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dhiCompany

STATE MINING CORPORATION LIMITED

ANNUAL REPORT 2018



THE YEAR IN REVIEW

The year 2018 has been another successful one for the State Mining Corporation Limited (SMCL), as the Company continued stabilizing and profit-making trend, for the second successive year. The Company has achieved profit after tax (PAT) of Nu. 91.39 M, mainly from the coal business. The PAT achieved translates into a profit margin of 20.38% and a return on equity (RoE) of 24.43%, which are extremely high, particularly being achieved within the first two years of commercial operation. Indeed, the PAT from the coal business was much higher, but it had to absorb the loss from the operation of Dzongthung Stone Quarry. This situation reminds us that profitability would be determined by the number of business centres, all operating efficiently, making profit individually and contributing to the overall profit basket at the Company level. This would be the business model for SMCL to scale up and leverage its mining business in years to come, to contribute to the national exchequer in a significant way.

The Management was mainly engaged in operating the two coalmines at Habrang and Tshophangma, under Samdrup Jongkhar Dzongkhag. Total coal production achieved was 80,253.154 MT. This was an increase by 60% when compared to 2017 production. The coal sale figure was 68,765.82 MT, an increase of 67% in comparison to 2017.

Manual coal raising is the preferred practice as it occurs in small seams, mixed with host rocks and other impurities, which have to be removed. 16717 man-days were used to raise 78.15% of the coal through manual labour, deploying people from the local communities, injecting much needed cash to the local economy. Unless the seams are thick and wide, machine raising will dilute the coal quality due to mixing with impurities. Coal mining is an equipment intensive operation for removal of overburden (OB) materials. The earth moving equipment (EME) is hired from the local firm, which deploys machineries from local populace. Out of the total expenditure of Nu. 325.6 M for coal production, Nu. 270 M was pumped into the local economy, going to the individual grass root households.

The Company commissioned its three-stage, 200 TPH capacity crushing plants at Dzongthung and Dzungdi, Trashigang and Trashi Yangtse, respectively. The quarry development, civil construction, installation and commissioning of the crushing plants was done departmentally to save costs. Out of the capital budget out lay of Nu. 227 M, most of the work was completed within a total expenditure of Nu. 110.77 M, reducing the capital expenditure by more than 50%. An enriching experience has been the smart staggering of different components of the work to defer incurring unnecessary upfront expenditures.

The crushing plants were established to supply aggregates to Kholongchu Hydro Electric Limited (KHEL). Due to indefinite delay of the project, the Company operated the plant only to fulfill the local demand for aggregates and try to achieve the break-even status. However, local demand was significantly depressed as the plant operation period coincided with the change in government tenure, which generally sees a significant slowing down of development activities. Hence, though production was not a problem, we could sell only 10,563.67 MT of aggregates produced, incurring a loss of Nu. 14.81 M.

On 22 October 2018, the Management received the Government order to take over the Khothakpa Gypsum Mines from 1 January 2019. The Management was directed to take over the operation in a “seamless” manner to continue the supplies to the different market segments established, without any hitch. The Management focused its full attention on the preparation during the remaining last quarter to achieve the seamless takeover. With constant encouragement and support from the DHI and Board, the Company took over the gypsum operation right from day one of 2019. On hindsight, the Management notes with solace and gratitude that we have achieved the seamless transfer and the business operation has been, by and large, smooth.

Coal business operation faces drastic fluctuations over the quarters, strongly tied with the seasons. It is very sensitive to the wet season. During the monsoon, we incur loss and we have to be alert to recover during the dry season. Our strategy has been to prepare the coalfields during the wet season and be ready for enhanced production in the dry season, to

recover the backlog. Hence, in the second quarter the profit was depressed in comparison to the first, third quarter was a wash out, but we bounced back with a vengeance in the last quarter and more than fulfilled our financial target.

The Board has been truly involved in building and consolidating the Company. The Management values the high confidence placed on the Company in branding it as a promising cash cow in the energy and resources sector. The Management would like to sincerely thank the Board and DHI for their high confidence, dynamic guidance and support in establishing SMCL as a strong mining Company.

SMCL as a mining Company must operate within the confines of our strong environment conservation policies, laws and regulations. Hence, SMCL must liaise and work closely with the regulatory authorities of the Royal Government of Bhutan. Therefore, the Management would like to thank all regulatory agencies and stakeholders like the Department of Geology and Mines, National Environment Commission, National Land Commission, their subsidiary offices, Dzongkhags, Gewogs and Communities for their continued support and encouragement to SMCL to grow from strength to strength. Finally, the Management and employees sincerely pledge to work hard in the interests of owners of mineral resources, the people of Bhutan.

Tashi Delek!

A handwritten signature in blue ink, appearing to be 'Kezang Jamtsho', written over a horizontal line.

[Kezang Jamtsho]
Chief Executive Officer

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COMPANY PROFILE

The Royal Government of Bhutan envisioned the noble concept of establishing a state entity realizing the potentials of mining sectors' contribution to the nation's socio-economic development and expand economic opportunities, create jobs, and generate revenue for the country. During the 45th Lhengyel Zhungtshog, The Royal Government of Bhutan decided the formation of State Mining Corporation Limited (SMCL). SMCL was incorporated under the Companies Act of Kingdom of Bhutan as DHI's 100% subsidiary company on 31 December 2014.

VISION

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

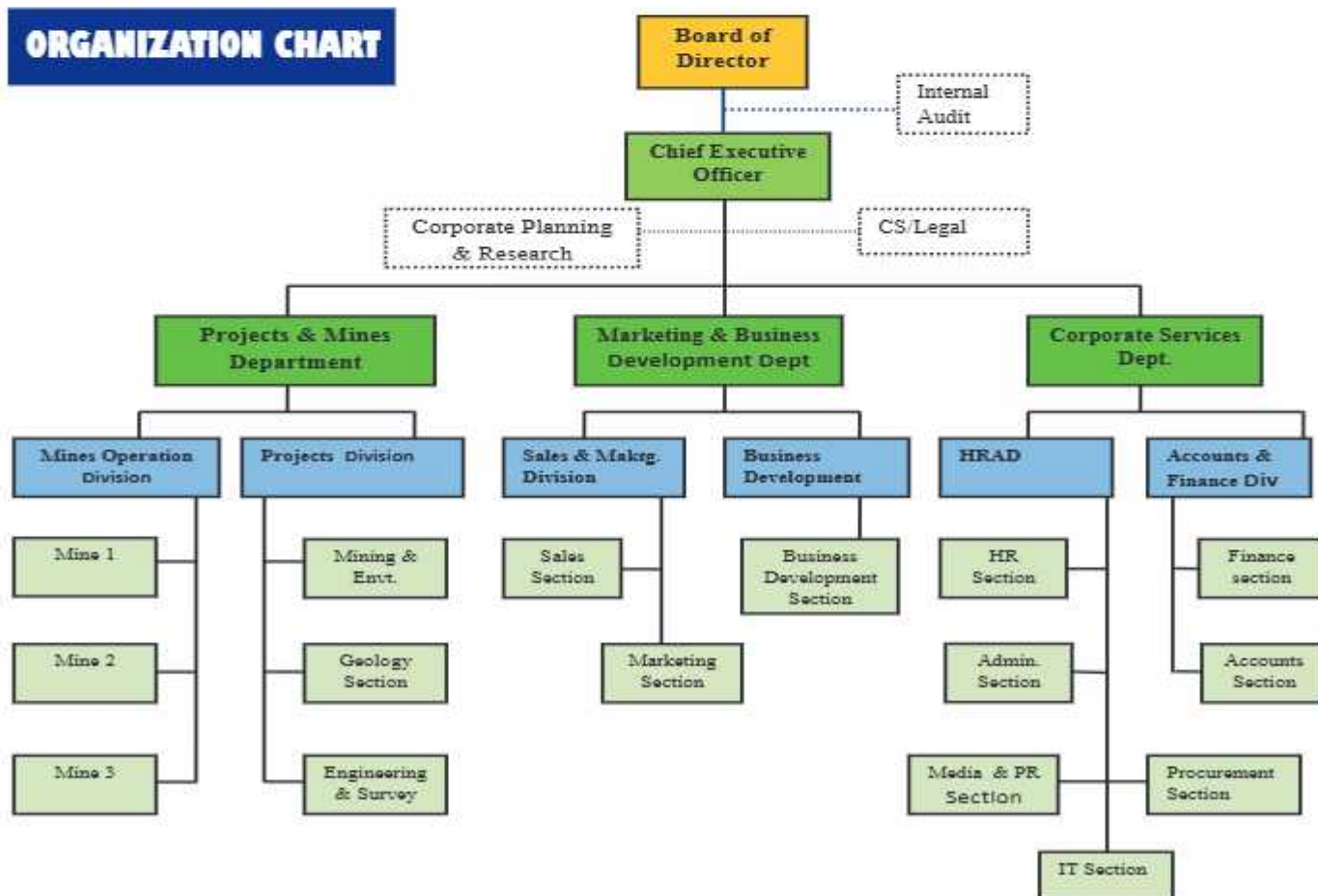
MISSION

- 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.

VALUES

- Integrity - Conduct business with honesty and transparency at highest level of corporate governance.
- Excellence - Strive for the highest possible standards while conducting business, both in terms of work and quality of goods and services.
- Accountability - Defining & accepting responsibility, delivering on the commitments.
- Team Work - Work collectively across all levels and partners, building strong relationships based on respect, understanding and cooperation.
- Responsibility - Strive to be responsible in keeping with the values of GNH, be sensitive to the environment and accountable to the people of Bhutan.

ORGANIZATION CHART



BOARD DIRECTORS



**DASHO KARMA YEZER RAYDI – CHAIRMAN,
CHIEF EXECUTIVE OFFICER -DHI**

Dasho Karma Yezer Raydi has Master degree in Geotechnical Engineering, from Nippon Institute of Technology, Saitama, Japan and Bachelor Degree in Civil Engineering, from University of Roorkee, India. He has rich leadership experience acquired over the 27 years of service to the Tsa-Wa-Sum. He started his career in 1989 and since then he shouldered important positions in ministries, financial institutions, authorities and finally as an Eminent Member of National Council from 2008-2013. Currently, he is serving as the Chief Executive Officer of the Druk Holding and Investments Ltd.



**THINLEY NAMGYEL
SECRETARY- GROSS NATIONAL HAPPINESS COMMISSION**

He has MBA from University of Canberra, Australia and Bachelor of Commerce from Sherubtse College, Bhutan. He joined civil service as Trainee Officer in 1989 and shouldered the responsibilities of key positions under various divisions and departments under Ministry of Finance, His Majesty's Secretariat and as the Director under GNHC. He worked with World Bank, Washington DC as short term consultant. He has wide knowledge in policy formulations, macro-economic analysis, monitoring and evaluation of projects and international financial perspectives. He is currently serving as the Secretary to Gross National Happiness Commission.



**SONAM WANGYEL
DZONGDAG- DZONGKHAG ADMINISTRATION, SAMTSE**

He has Master degree in Curriculum Studies from University of New England, Armidale, NSW, Australia and Bachelor of Education from NIE, Samtse. He joined the Civil Service in 1993 and served at various capacities in Ministry of Education and has vast knowledge and experience in HR Management, public administration and local governance. Currently, he is serving as Dzongdag for Samtse Dzongkhag.



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

He did B.Sc. in Applied Geology and M.Sc. in Advance Engineering Geology from the University of Leeds, UK. 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 has been serving as the Geotechnical Advisor to DGPC since 2011.



KARMA CHODEN
EXECUTIVE DIRECTOR- KESHET FOUNDATION

She graduated with Bachelor in Commerce from Sherubtse College, Bhutan. She started her career 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 for financial sector in Bhutan. She serves as the Executive Director, Keshet Foundation.



