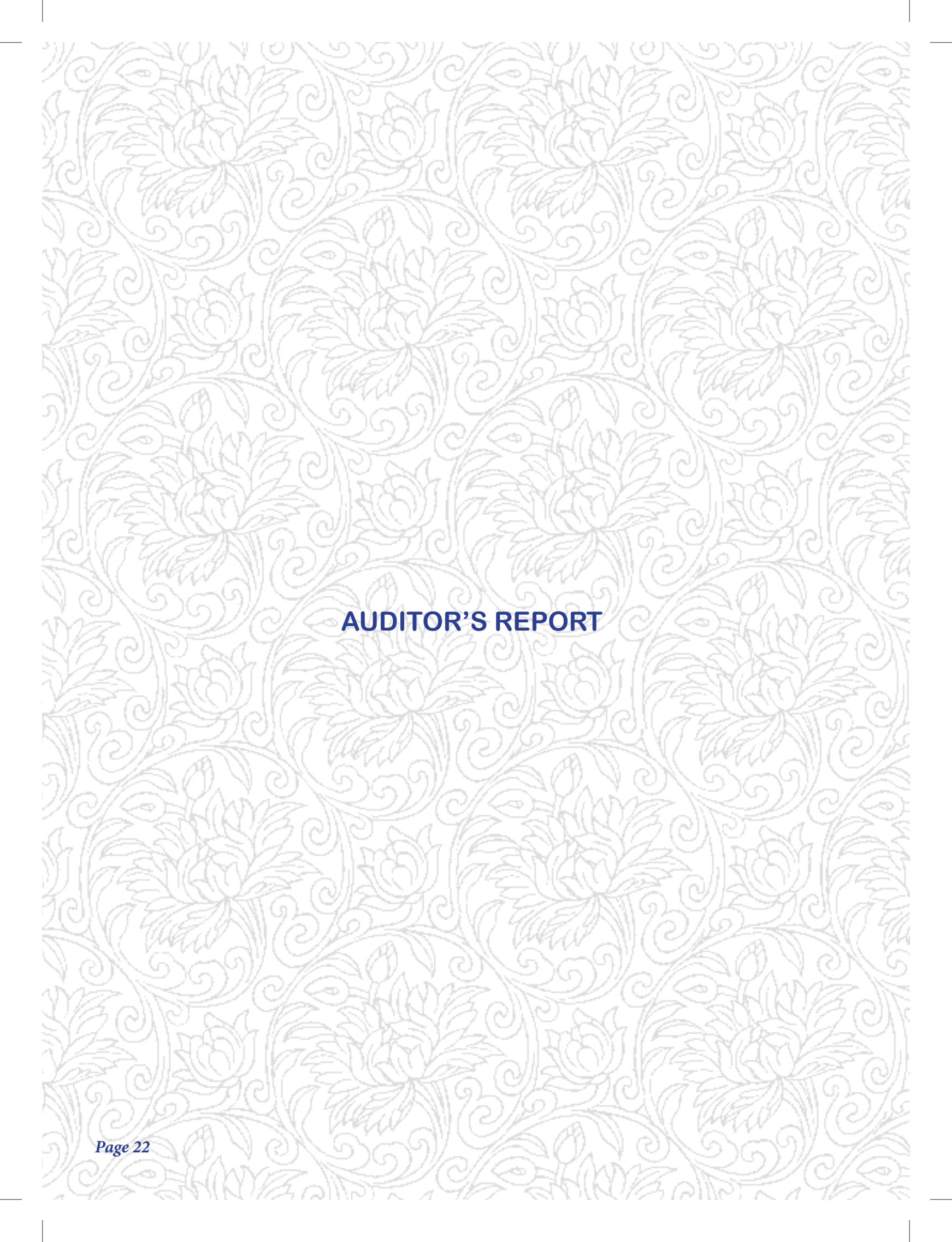
The main objective of the Project Technical Committee (PTC) is to serve as independent body to review and advice the Management and the Board on the technical matters of various projects/mines that the company intends to undertake and act as interface between the management and the Board. The committee comprises of members from various ministries/agencies with mixed professional background. Since the major projects/mines that have been implemented in 2016 were initiated and reviewed by the PTC in 2015, the committee did not meet during the period.

TENDER COMMITTEE

The objective of the Committee is to reinforce corporate governance, integrity and transparency in the procurement process and contract management. The committee met two times in 2016 on the procurement of earthmoving equipment, vehicles and stone crushing machines.

AUDIT COMMITTEE

Audit Committee ensures that Company establishes and maintains appropriate and effective internal control system and oversee such system on an ongoing basis. It advises and assists the Board in fulfilling its responsibility as may be delegated by the Board from time to time. During the period, the committee met 3 times.



AUDITOR'S REPORT

Ref.: :Bhu/S/3R

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of
STATE MINING CORPORATION LIMITED

Opinion

We have audited the financial statements of STATE MINING CORPORATION LIMITED (the Company), which comprise the statement of financial position as at December 31, 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS) Phase-I and Phase-II.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Bhutan, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Bhutanese Accounting Standards (BAS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going



concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report on Other Legal and Regulatory Requirements

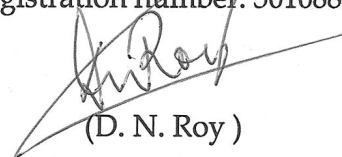
As required by Section 266 of the Companies Act of Bhutan, 2016 (Minimum Audit Examination and Reporting Requirements), we enclose in the Annexure-I, a statement on the matters specified therein to the extent applicable.

1. We also enclose for information purposes Annexure-II, a Statement on applicability of Bhutanese Accounting Standards Phase I and Phase II on State Mining Corporation Limited for the year ended 31st December 2016 as approved by the Company.
2. As required by Section 265 of the Act we report that:
 - i. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - ii. in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books.
 - iii. the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows dealt with by this report have been prepared in accordance with accounting principles generally accepted and are in agreement with the books of account.



- iv. in our opinion, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows comply with the Bhutanese Accounting Standards Phase I and Phase II and provisions of the Companies Act of Bhutan, 2016.

For L.B. Jha & Co.,
Chartered Accountants
(Registration number: 301088E)


(D. N. Roy)

Partner

(Membership number 300389)

Place : Kolkata, India

Date : 18th April, 2017



ANNEXURE - I TO THE AUDITORS' REPORT
(Referred to in paragraph 7 of our Report of even date)

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

1. The Company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets. As per information provided to us by the management, no material discrepancies were noticed on physical verification conducted by the management during the year.
2. No fixed assets were revalued during the year as the Company is following Cost Model for valuation of fixed asset.
3. The finished goods, stores and spares parts have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
4. In our opinion and according to information and explanations given to us, the procedures of physical verification followed by the management are reasonable and adequate having regard to the size of the Company and the nature of its business.
5. As per the information and explanations given to us and examination of the records made available to us, in our opinion, the discrepancies noticed on physical verification of inventory as compared to book records were not material and have been properly dealt with in the books of account.
6. On the basis of our examination of the stock records, we are of the opinion that the valuation of stock is fair and proper and in accordance with the normally accepted accounting principles and as per the accounting policy of the Company. As the Company has started the production in current year, there were no inventories in the preceding year.
7. The Company has taken a secured loan from another company under the same management. The rate of interest and other terms and conditions are not prima facie prejudicial to the interest of the Company.
8. The loans/advances granted to employees are generally in keeping with the provisions of its service rules based on the test checks carried out and to the best of our knowledge and belief and information available to us and as informed to us no excessive/frequent advances are granted and accumulation of large advances against a particular individual is generally avoided which is relied upon by us.
9. In our opinion and as per the information provided to us, the Company has a reasonable system of internal controls to ensure overall completeness, accuracy and reliability of accounting records during the year, to carry out the business in an orderly and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the applicable laws, regulations and systems and procedures. Internal audit has been however, carried out only for part of the year, the management needs to ensure that the internal audit for the entire year is completed.



