

ANNUAL REPORT 2022



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STATE MINING CORPORATION LTD.

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A **dhi** Company

STATE MINING CORPORATION LTD.

ANNUAL REPORT 2022

THE YEAR UNDER REVIEW

It is with great pleasure, I report here that SMCL was extremely successful, yet again, in 2022. With great gratitude I inform, SMCL has been growing from strength to strength for the sixth successive years, despite challenges posed by the pandemic. All employees, especially those in the field have been working hard under difficult conditions, consistently delivering great results. Kudos to their great resilience!

The Company's financial performance was outstanding. The revenue crossed the five billion milestone for the first time. The total income was Nu. 5,365.29 M against the target of 4,768.82 M, representing an increase of 26.86% over 2021. Dolomite sale generated 53% of the revenue. The revenues from sale of coal increased by 25.84%, gypsum by 5.54% and dolomite by 35.46%. PAT stood at Nu. 1,920.73 M, surpassing both the initial target of 1,606.16 M and revised mid-term target of 1,807 M, respectively. However, payment of mining lease fee of Nu. 275 M, which is not tax deductible, dented profitability.

The Compact achievement was 99.79%, scoring full marks in finance, production and sale. The employees got the much-deserved full PBVP and bonus. The shareholder's demand of Nu.1,918 B as dividend, which is 653% of the share capital was granted by the Board. The return on equity was 93.80%, an increase of 15.50% from 2021.

SMCL has been lucky and conducive circumstances for growth has been coming its way, at a regular interval. SMCL started its operation with coal, solely with domestic supply to boost downstream industries. Then, gypsum was granted in 2019, followed by dolomite in 2021, both on interim arrangement. We acknowledge the decision of the Royal Government of Bhutan in 2022 to grant the long-term lease of gypsum and dolomite to SMCL. With the signing of MoU on 18 April 2022 for 15 years, the uncertain interim operations of these mines came to an end. This decision gave the opportunity to strategize ahead to consolidate the business.

Consolidation of plants and machinery was initiated to scale up production to meet the markets demand, expected to increase with the easing of COVID. A two-screen plant of 1050 TPH coupled to a fixed crusher of 500 TPH was set up in Chhunnaikhola Dolomite Mine. The plant was designed to by-pass feed below 80 mm directly to one screen without passing through the crusher. Two mobile crushers and their screens, taken over from our predecessor, were diesel operated. One mobile screen was converted to electric operation, which was successfully completed on 15 August 2022. Spares were procured from India and the work was done by the inhouse crusher and workshop teams. The cost saving from this conversion was significant. Recognizing the significant cost saving, the work on the other screen was started. Eventually, all diesel operated crushers will be converted to electric operation for fuel efficiency.

The coal washery machines and equipment were in stores since early 2020. Installation was held up by COVID restrictions. The construction of the coal washery plant began on 9 September 2022. Coal washery setting up is a complex task as the machines and equipment are manufactured by several different companies in India. Under the guidance of the consultant, installation, testing and commissioning will be completed by first quarter of 2023.

Sudden fuel price hike from 17 March 2022 brought the mining operations almost to a standstill. Trucks transporting minerals over long distances and hauling OB at mines stopped work. Existing hiring rates of EME had to be revised, which increased operation costs significantly. Operation as a mining company is fuel driven and its price hike has huge impact. Fuel price hike will remain a perpetual challenge to mining operations.

The minerals we deal in are mainly for the export markets in the region. Minerals being bulky in nature involve significant transport cost in delivering them to markets. Ease of transport is key to markets expansion. Being a landlocked country, transport bottlenecks within and beyond will continue to be a serious challenge to penetrate far flung markets. The journey ahead requires greater resolve to expand sales in a fiercely competitive market place. We need all the favorable circumstances and good wishes from all stakeholders.

Good luck to SMCL!



Kezang Jamtsho
Chief Executive Officer

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COMPANY PROFILE

The Royal Government of Bhutan 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, the State Mining Corporation Limited (SMCL), a state-owned mining company was formed on 31st December 2014 as a 100% Druk Holding and Investment Limited owned Company.

As on 31st December 2022, the Company has four coal mines, one gypsum mine, one stone quarry and one dolomite mine in operation and the net value of the Company during the year was 2.047B.

MISSION

Explore and develop mineral resources in a responsible manner for intergenerational equity.

VISION

Be the leading company in sustainable mineral resources management to distribute the national wealth to the people of Bhutan.

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.