KEZANG JAMTSO
CHIEF EXECUTIVE OFFICER- SMCL

He has Master's Degree in Irrigation Engineering and Management from Asian Institute of Technology, Bangkok, Thailand and Bachelor's Degree in Civil Engineering from Regional Engineering College, Silchar, India. He worked in various capacities in the Ministry of Agriculture and Forests. Before he joined the State Mining Corporation Limited, he served and completed his term as the Commissioner, Anti-Corruption Commission of Bhutan.



LODAY PHINTSHO
HEAD OF CORPORATE AND GROUP ACCOUNTS, DEPARTMENT OF FINANCE- DHI

He graduated from Sherubtse College, Bhutan with Bachelor of Commerce (Hons) in 2005 and obtained Master of Professional Accountancy and Master of Commerce in 2011 from Deakin University, Melbourne, Australia. He started his career in Bhutan Power Corporation Limited as Finance Officer from 2006 and as an Internal Auditor from 2008-2012. He has wide experience in Finance, accounting, risk management, financial analysis and is also very well versed in implementation and preparation of reports under IFRS. He joined DHI from 2013 and currently serving as Head of Corporate and Group Accounts, Department of Finance. He is also an Associate member of CPA, Australia.

MANAGEMENT TEAM



From top: Dasho Chair (SMCL), CEO and staff, Second: Habrang Coal Mines staff, third: Dzongthung staff, forth Zungdi staff, fifth: Kharbaridara staff.



KEZANG JAMTSHO
CHIEF EXECUTIVE OFFICER

He has Master's Degree in Irrigation Engineering and Management from Asian Institute of Technology, Bangkok, Thailand and Bachelor's Degree in Civil Engineering from Regional Engineering College, Silchar, India. He worked in various capacities in the Ministry of Agriculture and Forests. Before he joined the State Mining Corporation Limited, he served and completed his term as the Commissioner, Anti-Corruption Commission of Bhutan.

CHHIMI RINZIN
GENERAL MANAGER (HR&A)

He has obtained 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. 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 Masters in Accounting from Curtin University of Technology, Western Australia in 2005. He started his career in teaching profession and served various schools and colleges such Sherubtse College and Gaeddu College of Business Studies, Royal University of Bhutan. As a lecturer, he worked as the Dean, Research and Industrial Linkages and as Research Consultant for Institute of Management Studies in Marketing and Management. He has experiences in financial management and accounting, business research, marketing, and development of project proposals.

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 the position as Head (Accounts & Finance) at the SMCL, she worked as Finance Manager at the Dungsum Cement Corporation Limited.

DIRECTORS' REPORT

To the Shareholders

It is my honour and privilege, as Chairman of the Board of Directors, State Mining Corporation Limited (SMCL), to present the Directors' Report for the year 2018.

The year 2018 has been another successful one for SMCL. The Company has achieved profit after tax (PAT) of Nu. 91.39 M, surpassing the target of 85 M. The PAT achieved translates into profit margin of 20.38% and a high return on equity (RoE) of 24.43%.

OPERATIONAL HIGHLIGHTS

Operating two mines at Habrang and Tshophangma, total coal production achieved was 80,253.154 MT, surpassing the target of 75,000 MT. This is an increase by 60% in production when compared to 2017. Of the total production, 78.15% was raised manually with 16,717 man-days of local labour. People from local communities and students during vacation were the major work force engaged in coal raising, injecting much needed cash to the local communities.

The main drawback of coal of Bhutan is the high ash content. Local cement plants accept coal with ash content in the neighbourhood of 20-24%. Only about 12-20% of coal produced by SMCL would meet this ash content criterion, thus creating a big challenge. In anticipation, the Company took a proactive approach and sought permission from the Department of Geology and Mines in April 2018 to sell poor quality coal outside the country. After physical verification of poor quality coal in stock, permission to sell to the outside market was granted in June 2018. Including exports, the sale figure for 2018 was 68,765.82 MT, short of the target by 1234.18 MT. However, this sale figure is an increase of 67% in comparison to 2017.

A degree of penetration into the export market has been achieved, where we get better price than the domestic market, in spite of poor quality. This market has to be sustained and we must create our niche since our coal has very good sulphur content to complement the Indian coal in blending.

The Company commissioned its first three-stage, 200 TPH capacity crushing plant at Dzongthung and Dzongdi, Trashigang and Trashigang, respectively. The crushing plants were established to supply aggregates to Kholongchu Hydro Electric Limited (KHEL). Even though the KHEL construction was delayed, the Company operated the plant to fulfill the local market requirement for aggregates and to gain vital experience in the process. Since the commissioning of the crushing plants, 32,194.64 MT of aggregates was produced and 10,563.67 MT was sold to the local market. The quarry development, civil construction, installation and commissioning of the crushing plants was done departmentally to save costs. Out of the capital budget outlay of 227 M, most of the work was completed with a total expenditure of Nu. 110.77 M, reducing the capital expenditure by more than 50%.

The approach road construction for Tading Stone Quarry started in October 2018 after securing all the clearances. The mining lease agreement was obtained in the last week of December 2018. In anticipation of big hydropower projects, the Management proactively started identifying prospective stone quarries in early 2018. Hence two stone quarries for Sunkosh project were identified, applied, preliminary feasibility and geological studies done. In addition, two stone quarries for Kuri-Gongri project were identified, applied and preliminary feasibility done and report released.

On 22 October 2018, the Management received the Government order to take over the Khothakpa Gypsum Mine from 1 January 2019. The Management was directed to take over the operation in a "seamless" manner to continue the supplies to the different market segments established, without any hitch. The Management focused its full attention on the preparation during the remaining last quarter to achieve the seamless takeover. With constant encouragement and support from the DHI and Board, the Company took over the gypsum operation from the beginning of 2019. The Management is pleased to submit that we are fulfilling the market demand till now.

In Human Resource Management, the Company exercises utmost due diligence in recruitment, which has been its practice since its incorporation. The total staff strength has reached 81 and 23 were recruited in 2018.

FINANCIAL POSITION AND KEY FINANCIAL PERFORMANCE HIGHLIGHTS

INCOME

The total revenue for the year was Nu. 449.72 M, an increase by 73% as compared to Nu. 260.44 M in 2017. The sharp rise in revenue was predominantly due to increase in sale of coal. About 98% of the total revenue was contributed by coal sales. The other contribution to the revenue was from sale of Quartzite of Nu. 7.55 M and Talc of Nu. 0.03 M.

EXPENDITURE

The total expenditure increased from Nu. 170.19 M to Nu. 325.60 M in 2018. The increase in expenses was due to increase in coal production from 53,622 MT in FY 2017 to 80,253 MT in FY 2018. The operational expenses of Nu. 22.43 M for Dzongthung Stone Quarry further aggravated the expenditure.

PROFITABILITY

Financial year 2018 was another successful operational year with Profit After Tax (PAT) of Nu. 91.39 M. The increase in PAT by 36% (from Nu. 67.39 M to Nu. 91.39 M) was due to increase in sale of coal from the two coalmines. The two coalmines realized Profit before Tax of Nu. 167.18 M absorbing the loss of Nu. 14.81 M incurred from operation of Dzongthung Stone Quarry and the Head Office expenditure of Nu. 28.26 M.

AUDIT ISSUES

The Company is pleased to report that there was no audit observation by the Statutory Auditors for the year 2018.

BOARD'S RECOMMENDATION OF DIVIDEND

With the increase in the financial performance of the Company in the year 2018, the dividend to the shareholders is recommended at 22% of paid up capital. Dividend declaration increased from 11% to 22% (Nu. 26.84 M in 2017 to Nu. 64.68 M).

CORPORATE GOVERNANCE

The Company adheres to the provision of the Corporate Governance Code (CG Code), and Ownership Policy of the Druk Holding and Investments Limited (DHI), the Companies Act of the Kingdom of Bhutan, 2016 and other statutory requirements. All members of the Board were identified and appointed by DHI with subsequent endorsement in the Annual General Meeting.

The Company's Board comprised of seven Board Directors including the Chief Executive Officer. The Company conducted four Board Meetings, and an Annual General Meeting. The Company had three Board Level Committees in place – Board Audit and Budget Committee, Board HR Committee and Board Tender Committee.

CORPORATE SOCIAL RESPONSIBILITY

SL. NO	BENEFICIARIES	AMOUNT (NU)
1	Samtse Hospital for construction of Mani Dungkhor	50,000.00
2	Phunsthothang Middle Secondary School, Bhangtar for School Drama Carnival 2018	10,000.00
3	Support for Bhutan Week organized by Royal Bhutan Embassy, New Delhi	50,000.00
4	Samtse Dzongkhag for celebration of 111 National Day	400,000.00
5	Construction of butter lamp room at Dra Karpo, Paro	25,000.00
6	Samtse Lower Secondary School for celebration of 111 National Day	40,200.00
TOTAL		575,200.00

CHALLENGES AND WAY FORWARD

SMCL was established as the designated body by the Government to develop and manage strategic minerals. This mandate is explicit in the tripartite Terms of Reference (ToR) agreed and signed among MoF, MoEA and DHI. However, the Mineral Development Policy 2017 grants the prerogative to allocate strategic minerals to the Government and it is still unclear as to how this provision will be interpreted and implemented.

The three stage, 200 TPH capacity, crushing plant was commissioned at Dzongthung Stone Quarry with total investment of Nu. 110.77 M. The indefinite delay in the commencement of KHEL has rendered our investment ineffective, making the Company suffer loss of Nu. 14.81 M in 2018.

Professionals/experts in the mining field are scarce in the existing work force. Further, it is a challenge to get staff with knowledge, skills and integrity. The Company is exercising utmost diligence in assessment for recruitment.

The low carrying capacity of existing bridges and poor road conditions of peripheral road network will remain a serious challenge to transportation of low value high volume minerals. Transportation cost of such materials adds 30-50% to the cost of production and this component can make a business not feasible.

Coal quality management must be studied and done to use our scarce resource for the benefit of the local industries. If quality issue is alleviated, use of this local fuel may offset other costs and make our products more competitive in export markets. Coal washeries have to be introduced to benefit our scarce coal reserves.

ACKNOWLEDGMENTS

I would like to sincerely thank the Royal Government of Bhutan and DHI for bestowing full trust in SMCL and allowing us to shoulder the important mandate of developing the Nation's mineral resources to generate revenues for the benefit of the citizens of Bhutan. Further, I would like to thank all regulatory agencies and stakeholders like Department of Geology and Mines, National Environment Commission, National Land Commission, their subsidiary offices, Dzongkhags, and Communities for their continued support and encouragement to SMCL to grow from strength to strength.

I would fail in my duty if I do not record the significant success of SMCL within these few years of its incorporation, which is the collective result of timely guidance and support from the Board of Directors, selfless leadership provided by the Chief Executive Officer and hard work done by his team. SMCL is fulfilling its mandate of contributing its modest share and has the potential to realize the aspirations of the People of Bhutan, its real Shareholder. Finally, I would like to encourage and wish SMCL family to continue its excellent performance in all your future endeavors.

Tashi Delek!

For and on behalf of the Board



Dashi Karma Yezer Raydi
Chairman

BEYOND PROFITS: SHARING BENEFITS TO THE COMMUNITIES

SMCL was established to develop and manage the mineral resources in the country. Embedded in this mandate is the need to generate revenue for the country. At the same time, the ground reality of mining activities brings into stark focus the need to take care of the communities living in the vicinity of the mining projects. Hence SMCL has been making sincere efforts in sharing benefits with the local communities, in various ways. Further, impact mitigation efforts are taken seriously and are integrated into our project activities.