10. In our opinion, to the best of our knowledge and belief and according to the information and explanations given to us and checks carried out, there is a reasonable system of competitive biddings, commensurate with the size of the Company and the nature of its business, for the purchase of goods and services including stores, plant and machinery, equipment and other assets and for the sale of goods and services.
11. As per the information and explanations given to us and based on the declarations received from the Directors, there is no transaction for purchases and sale of goods and services made in pursuance of contracts or arrangements entered into with the Directors or any other party related to the Directors or with the companies or firms in which the Directors are directly or indirectly interested. However, as the Directors of the Company are all Government nominees, there are some transactions with other Government Companies/ Agencies, which were generally found to be as per the directives, sanctions, rules and regulations of the Government.
12. As per information and explanation given to us, as the production of the Company started in current year, there are no cases where any item of inventory are unserviceable, obsolete or damaged.
13. As the Company is a mining company, there are no such raw materials and packing materials. Hence the question of ascertaining the point of breakages/damages does not arise.
14. In our opinion and to the best of our knowledge and belief and as per the information provided to us by the management, the Company is maintaining reasonable records for production of finished goods and physical safeguards exist to prevent unauthorized or irregular movement of goods from the Company. The Company does not have any by-products.
15. On the basis of the examination of the records produced to us, we are of the opinion that the Company is maintaining reasonable records for sales of realizable scraps however, the records of disposal of realizable scraps is not maintained.
16. In our opinion and on the basis of test checks of records, the Company is generally regular in depositing rates and taxes, duties, royalties, provident funds, and other statutory dues with the appropriate authority.
17. As per the information furnished to us, the Company had undisputed amounts payable in respect of rates, taxes, duties, royalties, provident funds and other statutory deductions which were outstanding as at the last day of the financial year concerned. The details of such outstanding balances are given below:-

Particulars	Amount (Nu.)
Tax deduction at source (other than salary)	2,69,276
Tax deduction at source on salary	69,592
Provident Fund	19,117



18. According to the information and explanations given to us, and test checks carried out, to the best of our knowledge, no personal expenses of employees or directors have been charged to the Statement of Comprehensive Income other than those payable as explained to us under normal contractual obligation in accordance with generally accepted practice.
19. In our opinion and as per the information as explanations given to us, Company has a reasonable system for recording receipts, issues and consumption of materials and stores and allocating materials consumed to the respective jobs, commensurate with its size and nature of its business.
20. In our opinion and as per the records furnished to us, quantitative reconciliation is carried out at the end of accounting year in respect of finished goods.
21. In our opinion and as per the information and explanations provided to us by the management, the Company has a reasonable system of authorization at proper level and an adequate system of internal control commensurate with the size of the Company and nature of its business, on issue of stores and allocation of material to jobs.
22. In our opinion and as per the information provided to us by the management, the selling prices are fixed by a Pricing Committee, comprising of members from Government of Bhutan.
23. According to the information and explanation given to us, the Company does not have a credit sales policy and no credit rating of customers is carried out as it has only one customer.
24. In our opinion there is a reasonable system for continuous follow-up with debtors and other parties for recovery of outstanding amounts. Age-wise analysis of outstanding amounts is carried out by the management as and when required for information and follow up action.
25. In our opinion and according to information and explanations given to us, the management of liquid resources particularly cash, bank and short term deposits are adequate and that excessive amount are not lying idle in non-interest bearing accounts. The Company has not withdrawn any excess amount as loan leading to avoidable interest burden on the Company.
26. According to the information and explanations given to us and on the basis of test examination of books and records, in our opinion and to the best of our knowledge, the activities carried out by the Company are lawful and intra-vires to the Articles of Incorporation of the Company.
27. On the basis of our verification and according to the information and explanation given to us, activities/investment decisions are made subject to prior approval of the Board and investment in new projects are made only after ascertaining the technical and economic feasibility of such new ventures.
28. According to the information and explanations provided to us, the Company has established an effective budgetary control system.
29. The details of remuneration, commission and other payments made in cash or in kind to the Board of Directors including the Chief Executive Officer (CEO) by the Company are disclosed in the accounts. As explained to us, no payment has been made to any relative of any Director or CEO during the year.



30. According to the information and explanations given to us and based on our review, in our opinion and to the best of our knowledge, the directives of the Boards have been complied with.
31. As per information and explanation given to us and to the best of our knowledge, the officials of the Company have not disclosed any price sensitive information to their relatives/friends/associates or close persons which would directly or indirectly benefit themselves.
32. The clauses 8, 9, 23, 24, 28 and 34 of the Companies Act of the Kingdom of Bhutan 2000 read with Section II of Schedule XIV thereto the Minimum Audit Examination and Reporting Requirements are not applicable to the Company. In addition to the above, all clauses for Finance and Investment Company, Trading Company and other Service Sector Companies are not applicable.

COMPUTERISED ACCOUNTING ENVIRONMENT

As per information and explanations provided to us and to the best of our knowledge and belief:-

1. the Company has implemented a new system for maintenance of accounting information during the year and in our opinion the organizational and system development controls and other internal controls need further strengthening.
2. the Company has certain safeguard measures and backup facilities of financial data.
3. we are given to understand that the back-up files are kept at internal server of the Company and a Disaster Recovery Plan is yet to be prepared.
4. operational controls are found reasonable to ensure correctness and validity of input data and output information.
5. overall measures taken by the Company to prevent unauthorized access over the computer installation and files are generally adequate.

GENERAL

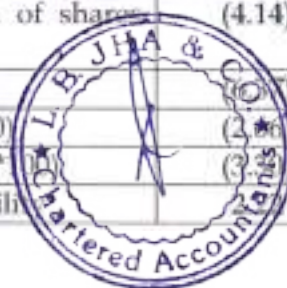
1. Going Concern

Based on the Company's financial statements for the year ended 31st December 2016, audited by us, the company has incurred losses during the year. The Company is a Government company and the year under audit is the first year of commercial production and has not yet achieved optimal capacity utilization and we have no reason to believe that the company is not a going concern. Accordingly, the financial statements have been prepared under the going concern basis.

2. Ratio analysis.

Financial and Operational Ratio Analysis in respect of the Company are given below:

Ratios	Basis	2016	2015
Earnings per share	(Profit(loss) After Tax/ No. of shares issued)	(4.14)	(39.64)
Net Profit Ratio(%)	(Net Profit/ Turnover * 100)	(2.86)	N/A
Return on Assets (%)	(Net Profit/ Total Assets *100)	(2.86)	N/A
Return on Equity (%)	(Net Profit/ Owner's Equity * 100)	(3.33)	N/A
Current Ratio	Current Asset/ Current Liabilities		6.98