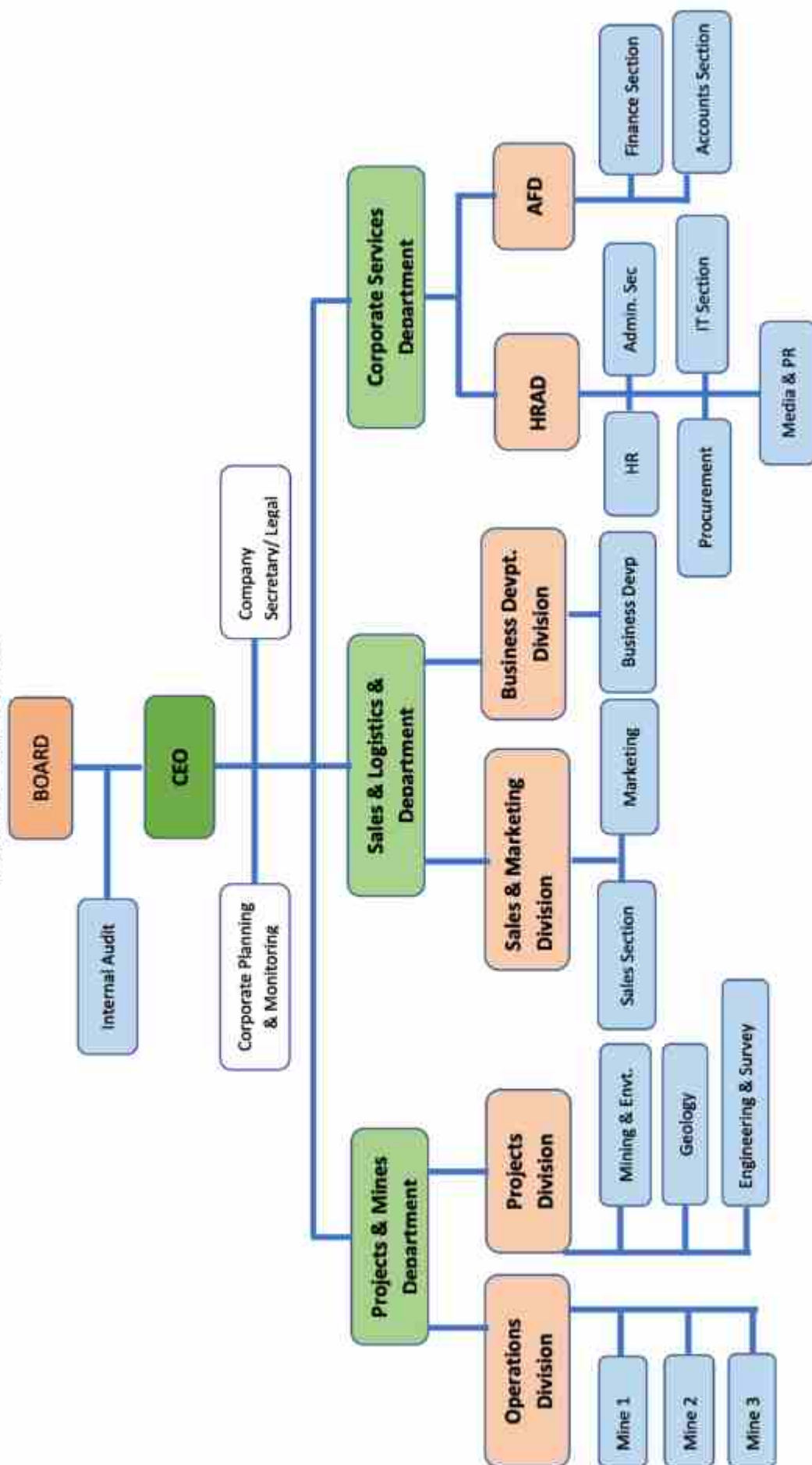
Responsibility

Strive to be responsible in keeping with the values of GNH, be sensitive to the environment and accountable to the people of Bhutan.

Efficiency

Committed to highest standards through hard work, cost control and innovation.

SMCL ORGANOGRAM



BOARD DIRECTORS

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



Dasho Karma Yezer Raydi is the current Chief Executive Officer of DHI and has Master degree in Geotechnical Engineering, from Nippon Institute of Technology, Saitama, Japan and obtained 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.

CHEWANG RINZIN DIRECTOR-ROYAL INSTITUTE FOR GOVERNANCE AND STRATEGIC STUDIES



Dasho Chewang Rinzin is a Deputy Chamberlain to His Majesty The King of Bhutan, and the Director of the Royal Institute for Governance and Strategic Studies (RIGSS). He headed the team that established the Institute in 2013. Prior to being appointed at RIGSS in 2013 by His Majesty The King, Chewang worked at the Bhutan Standards Bureau (BSB), the National Standards Body of Bhutan. While at BSB, he was a core member of Bhutan's WTO Negotiating Team, from 2005-2008, as an expert on Technical Barriers to Trade. Chewang has a B.Tech Degree in Electrical and Electronics Engineering from the TKM College of Engineering, Kerala University and a Master in Public Administration from the Lee Kuan Yew School of Public Policy, National University of Singapore.

PASSANG DORJI DZONGDAG, SAMTSE DZONGKHAG



Mr. Passang Dorji is the serving Dzongdag of Samtse Dzongkhag. Prior to appointment as Dzongdag, he served as Executive Secretary under Thimphu Thromde. He studied Bachelor of Arts (Economics) in Sherubtse College, and holds Master degree in Public Policy from Australian National University, Australia. He joined civil service as Trainee Officer in 1996 and later as planning officer in Thimphu, Tashigang, Ministry of Finance and Gross National Happiness Commission. He has wide knowledge in policy formulations, macro-economic analysis, monitoring and evaluation of projects and international financial perspectives.

GELEY NORBU

DIRECTOR - NATIONAL LAND COMMISSION, THIMPHU



He is the Director in National Land Commission, Bhutan. He has Master's Degree in Urban and Regional Planning from University of Sydney, Australia and Bachelor of Architecture from Maulana Azad National University of Technology, India. He joined civil service as Urban Planner and served under Ministry of Works and Human Settlement and Thimphu Thromde. He has wide experience in urban planning, implementation of projects, land and property related disputes resolutions, resettlement programs. Served as the member to the drafting of legislations related to land, municipal, building, planning and by-laws. He delivered online course on behalf of World Bank to international participants.

PEM TSHERING

SENIOR ANALYST, DHI



He has MBA from Australian National University, ACT, Australia and Bachelor of Computer Science and Engineering from National Institute of Technology, Durgapur, India. He began his career as Associate Analyst in DHI from 2011 under Corporate Performance Department. He has wide knowledge in formulation of corporate strategic plans, organizational development interventions, monitoring and evaluations of performances of DHI and its subsidiaries, explore business opportunities and projects for investment. He is currently serving as Senior Analyst under Department of Investments, DHI.

KESANG DEMA

PRESS SECRETARY, OFFICE OF THE PRIME MINISTER



Mrs Kesang Dema is currently serving as the Press Secretary to the Prime Minister of the third democratically elected government. She is a media consultant and comes with journalism background. She has carried out wide range of media and communication related projects for government agencies, companies and political parties. She is certified media trainer and has worked with local media houses and news rooms. She has obtained Masters of Arts in Journalism from University of Technology, Australia and Masters in Marketing and Business from Sherubtse College.

KEZANG JAMTSO

CHIEF EXECUTIVE OFFICER- SMCL



He is the Chief Executive Officer of State Mining Corporation Limited (SMCL) and holds 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. He served as the Commissioner for Anti-Corruption Commission of Bhutan and completed his tenure.

MANAGEMENT TEAM



KEZANG JAMTSHO
CHIEF EXECUTIVE OFFICER



SANGAY RINZIN
DIRECTOR, SALES & LOGISTICS DEPARTMENT

He has obtained Masters in Accounting from Curtin University of Technology, Western Australia in 2005. He served as the Dean, Research and Industrial Linkages in Gaeddu College of Business Studies 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.



CHHIMI RINZIN
GENERAL MANAGER, CORPORATE SERVICES DEPARTMENT

He has obtained Masters in Human Resource Management from Curtin University of Technology, Western Australia 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, and Royal Civil Service Commission till March, 2015.



SANGAY TSHERING
GENERAL MANAGER, PROJECT & MINES DEPARTMENT

He did 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. He has knowledge and experience in applied geological remote sensing, Geo risk engineering, slope stability and environment analysis, mine rehabilitation and environmental management, and environmental assessment and monitoring.