In Habrang and Tshophangma, the earth moving equipment (EME) are hired from the local firm, which deploys machineries mostly from the local populace. Monthly hiring charge of Nu. 12-15 M goes to the firm and to the local households. Depending on their performance, SMCL renews such local contracts to continue the benefits sharing. Coal raising work force comes, mostly from the local areas. They are paid based on tons of coal raised. They earn through hard labor of coal raising, Nu. 700-2000 daily, depending on the nature of the coal seams occurrence. Petty contract works are also given to the local groups at negotiated rates.

In Dzongthung Stone Quarry, 30% of the transportation quantity is earmarked for the local truck owners, at the same rate of the transport contract firm. As KHEL is delayed, only some local trucks are deployed, on need basis at present to transport stones from Dzongthung to Dzongdi.

Operation of Khothakpa Gypsum Mines has started another partnership model with the local communities. EME is hired directly from the Shumar Gewog communities at the pro-rated fuel price using Bhangtar rates as the benchmark. EME was procured from the money they collected from themselves.

The table below shows the benefits shared with different categories of equipment and manpower engagement in our mining operations.

TYPE	DETAILS	NUMBERS	PAID (MILLION NU)
EMEs	Earth Moving Equipment	30	117
	Trucks	854	134
Constructions	Contract works	6	1.46
Manpower engaged	Operators	30	-
	Drivers	854	-
	Coal Raisers (68 Students)	210	18
	Daily Wage earners	12	0.39
	Construction Workers	27	-
TOTAL MANPOWER ENGAGED & AMOUNT PAID		1133	270

In 2018 alone, 1133 individuals were engaged from the communities in the two mining projects in Habrang and Dzongthung. The local work force was engaged in the operation as EME operators, heavy vehicle drivers, coal raising laborers, daily wage earners and in petty contracts. As they would be the main earning members of the households, we consider that the benefit at the family level is significant. The total money pumped into the local economy is Nu. 270 M, which is about 80% of the production expenses going to the local population. It translates to Nu. 0.30 M per household or family, which is a good alternative income at the village level.

SMCL will continue to engage the local talents and work force in our mining operations for reaping mutual benefits.

CORPORATE GOVERNANCE REPORT

The Company is generally compliant with the provisions of the Corporate Governance Code, Ownership Policy, and the Companies Act of the Kingdom of Bhutan, 2016 and other statutory requirements.

A) BOARD DIRECTORS

All members of the Board are identified and appointed by DHI with subsequent endorsement in the Annual General Meeting.

TABLE NO. 1

SL. NO	NAME	ADDRESS	DATE OF APPOINTMENT	STATUS	TERM	BOARD ON OTHER DHI COMPANIES
1	Dasho Karma Yezer Raydi	CEO, Druk Holding & Investments Ltd. (DHI)	April 2016	Non-independent director	Second	Dungsam Cement Corporation Ltd. (Chairman)
2	Mr. Sonam Wangyel	Dzongdag, Samtse Dzongkhag	July 2016	Independent director	Second	Penden Cement Authority Ltd. (Board Director)
3	Mr. Thinley Namgyel	Secretary, GNHC	March 2017	Independent director	First	Druk Holding & Investments (Board Director)
4	Mrs. Karma Choden	Director, Keshet Foundation	March 2017	Independent director	Second	Royal Insurance Corporation of Bhutan (Board Director)
5	Mr. Yeshe Dorji	Geo-tech, DGPC	March 2017	Non-Independent director	Second	
6	Mr. Loday Phintsho	Senior Manager Department of Finance, DHI	March 2018	Non-Independent director	First	
7	Mr. Kezang Jamtsho	CEO, SMCL	July 2016	Non-Independent Director		

B) BOARD MEETINGS

SMCL's governing Board comprises of seven (7) members including the Chairman and the CEO. The Board met four 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.

TABLE NO. 2

ATTENDANCE DETAILS FOR THE BOARD MEETINGS HELD IN THE YEAR 2018:			
SL. NO.	BOARD MEETING HELD	BOARD DIRECTORS	ATTENDANCE
1	24 th Board Meeting Venue: Ro-Chog-Pel Hotel, Thimphu Date: 14/03/2018	Dasho Karma Yezer Raydi, Chairman	Present
		Dr. Damber S. Kharka	Present
		Mr. Thinley Namgyel	Present
		Mr. Sonam Wangyel	Present
		Mrs. Karma Choden	Present
		Mr. Yeshi Dorji	Apologies
		Mr. Kezang Jamtsho	Present
2	25 th Board Meeting Venue: DHI Conference Hall, Thimphu Date: 07/06/2018	Dasho Karma Yezer Raydi, Chairman	Present
		Mr. Thinley Namgyel	Present
		Mr. Sonam Wangyel	Present
		Mrs. Karma Choden	Present
		Mr. Yeshi Dorji	Present
		Mr. Loday Phintsho	Present
		Mr. Kezang Jamtsho	Present
3	26 th Board Meeting Venue: DHI Conference Hall, Thimphu Date: 13/08/2018	Dasho Karma Yezer Raydi, Chairman	Present
		Mr. Thinley Namgyel	Present
		Mr. Sonam Wangyel	Apologies
		Mrs. Karma Choden	Present
		Mr. Yeshi Dorji	Apologies
		Mr. Loday Phintsho	Present
		Mr. Kezang Jamtsho	Present
4	27 th Board Meeting Venue: DHI Conference Hall, Thimphu Date: 23/11/2018	Dasho Karma Yezer Raydi, Chairman	Present
		Mr. Thinley Namgyel	Present
		Mr. Sonam Wangyel	Apologies
		Mrs. Karma Choden	Present
		Mr. Yeshi Dorji	Present
		Mr. Loday Phintsho	Present
		Mr. Kezang Jamtsho	Present

C) BOARD COMMITTEES

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

BOARD AUDIT AND BUDGET COMMITTEE

TABLE NO. 3

SL. NO	MEMBERS	CHAIRMAN	NO. OF MEETING HELD	ATTENDANCE
1	Mrs. Karma Choden	Karma Choden	7 th meeting held on 13/03/2018	Present
	Mr. Thinley Namgyel			Present
	Mr. Yeshe Dorji			Apologies
2	Mrs. Karma Choden	Karma Choden	8 th meeting held on 06/06/2018	Present
	Mr. Thinley Namgyel			Present
	Mr. Yeshe Dorji			Present
3	Mrs. Karma Choden	Karma Choden	9 th meeting held on 21/11/2018	Present
	Mr. Thinley Namgyel			Apologies
	Mr. Yeshe Dorji			Present
4	Mrs. Karma Choden	Karma Choden	10 th meeting held on 25/12/2018	Present
	Mr. Thinley Namgyel			Present
	Mr. Yeshe Dorji			Apologies
5	Mrs. Karma Choden	Karma Choden	Budget meeting held on 21/11/2018	Present
	Mr. Thinley Namgyel			Apologies
	Mr. Yeshe Dorji			Present

BOARD HR COMMITTEE

The Board HR Committee was established to make decisions on HR related issues which are beyond the authority of the management.

BOARD TENDER/PROCUREMENT COMMITTEE

The objective of the Committee is to reinforce corporate governance, integrity and transparency in the procurement process and contract management.

D) BOARD REMUNERATION

The Board remuneration and CEO's remuneration paid during the year are given below:

TABLE NO: 4 REMUNERATION OF DIRECTORS'

Directors' fee (board sitting fees)	Nu. 208,000
Sub-committee fee	Nu. 98,000

TABLE NO: 4.1 REMUNERATION OF CEO

Expenses Head	Amount(in Nu)
Basic Pay	1,003,632
Allowances	602,178
PBVP and Bonus	317,973
GPF Contribution (Employer)	110,400
Travelling expense	321,940
Sitting fees	40,000
Leave Encashment	-
Leave Travel Concession	15,000
Total	2,413,141

E) ANNUAL GENERAL MEETING

The Annual General Meeting for 2018 was held on 15 April, 2019 at Ro-Chog-Pel Hotel, Thimphu. The meeting was attended by the Shareholder, Board Directors and the key members of the management team. The AGM approved the resignation and reappointment of the following Board Directors;

Outgoing Directors	Re-appointment	New- Appointment
Mrs. Karma Choden	Mr. Thinley Namgyel	Mrs. Kezang Deki
Mr. Yeshi Dorji		Mr. Geley Norbu
Mr. Loday Phintsho		Mr. Jigme Thinley

F) RISK MANAGEMENT SYSTEMS

The mineral resources extraction and management happens in a highly competitive market environment on the one hand and depleting mineral resources trend on the other, which dictates the need to manage the whole supply/demand chain to stay competitive. Such an environment for mining business calls for continuous appraisal of operations and their associated risks.

The company's risk management is guided by its policy that explicitly provides through a framework, however employees must recognize risks at work places and be prepared with required actions in the interests of the Company, employees and the communities.

Through periodic audit by the statutory auditors appointed by the RAA and internal auditors through their observations and recommendations, the management corrects and introduces the new systems and processes. The risks are assessed, mitigated and reports are submitted to Board through Board Audit Committee.

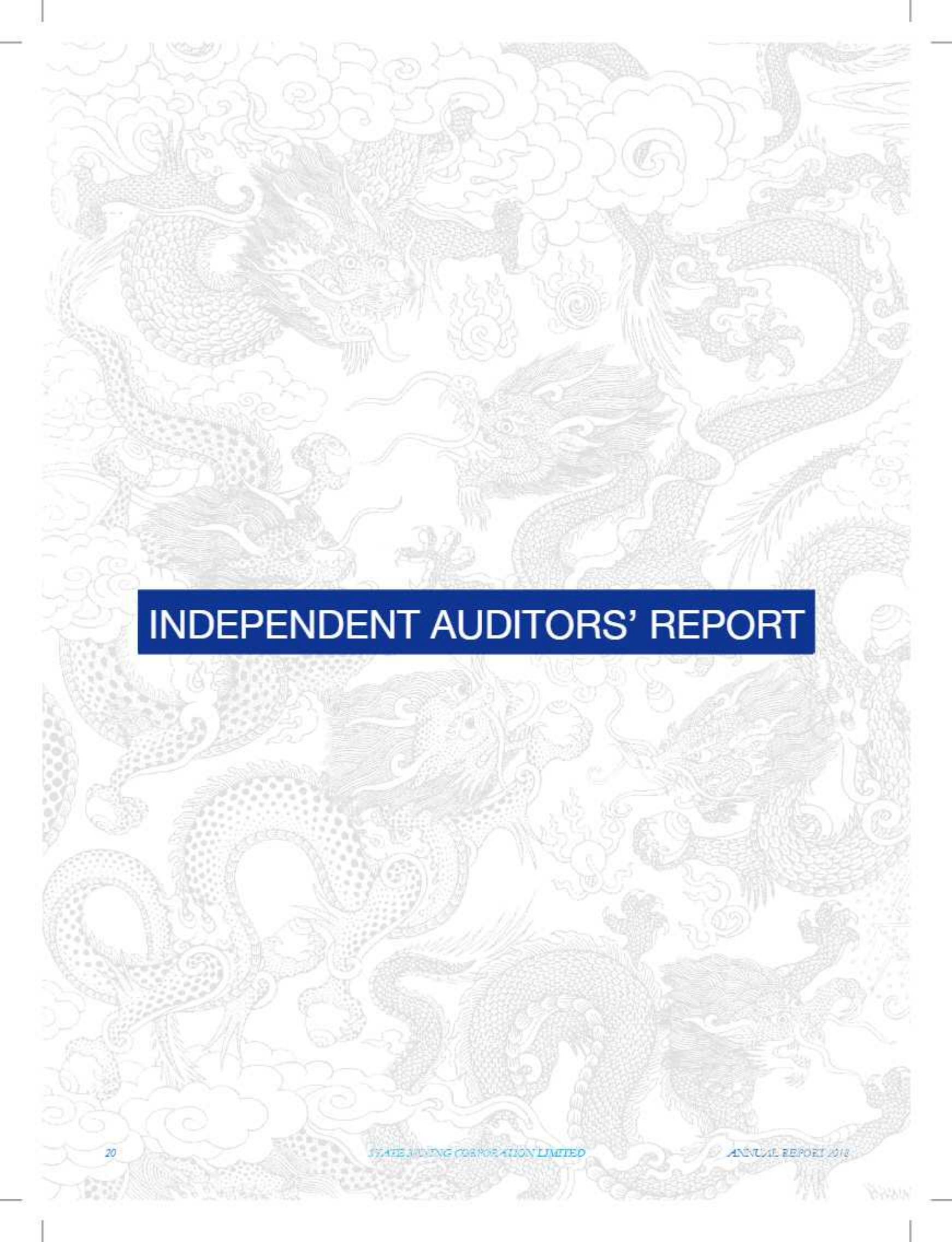
G) CORPORATE SOCIAL RESPONSIBILITY

SMCL being the state owned Company is always striving to promote its mandates in conserving environment, creation of employment opportunities, boosting local economy and providing support to institutions in the form of cash or kind within the available resources.