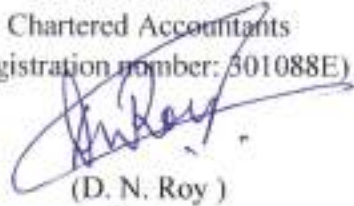


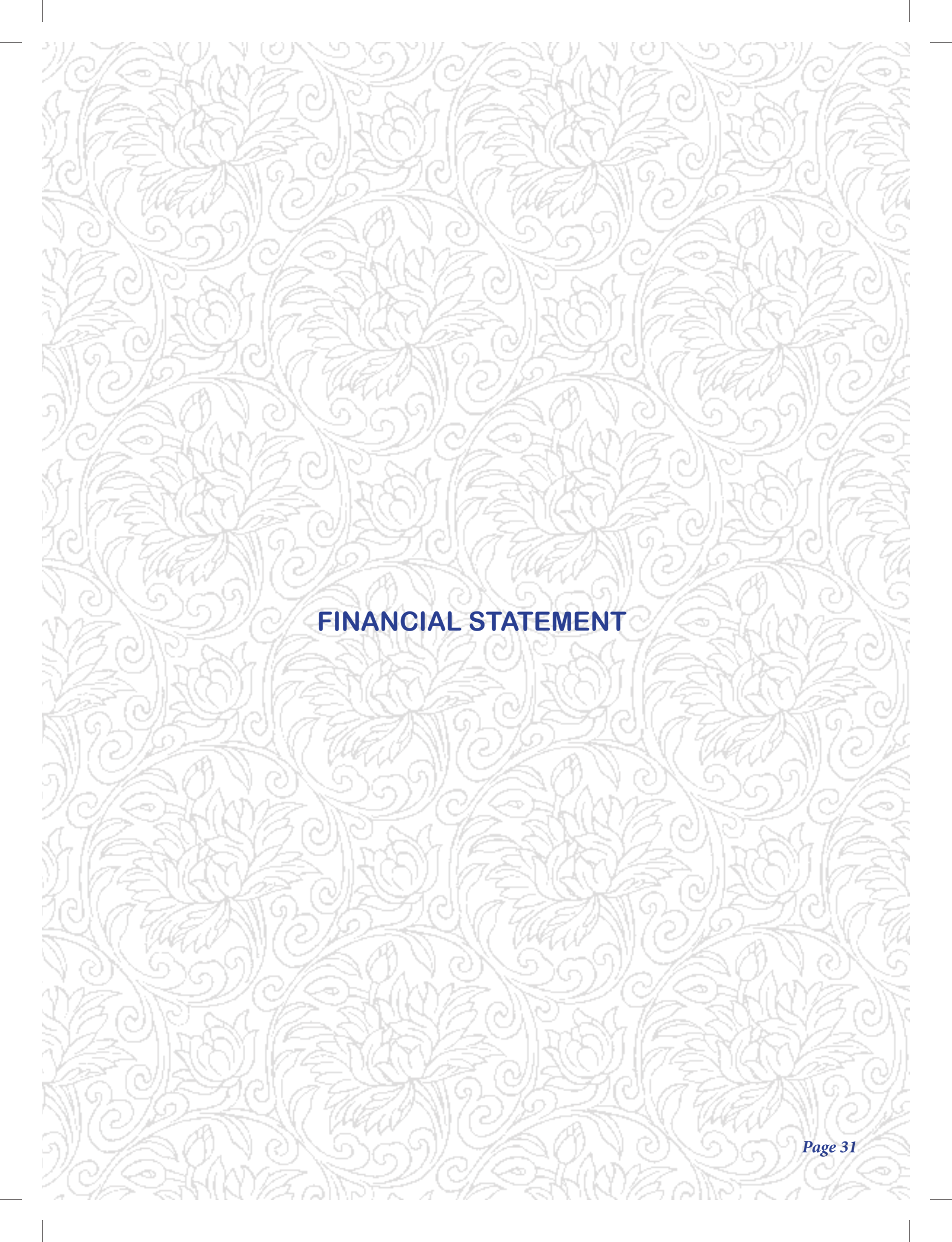
3. Adherence to Laws, Rules and Regulations:

The audit of the Company is governed by the Companies Act of Kingdom of Bhutan, 2000 and the scope of audit is limited to examination and review of the financial statement as produced before us by the management. In the course of audit we have considered based on our audit checks, the compliance of provisions of the said Companies Act and its Articles of Association relevant to the financial statements to the best of our knowledge and belief. We are unable to state whether the Company has been complying with any other applicable laws (other than the Companies Act), rules and regulation, systems, procedures and practices.

Place : Thimphu, Bhutan
Date : 17th February, 2017



For L.B. Jha & Co.,
Chartered Accountants
(Registration number: 301088E)

(D. N. Roy)
Partner
(Membership number 300389)



FINANCIAL STATEMENT

STATE MINING CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER, 2016

(Amount in Nu)

Particulars	Notes	31-12-16	31-12-15
ASSETS			
Non-Current Assets-			
Property, Plant and Equipment	2A	30,800,706	5,562,920
Intangible Asset	2B	137,075	66,164
Capital Work-in-Progress	2C	22,377,848	11,395,932
Exploration & Evaluation cost	2D	22,213,450	-
Trade & Other Receivable	3	12,430,520	1,717,962
Total Non-Current Asset		87,959,599	18,742,978
Current Assets-			
Trade & Other receivable	4	52,115,436	3,203
Cash and Cash Equivalents	5	4,375,055	17,607,271
Other Current Assets	6	5,645,067	808,921
Total Current Asset		62,135,558	18,419,395
Total Asset		150,095,157	37,162,373
EQUITY AND LIABILITIES			
Capital and Reserves-			
Share Capital	7	135,990,000	45,580,000
Retained Earnings /(Losses)		(15,272,636)	(11,385,717)
Total Equity		120,717,364	34,194,283
Deferred Tax Liability-	8	797,511	39,733
Total Deferred Tax Liability		797,511	39,733
Non-Current Liabilities-			
Long Term Employee Benefit	9	564,629	445,838
Total Non-Current Liabilities		564,629	445,838
Current Liabilities-			
Trade and Other Payables	10	27,080,459	2,482,519
Other Liabilities	11	935,194	-
Total Current Liabilities		28,015,653	2,482,519
Total of Equity and Liabilities		150,095,157	37,162,373

The accompanying Notes form an integral part of Financial Statements.
Significant Accounting Policy and Notes of Financial Statement 1-22

As per our report of even date

For L.B. Jha & Co.,
Chartered Accountants
(Registration number: 301088E)



(D. N. Roy)
Partner
(Membership number 300389)



For State Mining Corporation Limited


Karma Yezer Raydi
Chairman


Kezang Jamtsho
CEO

Chief Executive Officer
State Mining Corporation Limited
Samtse : BHUTAN

Place: Thimphu
Date: 17/02/2017

Dasho Karma Yezer Raydi
Date: 17/02/2017
(Chairman)

State Mining Corporation Ltd.
Regd. Office : Samtse; Bhutan

STATE MINING CORPORATION LIMITED
STATEMENT OF COMPREHENSIVE INCOME AS ON 31st DECEMBER, 2016

(Amount in Nu)			
Particulars	Notes	31-12-16	31-12-15
Income-			
Revenue from sale of products	12	62,570,808	
Other income	13	1,127,736	284,100
Total Income		63,698,544	284,100
Expenditure-			
Changes in Inventories of finished goods	14	(4,867,477)	-
Mining Cost	15	37,349,841	-
Operation & Maintenance Expenses	16	682,845	267,748
Depreciation and Amortisation	2	2,756,879	807,826
Employee Benefit Expenses	17	13,899,135	5,980,008
Finance Cost	18	121,752	-
Other Expenses	19	16,985,990	4,574,502
Total Expenditure		66,928,965	11,630,084
Profit/(Loss) Before Income Tax		(3,230,421)	(11,345,984)
Income Tax Expenses	8	(757,778)	(39,733)
Profit/ (Loss) After Income Tax		(3,988,199)	(11,385,717)
Other Comprehensive (income)/Loss			
Actuarial Gain/(Loss) on post employment benefit obligations		101,280	
Net Other Comprehensive (Income)/Loss		101,280	-
Total Comprehensive Income/(Loss)		(3,886,919)	(11,385,717)
Basic and Diluted Earnings per Share	20	(4.14)	(39.64)

The accompanying Notes form an integral part of Financial Statements.
Significant Accounting Policy and Notes of Financial Statement 1-22

As per our report of even date

For L.B. Jha & Co.,
Chartered Accountants
(Registration number: 301088E)