KARMA CHOPHEL
GENERAL MANAGER, PROJECTS DIVISION

He joined SMCL after serving Department of Geology and Mines for more than a decade. He received master's degree in Professional Engineering from the University of Western Australia and Bachelor in Engineering in Mining from Indian Institute of Engineering Science and Technology, India.



KELDEN JATSHO
HEAD, ACCOUNTS & FINANCE DIVISION

He obtained his Bachelor of Commerce from Kurseong College, North Bengal University, India. He started his carrier as contract teacher in 2010. Later from August 2012 he joined as Accounts & Finance Officer in Bhutan's first Private Fund Management Company. Before taking up the position as Head (Accounts & Finance) at the SMCL, he worked as Assistant Manager (Accounts) at the Army Welfare Project Limited (AWPL).



To the Shareholders

It is my honor and privilege, as the Chairman of the Board of SMCL, to present the Directors' Report for the year 2022. At the outset, I want to acknowledge and welcome the decision of the Royal Government of Bhutan to grant the long-term lease of gypsum and dolomite mines to SMCL. With the signing of MoU on 18 April 2022, the uncertain interim operations of Khothakpa Gypsum Mine and Chunaikhola Dolomite Mine came to an end. These mines were granted through lease to SMCL for the next 15 years as two important portfolios.

With immense happiness, I inform the shareholders that SMCL was extremely successful, yet again, in 2022, despite some disruptions by the pandemic in the first half of the year. The field staff excelled in their hard work and produced great results.

OPERATIONAL HIGHLIGHTS**GYPSUM**

The target, both for production and sale, was set at 400,000 MT. The production for 2022 was based on the estimated quantity of the updated mine plan. The mine plan was updated to avoid shifting of the crusher by another few years. Gypsum reserve was available at the benches, but ease of mining was reduced due to steep topography.

In spite of the constraint of the steep topography, production was more than the target by 18% at 472417.94 MT. Sale would have been achieved to the same level, but was hampered to 407843.31 MT, caused by the slump in the Nepal markets from September due to bank loan and foreign reserve restrictions.

COAL

The initial targets for production and sales were set at 175,000 MT and 167,000 MT respectively. The coal production in 2022 were mainly from Habrang, Tshophangma, Rishore and Majuwa coalmines.

During the MTR it was submitted and agreed that the Company would be able to produce 110,000 MT of coal and sell 90,000 MT of coal.



As depicted by the above graph, production was severely affected by COVID-19 upsurge in Bhangtar and Dewathang in the first quarter of 2022. Most of the staff in Bhangtar tested positive for COVID. Lockdown was only relaxed from second week of March. Sudden fuel price hike from 17 March 2022 disturbed the EME deployment, right at the time of opening from lockdown. Production was severely hampered due to lack of tippers to haul OB. In June, monsoon was abnormally heavy and washed away Majuwa and Tshophangma mine roads at multiple locations. Restoring these roads took some time. Dimola bridge, on the Secondary National Highway, connecting Bhangtar to Dewathang, was washed away in June and remained cut off for more than a month. Coal sale to cement plants were affected. Sale to DCCL in the first quarter was hampered as the plant was also under lockdown due to COVID.

The field staff in all the coalmines were worried that they may set the unpleasant precedent of not achieving the target this year. This made them plan and work hard. Till the last two months, the target was short by more than 50,000 MT but through sheer perseverance, the field staff did it and even surpassed the target. The production and sale achieved was 115,359 MT and 98,165 MT, respectively. Operating 4 coalmines helped in achieving the production target. Majuwa Coal Mine granted on 21 March 2022 contributed 25,321 MT.

DOLOMITE

The production and sale targets were set at 2,400,000 MT and 2,300,000 MT, respectively. Production was slightly hampered by truckers stopping work at the instigation of a few. Buying our own trucks to reduce the impact through a mixed mode mine operation sent a strong message. Sale faced load restrictions in India from September, but with easing of COVID, increasing number of trucks compensated for it. Production achieved was 2,673,935 MT, which was 50% higher compared to 2021. Sale achieved was 2,680,264 MT, which was 35% higher compared to 2021.

With a long-term lease approval, consolidation of plants and machinery was initiated geared towards stepping up production to meet the market demand, which was expected to increase with the easing of COVID. A two-screen plant of 1050 TPH coupled to a fixed crusher of 500

TPH was set up at Lhamoikhola Stockyard in Chhunnaikhola Dolomite Mine. The plant was commissioned on 27 November 2022, bought from M/s Propel Industries Pvt. Ltd., Coimbatore, Tamil Nadu, India. The plant was set up at the total cost of Nu. 43,502,258.65.

Two mobile crushers and their screens, taken over from our predecessor, were diesel operated. One mobile screen was converted to electric operation, which was successfully completed on 15 August 2022. The cost saving from this conversion was significant. Spares were procured from India and the work was done by the crusher and workshop teams. Recognizing the significant cost saving, the work on the other screen was started. Eventually, all diesel operated crushers will be converted to electric operation.

STONE BOULDERS AND AGGREGATES

The production of boulders and aggregates from Dzongthung Stone Quarry was targeted for Kholongchu Hydro Energy Limited (KHEL). As KHEL did not commence, the Company produced only to meet the local demand. The Company produced 57,979.16 MT of boulders, 41,237.37 MT of aggregates and achieved sale of 38,096.1 MT of aggregates against the local demand target of 28,260 MT.

As a cost cutting interim strategy, primary crusher at Bartsham, secondary crusher and sand washing plant at Dzungdi was operated by the minimum set of employees, just to cater to the local demand. The rest of the staff was demobilized and deployed at Company's other mines.

COAL WASHERY

The coal washery machines and equipment were in stores since early 2020. Installation was held up by COVID restrictions. The construction of the coal washery plant began on 9 September 2022. Coal washery setting up is a complex task as the different machines and equipment are manufactured by several different companies in India. Under the guidance of the consultant, installation, testing and commissioning work was awarded to M/s Pioneer Minerals and Processing Co., Dhanbad, Jharkhand, India. The work is scheduled to be completed in the first quarter of 2023.

FINANCIAL PERFORMANCE HIGHLIGHTS

The Company's financial performance for the years 2022 was outstanding as the Company surpassed all financial targets.

REVENUE

The total income for year was Nu. 5,365.29 M against the target of 4,768.82 M, representing an increase of 26.86% over 2021. Dolomite sale generated 53% of the revenue.