The Company donated/contributed total of Nu. 583,950.00 (five hundred eighty three thousand nine hundred and fifty only) to schools, communities and institutions for promotion of sports, social and religious activities, drinking water pipe, repair and maintenance of road and drainage system. Besides financial, the communities, hospitals and schools were also assisted with provision of free construction materials, use of excavators and tippers for transportation.

H) POLICIES AND PRACTICES OF CEO AND BOARD EVALUATION

The Company complied with the policies and practices of CEO and Board evaluation as outlined in the guidelines issued by DHI. The Board evaluates the performance of the CEO on annual basis.



INDEPENDENT AUDITORS' REPORT



Gujrani & Co.
Chartered Accountants

42A, C. R. Avenue, 3rd Floor
Kolkata - 700 012
Phone : 2212-1594 / 1595
E-mail : gujranico_ca@hotmail.com

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, 2018, 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, 2018, and its financial performance and its cash flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS).

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 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 Annexure-I, a statement on the matters specified therein to the extent applicable.

We also enclose for information purposes Annexure-II, a Statement on applicability of Bhutanese Accounting Standards Phase I, Phase II and Phase-III on State Mining Corporation Limited for the year ended 31st December 2018 as approved by the Company.

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 are in agreement with the books of account.





Gujrani & Co.
Chartered Accountants

42A, C. R. Avenue, 3rd Floor
Kolkata - 700 012
Phone : 2212-1594 / 1595
E-mail : gujranico_ca@hotmail.com

- iv. Based on the information, explanation and management representation received during the course of our audit, the company has complied with all the applicable and relevant legal and regulatory requirements.

For Gujrani & Co.
Chartered Accountants
(Registration No. 322101E)

(Rakesh Kumar Gujrani)
Partner
Membership No. 055869



Place : Kolkata, India
Date : 26.03.2019

ANNEXURE - I TO THE AUDITORS' REPORT

(Referred to in paragraph 8 of our report of given date)

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS.

1. The Company has electronically 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. However, stocks not approved by the buyers are lying at their place and were physically verified on 4th of February 2019, variance is insignificant.
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, material discrepancies were noticed on physical verification of inventory as compared to book records. Variance in stock as per book records and physically verification were written off.
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.
7. The Company has not taken any loan from companies, firms, other parties under the same management. The Company had taken a secured loan from a bank. The rate of interest and other terms and conditions was 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 particular individual is generally avoided which is relied 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 rules/ regulations and systems and procedures.
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, raw materials, 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. In our opinion, to the best of our knowledge and belief and according to the information and explanations given to us, there are no cases where any items 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. However, in case of finished goods a reasonable system has been established for ascertaining and identifying point of occurrence of breakage/damages.
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 record 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. 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.
16. 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.
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.

Particulars	Amount (Nu.)
Tax deduction at source	15,68,223

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 was carried out at the end of accounting year in respect of finished goods except of Quartzite.



21. In our opinion and as per the records furnished to us, the company maintains mine-wise cost-center, hence question of allocating man-hours utilized to the respective jobs does not arise.
22. 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.
23. 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.
24. According to the information and explanation given to us, the company has formulated a credit sales policy effective from July 2017 onwards; however, no credit rating of customers is carried out.
25. 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.
26. 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.
27. 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.
28. 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.
29. According to the information and explanations provided to us, the Company has established an effective budgetary control system.



30. 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.
31. 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.
32. 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.
33. The clauses 8, 9, 23, 28 and 34 of the Companies Act of Bhutan, 2016 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 a 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. The Company has back up facilities contracted with M/s Bhutan Telecom Data Center and disaster recovery measures which include keeping files in different locations.
4. Operational controls are found reasonable to ensure correctness and validity of input data and output information. Further any issues in the ERP are informed to the developers directly by the users and are regularly monitored by the IT team.
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 2018, audited by us, the company has generated profits during the year. The Company has earned sufficient profit during the year under audit 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.

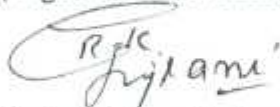
2. **Ratio Analysis**

Financial and Operational Ratio Analysis of the Company has been given in Exhibit-1:

3. **Adherence to Laws, Rules and Regulations:**

The audit of the Company is governed by the Companies Act of Bhutan, 2016 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.

For Gujrani & Co.
Chartered Accountants
(Registration No. 322101E)

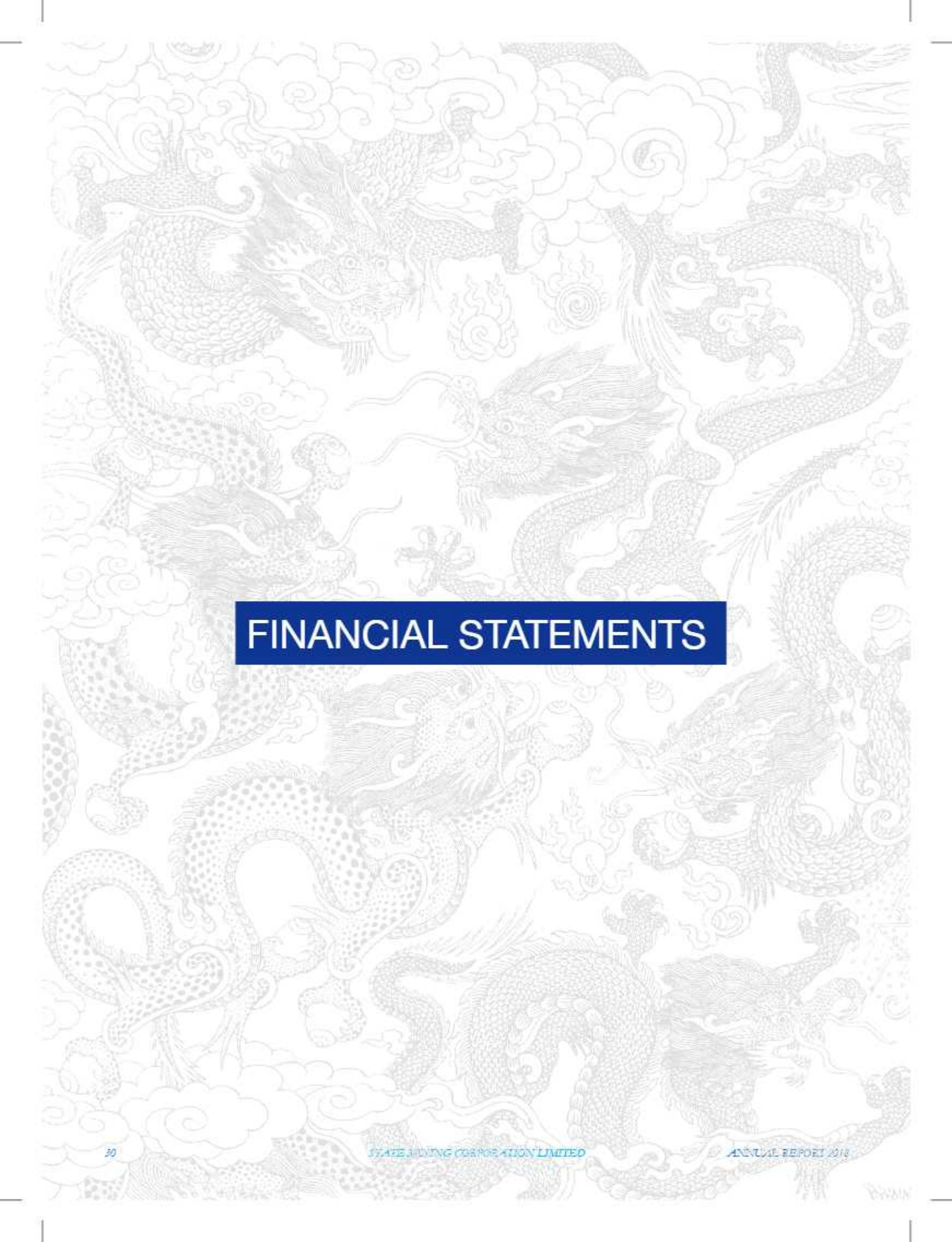


(Rakesh Kumar Gujrani)
Partner
Membership No. 055869



Place: Kolkata, India

Date: 26.03.2019



FINANCIAL STATEMENTS

STATE MINING CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER, 2018

Amount in Nu.

Particulars	Notes	31-Dec-2018	31-Dec-2017
ASSETS			
Non-Current Assets-			
Property, plant and equipment	2A	197,792,948	89,850,616
Intangible asset	2B	46,715	91,895
Capital work-in-progress	2C	8,812,317	16,310,807
Exploration & evaluation cost	2D	27,356,549	26,190,313
Mines Development	2E	1,360,680	1,745,652
Trade & other receivable	3	10,826,102	8,551,934
Other non current assets	4	6,464,555	7,191,925
Deferred tax Assets	5	5,472,861	3,416,631.00
Total non-current asset		258,132,727	153,349,774
Current Assets-			
Inventories	6	84,012,358	87,878,406
Trade & other receivable	7	207,308,947	104,680,166
Cash and cash equivalents	8	63,248,272	6,883,593
Other current assets	9	30,056,895	12,553,232
Total current asset		384,626,472	211,995,397
Total asset		642,759,199	365,345,171
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	293,990,000	243,990,000
Other Equity		116,608,569	51,862,249
Total Equity		410,598,569	295,852,249
Non-current liabilities			
Deferred tax liability	11	211,650	-
Employee benefit obligations	12	1,583,056	805,435
Long-term Borrowing	13	66,088,744	-
Total non-current liabilities		67,883,450	805,435
Current liabilities			
Trade and other payables	14	49,755,425	33,109,643
Short term employee benefit	15	498,230	432,143
Other current liabilities	16	58,777,269	35,145,701
Short-term Borrowing	17	55,246,256	-
Total current liabilities		164,277,180	68,687,487
Total of equity and liabilities		642,759,199	365,345,171
Significant Accounting Policies	1		

The above accompanying notes form an integral part of Financial Statements.
This is the Statement of Financial Position referred to in our report of even date.