(D. N. Roy)
Partner
(Membership number 300389)



For State Mining Corporation Limited



Dasha Karma Yezer Raydi
Chairman
(Chairman)

State Mining Corporation Ltd.
Regd. Office : Samtse, Bhumphu
Date 17/02/2017

Chief Executive Officer
State Mining Corporation Limited
Samtse : Bhumphu
Kezang Jamtsho
CEO

Place: Thimphu
Date: 17/02/2017

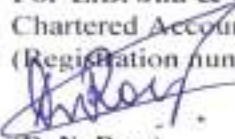
STATE MINING CORPORATION LIMITED
STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31st DECEMBER 2016

	(Amount in Nu)	
Particulars	31-12-16	31-12-15
Net Profit Before Tax	(3,230,421)	-
Adjustment for		
Depreciation and amortization	2,756,879	-
Actuarial Gain/(Loss) on post employment benefit obli	101,280	-
Interest on Secured Loan	121,752	-
Interest earned on Short Term Deposit	(130,137)	-
Loss on Disposal of PPE	4,525	-
Changes in Working Capital :		
Adjustment for		
(Increase)/Decrease in Trade Receivable	(52,112,233)	-
(Increase)/Decrease in Other Current Assets	(4,836,146)	-
(Increase)/Decrease in Other Non-Current Assets	(10,712,558)	-
Increase/(Decrease) in Trade Payables	24,597,940	-
Increase/(Decrease) in Other Current Liabilities	935,194	-
Increase/(Decrease) in Non-current liabilities	118,791	-
Cash generated from Operations	(42,009,012)	-
Less : Tax Paid	-	-
Net Cash used in Operating activities (A)	(42,385,134)	-
Cash Flow from Investing Activities		
Purchase of Fixed Assets and Capital Work in Progress	(61,265,467)	(27,972,729)
Interest earned on Short Term Deposit	130,137	-
Net Cash used in Investing Activities (B)	(61,135,330)	(27,972,729)
Cash Flow from Financing Activities		
Issue of Share Capital	90,410,000	45,580,000
Interest on Secured Loan	(121,752,00)	-
Cash flow from Financing Activities (C)	90,288,248	45,580,000
Net Increase/ (Decrease) in Cash & Cash Equivalents (A+E)	(13,232,216)	17,607,271
Cash & Cash Equivalents at the beginning of the year	17,607,271	-
Cash & Cash equivalents at 31/12/2016	4,375,055	17,607,271

The above Statement of Cash Flow has been prepared under the "Indirect Method" as set out in the Bhutanese Accounting Standard- 7 on 'Statement of Cash

The accompanying Notes form an integral part of Financial Statements.
Significant Accounting Policy and Notes of Financial Statement 1-22

As per our report of even date

For L.B. Jha & Co.,
Chartered Accountants
(Registration number: 301088)

(D. N. Roy)
Partner
(Membership number 300389)



Place: Thimphu
Date: 17/2/2017

For State Mining Corporation Limi


Karma Yezer Raydi
Chairman
Samkezing Jomsho
Chief Executive Officer
State Mining Corporation Limited
CEO

Dasho Karma Yezer Raydi
(Chairman)

State Mining Corporation Ltd.
Regd. Office : Samtse; Bhutan

Place: Thimphu
Date: 17/2/2017

STATE MINING CORPORATION LIMITED

Statement of Changes in Equity for the year ended 31st December 2016

	Ordinary Shares			Retained Earnings	Actuarial Gains/(Loss)	General Reserves	Total
	No. of Shares (issued and fully paid up)	Par value per share	Total value of shares				
Balance as at 1st January 2016	455,800	100	45,580,000	(11,385,717)	-	-	34,194,283
Profit/(loss) after Income Tax	-	-	-	(3,988,199)	-	-	(3,988,199)
Share allotment against Money received from	904,100	100	90,410,000	-	-	-	90,410,000
Other Comprehensive Income for the year	-	-	-	-	101,280	-	101,280
Balance as at 31st December 2016	1,359,900		135,990,000	(15,373,916)	101,280	-	120,717,364

Authorized Capital:	(Amount in Nu)
10,000,000 Equity shares* of Nu.100 each	1,000,000,000

*All shares are of same class and have the same rights attached

The accompanying Notes form an integral part of Financial Statements.
Significant Accounting Policy and Notes of Financial Statement 1-22

As per our report of even date

For L.B. Jha & Co.,

Chartered Accountants

(Registration number: 301088E)

(Signature)

(D. N. Roy)

Partner



For State Mining Corporation Limited

(Signature)

Karma Yezer Raydi

Chairman

(Signature)
Chief Executive Officer
Kezang Jamtsho
State Mining Corporation Limited
CEO
Samtse : BHUTAN

Dasho Karma Yezer Raydi

(Chairman)

State Mining Corporation Ltd.

Regd. Office : Samtse; Bhutan

SIGNIFICANT ACCOUNTING POLICIES

General Information:

State Mining Corporation Limited (SMCL) is incorporated as public limited company under the Companies Act of Kingdom of Bhutan 2000 on 31st December 2014.

The company is a wholly owned subsidiary of Druk Holding and Investment (DHI) and ultimate subsidiary of Ministry of Finance, Royal Government of Bhutan.

The principal activities of State Mining Corporation Limited (the "Company") cover the extraction and marketing of minerals. All significant operations take place within Bhutan. The ultimate parent is the Royal Government of Bhutan.

The Company is a limited liability company incorporated and domiciled in Bhutan. The address of its principal place of business is Gurung Basti, Samtse: Bhutan.

These financial statements relate to the year ended 31st December 2016.

1. Basis of preparation:

The financial statements of the Company have been prepared in accordance with Bhutanese Accounting Standards (BAS) to the extent applicable to the company and the relevant provision of the Companies Act of Kingdom of Bhutan, 2000. The statements have been prepared under the accrual, historical cost and going concern conventions.

The preparation of financial statements in conformity with BAS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are:

Fixed assets: Critical judgments are expected period of use, condition of the asset, technological advances, regulation and residual values.

Assets relating to mining: Certain plant and equipment and intangible costs are expensed using the units of production method. Estimates are made regarding the expected reserves of minerals and that markets and selling prices will enable the profitable operation of the company.

Provision is made for future costs to be incurred at the time of the restoration and rehabilitation of mining sites. These are based on the best estimate of the probable cost and the operating life of the mine.

Expenses for searching for mineral resources, determining the technical and commercial viability of extracting mineral resources are recognised as exploration and evaluation assets.

Actuarial valuation of employee benefits: Expected uptake of the gratuities, accumulated leave liabilities and the discount rate used in the valuation.
The functional currency of preparation is the Bhutanese Ngultrum (Nu).



2. Application of Bhutanese Accounting Standards (BAS):

The Financial Statements have been prepared in line with Bhutanese Accounting Standards. All standards in the first and second phase of implementation, in addition to above, Company has decided on the early adoption of Bhutanese Financial Reporting Standard (BFRS) 6 - Exploration for and Evaluation of Mineral Resources. The company has considered IFRIC 20-: Stripping Costs in the Production Phase of a Surface Mine in setting its accounting policies.

3. Foreign currency translation:

Foreign currency transactions that are completed within the accounting period are translated into Bhutan Ngultrum using the exchange rates prevailing at the date of settlement. Monetary Assets and Liabilities in foreign currencies at Balance Sheet date are translated at the rates of exchange ruling at Balance Sheet date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

4. Property, Plant and Equipment:

All Property, Plant and Equipment are stated at historical cost less depreciation and impairment, if any. Cost includes purchase price, taxes and duties, labour cost, direct financing costs, direct overheads for self-constructed assets, borrowing costs, other direct costs incurred up to the date the asset is ready for its intended use including initial estimate of dismantling and site restoration cost.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs/running and maintenance expenses are charged to the Statement of Comprehensive Income during the financial period in which they are incurred. Asset Costing Nu.2000 and below are expensed off, when put to use.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset Class	Useful Life
Furniture and Fixtures (Arts & Portraits, Curtain & Carpets, Office equipment & Furniture)	10 years
Data Processing Equipment	4 years
Vehicle	10 years with 20% Residual value

Certain assets will be depreciated using the "Units of production method", in accordance with ASI 20, where this is deemed to be more appropriate than setting a useful life.