The revenues from sale of coal increased by 25.84%, gypsum by 5.54% and dolomite by 35.46%. Revenue from sale of Quartzite decreased by 48%.

EXPENDITURE

The total expenditure for the year 2022 was Nu. 2,513.36 M, which was 1,957.97 M in 2021, an increase of 28.37%. The main reason for the increase in expenditure was increase in fuel price from March 2022.

PROFITABILITY

In 2022, PAT increased to 1,920.73 M from Nu. 1,568.29 M, an increase by 22.47% compared to 2021. The initial target was set at 1,606.16 M and increased during the mid-term to Nu. 1,807 M. The profit margin decreased to 41% from 42% in 2021. Payment of mining lease fee of Nu. 275 M, which is not tax deductible dented the profitability.

CASH FLOW

The cash generated from the operation decreased to Nu. 1.85 B in 2022 from Nu. 2.53 B in 2021.

RETURN ON EQUITY

The return on equity stands at 93.80%, an increase of 15.50% compared to 2021 which was 81.21%

AUDIT ISSUES

The Company was audited by Dechok & Associates Pvt. Ltd Chartered Accounts, based in Thimphu, Bhutan.

The Management Audit Report consisted of the following:

- a) Inappropriate hiring of earth moving equipment for loading at sale point
- b) Weakness in trip recording system
- c) Improper accounting for PPE

The comments given by the Auditor has been well noted by the Company which will be addressed in 2023.

BOARD'S RECOMMENDATION OF DIVIDEND

The shareholder has demanded dividend of Nu.1,918 M, which is 653% of the share capital. The detail is shown below:

Particulars	(%)	Nu/(M)
Share Capital Dividend (%)	653.00%	293.99
Dividend Amount		1,919.75
Total Comprehensive Income(Loss)		1,918.18
Dividend % on Total Comprehensive Income/(loss)	100.08%	
Profit(Loss) After Income Tax (PAT)		1,920.73
Dividend % on Profit/(Loss) After Income Tax (PAT)	99.95%	

CORPORATE GOVERNANCE

The Company always strives to abide by the provisions of Corporate Governance Code (CG Code), Ownership Policy of the Druk Holding and Investments Limited (DHI), the Companies Act of the Kingdom of Bhutan 2016 and other statutory requirements.

The Company conducted five Board Meetings, a Mid Term Review Meeting, an Annual General Meeting, one Board HR Committee Meeting, one Board Tender Committee Meeting and nine Board Audit and Budget Committee Meetings for the year 2022.

CORPORATE SOCIAL RESPONSIBILITY

As part of corporate social responsibility, the Company made contributions to following activities as detailed below:

SL. No.	Beneficiaries	Amount (Nu.)
1	National Resilience Fund	12,200,000
2	Culture & religious events (Construction/renovation/preservation of lhakhangs, chortens and other monuments) & Community Development	1,015,071.76
3	Schools, Institution/Colleges, Hospital	61,852.13
	Total	13,276,923.89

BEYOND CSR: SHARING BENEFITS WITH THE COMMUNITIES

As a responsible mining Company, we engage the communities in the mining operation thereby boosting the local economy and its specific details are as follows:

Particulars	Details	Amount (Nu.)	Nos	Remarks
EME & Tip-pers	EME hired	235,998,938.10	41.00	30 nos of excavators, 10 nos of payloaders and 1 no of screen plant in the mines and stockyard.
	Tippers hired	183,911,952.00	192.00	287 nos of tippers in the mines and stock-yards.
	Individual tip-pers; transpor-tation of minerals from mines/primary stockyard to secondary stockyards and or consumer	580,074,285.26	405.00	1. Gypsum transportation from Pema Gat-shel to S/Jongkhar, 2. Coal transportation from Habrang to DCCL, 3. Coal transportation from Habrang to Motanga, 4. Coal transportation from Rishore to Motanga 5. Dolomite transportation from Stock-yard to buyers (Only Bhutanese Truckers Included)
Construction works	Contract works (labour contract to locals)	6,324,249.83	-	Awarded to local people
Manpower Engaged	Coal raisers	8,450,027.56	75.00	Awarded based on Output per Man shift and per MT.
	Operators		41.00	
	Drivers		597.00	
	Daily wage earners	3,741,258.37	41.00	Recruited from local community
	Total	1,018,500,711.12	1,392.00	

KEY CHALLENGES

Sudden fuel price hike from 17 March 2022 brought the mining operations almost to a standstill. Trucks transporting minerals over long distances and hauling OB at mines stopped work. Existing hiring rates of EME had to be revised, which increased operation expenditure significantly. Our operation as a mining company is fuel driven and such increase has huge impact. One of the biggest challenges to mining operation is seen as the ever-increasing fuel price.

When mines were transferred to SMCL from the predecessors, Company had to acquire the plants and machineries, along with the entire employees. In the process, we had to takeover, on “as is where is basis”. Running these plants and machineries has become a challenge, especially when all spares have to be imported, which takes time. As we grow, procurement of spares and store management has become a challenge and needs to be strengthened, both with manpower and skills.

The minerals we deal in, except coal, are mainly for the export markets in the region. Minerals being bulky in nature involve significant transport cost in marketing them. Penetration into far flung markets is determined by the distance of transport, with respect to the competitors. Given this scenario, ease of transport enjoys a fair advantage. In our case, transport bottlenecks within and beyond will continue to be a serious challenge for SMCL.

ACKNOWLEDGEMENTS

The Board would like to submit its humble respects and appreciation to His Majesty the King for protecting the health of the people and economy of the country throughout the COVID pandemic period. (for approving dolomite mines). I sincerely acknowledge the Royal Government of Bhutan, Druk Holding and Investments Limited, all regulatory agencies like Department of Geology and Mines, National Environment Commission, National Land Commission, their subsidiary offices, Dzongkhags and Communities for their continued support.

We would also like to take this opportunity to express our appreciation to the management, employees, customers, and suppliers for active participation and cooperation. We look forward to another successful year 2023.

For and on behalf of the Board



(Dasho Karma Yezer Raydi)
Chairman



A. THE BOARD

i. Board Directors

The Board is the highest decision making body of the company. It determines the company's overall strategy and follows up on its implementation, supervises the performance, ensures adequate management and organization and, as such, actively contributes to developing the company and fulfill shareholder's expectation.

ii. Board Composition

The Company's Board comprise of seven members appointed by the shareholder at the Annual General Meeting. The members constitute four independent and three non-independent directors from diverse professional background. The diverse composition in terms of knowledge, skills, experiences, age, and gender helps the Board to make informed, independent, objective decisions for the interest of the shareholder, company, employees and other stakeholders.