For Gujrani & Co.
Chartered Accountants
(Registration No. 322101E)


(Rakesh Kumar Gujrani)
Partner
Membership No. 055869



Place: Kolkata India
Date: 26.03.2019

For State Mining Corporation Limited

 
Dasho Karma Yezer Raydi Chairman
Kezang Jamtsho CEO

Place: Phuntsholing
Date: 15.03.2019
State Mining Corporation Ltd.
Regd. Office: Samtse: BHUTAN

Chief Executive Officer
State Mining Corporation Limited
Samtse: BHUTAN

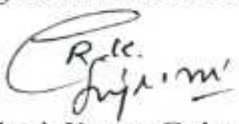
STATE MINING CORPORATION LIMITED
STATEMENT OF COMPREHENSIVE INCOME AS ON 31st DECEMBER, 2018

Amount in Nu.

Particulars	Notes	Period ended 31-12-2018	Period ended 31-12-2017
Income-			
Revenue from sale of products	18	448,466,057	257,115,172
Other income	19	1,252,567	3,326,321
Total Income		449,718,624	260,441,493
Expenditure-			
Changes in Inventories of finished goods	20	(42,337,652)	(30,783,097)
Mining Cost	21	201,554,180	111,131,900
Operation & Maintenance Expenses	22	17,383,413	3,554,512
Depreciation and Amortisation	2	25,176,050	13,137,629
Employee Benefit Expenses	23	30,915,769	22,901,993
Finance Cost	24	4,822,629	13,535
Administrative & General expenses	25	13,093,749	6,788,897
Selling & Distribution		74,998,312	43,445,835
Total Expenditure		325,606,450	170,191,203
Profit/(Loss) Before Income Tax		124,112,174	90,250,290
Income Tax Expenses			
Current tax		37,844,949	27,075,087
Deferred tax		(1,844,580)	(4,214,142)
Income tax for earlier year		(3,279,135)	
Profit/(Loss) After Income Tax		91,390,940	67,389,345
Other Comprehensive (income)/Loss			
Actuarial Gain/(Loss) on post		194,280	92,274
Net Other Comprehensive (Income)/Loss		194,280	92,274
Total Comprehensive Income/(Loss)		91,585,220	67,481,619
Basic and Diluted Earnings per Share	26	37	31.32
Significant Accounting Policies	1		

The above accompanying notes form an integral part of Financial Statements.
This is the Statement of Comprehensive Income referred to in our report of even date.

For Gujrani & Co.
Chartered Accountants
(Registration No. 322101E)

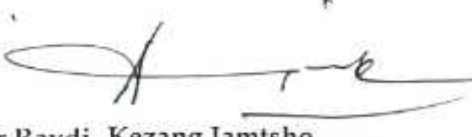

(Rakesh Kumar Gujrani)
Partner
Membership No. 055869



Place: Kolkata, India
Date: 26.03.2019

For State Mining Corporation Limited


Dasho Karma Yezer Raydi
Chairman


Kezang Jamtsho
CEO

Place: Phuntsholing
Date: 15/03/2019
Chairman
State Mining Corporation Ltd.
Regd. Office: Samtse; BHUTAN

Chief Executive Officer
State Mining Corporation Limited
Samtse : BHUTAN

STATE MINING CORPORATION LIMITED
STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31st DECEMBER 2018

Particulars	Amount in Nu	
	Period ended 31-12-2018	Period ended 31-12-2017
Net Profit Before Tax	124,112,174	90,250,290
Adjustment for		
Depreciation and amortization	25,176,050	13,137,629
Actuarial Gain/(Loss) on post employment benefit obligations	194,280	92,274
Interest on Secured Loan	4,661,396	13,535
Loan processing fees - SMCL	161,233	0
Interest earned on Short Term Deposit	0	(934,890)
Loss on Disposal of PPE	84,956	0
Changes in Working Capital :		
Adjustment for		
(Increase)/Decrease in Inventory	3,866,048	(82,473,098)
(Increase)/Decrease in Trade & Other receivable	(102,628,781)	(57,136,435)
(Increase)/Decrease in Other Current Assets	(17,503,663)	(6,899,285)
(Increase)/Decrease in Other Non-Current Assets	(1,546,798)	(7,919,186)
Increase/(Decrease) in Trade & Other Payables	16,645,782	3,439,601
Increase/(Decrease) in short term employee benefit	66,087	432,143
Increase/(Decrease) in other current liabilities	24,403,489	10,070,656
Increase/(Decrease) in Non- current liabilities	777,622	(556,705)
Cash generated from Operations	78,469,875	(38,483,473)
Less : Tax Paid	(35,337,736)	-
Net Cash used in Operating activities (A)	43,132,139	(38,483,473)
Cash Flow from Investing Activities		
Purchase of Fixed Assets and Capital Work in Progress	(126,440,931)	(71,797,834)
Interest earned on Short Term Deposit	-	934,890
Net Cash used in Investing Activities (B)	(126,440,931)	(70,862,943)
Cash Flow from Financing Activities		
Issue of Share Capital	50,000,000	108,000,000
Proceed from long term Borrowing	80,000,000	-
Proceed from short Term Borrowing	290,902,000	11,100,000
Payment of Short Term Borrowing	(249,567,000)	(11,100,000)
Interest on Secured Loan	(4,661,396)	(13,535)
Loan processing fees - SMCL	(161,233)	0
Dividend Paid	(26,838,900)	-
Cash flow from Financing Activities (C)	139,673,471	107,986,465
Net Increase/ (Decrease) in Cash & Cash Equivalents (A+B+C)	56,364,679	(1,359,951)
Cash & Cash Equivalents at the beginning of the year	6,883,593	8,243,544
Cash & Cash equivalents at 31/12/2018	63,248,272	6,883,593

This is the Statement of Cash Flow referred to in our report of even date.

For Gujrani & Co.

Chartered Accountants

(Registration No. 322101E)

R. K. Gujrani

(Rakesh Kumar Gujrani)

Partner

Membership No. 055869



Place: Kolkata, India

Date: 26.03.2019

For State Mining Corporation Limited

D. Karma Yezer Raydi

Dasho Karma Yezer Raydi

Chairman

Kezang Jamtsho

Kezang Jamtsho

CEO

Place: Phuntsholing

Date: 15/03/2019

Chairman

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

Chief Executive Officer

State Mining Corporation Limited

Samtse : BHUTAN

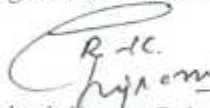
STATE MINING CORPORATION LIMITED
Statement of Changes in Equity

(Amount in Nu)

Description	No. of Equity Shares	Equity Share Capital	Retained Earnings	Total Equity
Balance at 01 January 2017	1,359,900	135,990,000	(15,619,370)	120,370,630
Change in Equity for the year				
Issue of share capital	1,080,000	108,000,000	-	108,000,000
Profit for the year		-	67,389,345	67,389,345
Other comprehensive income		-	92,274	92,274
Total comprehensive income for the year		-	67,481,619	67,481,619
Balance at 31 December 2017	2,439,900	243,990,000	51,862,249	295,852,249
Change in Equity for the year				
Issue of share capital	500,000	50,000,000	0	50,000,000
Profit for the year		0	91,390,940	91,390,940
Other comprehensive income		0	194,280	194,280
Total comprehensive income for the year		0	91,585,220	91,585,220
Dividend payment		0	(26,838,900)	(26,838,900)
Balance at 31 December 2018	2,939,900	293,990,000	116,608,569	410,598,569

This is the Statement of Changes in Equity referred to in our report of even date.

For Gujrani & Co.
Chartered Accountants
(Registration No. 322101E)


(Rakesh Kumar Gujrani)
Partner
Membership No. 055869



Place: Kolkata, India
Date: 26.03.2019

For State Mining Corporation Limited


Dasho Karma Yezer Raydi
Chairman


Kezang Jamtsho
CEO

Place: Phuntsholing
Date: 15/03/2019

Chairman
State Mining Corporation Ltd.
Regd. Office: Samtse; BHUTAN

Chief Executive Officer
State Mining Corporation Limited
Samtse : BHUTAN

Ratio Analysis
Exhibit-1

Particulars	Basis	2018	2017
Earnings Per Share	Profit after tax / No. of share issued	37.46	31.32
Net Profit Ratio (%)	Net profit / Turnover *100	20.38	26.21
Return on Assets (%)	Net profit / Total assets *100	14.22	18.45
Return on Equity (%)	Net profit / Owners equity *100	24.43	22.78
Debtor Turnover Ratio	Sales / Average debtor	2.89	3.39
Current Ratio	Current assets / Current liabilities	2.34	3.09
Quick Ratio	(Current Asset - Inventory) / Current Liabilities	2.3	1.8
Debtor Collection Period Ratio	(Sundry Debtor *365)/sales	168Days	148 Days



1. 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 2018.

1. Basis of preparation:

(i) *Compliance with International Financial Reporting Standards (IFRS)*

The 'Accounting and Auditing Standards Board of Bhutan' (AASBB), decided to adopt IFRS in phases with minor changes. These standards are referred to as Bhutanese Accounting Standards (BAS). The first phase is being introduced over the period 2013 to 2015. The Company in compliance with the Companies Act of Bhutan has adopted all the Standards in the current period. The financial statements have been prepared in accordance with relevant Bhutanese Accounting Standards (BAS), accounting policies set out in these financial statements and under the accrual, historical cost and going concern conventions.

The Financial Statements have been prepared in line with Bhutanese Accounting Standards and the Company has opted for early adoption of all BAS from 2017.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

The functional currency is the Bhutanese Ngultrum.

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.



Actuarial valuation of employee benefits: expected uptake of the gratuities, accumulated leave liabilities and the discount rates used in the valuations.

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.

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities such as environmental restoration bonds;
- Defined benefit plans - plan assets measured at fair value.

2. Current versus non-current classification

The Company presents assets and liabilities in the Balance Sheet based on current/non-current classification.

An asset is classified as current when it is:

- 1) Expected to be realised or intended to be sold or consumed in normal operating cycle;
- 2) Held primarily for the purpose of trading;
- 3) Expected to be realised within twelve months after the reporting period, or
- 4) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- 1) It is expected to be settled in normal operating cycle;
- 2) It is held primarily for the purpose of trading;
- 3) It is due to be settled within twelve months after the reporting period, or



- 4) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3. Foreign currency translation:

Foreign currency transactions are translated into Bhutanese Ngultrum using the exchange rates prevailing at the date of transaction / settlement. Monetary assets and liabilities in foreign currencies at balance date are translated at the rates of exchange ruling at balance 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 Profit or Loss.

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. Land received as grant from the Royal Government of Bhutan is accounted for at Nominal value.

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 and maintenance are charged to the income statement during the financial period in which they are incurred.

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
IT Equipment	4 years
IT High-end Server	7 years
Vehicles	10 years with 20% residual value
Furniture and Fittings (Arts & Portraits, Curtains & Carpets, Furniture, Electrical Equipment and Office Equipment)	10 years



The assets' 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 income statement.

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 as shown below.

Asset Class	Useful Life
Software	4 years
SAP Software	5 years

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

Other Intangibles:

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

On transition to IFRS, the group has elected to measure its intangible assets cost in accordance with IFRS as the deemed cost of the intangible assets as at 1 January, 2015.

6. Impairment of Non-financial assets:

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit or group of units on a pro rata basis



Reversal of impairment loss:

An impairment loss in respect of goodwill is not reversed. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized directly in other comprehensive income and presented within equity.

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.

On transition to IFRS, the group has elected to measure its CWIP in accordance with IFRS as the deemed cost of the intangible assets as at 1 January, 2015.

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. The Company's loans and receivables comprise 'Trade and Other Receivables', 'Other Financial Assets', 'Advance to Ministry of Finance', 'Other Assets' and 'Cash and Cash Equivalents' in the Statement of Financial Position.

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 Statement of Profit or Loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the Company operates and generates taxable income.