The asset's residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

The company has stopped capitalizing Arts, Portraits, Curtains and Carpets from the year 2015. However, the items under the above categories those had been capitalized prior to 2015 are continuing as assets in the books of the company as they are in good conditions and usable.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other Income' or 'Other expenses' as the case may be, in the statement of comprehensive Income.

5. Intangible assets:

Computer software:

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 4 to 5 years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Other Intangibles:

Other intangible assets comprise exploration and evaluation costs of mines. These are amortised using the units of production method.

6. Impairment of asset:

The carrying amount of assets are assessed/ reviewed at the end of the reporting period whether there is any indication of impairment based on internal/external factors. If such indication exists, the company estimates the recoverable amount of the assets. An impairment loss is recognized if the carrying amount of the asset exceeds the recoverable amount on the reporting date, as the carrying amount is reduced to the recoverable amount. The recoverable amount is greater of the asset's net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the assets.

7. Capital-work-in-progress (CWIP):

Cost incurred for the generation of qualifying assets is initially recorded in CWIP until the asset is not completed and not functional. Cost incurred is transfer from CWIP to fixed asset only when it starts generating economic benefits and upon receipt of completion certificate from concern authority.

8. Financial assets:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets,



except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

9. Inventories:

Inventories are stated at the lower of cost and net realisable value. Cost is determined using moving average price for the materials procured from third parties and on standard cost basis for finished Goods. The cost of finished goods comprises design costs, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

10. Trade and other receivables:

Trade and other receivables are initially recognised at the fair value of the amounts to be received. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Receivables are reviewed regularly for impairment.

11. Cash and Cash Equivalents:

In the Statement of Cash Flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

12. Trade and other payables:

Trade and other payables are initially recognised at the fair value of the amounts to be paid. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

13. Current and deferred income tax:

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in Other Comprehensive Income. In this case, the tax is also recognised in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted at the Balance Sheet date in Bhutan.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted



at the Balance Sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

14. Borrowing costs:

Borrowing costs directly attributable to the acquisition, construction or production of a major capital project, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings and their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

15. Employee benefits:

a. Retirement Benefits:

Under defined contribution scheme:

Defined contribution Benefit plan is managed by a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Under Defined Benefit Scheme: Post Employment Benefit (Gratuity)

The company makes retirement payments based on the final salary and years of service. The amount of gratuity is accrued on the basis of actuarial valuation. Changes in service and interest are charged to Statement of Profit or Loss. Changes to actuarial valuation are charged to the Statement of Other Comprehensive Income.

Under Defined Benefit Scheme: Other Long-term Employee Benefit (Accumulated Leave Liability):

The accumulated leave liability is accrued on the basis of actuarial valuation for the leave balance over and above the annual leave encashment against each employee as at the end of the year starting from the year 2015. Changes in leave balance, interest and changes to actuarial valuation are charged to the Statement of Profit or Loss.

b. Other benefits:

Other benefits such as bonus are accrued at year end without actuarial valuation



16. Provisions and Contingent Liabilities:

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. A contingent

liability is only disclosed in the notes to the account if an outflow of resources embodying economic benefits is possible.

17. Revenue recognition:

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and taxes. The company recognises revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the company.

Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

18. Government grants:

Grants from Royal Government of Bhutan (RGOB) and other organisations relating to costs are recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to Property, Plant and Equipment are included in non-current liabilities as Deferred Government Grants. Depreciation on the assets is charged against the grant and not to the Operating Statement.

19. Comparative information:

Where necessary, certain comparative information has been reclassified and updated in order to provide a more appropriate basis for comparison.



2. Property Plant & Equipment, Intangible Assets, Capital Work in Progress and Exploration and Evaluation Cost

2A. Property Plant & Equipment

Particulars	Furniture & Fixture	Data Processing Equipment	Office Equipment	Vehicle*	Lab Equipment	Safety Equip	Building & Civil	Plant & Machinery	Survey Equipment	(Amount in Rupees)
Balance as at 1 January 2016-										
Cost	1,512,048	2,201,703	119,390	2,522,277	-	-	-	-	-	6
Accumulated Depreciation	(85,177)	(273,312)	(2,512)	(331,697)	-	-	-	-	-	4
Book Value as at 1 January 2016	1,426,871	1,928,391	117,078	2,190,580	-	-	-	-	-	2
Changes in book value during the year-										8
Addition	343,720	937,982	322,013	4,665,767	418,210	12,400	17,086,796	3,398,072	510,000	27
Deletion/Adjustment	(2,800)	(46,856)	(110,650)	-	-	-	-	-	-	1
Depreciation on deletions and Adjust	-	7,189	588	-	-	-	-	-	-	1
Depreciation for the year	(162,352)	(697,406)	(21,686)	(317,417)	(18,221)	(1,407)	(695,059)	(122,366)	(64,031)	(2
Total Changes	173,368	208,909	190,265	4,148,350	399,989	10,993	16,391,737	3,275,706	445,969	30
Balances as at 31st December 2016										25
Cost	1,853,268	3,092,829	330,753	7,188,041	418,210	12,400	17,086,796	3,398,072	510,000	33
Accumulated Depreciation	(252,529)	(1,063,529)	(23,410)	(849,114)	(18,221)	(1,407)	(695,059)	(122,366)	(64,031)	(3
Book value as at 31st December 2016	1,600,739	2,029,300	307,343	6,338,926	399,989	10,993	16,391,737	3,275,706	445,969	30

*Car purchased in used condition thus Company considers the remaining useful life as 5 years.

2B. Intangible Assets

Particulars	(Amount in No)
Balance as at 1 January 2016-	
Cost	81,493
Accumulated Amortization	(15,328)
Book Value as at 1 January 2016	66,164
Changes in book value during the year-	
Addition	99,350
Deletion/Adjustment	-
Amortization on deletions and Adjust	(28,139)
Amortization for the year	78,911
Total Changes	78,911
Balances as at 31st December 2016	
Cost	180,843
Accumulated Amortization	(43,768)
Book value as at 31st December 2016	137,075

* Capital work in progress consists of different Mines which are as follows

2C. Capital Work in Progress*

Particulars	(Amount in No)
Book Value as at 1 January 2016	11,395,932
Changes in book value during the year:	
Addition	33,618,862
Deletion/Adjustment	(22,636,946)
Total Changes	10,981,916
Book value as at 31st December 2016	22,377,848

2D. Exploration & Evaluation Cost

Particulars	(Amount in Rupees)
Balance as at 1 January 2016-	
Cost	-
Accumulated Amortization	-
Book Value as at 1 January 2016	-
Changes in book value during the year-	
Addition	22
Deletion/Adjustment	-
Amortization on deletions and Adjust	-
Amortization for the year	-
Total Changes	22
Balances as at 31st December 2016	
Cost	22
Accumulated Amortization	-
Book value as at 31st December 2016	22



STATE MINING CORPORATION LIMITED

NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT 31st December 2016

Note 3: Trade & Other receivable(Non-Current)

(Amount in Nu)

	31-12-2016	31-12-2015
Capital Advances	-	17,07,962
Security Deposit	-	10,000
Environment Restoration Bond	124,30,520	
Total	124,30,520	17,17,962