Table 1: Board Members in 2022

Sl. No.	Name of Director	Designation & Address	Description	Date of Appointment	Remarks
1	Dasho Karma Yezer Raydi	Chief Executive Officer, DHI	Chairman	18/04/2022	Non-Independent
2	Mr. Pern Tshering	Sr. Analyst, DHI	Board Member	30/03/2021	Non-Independent
3	Mr. Kezang Jamtsho	CEO, SMCL	Board Member	1/7/2016	Non-Independent
4	Mr. Chewang Rinzin	Director, RIGSS	Board Member	18/04/2022	Independent
5	Mr. Pasang Dorji	Director, DLO	Board Member	30/03/2021	Independent
6	Mr. Geley Norbu	Director, NLC	Board Member	30/03/2021	Independent
7	Mrs. Kesang Dema	Press Secretary, PMO	Board Member	18/04/2022	Independent

iii. Board's Responsibilities

- Provide entrepreneurial leadership by encouraging new ideas and initiatives, and to guide the company's strategic direction;
- Set company's values, standards (including governance and ethical standards) and policies, and ensure that obligations to shareholders and other stakeholders are understood and met;
- Oversee accountability and the process of disclosures to shareholders and stakeholders in ensuring the integrity of the company's accounting, financial reporting and internal control systems and independent audit;
- Monitor and evaluate the implementation of strategies, policies and business plans;
- Ensure a transparent and effective selection process for the CEO and senior managers of the company; and
- Monitor the effectiveness of governance practices under which the company operates, including managing conflicts of interests.

iv. Chairman's Responsibilities

The primary role of the chairman is to provide leadership to the board and to guide the work of the board. The chairman's role shall include, but not be limited to the following:

- Lead the board to promote high standards of governance and to ensure board effectiveness and smooth functioning

- on all aspects of its role in a firm and objective manner;
- ii. Ensure effective accountability and governance of the company, consistent with relevant legislation;
- iii. Set the agenda and preside over board meetings to ensure that adequate time is available for discussion of all agenda items, in particular, on the strategic issues;
- iv. Conduct effective board meetings and encourage a culture of openness, active participation and constructive debate;
- v. Ensure accurate records of board meetings are taken and verifying that decisions are implemented;
- vi. Ensure that the directors receive complete, adequate and timely information to enable quality and informed decision-making;
- vii. Encourage constructive relations within the board and between the board and management to ensure the company is managed effectively;
- vi. Participate in the selection and appointment of new board directors and the CEO in close collaboration with the shareholder(s);
- vii. Approve leave, ex-country travel and training of the CEO;
- viii. Meet shareholder expectations by leading and ensuring effective annual board and CEO evaluation processes; and
- ix. Develop and maintain sound relations and communications with shareholders and stakeholders. This may include representing the company interests in meetings with ministries, foreign company representatives and with other organizations within the country.

iv. Chief Executive Officer's Responsibilities

The CEO is subordinate to the board of directors and responsible to the board for the overall day-to-day operation, management and performance of the company.

Following are the key responsibilities of the CEO:

- i. Managing the company in accordance with the strategy and performance targets, policies and directives approved by the board
- ii. Recommending long-term vision and strategy for the company to the board
- iii. Leading the management team in managing the day-to-day operations of the organization, its people and resource
- iv. Implementing all board approved plans, policies and performance targets
- v. Ensuring the authorities delegated from the board are exercised in a competent manner and within the intent of such delegation and referring all matters outside his delegation to the board for approval
- vi. Acting as the company's interface with its operating environment and the business community
- vii. Protecting and enhancing the image and reputation of the company
- viii. Ensuring compliance with legal and regulatory obligations
- ix. Promoting leadership development and proper succession planning for key positions in the company
- x. Ensuring ethical standards as established by board are complied with Keeping the board apprised of all matters of significance
- xi. Keeping the board chairman apprised of all matters of significance that occur the board meetings
- xii. Providing the board with accurate, relevant, timely and complete information, and
- xiii. Other responsibilities as designated by the board from time to time.

v. Board meetings held in 2022

The Board met six 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.

Board Meetings held in 2021

No. of Board Meeting	Date	Venue
45 th	8/04/2022	DHI Board Room/virtual
46 th	7/06/2022	DHI Board Room/virtual
47 th	5/08/2022	DHI Board Room/virtual
48 th	19/10/2022	DHI Board Room/virtual
49 th	14/12/2022	DHI Board Room/virtual

vi. Board Directors' Attendance in 2022

Name	Designation	Attendance	Remarks
Dasho Karma Yezer Raydi	Chairman, DHI	5/5	
Mr. Pem Tshering	Sr. Analyst, DHI	5/5	
Mr. Kezang Jamtsho	CEO, SMCL	5/5	
Mr. Chewang Rinzin	Director, RIGSS	5/5	
Mr. Pasang Dorji	Dzongdag, Samtse Dzongkhag	3/5	
Mr. Geley Norbu	Director, NLC	4/5	
Mrs. Kesang Dema	Press Secretary, PMO	3/5	
Mrs. Kinley Yangzom	Former Chairperson, ACC	1/5	Retired

B. BOARD COMMITTEES

The Board may from time to time establish Board Committees as is considered appropriate to assist in carrying out its duties and responsibilities. The Board delegates certain functions to the subcommittees to assist or to enable the Board to make appropriate decisions.

- i. Board Audit and Budget Committee
- ii. Board Tender Committee
- iii. Board HR Committee

The Board appoints the members and Chairperson of each Committee. The committees constitute with members from non-executive members of the board where one of the independent directors appointed as the chairman of the committee. Each Board Committee operates under clearly defined terms of reference approved by the Board.

i. Board Budget and Audit Committee

The Board Audit Committee comprise of three Board Directors appointed by the Board from time to time where the chairman and the majority of members are independent directors. Membership of an audit committee includes directors who are financially literate.

- The audit committee shall undertake its activities in accordance with a board approved audit committee charter.
- The audit committee shall monitor and should give the board assurance on the operation of the internal control

system and internal audit activities, financial reporting, external audit, accounting and legal compliance of the company. It may also monitor the effectiveness of the company risk management system.