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 income 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 income tax is determined using tax rates (and laws) that have been enacted at the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 Short-Term benefits:

Other short-term benefits such as annual leave encashment and bonus are accrued at year end.

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. The Company recognises revenue when the amount of revenue can be reliably measured;



when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the group's activities, as described below:

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.

Dividend income

Dividend income is recognised when the right to receive payment is established.

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.

Grants in kind are recognised at their nominal value.

19. Earnings per Share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

20. 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

(All amounts in Nu , unless otherwise stated)

Particulars	Gross Block					Depreciation/Amortisation				Net Block	Net Block
	GrossBlock 01/01/18	Additions	Disposal	Transfers	GrossBlock 31/12/18	Opening Bal. 01/01/18	During the year	Disposal / Adjustment	Closing Bal. 31/12/18	31/12/18	31/12/17
2A. Property, Plant and Equipment											
Furniture & Fixture	1,958,307	342,501	-	-	2,300,808	444,840	211,619	-	656,459	1,644,349	1,513,467
Data Processing Equipment	4,077,376	985,670	-	-	5,063,046	1,906,692	1,163,057	-	3,069,749	1,993,297	2,170,684
Office Equipment	1,553,835	1,627,840	36,000	-	3,145,675	90,733	227,942	3,854	314,821	2,830,854	1,463,102
Vehicle	25,241,415	11,702,791	-	-	36,944,206	2,156,959	2,878,597	-	5,035,556	31,908,650	23,084,456
Lab Equipment	749,885	787,555	-	-	1,537,440	89,167	173,687	-	262,854	1,274,586	660,718
Safety Equipment	12,400	-	-	-	12,400	3,177	1,770	-	4,947	7,453	9,223
Building & Civil Structure	47,403,735	4,913,966	-	-	52,317,701	6,536,546	7,765,024	-	14,301,570	38,016,131	40,867,189
Plant & Machinery	21,235,260	106,089,901	-	-	127,325,161	1,597,573	5,970,964	-	7,568,537	119,756,624	19,637,687
Survey Equipment	581,998	-	-	-	581,998	137,908	83,086	-	220,994	361,004	444,090
Total Property, Plant and Equipment	102,814,211	126,450,224	36,000	-	229,228,435	12,963,595	18,475,746	3,854	31,435,487	197,792,948	89,850,616
2B. Intangible Assets											
Software	180,843	-	-	-	180,843	88,948	45,180	-	134,128	46,715	91,895
Total Intangible Assets	180,843	-	-	-	180,843	88,948	45,180	-	134,128	46,715	91,895
2C. Capital Work in Progress											
For Different Mines	16,310,807	17,028,184	-	24,526,675	8,812,317	-	-	-	-	8,812,317	16,310,807
Total Capital Work in Progress	16,310,807	17,028,184	-	24,526,675	8,812,317	-	-	-	-	8,812,317	16,310,807
2D. Exploration & Evaluation Cost											
For Different Mines	29,387,621	6,620,197	40,810	-	35,967,008	3,197,308	5,413,151	-	8,610,459	27,356,549	26,190,313
Total Exploration & Evaluation Cost	29,387,621	6,620,197	40,810	-	35,967,008	3,197,308	5,413,151	-	8,610,459	27,356,549	26,190,313
2E. Mines Development											
For Different Mines	2,190,360	869,001	12,000	-	3,047,361	444,708	1,241,973	-	1,686,681	1,360,680	1,745,652
Total Mines Development	2,190,360	869,001	12,000	-	3,047,361	444,708	1,241,973	-	1,686,681	1,360,680	1,745,652



STATE MINING CORPORATION LIMITED
NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER 2018

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

Particulars	31-Dec-18	31-Dec-17
Environment Restoration Bond	10,826,102	8,551,934
Total	10,826,102	8,551,934

Note : Environment Restoration Bond associated with Kharbaridara Mining Quarry amounting to Rs. 14,98,271.95 was not discounted to fair value as the mining operation has not yet started.

Note 4: Other non current assets

Particulars	31-Dec-18	31-Dec-17
Unamortised mining cost	6,464,555	7,191,925
Total	6,464,555	7,191,925

Note 5: Deffered Tax Asset

Particulars	31-Dec-18	31-Dec-17
Timing Differences in respect of- Recognised during the year in relation to Property, Plant and Equipment, Intangible Assets	5,472,861	3,416,631
Total	5,472,861	3,416,631

Note 6: Inventories

Particulars	31-Dec-18	31-Dec-17
Inventory (Valued at cost or NRV whichever is lower)		
Coal	68,641,472	35,650,574
Quartzite	9,346,754	-
Consumable & Spares	6,024,132	52,227,832
Total	84,012,358	87,878,406

Note 7: Trade & Other receivable(Current)

Particulars	31-Dec-18	31-Dec-17
Sundry Debtor Domestic	206,396,696	104,151,615
Security Deposit Placed	912,251	528,551
Total	207,308,947	104,680,166

Note 8: Cash and Cash Equivalents

Particulars	31-Dec-18	31-Dec-17
Cash-in-hand	-	-
Bank Balance		
Bank of Bhutan Ltd A/c No- 100891887	50,459,134	618,912
Bank of Bhutan Ltd A/c No- 200194054	12,789,138	6,264,681
Total	63,248,272	6,883,593

Note 9: Other Current Assets

Particulars	31-Dec-18	31-Dec-17
TDS	6,362,431	3,859,984
Advance Tax	16,038,727	-
Advance to Employee	1,367,990	26,753
Advance to Vendor	4,529,831	7,423,733
Prepaid Expenses	472,021	-
Unamortised mining cost	1,285,895	1,242,762
Total	30,056,895	12,553,232



Note 10: Capital

Particulars	31-Dec-18	31-Dec-17
Authorised Share Capital		
10000000 Equity Shares of Nu.100 each	1,000,000,000	1,000,000,000
Issued, Subscribed and Paid-up		
2939900 Equity shares @ Nu. 100 each fully paid up	293,990,000	243,990,000
	293,990,000	243,990,000

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 11: Deferred Tax Liability

Particulars	31-Dec-18	31-Dec-17
Timing Differences in respect of- Opening	-	797,511
Recognised during the year in relation to Property, Plant and Equipment, Intangible Assets and Amortization of Exploration and Evaluation costs	211,650	(797,511)
Total	211,650	-

Note 12: Employee benefit obligations

Particulars	31-Dec-18	31-Dec-17
Post Employment Benefit (Gratuity)	909,476	394,896
Long-term Employee Benefit (Leave Encashment)	673,580	410,539
Total	1,583,056	805,435

Note 13: Long term Borrowing

Particulars	31-Dec-18	31-Dec-17
Term Loan from NPPS I	33,044,372	-
Term Loan from NPPS II	33,044,372	-
Total	66,088,744	-

Note 14: Trade and Other Payables

Particulars	31-Dec-18	31-Dec-17
Employee Payables	686,403	941,908
Sundry Creditors - Domestic	45,770,652	32,164,175
Sundry Creditors - International	20,000	-
Stale Cheque	3,560	3,560
Advance from customer	3,274,810	-
Total	49,755,425	33,109,643

Note 15: Short term employee benefit

Particulars	31-Dec-18	31-Dec-17
Post Employment Benefit (Gratuity)	407,320	330,900
Short-term Employee Benefit (Leave Encashment)	90,910	101,243
Total	498,230	432,143

Note 16: Other current liabilities

Particulars	31-Dec-18	31-Dec-17
TDS Payable	1,568,223	509,464
Other Liabilities	11,545,215	34,094,019
Provision for Income Tax	37,844,949	-
Security Deposits	7,709,600	307,000
Retention Money	109,282	235,218
Total	58,777,269	35,145,701

Note 17: Short-term Borrowing

Particulars	31-Dec-18	31-Dec-17
Working Capital from Bank of Bhutan	41,335,000	-
Term Loan from NPPS I	6,955,628	-
Term Loan from NPPS II	6,955,628	-
Total	55,246,256	-



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

Note 18 : Revenue from sale of products

Particulars	31-Dec-18	31-Dec-17
Sale of Coal	464,235,814	278,186,192
Less: Quality Compensation	(22,020,327)	(20,729,256)
Less: Normal Loss	(1,332,232)	(341,764)
Sale of Quartzite	7,555,486	-
Sale of Talc	27,316	-
Total	448,466,057	257,115,172

Note 19 : Other Income

Particulars	31-Dec-18	31-Dec-17
Sale of reject stone	27,563	655,744
Liquidated Damages	191,475	931,651
Sale of tender documents	-	500
Interest from short term deposit	-	934,890
Interest income from financial instruments at am	969,826	791,806
Audit recoveries	-	11,730
Guest House Charges	36,880	-
Miscellaneous Income	26,823	-
Total	1,252,567	3,326,321

Note 20 : Changes in Inventory of Finished Goods

Particulars	31-Dec-18	31-Dec-17
Opening inventory of finished goods	35,650,574	4,867,477
Less: Closing inventory of finished goods	(77,988,226)	(35,650,574)
Total	(42,337,652)	(30,783,097)

Note 21 : Mining Cost

Particulars	31-Dec-18	31-Dec-17
Coal Raising Cost	18,007,695	13,781,186
Coal handling Cost	247,646	-
Environment Management Cost	971,422	557,586
Fuel & Spares	-	-
Safety & Protective Gadgets	846,057	906,154
Mineral Testing Expenses	109,800	14,000
Royalty	5,494,069	2,046,769
Mineral Rent	559,023	206,323
Stripping Cost	162,915,675	91,819,287
Surface Rent	410,040	294,379
Amortisation of deferred mining cost	1,278,167	1,167,866
Wages	390,600	338,350
Transportation charges	10,287,593	-
Drilling & Blasting	36,393	-
Total	201,554,180	111,131,900

Note 22 : Operation & Maintenance Expenses

Particulars	31-Dec-18	31-Dec-17
Insurance	215,607	165,923
R & M - Vehicles	2,798,302	1,025,651
R & M - Building	553,591	389,242
R & M -data processing equipment	67,510	47,175
Vehicle Running Expenses (POL)	5,999,592	1,365,658
R & M - Plant & Machinery	1,878,984	517,685
POL Plant & Machinery	3,636,981	43,179
Power consumption for crushing plant	1,032,846	-
Annual Maintenance of ERP	1,200,000	-
Total	17,383,413.00	3,554,511.69



Note 23: Employee Benefits Expenses

Particulars	31-Dec-18	31-Dec-17
Payroll & Related Expenses		
Salaries, wages and allowances	24,475,185	18,001,996
Leave Travel Concession	807,699	577,419
Staff Welfare	-	397,004
HRD expenses	2,491,505	1,478,162
Post Employment Benefits		
GPF Contribution (Employer)	1,500,583	1,098,134
Gratuity Contribution	785,280	603,565
Repatriation Allowances	17,930	18,335
Other Employee Benefits		
Leave Encashment	837,587	727,379
Total	30,915,769	22,901,993

Note 24: Finance Cost

Particulars	31-Dec-18	31-Dec-17
Interest on Secured Loan	4,661,396	13,535
Loan processing fees	161,233	-
Total	4,822,629	13,535