Note 4: Trade & Other receivable (Current)

(Amount in Nu)

	31-12-2016	31-12-2015
Advance to Employee	1,54,767	3,203
Sundry Debtor Domestic	474,03,264	-
Advance to Vendor	44,19,125	-
Security Deposit Placed	1,38,280	-
Total	521,15,436	3,203

Note 5: Cash and Cash Equivalents

(Amount in Nu)

	31-12-2016	31-12-2015
Cash-in-hand	2	18,392
Bank Balance		
Bank of Bhutan Ltd - 100891887 - SMCL	-38,68,489	175,88,879
Bank of Bhutan Ltd-200194054 - SMCL	82,43,542	-
Short Term Deposit	-	-
Total	43,75,055	176,07,271

Note 6: Other Current Assets

(Amount in Nu)

	31-12-2016	31-12-2015
Deposit due for refund	-	7,92,516
Inventory	54,05,308	-
Other Receivable	2,187	16,405
TDS	1,49,858	-
Prepaid Expenses	87,714	-
Total	56,45,067	8,08,921

Note 7: Capital

(Amount in Nu)

	31-12-2016	31-12-2015
Authorised Share Capital		
10000000 Equity Shares of Nu.100 each	10000,00,000	10000,00,000
Issued, Subscribed and Paid-up		
1,359,900 Equity shares @ Nu. 100 each fully paid up	1359,90,000	455,80,000
	1359,90,000	455,80,000

Terms/Rights attached to equity shares

The Company has only one class of Equity Shares having a par value of Nu. 100 per share. Each holder of Equity Shares is entitled to one vote per share. In the event of liquidation of the Company, the holders of Equity Shares will be entitled to receive remaining assets of the Company after distribution of all preferential amount. The distribution will be in proportion to the number of Equity Shares held by the share holders.



Note 8: Taxation		(Amount in Nu)	
	31-12-16	31-12-15	
Deferred Tax Liability:-			
Timing Differences in respect of- Opening	39,733		
Recognised during the year in relation to Property, Plant and Equipment, Intangible Assets and Amortization of Exploration and Evaluation costs	757,778	39,733	
Total	797,511	39,733	

Note 9: Long term Employee Benefit		(Amount in Nu)	
	31-12-16	31-12-15	
Post Employment Benefit (Gratuity)	214,505	290,853	
Other Long-term Employee Benefit (Leave Encashment)	350,124	154,985	
Total	564,629	445,838	

Note 10: Trade and Other Payables		(Amount in Nu)	
	31-12-16	31-12-15	
Security Deposits	255,500	423,874	
Employee Payables	874,279	298,213	
Leave Encashment	350,124		
Retention Money	1,619,731	746,942	
Sundry Creditors - Domestic - SMCL	24,330,949	933,490	
Other payable	-	80,000	
Total	27,080,459	2,482,519	

Note 11: Other Liabilities		(Amount in Nu)	
	31-12-16	31-12-15	
Stale Cheque - SMCL	2,000	-	
TDS-2% - SMCL	268,077	-	
TDS-3% - SMCL	1,200	-	
TDS-5% - SMCL	-	-	
Other Liabilities	663,917	-	
Total	935,194	-	



State Mining Corporation Limited
Notes forming part of Statement of Comprehensive Income

Note 12: Revenue from sale of products		(Amount in Nu)
	31-12-16	31-12-15
Sale of Coal - SMCL	67,698,467	
Quality Compensation - SMCL	(4,882,376)	
Normal Loss - SMCL	(245,283)	
Total	62,570,808	-

Note 13: Other Income		(Amount in Nu)
	31-12-16	31-12-15
Sale of Reject stone	592,985	
Liquidated Damages	377,114	274,200
Sale of tender documents	27,500	9,900
Interest from short term deposit	130,137	
Total	1,127,736	284,100

Note 14: Changes in Inventory of Finished Goods		(Amount in Nu)
	31-12-16	31-12-15
Opening inventory of finished goods	-	-
Less: Closing inventory of finished goods	4,867,477	-
Total	4,867,477	-

Note 15: Mining Cost		(Amount in Nu)
	31-12-16	31-12-15
Coal Raising Cost - SMCL	5,649,818	-
Environment Management Cost - SMCL	854,286	-
Fuel & Spares - SMCL	13,489	-
Safety & Protective Gadgets - SMCL	279,511	-
Mineral Testing Expenses - SMCL	98,495	-
Royalty	639,644	-
Mineral Rent	67,719	-
Stripping Cost	29,679,282	-
Surface Rent	67,597	-
Total	37,349,841	-

Note 16: Operation & Maintenance Expenses		(Amount in Nu)
	31-12-16	31-12-15
Insurance - SMCL	25,879	18,529
R & M - Vehicles - SMCL	293,098	133,660
R & M - Building - SMCL	5,600	131,788
R & M -data processing equipment - SMCL	18,500	1,800
R & M - Office Equipment - SMCL	1,500	500
Vehicle Running Expenses (POL) - SMCL	338,268	140,742
Total	682,845	427,019

Note 17: Employee Benefits Expenses		(Amount in Nu)
	31-12-16	31-12-15
Payroll & Related Expenses		
Salaries, wages and allowances	11,090,506	3,881,612
Leave Travel Concession - SMCL	356,401	163,040
Staff Welfare	-	251,286
HRD expenses	567,387	875,272
Post Employment Benefits		
GPF Contribution (Employer) - SMCL	820,098	269,502
Gratuity Contribution - SMCL	315,785	290,853
Repatriation Allowances - SMCL	245,892	-
Other Employee Benefits		
Leave Encashment - SMCL	503,066	248,443
Total	13,899,135	5,980,008



Note 18: Finance Cost

(Amount in Nu)

	31-12-16	31-12-15
Interest on Secured Loan	121,752	-
Total	121,752	-

Note 19: Other Expenses

(Amount in Nu)

	31-12-16	31-12-15
Travel-Local - SMCL	2,566,307	1,047,659
Board Sitting Fees - SMCL	376,000	672,000
Office Rent - SMCL	511,187	381,808
Rimdo / Tendral Expenses - SMCL	4,045	344,061
Office Supplies, Printing & Stationeries - SMCL	460,214	296,197
Sub-committee sitting fee - SMCL	212,840	260,000
Advertisement - SMCL	210,668	223,472
Hospitality & Entertainment Expenses - SMCL	338,762	218,602
Internet Charges - SMCL	445,561	215,964
Office Expenses - SMCL	445,149	204,713
Meeting & Retreat Expenses - SMCL	110,530	123,033
Audit Fees & Expenses - SMCL	251,052	120,000
Donation	-	115,000
Honorarium	-	66,000
Telephone & Fax - SMCL	86,099	55,262
Hire of Vehicles - SMCL	22,828	26,900
Electricity Charges - SMCL	43,634	20,347
License Processing Fees - SMCL	20,300	14,100
Books, Newspaper & Magazines - SMCL	3,265	3,550
Postage & Courier charges - SMCL	7,000	3,505
Bank Charges - SMCL	4,458	1,010
Transportation Charges	-	490
Miscellaneous Expenses - SMCL	1,904	300
Board Meeting Expenses - SMCL	116,328	1,258
Carriage Charges - SMCL	211,000	-
Consulting Services - SMCL	75,000	-
Freight Outwards - SMCL	10,240,491	-
Store & Spares - SMCL	22,370	-
Sub-Committee Meeting expenses - SMCL	31,193	-
Fees & Subscription - SMCL	16,400	-
Travel-Foreign - SMCL	32,750	-
Wages - SMCL	17,100	-
Asset write-off	101,555	-
Total	16,985,990	4,415,231

Note 20: Earnings Per Share

(Amount in Nu)