The details of the Board Budget and Audit Committee Meetings held in 2022

No. of Meeting	Date	Venue/Mode	Remarks
23 rd	18/03/2022	Virtual	Audit Meeting
24 th	31/03/2022	Virtual	Budget Meeting
25 th	06/03/2023	Virtual	Budget Meeting
26 th	28/06/2023	Virtual	Budget Meeting
27 th	19/07/2022	Virtual	Budget Meeting
28 th	15/08/2022	Virtual	Budget Meeting
29 th	18/10/2022	Virtual	Audit and Budget Meeting
30 th	31/10/2022	Virtual	Audit and Budget Meeting
31 st	31/12/2022	Virtual	Budget Meeting

ii. Board HR Committee

The Board HR Committee of the company comprises three members, and chairman identified by the Board.

The Board Human Resource Committee reviews and assess the policies & strategies to strengthen internal systems and processes related Human Resource of the company. The primary functions of the committee are to:

- Review proposals submitted by the Management and approve or recommend to the Board.
- Carry out the Selection Interviews for the executive or equivalent positions.
- Carry out any other responsibility related to HR as delegated by Board.

iii. Board Tender Committee

The objective of the Committee is to reinforce corporate governance, integrity and transparency in the procurement process and contract management. The committee comprises of three members including the chairman appointed by Board.

The company followed procurement rules and standards of the company while procuring works, goods and services.

The details of Board Tender Committee meetings held in 2022

No. of Meeting	Date	Venue/Mode	Remarks
15 th	7/6/2022	Virtual	

C. ANNUAL GENERAL MEETING

The 8th Annual General Meeting of the company was held on 30th March 2023 at the Board Room, DHI via Zoom, Thimphu with the representatives from DHI (shareholder). The meeting discussed on the consideration of audited accounts for the financial year ended 31st December, 2022 and auditors' report and declaration of dividend.

There was no new appointment and retirement of directors and directed to continue with the existing members.

D. BOARD REMUNERATION

i. Board Directors' remuneration

Based on the remuneration fixed by DHI, the company paid total of Nu.464000.00 during 2022 for five Board Committee meetings and 10 Board Subcommittee Meetings.

Sitting Fees	Amount
Board Meetings	340,000
Sub-committee fees	124,000

ii. Remuneration of CEO

The CEO's remuneration for the 2022 has been presented in the table below:

Pay & Allowances	Amount (Nu)
Basic Pay	1,311,000.00
Allowances including LTC & Leave Encashment	1,478,950.00
PBVP & Bonus	345,000.00
GPF Contribution	207,000.00
Sitting Fees	68,000.00
Grand Total	3,409,950.00

F. RISK MANAGEMENT

As per the Company's Risk Management Policy, the Company prepares the risk register by recognizing potential risks and accurately program mitigation strategies in the beginning of the year. As per DHI risk management framework, Company's risks are classified under five broad categories i.e., Strategic, Financial, Operational, Compliance and Control.

All Board Members, Management and Employees of the Company is individually responsible to safeguard the Company from any risk associated thereof which would otherwise hinder the performance or the reputation of the Company. The risk register is maintained with approval from the Board in the beginning of the year. It identifies all potential risks and the mitigation plans/ measures to curve or avoid its consequences in future. The register is regularly monitored and updated on its implementation efficiency and if further actions are deemed, the management resolves for additional measures.

The mine workers are normally exposed to risk of accidents at worksite. The mines are operated in a rough and freshly exposed terrains with narrow working space engaging huge earth moving equipment that are highly susceptible to accidents. Additional mitigations, if required, are put in place to address further risks.

SMCL has integrated major function of its systems and processes in the ERP- eMines. Further, the Company is also actively trying to take advantage of digitization in the mining arena and as we move with technology adaptation, ICT skilling for employees is essential. Considering the qualification and skill level of current employees, the risk of ICT skill gap is experienced.

Transport cost is a key factor in determining the raw material cost and has to be consciously managed to ensure that demand and supplies are not affected. The risk of taking the operation of mines into ransom by the transporters to raise the transport rate is apparent and therefore, solely relying on them is not a considered option.

The Company purchased critical number of trucks to deploy in the respective mines in order to curb the risk of local tippers/ transporters taking undue advantage to inflate the rate by hindering the mine operation.

G. CEO EVALUATION

The Board assesses the performance of CEO annually. The assessment is carried out in two areas: annual compact 80% and leadership 20% weightage.

Performance Based Variable Pay (PBVP) for the CEO is linked to his performance and paid based on achievement of the rating approved by the Board.

H. BOARD EVALUATION

The evaluation of the performance of the Board and its committees is undertaken annually. The members are assessed for their dedication, preparedness for the meetings, professional and ethical attributes, teamwork and contributions in the meeting.



The background of the page features a traditional East Asian pattern. It consists of stylized, swirling clouds and a dragon, rendered in a light grey or beige tone against a white background. The dragon is depicted in a dynamic, coiled pose, typical of traditional Chinese art. The overall aesthetic is elegant and culturally rich.

INDEPENDENT AUDITORS' REPORT



**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF STATE MINING
CORPORATION LIMITED**

PERIOD: 01/01/2022 - 31/12/2022

MARCH 2023

Dechok & Associates Pvt. Ltd.

Mobile: +975-17606922

Email: yeshi.jamtsho939@gmail.com

Facebook: Dechok and Associates Pvt. Ltd.

TITLE SHEET

Title:	Financial Audit Report of State Mining Corporation Limited, Samtse
Head of the Agency:	Kezang Jamtsho, CEO CID No. 10905006022
Drawing & Disbursing Officer:	Chhimi Rinzin, General Manager CID No. 10716000103
Finance Personnel:	Kelden Jatsho, Finance Officer CID No. 0104000536
Period Audited:	1 Jan. 2022 to 31 Dec. 2022
Schedule of Audit:	Planning: 23 Dec. to 30 Dec 2023 Field Audit: 31 Dec. - 31 Jan. 2023
Composition of Audit Team:	1. Yeshi Jamtsho FCCA, Team Leader CID No. 10711001985 2. Chhewang Rinzin, Auditor CID No. 10607002263 3. Jamyang Tshering, Audit Assistant CID No. 11312003189
Supervising Officer:	Yeshi Jamtsho FCCA, Managing Partner, CID No. 10711001985
Engagement Letter:	RAA(SA-28)/COAD/2022/2054 dated 14.11.2022
Focal Person:	Yeshi Jamtsho, Managing Partner/CEO Email: yeshi.jamtsho939@gmail.com Telephone: 17606922
Date of Audit Exit Conference:	20 th Feb 2023