Note 25: Administrative & General expenses

Particulars	31-Dec-18	31-Dec-17
Travel-Local	3,793,692	2,291,714
Board Sitting Fees	208,000	316,000
Office Rent	649,437	485,187
Rimdo / Tendral Expenses	293,562	120,688
Office Supplies, Printing & Stationeries	593,869	475,166
Sub-committee sitting fee	98,000	178,000
Advertisement	107,582	35,320
Hospitality & Entertainment Expenses	682,953	343,810
Internet Charges	752,910	453,233
Office Expenses	706,174	636,034
Meeting & Retreat Expenses	440,351	285,732
Audit Fees & Expenses	185,338	148,482
Telephone & Fax	179,398	133,768
Electricity Charges	92,204	62,553
License Processing Fees	-	6,100
Books, Newspaper & Magazines	5,609	7,090
Postage & Courier charges	17,370	7,200
Bank Charges	8,661	8,209
Board Meeting Expenses	71,673	212,608
Carriage Charges	210,000	80,001
Consulting Services	567,000	-
Corporate Social Responsibility	583,950	178,720
Sub-Committee Meeting expenses	15,576	5,005
Fees & Subscription	1,199,633	311,287
Travel-Foreign	1,245,842	2,250
Asset write-off	84,956	-
Inaugural/sanctification Expenses	155,540	4,740
Working Lunch	144,469	-
Total	13,093,749	6,788,897

Note 26: Basic and Diluted Earnings Per Share

Particulars	31-Dec-18	31-Dec-17
Net profit attributable to equity shareholders	91,390,940	67,389,345
Issued and outstanding ordinary shares at the	2,439,900	1,359,900
Effect of ordinary shares issued during the year	-	792,082
Weighted average number of ordinary shares	2,439,900	2,151,982
Basic and Diluted Earnings per Share	37.46	31.32



Note 27 : Fair value measurements

(All amounts in Nu , unless otherwise stated)

Financial instruments by category

Particulars	31-Dec-18			31-Dec-17			1-Jan-17		
	FVPL	FVOCI	Amortised cost	FVPL	FVOCI	Amortised cost	FVPL	FVOCI	Amortised cost
Financial assets									
Security Deposit	-	-	-	-	-	-	-	-	-
Environment Restoration Bond	-	-	10,826,102	-	-	8,551,934	-	-	4,487,598
Sundry Debtor Domestic	-	-	206,396,696	-	-	104,151,615	-	-	47,403,264
Security Deposit Placed	-	-	912,251	-	-	528,551	-	-	138,280
Other Receivable	-	-	-	-	-	-	-	-	2,187
Deposit due for refund	-	-	-	-	-	-	-	-	-
Cash and Cash Equivalents	-	-	63,248,272	-	-	6,883,593	-	-	8,243,544
Total financial assets	-	-	281,383,321	-	-	120,115,694	-	-	60,274,873
Financial liabilities									
Security Deposits	-	-	7,709,600	-	-	307,000	-	-	255,500
Employee Payables	-	-	686,403	-	-	941,908	-	-	874,279
Retention Money	-	-	109,282	-	-	235,218	-	-	1,619,731
Sundry Creditors - Domestic	-	-	45,770,652	-	-	32,164,175	-	-	24,330,949
Working Capital Limit (Bank of Bhutan Ltd - 100891887)	-	-	41,335,000	-	-	-	-	-	3,868,489
Stale Cheque	-	-	3,560	-	-	3,560	-	-	2,000
Other payable	-	-	-	-	-	-	-	-	594,325
Total financial liabilities	-	-	95,614,497	-	-	33,651,861	-	-	31,545,273

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are (a) recognised and measured at fair value and (b) measured at amortised cost and for which fair values are disclosed in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into the three levels prescribed under the accounting standard.

Level 1: Level 1 hierarchy includes financial instruments measured using quoted prices.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(ii) Valuation technique used to determine fair value

Specific valuation techniques used to value financial instruments include:

- the fair value of the financial instruments is determined using discounted cash flow analysis.

(iii) Fair value of financial assets and liabilities measured at amortised cost

Particulars	31-Dec-18		31-Dec-17	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial assets				
Environment Restoration Bond	10,826,102	10,826,102	8,551,934	8,551,934
Total financial assets	10,826,102	10,826,102	8,551,934	8,551,934

The carrying amounts of remaining financial assets and liabilities are considered to be the same as their fair values, due to their short-term nature.

The fair values for financial instruments were calculated based on cash flows discounted using current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

Significant estimates

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see (ii) above.



Note 28: Capital management

(a) Risk management

The company's objectives when managing capital are to

i. safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and

ii. Maintain an optimal capital structure to reduce the cost of capital.

The Company is formed as a wholly owned subsidiary of Druk Holding & Investments Limited (DHI). Company manages the share capital issued and subscribed along with shareholder's fund appearing in the financial statement as capital of the company.

Note 29: Financial Risk Management

The Company's activities expose it to credit risk, liquidity risk and market risk (i.e. foreign currency risk, interest rate risk and price risk).

This note explains the sources of risk which the entity is exposed to and how the entity manages the risk and the impact of it in the financial statements.

Risk	Exposure arising from	Measurement	Management
Credit risk	Cash and cash equivalents, trade receivables, financial assets measured at amortised cost	Aging analysis Credit ratings	Diversification of customer base
Liquidity risk	Borrowings and other liabilities	Cash flow forecasts	Availability of committed facilities
Market risk	(i) Foreign Currency	Cash flow forecasting	Currently the Company has transactions in Indian and Local currency.
	(ii) Interest Risk	Sensitivity analysis	Working Capital Limit

(A) Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities primarily trade and other receivables.

i) Trade receivables

The Company's trade receivables are non-interest bearing and are generally on 30 days to 60 days credit term. Outstanding customer receivables are regularly monitored. The ageing of trade receivables as of balance sheet date is less than six months. Except in case of Dungsam Cement Corporation Limited (DCCL), being the sister company, credit term has been extended.

The requirement for impairment is analysed at each reporting date. Refer note 7 for details on the impairment of trade receivables. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 26. The Company does not hold collateral as security.

ii) Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's Finance & Investment Department. For banks and financial institutions, only high rated banks/institutions are accepted. Financial Assets are considered to be of good quality and there is no significant credit risk.



(B) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management monitors rolling forecasts of the Company's liquidity position and cash and cash equivalents on the basis of expected cash flows. This is generally performed in accordance with practice and limits set by the Company.

(i) Maturities of financial liabilities

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on their contractual maturities for all financial liabilities

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities 31 December 2018	Less than 1 year	More than 1 years	Total
Trade and Other Payables	49,755,425	-	49,755,425
Total financial liabilities	49,755,425	-	49,755,425

Contractual maturities of financial liabilities 31 December 2017	Less than 1 year	More than 1 years	Total
Trade and Other Payables	33,109,643.170	-	33,109,643
Total financial liabilities	33,109,643	-	33,109,643

(C) Market risk

(i) Foreign currency risk

Foreign Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company operates in only Nu or Indian currency, there is no fluctuation in the exchange rate between Indian currency and Local currency. Hence is not exposed to foreign currency risk.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the risk of changes in market interest rates primarily to the companies working capital limit obligation with floating interests.

The company has only fixed rated borrowings and are carried a amortized cost and hence not subject to interest risk as defined in BFRS 7.



OTHER NOTES TO FINANCIAL STATEMENTS

30. 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.50 million (P. Yr - Nu. 108.00 million) has been received from DHIL as additional equity injection in support of business expansion.
31. A working capital loan of Nu. 290.90 million (P. Yr - Nu. 11.10 Million) was availed from a fellow subsidiary i.e., Bank of Bhutan by securing Plant and Equipment of the company and term loan of Nu.80 million was availed from National Pension and Provident Fund (NPPF) by pledging DHI guarantee. The working capital loan stands at Nu.41.36 million and term loan of Nu.80 million as on 31st December, 2018.
32. 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.
33. **Contingent Liability**
There are no contingent liabilities for the Company as on 31st December 2018.
34. **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 2018 was Nu. 1,500,583.
- B. **Defined benefit Scheme:**
Valuation in respect of Gratuity & Earned Leave has been carried out by Willis Towers Watson India Private Limited, Kolkata, India. 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:



Gratuity Scheme

Table 1: Disclosure of Defined Benefit Cost for the year ending 31 December 2018
(Amount in BTN Thousand)

A Profit & Loss (P&L)		Amount
1	Current service cost	549
2	Past service cost - plan amendments	0
3	Curtailment cost / (credit)	0
4	Settlement cost / (credit)	0
5	Service cost	549
6	Net interest on net defined benefit liability / (asset)	42
7	Immediate recognition of (gains)/losses - other long term employee benefit plans	0
8	Cost recognized in P&L	591
B Other Comprehensive Income (OCI)		Amount
1	Actuarial (gain)/loss due to liability experience	(117.63)
2	Actuarial (gain)/loss due to liability assumption changes	(77.96)
3	Actuarial (gain)/loss arising during period	(195.59)
4	Return on plan assets (greater)/less than discount rate	1.31
5	Actuarial (gains)/ losses recognized in OCI	(194.28)
6	Adjustment for limit on net asset	0
7	Cumulative Actuarial (Gain) or Loss Recognized via OCI at Prior Period End	0
8	Cumulative Actuarial (Gain) or Loss Recognized via OCI at Current Period End	(194.28)
C Defined Benefit Cost		Amount
1	Service cost	549
2	Net interest on net defined benefit liability / (asset)	42
3	Actuarial (gains)/ losses recognized in OCI	(194.28)
4	Immediate recognition of (gains)/losses - other long term employee benefit plans	0
5	Defined Benefit Cost	396.72
D Assumptions used to determine Defined benefit Cost		
1	Discount Rate	7.50%
2	Rate of salary increase	5.00%



TABLE 2 : Net Balance Sheet position as at 31 December 2018

A	Development of Net Balance Sheet Position	Amount
1	Defined benefit obligation (DBO)	(1,316.44)
2	Fair value of plan assets (FVA)	193.92
3	Funded status [surplus/ (deficit)]	(1,122.52)
4	Effect of Asset ceiling	-
5	Net defined benefit asset/ (liability)	(1,122.52)

B	Reconciliation of Net Balance Sheet Position	Amount
1	Net defined benefit asset/ (liability) at end of prior period	(725.80)
2	Service cost	(549.00)
3	Net interest on net defined benefit liability/ (asset)	(42.00)
4	Amount recognized in OCI	194.28
5	Employer contributions	-
6	Benefit paid directly by the Company	-
7	Acquisitions credit/ (cost)	-
8	Divestitures	-
9	Cost of termination benefits	-
10	Net defined benefit asset/ (liability) at end of current period	(1,122.52)

TABLE 3 : Changes in Benefit Obligations and Assets over the year ending 31 December 2018

A	Change in Defined Benefit Obligation (DBO)	Amount
1	DBO at end of prior period	907.03
2	Current service cost	549.00
3	Interest cost on the DBO	56.00
4	Curtailment (credit)/ cost	-
5	Settlement (credit)/ cost	-
6	Past service cost - plan amendments	-
7	Acquisitions (credit)/ cost	-
8	Actuarial (gain)/loss - experience	(117.63)
9	Actuarial (gain)/loss - demographic assumptions	-
10	Actuarial (gain)/loss - financial assumptions	(77.96)
11	Benefits paid directly by the Company	-
12	Benefits paid from plan assets	-
13	DBO at end of current period	1,316.44



A	Expected benefit payments for the year ending	Amount
1	December 31, 2019	76.42
2	December 31, 2020	321.79
3	December 31, 2021	105.05
4	December 31, 2022	164.68
5	December 31, 2023	227.05
6	December 31, 2024 to December 31, 2028	2407.36

B	Change in Fair Value of Assets	Amount
1	Fair value of assets at end of prior period	181.23
2	Acquisition adjustment	-
3	Interest income on plan assets	14.00
4	Employer contributions	-
5	Return on plan assets greater/(lesser) than discount rate	(1.31)
6	Benefits paid	-
7	Fair Value of assets at the end of current period	193.92