	30-07-55	31-12-15
Net profit attributable to equity shareholders	(3,988,199)	(11,385,717)
Issued and outstanding ordinary shares at the beginning of the year	455,800	-
Effect of ordinary shares issued during the year	506,449	287,209
Weighted average number of ordinary shares	962,249	287,209
Basic and Diluted Earnings per Share	(4.14)	(39.64)



OTHER NOTES TO FINANCIAL STATEMENTS

21. Allotments of shares have been made to Druk Holding & Investments Limited (DHIL) who is holding 100 percent shares of the Corporation. During the year, a sum of Nu.90.41 million has been received from DHIL as additional equity injection in support of business expansion.
22. A loan of Nu.10,000,000 was availed from a fellow subsidiary i.e., Bank of Bhutan by securing Plant and Equipment of the company. The final loan and interest instalment was remitted and the loan stands liquidated as on 31st December, 2016.
23. All the balances against debtor, creditors and advances are based on the invoices raised to/ raised from and advances paid respectively, which are not settled as at reporting date. The Company has already initiated the process of availing confirmation from various parties. Pending completion of the same including reconciliation, any further adverse adjustments to be made in these accounts are not presently ascertainable at this stage. The Directors are of the opinion that the effect of process may not be significant and material in relation to these financial statements.

24. Contingent Liability

There are no contingent liabilities for the Company as on 31st December 2016.

25. Retirement Benefit Obligations:

A. Defined Contribution Plan:

Qualifying employees are members of a defined contribution plan operated by the National Pension and provident Fund. The Company matches employee contributions to the fund. The only obligation on the Company is to make the contribution monthly. Total cost of contributions for the year ended 31st December 2016 was Nu. 828,662 (2015 - Nu.425,069) including Nu. 8,564 in CWIP for employees working at sites.

B. Defined benefit Scheme:

Valuation in respect of Gratuity & Earned Leave has been carried out by Royal Insurance Corporation Limited, Thimphu. Present value of defined benefit obligation and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The disclosures as per the actuary reports are as given below:



a) Gratuity as at 31 December 2016

(All figures in Bhutanese Ngultrum's (NU) unless otherwise stated)

(a)(1). Change in Defined Benefit Obligation (DBO)	31/12/2016	31/12/2015
DBO at the beginning of the reporting period	2,90,853	-
Current service cost	3,04,878	2,90,853
Interest cost	16,865	-
Past service cost	-	-
Benefits paid from plan assets	(1,31,969)	-
Benefits paid by employer	-	-
Actuarial (gain)/loss due to plan experience	(96,718)	-
Actuarial (gain)/loss due to change in demographic assumptions	-	-
Actuarial (gain)/loss due to change in financial assumptions	-	-
DBO at the end of the reporting period	3,83,909	2,90,853
(a)(2). Change in fair value of Plan Assets	31/12/2016	31/12/2015
Fair Value of Assets at the beginning of reporting period	-	-
Interest income on plan assets	-	-
Contributions paid into the plan	2,90,853	-
Expected return on the plan assets	5,958	-
Benefits paid by the plan	(1,31,969)	-
Amount withdrawn by company	-	-
Return on plan assets greater or (less) than discount rate	4,562	-
Assets at the end of the reporting period	1,69,404	-
(a)(3). Statement of Profit or Loss	31/12/2016	31/12/2015
Current Service Cost	3,04,878	2,90,853
Past service cost	-	-
Net interest cost on net DB liability/(asset)	10,907	-
Net cost for the year recognised in Profit or Loss	3,15,785	2,90,853
(a)(4). Other Comprehensive Income (OCI)	31/12/2016	31/12/2015
Actuarial (Gain)/Loss due to liability experience	(96,718)	-
Actuarial (Gain)/Loss due to liability assumption changes	-	-
Return on plan assets (Greater) or Less than discount rate	(4,562)	-
Remeasurement (Gain)/Loss recognized in OCI	(1,01,280)	-
(a)(5). Defined Benefit Cost	31/12/2016	31/12/2015
Current service cost	3,04,878	2,90,853
Past service cost	-	-
Net interest cost on net DB liability/(asset)	10,907	-
Remeasurement (Gain)/Loss recognized in OCI	(1,01,280)	-
Total Defined Benefit Cost	2,14,505	2,90,853



(a)(6). Development of Net Financial position	31/12/2016	31/12/2015
Defined Benefit Obligation	(3,83,909)	(2,90,853)
Fair Value of Plan Assets	1,69,404	-
Funded Status - (Deficit)/Surplus	(2,14,505)	(2,90,853)
Net Defined Benefit Asset/(Liability)	(2,14,505)	(2,90,853)

(a)(7). Reconciliation of Net Financial position	31/12/2016	31/12/2015
Net Defined Benefit liability/(asset) at the beginning of reporting period	290,853	-
Amount recognized in the profit or loss	3,15,785	2,90,853
Amount recognized in the OCI	(1,01,280)	-
Contributions paid into the plan	(2,90,853)	-
Benefits paid by employer	-	-
Amount withdrawn by company	-	-
Net Defined Benefit liability/(asset) at the end of reporting period	2,14,505	2,90,853

(a)(8). Expected Benefit Payments for the year ending	Amount
December 31, 2017	1,21,764
December 31, 2018	61,611
December 31, 2019	82,770
December 31, 2020	1,04,774
December 31, 2021	1,27,676
December 31, 2022 to December 31, 2026	10,81,364

(a)(9). Estimated Term of Liability (Years)	19.31
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(a)(10) Scheme Asset Allocation	Amount (Nu.)	Percentage
Deposits	1,69,404	100 %



(a)(11) Sensitivity Analyses

	Defined Benefit Obligation	Net Effect on DBO
1. Discount Rate		
Base Discount Rate of 7.5%	3,83,909	-
Discount rate of 8% (+0.5%)	3,53,373	(30,535)
Discount rate of 7% (-0.5%)	4,17,744	33,835
2. Salary Escalation Rate		
Base Salary Escalation Rate of 5%	3,83,909	-
Salary Escalation Rate of 6% (+1%)	4,58,587	74,678
Salary Escalation Rate of 4% (-1%)	3,22,461	(61,448)
3. Attrition Rate		
Base Attrition Rate of 3%	3,83,909	-
Attrition Rate of 4% (+1%)	3,60,077	(23,832)
Attrition Rate of 2% (-1%)	4,11,239	27,331

(a)(12). Summary of actuarial assumptions

	31/12/2016	31/12/2015
Discount Rates	7.50%	7.50%
Salary Escalation Rates	5.00%	5.00%
Employee Turnover Rates	2.00%	2.00%
Mortality Rates	100% of IALM (2006-08)	100% of IALM (2006-08)



b) Leave Encashment Benefits as at 31 December 2015

(All figures in Bhutanese Ngultrum's (NU) unless otherwise stated)

(b)(1). Change in Defined Benefit Obligation (DBO)	31/12/2016	31/12/2015
DBO at the beginning of the reporting period	1,54,985	-
Current service cost	1,95,139	1,54,985
Interest cost	930	-
Past service cost	-	-
Benefits paid from plan assets	-	-
Benefits paid by employer	(2,85,175)	-
Actuarial (gain)/loss due to plan experience	2,84,245	-
Actuarial (gain)/loss due to change in demographic assumptions	-	-
Actuarial (gain)/loss due to change in financial assumptions	-	-
DBO at the end of the reporting period	3,50,124	1,54,985
 (b)(2). Statement of Profit or Loss	 31/12/2016	 31/12/2015
Current Service Cost	1,95,139	1,54,985
Past service cost	-	-
Net interest cost on net DB liability/(asset)	930	-
Remeasurement (Gain)/Loss	2,84,245	-
Net cost for the year recognised in Profit or Loss	4,80,314	1,54,985
 (b)(3). Development of Net Financial position	 31/12/2016	 31/12/2015
Defined Benefit Obligation	(3,50,124)	(1,54,985)
Fair Value of Plan Assets	-	-
Funded Status - (Deficit)/Surplus	(3,50,124)	(1,54,985)
Net Defined Benefit Asset/(Liability)	(3,50,124)	(1,54,985)
 (b)(4). Reconciliation of Net Financial position	 31/12/2016	 31/12/2015
Net Defined Benefit liability/(asset) at the beginning of reporting period	154,985	-
Amount recognized in the Profit or Loss	4,80,314	1,54,985
Employer contributions	-	-
Benefits paid by employer	(2,85,175)	-
Net Defined Benefit liability/(asset) at the end of reporting period	3,50,124	1,54,985