ACRONYMS AND ABBREVIATIONS

AASBB:	Accounting and Auditing Standard Board of Bhutan
BAS:	Bhutanese Accounting Standards
CEO:	Chief Executive Officer
CID:	Citizenship Identity Card
CWIP:	Capital Work-In-Progress
DBO:	Defined Benefit Obligation
EIR:	Effective Interest Rate
F&A:	Finance & Administration
FCCA:	Fellow Chartered Certified Accountants
FVTOCI:	Fair Value Through Other Comprehensive Income
FVTPL:	Fair Value Through Profit & Loss
IASB:	International Accounting Standard Board
IFRS:	International Financial Reporting Standards
ISA:	International Standards on Auditing
NPPF:	National Pension & Provident Fund
Nu.:	Ngultrum
OCI:	Other Comprehensive Income
P&L:	Profit & Loss
PO:	Purchase Order
PPE:	Property, Plant and Equipment
PUC:	Projected Unit Method
RAA:	Royal Audit Authority
R&D:	Research & Development
RGoB:	Royal Government of Bhutan
RoC:	Registrar of Companies
ROCE:	Return on Capital Employed
SME:	Small and Medium-sized Entities
SPPI:	Solely Payments of Principal and Interest
SMCL:	State Mining Corporation Limited
TDS:	Tax Deducted at Source.

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INDEPENDENT AUDITOR 'S REPORT



Dechok & Associates Private Limited
Auditing, Accounting and Tax Services
Thimphu : Bhutan

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of State Mining Corporation Limited (SMCL)

Opinion

We have audited the financials statements of State Mining Corporation Limited ('the Company'), which comprises the Statement of Financial Position as at 31 December 2022, and the Statement of Comprehensive Income, Statement of Cash Flows and the Statement of Changes in Equity 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 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Bhutanese Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with the 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 this 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 requirements 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.

Emphasis of Matter

The Company has transitioned to BFRS 16, Leases from 2022 and had opted to apply modified approach which permits restatement of Right of use assets and lease liability



as at the beginning of the date of application of the standard i.e. on 1/1/2022.

Our Opinion is not modified in this respect.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year under audit. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For the year under audit, we have not come across any issue, except our observations mentioned under Management Report section of the Report, which in our opinion requires mention under this section.

Other Information

The management and the Board of the Company is responsible for the other information. The other information comprises the information included in the Director's Report (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this audit report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Director's report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with Bhutanese Accounting Standard, 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 these 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 audit report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of audit in accordance with ISAs, we have exercised professional judgment and maintained professional scepticism throughout the audit. We also:

- i. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, to design and perform audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control;
- ii. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- iii. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;



- iv. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- v. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management, among others, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by Section 266 of the Companies Act of Bhutan 2016, we enclose the Minimum Audit Examination and Reporting Requirements as *Appendix I* with statements on the matters specified therein to the extent applicable.

Further, as required under Section 265 of the Companies Act of Bhutan 2016, we report that:



- i. We have obtained all the information and explanations to the best of our knowledge and belief were necessary for the purpose of the audit;
- ii. In our opinion, proper books of accounts have been kept by the Company insofar as it appears from our examination of those books;
- iii. The Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flows dealt with in this Report have been prepared in accordance with Bhutanese Accounting Standards (BAS); and
- iv. Based on the information, explanations and management representations received during the course of our audit, the Company has complied with other legal and regulatory requirements.


Yeshi Jamtsho, FCCA
Managing
Partner



REPORT ON MINIMUM AUDIT EXAMINATION REQUIREMENTS

REPORT ON MINIMUM AUDIT EXAMINATION REQUIREMENTS

General:

- a) To the extent applicable, the company adheres to the Corporate Governance Guidelines issued by Druk Holding and Investments Limited(DHI).
- b) In our opinion those charged with governance and the management of the Company has pursued a prudent and sound financial management practice in managing the affairs of the Company as it revealed from our audit.
- c) The financial statements of the Company are prepared to the extent applicable by applying the Bhutanese Accounting Standards issued by the Accounting and Auditing Standards Board of Bhutan (AASBB).
- d) The Company has maintained proper books of accounts and the financial statements for the year ended 31st December 2022 are in agreement with the underlying accounting records.
- e) The Company has maintained the applicable registers as specified under Section 228 of the Companies Act of Bhutan 2016.
- f) The Company has fulfilled its obligation social and otherwise as entrusted to it.
- g) The Company has computed the amount of tax correctly and the same has been reflected in the financial statements.

For Mining Companies

- 1. The Company has maintained proper records showing full particulars including quantitative details of fixed assets. The management had conducted physical verification of fixed assets for the period under audit and no material discrepancies were reported to the audit team on such verification.
- 2. Fixed assets have not been re-valued during the year.
- 3. Physical verification of finished goods, stores, spares and raw materials were conducted at the end of the financial year, and the closing stock of Nu. 385,855,566.00 was reported as at the year-end.
- 4. As informed to us, the procedures of physical verification of stock followed by the management are reasonable and adequate in relation to the size of the company and nature of its business.



5. As per the physical verification report, no material discrepancies were noticed during the physical verification.
6. As informed to us, the Company has a reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials consumed to respective jobs.
7. As informed by the management, quantitative reconciliation in respect of major items of raw materials and finished goods are carried out at the end of the accounting year.
8. There were no obsolete, damaged, slow moving and surplus goods/inventories as informed by the management.
9. Not Applicable as reported in clause 8 above.
10. An amount of Nu. 7,032,517.04 being the difference between the book value and the physical value during physical verification were written off by the management. No approval from the board was obtained.
11. On the basis of examination of available reports and on the basis of information provided by the management, we observed that stocks are valued at lower of moving/weighted average price of the stocks at different locations and the net realizable value. The basis of valuation of stocks is consistent with that of the previous year.
12. The company has not taken unsecured loan during the year from other parties under the same management. The rate of interest and other terms and conditions were prima facie not prejudicial to the interest of the company.
13. The company has not granted unsecured loan and advances to companies and other parties which are ultra vires to the Articles of Association and others relevant Acts and regulations.
14. Advances granted to officers/staff are in keeping with the provisions of service rules. No excessive and frequent advances were granted and accumulation of large advances against a particular individual was generally avoided.
15. In our opinion and according to the information and explanation given to us during the course of audit, the company has established an adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, to carry out the business in 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.