TABLE 4 : Additional Disclosure Information

B	Expected employer contributions for the period ending 31 December 2019	76.42
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C	Weighted average duration of defined benefit obligation	11 Years
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D	Accrued Benefit Obligation at 31 December 2018	794.78
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E	Plan Asset Information	Percentage
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Asset Allocation

Government Securities	0.00%
High quality corporate bonds (including Public Sector Bonds)	0.00%
Equity shares of listed companies	0.00%
Fixed Deposits and Term Deposits	0.00%
Cash (including Special Deposits)	0.00%
Other (including assets under Schemes of Insurance)	100.00%
Total	100.00%



TABLE 5: Sensitivity Analysis

A Discount Rate	
Discount Rate as at 31 December 2018	8.00%
1 Effect on DBO due to 1% increase in Discount Rate	(136.08)
2 Effect on DBO due to 1% decrease in Discount Rate	163.54
B Salary escalation rate	
Salary escalation rate as at 31 December 2018	5.00%
1 Effect on DBO due to 1% increase in Salary escalation rate	167.02
2 Effect on DBO due to 1% decrease in Salary escalation rate	(140.90)

TABLE 6: Estimated Defined Benefit Cost for the year ending 31 December 2019

A Profit & Loss (P&L)	
1 Current service cost	800
2 Past service cost - plan amendments	0
3 Curtailment (credit)/ cost	0
4 Settlement (credit)/ cost	0
5 Service Cost	800
6 Net interest on net defined benefit liability / (asset)	87
Immediate recognition of (gains)/losses - other long term employee benefit plans	0
7	0
8 Cost recognized in P&L*	887
B Assumptions used to determine Estimated Defined benefit Cost	
1 Discount Rate	8.00%
2 Rate of salary increase	5.00%



Leave encashment scheme

TABLE 1: Disclosure of Defined Benefit Cost for the year ending 31 December 2018

A Profit & Loss (P&L)		Amount
1	Current service cost	291
2	Past service cost - plan amendments	0
3	Curtailment cost / (credit)	0
4	Settlement cost / (credit)	0
5	Service cost	291
6	Net interest on net defined benefit liability / (asset)	35
7	Immediate recognition of (gains)/losses - other long term employee benefit plans	511.59
8	Cost recognized in P&L	837.59
B Other Comprehensive Income (OCI)		Amount
1	Actuarial (gain)/loss due to liability experience	552.87
2	Actuarial (gain)/loss due to liability assumption changes	(41.28)
3	Actuarial (gain)/loss arising during period	511.59
4	Return on plan assets (greater)/less than discount rate	-
5	Actuarial (gains)/ losses recognized in OCI	-
6	Adjustment for limit on net asset	-
7	Cumulative Actuarial (Gain) or Loss Recognized via OCI at Prior Period End	-
8	Cumulative Actuarial (Gain) or Loss Recognized via OCI at Current Period End	-
C Defined Benefit Cost		Amount
1	Service cost	291
2	Net interest on net defined benefit liability / (asset)	35
3	Actuarial (gains)/ losses recognized in OCI	0
4	Immediate recognition of (gains)/losses - other long term employee benefit plans	511.59
5	Defined Benefit Cost	837.59
D Assumptions used to determine Defined benefit Cost		
1	Discount Rate	8.00%
2	Rate of salary increase	5.00%



TABLE 2: Net Balance Sheet position as at 31 December 2018

A	Development of Net Balance Sheet Position	Amount
1	Defined benefit obligation (DBO)	(764.49)
2	Fair value of plan assets (FVA)	-
3	Funded status [surplus/(deficit)]	(764.49)
4	Effect of Asset ceiling	-
5	Net defined benefit asset/ (liability)	(764.49)
B	Reconciliation of Net Balance Sheet Position	Amount
1	Net defined benefit asset/ (liability) at end of prior period	(511.78)
2	Service cost	(291.00)
3	Net interest on net defined benefit liability/ (asset)	(35.00)
4	Actuarial (losses)/ gains	(511.59)
5	Employer contributions	0
6	Benefit paid directly by the Company	584.88
7	Acquisitions credit/ (cost)	0
8	Divestitures	0
9	Cost of termination benefits	0
10	Net defined benefit asset/ (liability) at end of current period	(764.49)

TABLE 3: Changes in Benefit Obligations and Assets over the year ending 31 December 2018

A	Change in Defined Benefit Obligation (DBO)	Amount
1	DBO at end of prior period	511.78
2	Current service cost	291.00
3	Interest cost on the DBO	35.00
4	Curtailment (credit)/ cost	-
5	Settlement (credit)/ cost	-
6	Past service cost - plan amendments	-
7	Acquisitions (credit)/ cost	-
8	Actuarial (gain)/loss - experience	552.87
9	Actuarial (gain)/loss - demographic assumptions	-
10	Actuarial (gain)/loss - financial assumptions	(41.28)
11	Benefits paid directly by the Company	(584.88)
12	Benefits paid from plan assets	-
13	DBO at end of current period	764.49
B	Change in Fair Value of Assets	Amount
1	Fair value of assets at end of prior period	0.00
2	Acquisition adjustment	0.00
3	Interest income on plan assets	0.00
4	Employer contributions	0.00
5	Return on plan assets greater/ (lesser) than discount rate	0.00
6	Benefits paid	0.00
7	Fair Value of assets at the end of current period	0.00



TABLE 4: Additional Disclosure Information

A	Expected benefit payments for the year ending	Amount
1	December 31, 2019	90.91
2	December 31, 2020	219.68
3	December 31, 2021	73.08
4	December 31, 2022	76.27
5	December 31, 2023	77.89
6	December 31, 2024 to December 31, 2028	529.25
B	Expected employer contributions for the period ending 31 December 2019	90.91
C	Weighted average duration of defined benefit obligation	11 Years
D	Accrued Benefit Obligation at 31 December 2018	488.93
E	Plan Asset Information	Percentage
Asset Allocation		
Government Securities		Not Applicable
High quality corporate bonds (including Public Sector Bonds)		Not Applicable
Equity shares of listed companies		Not Applicable
Fixed Deposits and Term Deposits		Not Applicable
Cash (including Special Deposits)		Not Applicable
Other (including assets under Schemes of Insurance)		Not Applicable
Total		Not Applicable

TABLE 5: Sensitivity Analysis

A	Discount Rate	
Discount Rate as at 31 December 2018		8.00%
1	Effect on DBO due to 1% increase in Discount Rate	(71.94)
2	Effect on DBO due to 1% decrease in Discount Rate	86.66



B Salary escalation rate	
Salary escalation rate as at 31 December 2018	5.00%
1 Effect on DBO due to 1% increase in Salary escalation rate	88.51
2 Effect on DBO due to 1% decrease in Salary escalation rate	(74.50)

TABLE 6: Estimated Defined Benefit Cost for the year ending 31 December 2019

A	Profit & Loss (P&L)	Amount
1	Current service cost	437.00
2	Past service cost - plan amendments	0.00
3	Curtailment (credit)/ cost	0.00
4	Settlement (credit)/ cost	0.00
5	Service Cost	437.00
6	Net interest on net defined benefit liability / (asset)	58.00
	Immediate recognition of (gains)/losses - other long term employee benefit plans	
7	**	0.00
8	Cost recognized in P&L*	495.00
B Assumptions used to determine Estimated Defined benefit Cost		
1	Discount Rate	8.00%
2	Rate of salary increase	5.00%

35. 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.

35.1 Name of the related parties and Relation

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

35.2 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)
14. Dagachu Hydro Corporation Limited
15. Bhutan Board Export Limited
16. Koufuku International Limited
17. Thimphu TechPark Limited
18. Tangsibji Hydro Energy Limited
19. Penden Cement Authority Limited

35.3 Transactions with fellow subsidiaries & holding:

Name of related party	Description	2018	2017
Druk Holding & Investment	1.Equity Injection	50,000,000	108,000,000
	2.Gurantee fees	151,233	-
	3. Dividend Paid	26,838,900	8,139,621
	4. Brand Management	1,034,015	-
	5.Shares held by DHI	293,990,000	243,990,000
	6.Gurantee fees payable	151,233	-
Bank of Bhutan	1.Interest expenses to BoBL for Loan	2,337,013	13,535
	2.Working capital loan borrowed	290,902,000	11,100,000
	3.Working capital loan paid	249,567,000	11,100,000
	4.Interest paid	1,469,963	13,535
	5. Bank Charges & Fees paid to BoBL	8,661	8,209
	6. Bank Balance with BOBL	63,279,808	-
	7. Loan and interest payable	42,202,050	-
Bhutan Telecom Limited	1. Purchase of lease Line Equipment	193,654	214,442
	2. Fees & Subscription	1,200,000	18,326
	3. Internet & Telephone Charged	932,308	587,001
	4. Intragroup Trade Payable	591,850	-
State Trading Corporation Limited	1. Purchase of vehicle	7,316,157	15,376,372
	2.Purchase of Portable Magazine	-	476,505
	3.Purchase of ICT equipment	102,226	-
	4.Purchase of explosive	413,513	-
	5.Running & Maintenance of vehicle	1,401,605	99,597
	6.Payable to STCBL	657,741	6,128,689



Dungsam Cement Corporation Limited	1. Mineral Testing Fees	17,356	-
	2. Sale of coal	361,798,480	229,932,313
	3. Receivable from sale of coal	190,479,311	92,988,982
Bhutan Power Corporation Limited	1. Electricity Charges-Paid to DHI Companies	1,125,050	62,553
	2. Construction Power substation	523,872	1,739,797
	3. Advance payment for work	-	5,771,729
	4. Security deposit placed	204,541	363,114
Bhutan Board Product Limited	1. Purchase of pre-fab house	1,200,000	900,000
	2. Payable for pre-fab purchased		900,000
Natural Resources Development Corporation Limited	1. Procurement of sand and wood	208,946	30,437
	2. Trade payable	26,323	2,528
Penden Cement Authority Limited	1. Sale of coal	2,696,538	7,148,218
Construction Development Corporation Limited	1. Construction of infrastructure	-	17,203,302
Thimphu TechPark Ltd	1. Training fees	35,000	-

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

1. Dasho Karma Yezer Raydi, Chairman
2. Dasho Sonam Wangyel, Director
3. Dasho Thinley Namgyel, Director
4. Mr. Loday Phintsho, Director
5. Mr. Yeshe Dorji, Director
6. Mrs. Karma Choden, Director
7. Mr. Kezang Jamtsho, Director

35.5 No transactions were done with relatives of key managerial personnel during the year.



36. Managerial Remuneration

	2018	2017
Basic Pay	1,003,632	974,400
Allowances	602,178	584,640
PVBA and Bonus	317,973	-
GPF Contribution (Employer)	110,400	107,184
Travelling expense of CEO	321,940	313,045
Sitting fees to Board of Directors of the company	40,000	56,000
Leave Encashment	-	82,400
Leave Travel Concession	15,000	15,000
Grand Total	2,413,141	2,132,669

37. Auditors remuneration

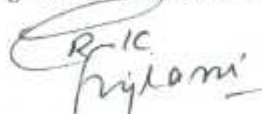
Particulars	2018	2017
Auditors Fees	65,000	65,000
Auditors Expenses*	114,792	148,482
Total	179,792	213,482

*Provisional

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

For Gujrani & Co.

Chartered Accountants
(Registration No. 322101E)



(Rakesh Kumar Gujrani)
Partner
Membership No. 055869

Place: Kolkata, India
Date: 26.03.2019



For State Mining Corporation Limited



Dasho Karma Yezer Raydi
Chairman

Place: Phuntsholing
Date: 15/03/2019
Chairman

State Mining Corporation Ltd.
Regd. Office: Samtse: BHUTAN



Kezang Jamtsho
CEO

Chief Executive Officer
State Mining Corporation Limited
Samtse: BHUTAN