(b)(5). Expected Benefit Payments for the year ending	Amount
December 31, 2017	53,409
December 31, 2018	14,780
December 31, 2019	15,076
December 31, 2020	15,383
December 31, 2021	15,703
December 31, 2022 to December 31, 2026	88,120

(b)(6). Estimated Term of Liability (Years)	14.39
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(b)(7). Sensitivity Analyses

	Defined Benefit Obligation	Net Effect on DBO
1. Discount Rate		
Base Discount Rate of 7.5%	3,50,124	-
Discount rate of 8% (+0.5%)	3,30,598	(19,526)
Discount rate of 7% (-0.5%)	3,71,607	21,483
2. Salary Escalation Rate		
Base Salary Escalation Rate of 5%	3,50,124	-
Salary Escalation Rate of 6% (+1%)	3,98,120	47,996
Salary Escalation Rate of 4% (-1%)	3,09,944	(40,180)
3. Attrition Rate		
Base Attrition Rate of 3%	3,50,124	-
Attrition Rate of 4% (+1%)	3,61,893	11,769
Attrition Rate of 2% (-1%)	3,36,904	(13,220)

(b)(8). Summary of actuarial assumptions

Summary of actuarial assumptions

	31/12/2016	31/12/2015
Discount Rates	7.50%	7.50%
Salary Escalation Rates	5.00%	5.00%
Employee Turnover Rates	3.00%	3.00%
Mortality Rates	100% of IALM (2006-08)	100% of IALM (2006-08)



26. Related Party Disclosure:

The Company is a wholly owned subsidiary of Druk Holding & Investments (a Royal Government of Bhutan undertaking). The Company has no subsidiary Company. The Company considers that for the purpose of BAS 24 the Royal Government of Bhutan is in a position of control over it, and therefore regards the Royal Government of Bhutan and its controlled companies/corporations as related parties for the purpose of the disclosures required by BAS 24.

26.1 Name of the related parties and Relation

- a. Druk Holdings & Investment (DHI)-Holding Company

26.2 Name of the fellow Subsidiaries

1. Dungsam Cement Corporation Ltd.(DCCL)
2. Wood Craft Center Ltd.(WCCL)
3. Druk Green Power Corporation Ltd.(DGPCL)
4. Dungsam Polymers Ltd.(DPL)
5. Bhutan Power Corporation Ltd.(BPCL)
6. Bank of Bhutan Ltd.(BoBL)
7. Bhutan Board Product Ltd.(BBPL)
8. Natural Resources Development Corporation Ltd.(NRDCL)
9. State Trading Corporation of Bhutan Ltd.(STCBL)
10. Bhutan Telecom Ltd.(BTL)
11. Druk Air Corporation Ltd.(DCL)
12. Construction Development Corporation Ltd.(CDCL)
13. Thimphu Tech Park Ltd.(TTPL)

26.3 Related parties with whom transactions have taken place during the year: Board Directors:-

Dasho Penjore,	Chairman,Resigned
Dasho Karma YezerRaydi,	Director,New Appointment
Mr. Yeshi Dorji,	Director,Resigned
Mr.YesheyDorji	Director
Ms.KarmaChoden	Director
Mr.ThuktenChoeda	Director,Resigned
Mr.KinzangNorbu	Director,Resigned
Dasho Kelzang Jamtsho	Director,New Appointment
Dasho Sonam Wangyel	Director,New Appointment
Dr.Damber S. Kharka	Director,New Appointment

26.4 No transactions were done with relatives of key managerial personnel during the Year.



26.5 Transactions during the year.

26.5.a Transactions with Subsidiaries

(Amount in Nu)

Company	Description	2,016	2,015
BoBL	Interest paid to BoBL for Loan	121,752	
BoBL	Working Capital Loans from Banks	10,500,000	
BoBL	Bank Charges & Fees paid to BoBL	4,458	
BTL	Purchase of lease Line Equipment	144,020	
BTL	Training Fees paid	50,000	
BTL	Internet & Telephone Charged	531,660	271,224
WCCL	Purchase of Furniture	117,440	
BBPL	Purchase of Furniture		397,432
DCCL	Mineral Testing Fees	9,680	
DCCL	Sale of coal	62,570,808	
BPC	Electricity Charges-Paid to DHI Companies	43,634	20,347
STCBL	Purchase of vehicle	3,776,817	
STCBL	Running & Maintenance of vehicle	93,255	13,435
CDCL	Construction of infrastructure	23,534,766	
CDCL	Advance payment	(3,688,482)	1,707,962
CDCL	Hire Charges	1,101,030	
DHI	Employee Remuneration and Benefit		293,021
DHI	Equity Injection	90,410,000	45,580,000

26.5. b Balances with Subsidiaries

(Amount in Nu)

Company	Description	2016	2015
BoBL	Intergroup Current Deposits	4,375,053	17,588,879
DHI	Shares held by DHI	135,990,000	45,580,000
DHI	Sundry Creditors -Inter Company		293,021
WCCL	Intragroup Trade Payable	22,645	
DCCL	Intragroup Trade Receivable	47,403,264	
BPC	Intragroup Advances	240,640	
BPC	Intragroup Trade Receivable	11,280	
STCBL	Intragroup Trade Payable	91,390	
CDCL	Retention Money Payable	1,401,608	
CDCL	Advance for Capital work	3,688,482	1,707,962
CDCL	Intragroup Trade Payable	9,518,690	
BTL	Intragroup Trade Payable		5,192



27. Managerial Remuneration

	Amount in Nu
Remuneration to the Chief Executive Officer (CEO)	
CEO upto 30/06/2016	
Basic Pay	480,000
Allowances	344,000
GPF Contribution (Employer)	52,800
Leave Encashment	53,333
Leave Travel Concession	7,500
Performance Based Variable Allowance(PBVA)	52,377
Travelling expense of CEO	213,539
Sitting fees to Board of Directors of the company	36,000
Total (A)	1,239,549
CEO From 1/7/2016	
Basic Pay	480,000
Allowances	288,000
GPF Contribution (Employer)	52,800
Travelling expense of CEO	205,250
Sitting fees to Board of Directors of the company	40,000
Total (B)	1,066,050
Grand Total	2,305,599

28. Auditors remuneration

Particulars	Amount in Nu
Auditors Fees	65,000
Auditors Expenses*	135,000
Total	200,000

*Provisional

29. Where necessary certain comparative information has been reclassified in order to provide a more appropriate basis for comparison.

As per our report of even date

For L. B. Jha & Co.
Chartered Accountants
Registration Number: 301088E



D. N. Roy
Partner
Membership Number : 300385

Place : Thimphu
Date : 17/02/2017



For STATE MINING
CORPORATION LTD.


Karma Yezer Raydi
Chairman

Dasho Karma Yezer Raydi
(Chairman)
State Mining Corporation Ltd.
Regd. Office : Samtse, Lhutan

Place : Thimphu
Date : 17/02/2017


Chizang Jamtsho
CEO
State Mining Corporation Limited
Samtse : BHUTAN