16. It has been explained to us that there exists a reasonable system of authorization at proper levels 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 materials and labor to jobs.
17. As per information given to us and on the basis of examination of books of accounts and records, there is a reasonable system of competitive biddings, quotations and negotiations, commensurate with the size of the company, and the nature of it's business, in respect of purchases of goods and services including stores, plant & machinery, equipment and other assets, and for sale of goods and services.
18. (a) As per the information and explanations given to us, there were no transactions for purchase 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. Transactions between SMCL and other DHI companies are disclosed in the notes to financial statements.

(b) This clause is not applicable in view of observation in clause (a) above.
19. In our opinion, the expenses charged to the Company accounts appear to be legitimate business expenses and we have not found any personal expense charged to the Company.
20. The company had determined certain fixed assets as obsolete/damaged/unserviceable during the year. Provision for loss has been made in the accounts.
21. As explained by the management, there is a system of ascertaining and identifying point of occurrence of damages of material in stock during loading/unloading/transportation, in storage and during handling, etc. so that responsibility could be fixed and compensation sought from those responsible.
22. In our opinion and to the best of our knowledge and belief and as per the information and explanations provided to us by the management, the company is maintaining reasonable record for production of finished goods and adequate physical safeguards exist to prevent unauthorised or irregular movement of finished products from the company. There are no by-products.
23. The Company does not have any by-products, however, the company is maintaining reasonable records for sale and disposal of realizable scraps where applicable.



24. 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 appropriate authorities. Provision for corporate tax is reasonably adequate and the company has made necessary adjustments to compute the tax as per the prevailing tax laws, rules and regulations of Bhutan.
25. As per the accounting records, 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 as follows:

1	Tax Deducted at Source	2,458,713.00
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26. The company maintains mine-wise cost centres, therefore there is no need to allocate man-hours utilized to respective jobs.
27. There is a reasonable system of price fixation taking into account cost of production and market conditions.
28. As stated to us the credit sales policy is reasonable. No such credit rating of the customers is there in place.
29. No such commission agents have been appointed. Therefore, the clause is not applicable to the company.
30. According to the information and explanations given to us, there is a reasonable system for continuous follow up with debtors and other parties for recovery of outstanding amounts. Aging analysis is carried out by the management as and when required for information and follow-up.
31. The management of liquid resources particularly Bank balances are adequate as no excessive amounts were lying idle in non-interest bearing accounts. No excessive amounts were found withdrawn from loan accounts leading to avoidable interest burden to the company.
32. In our opinion and on the basis of available records and information, the activities carried out by the company during the year are prima facie lawful and introverts to the Articles of Incorporation of the company.
33. In our opinion and according to the information and explanations given to us, the company has a system of approval of the Board for all capital investment decisions taking into account the technical and economic feasibility of such new ventures.
34. The company has established an effective budgetary control system.



35. This clause is not applicable to SMCL.
36. The details of remuneration, commission and other payments made in cash or kind to the Board of Directors including the Chief Executive Officer by the company are disclosed in the related party disclosure in the notes to the financial statements. No payments were made by the company directly or indirectly to any relatives including spouse and children of any Director or CEO during the year.
37. According to the information and explanations given to us, the directives of the Board have been complied with.
38. The Company is not listed on the Royal Securities Exchange of Bhutan Limited and therefore the transmission of price sensitive information does not arise.
39. Proper records were maintained for inter unit transactions, arrangements and services.
40. Proper Agreements with reasonable terms and conditions are executed for hire/ lease of machineries by the company from other parties.

COMPUTERISED ACCOUNTING ENVIRONMENT

1. The organisational and system development controls and other internal controls are adequate relative to the size and nature of computer installations.
2. The company has adequate safeguard measures and back up facilities exist.
3. As regards back up facilities and disaster recovery measures, we are given to understand that the backup files are kept at different locations.
4. The operational controls are adequate to ensure correctness and validity of input data and output information.
5. The measures to prevent unauthorised access over the computer installation and files are adequate.
6. During the year 2022, accounting data was migrated from old e-mines system to updated version of e-mines.

GENERAL:

1. Going Concern Problems:-

The company's present operational and financial data indicate that the company is healthy, and the accounts are prepared on the assumption that the company is a going concern.



The company in our opinion is in a position to carry on its business and is not likely to become a sick entity in the foreseeable near future.

2. Ratio Analysis:-

Details are given in Exhibit- 1.

3. Compliance with the Companies Act of the Kingdom of Bhutan:-

As confirmed by the management, the Company has generally complied with statutory provisions of the Companies Act of the Kingdom of Bhutan 2016 concerning conducting of meetings, filing requirements, maintenance of records, issue of shares, raising of loans and all other matters specified in the said Act. A compliance of all items listed in the compliance check list and compliance calendar is attached with the audit report as an annexure.

4. 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 the examination and review of financial statements as produced before us by the management. In the course of our audit, we have considered, based on our test checks, the compliance of the provisions of the said Companies Act, 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 other applicable laws (other than the said Companies Act), rules and regulations, systems, procedures, and practices.

For Dechok and Associates Pvt. Ltd.


Yeshi Jamtsho
Managing Partner



FINANCIAL STATEMENTS

STATE MINING CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION AS ON

31-Dec-22

Particulars	Notes	31-Dec-22	31-Dec-21
ASSETS			
Non-Current Assets-			
Property, plant and equipment	2A	600,005,705	481,687,288
Intangible asset	2B	428,272	664,740
ROU Building	2C	799,861	-
Capital work-in-progress	2D	50,930,779	31,861,564
Exploration & evaluation cost	2E	5,278,231	5,278,231
Mines Development	2F	11,428,567	3,521,713
Trade & other receivable	3	41,627,020	21,260,154
Other non current assets	4	4,328,458	4,328,458
Deferred tax Assets	5	-	7,484,427
Total non-current asset		714,826,894	556,086,576
Current Assets-			
Inventories	6	385,855,566	314,686,099
Trade & other receivable	7	688,217,618	594,480,143
Cash and short - term Deposits	8	440,068,735	1,038,976,868
Other current assets	9	994,232,453	352,046,585
Total current asset		2,508,374,372	2,300,189,694
Total asset		3,223,201,266	2,856,276,270
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	293,990,000	293,990,000
Reserves & Surplus		1,753,674,241	1,637,114,717
Total Equity		2,047,664,241	1,931,104,717
Non-current liabilities			
Deferred tax liability	11	9,140,021	4,047,120
Employee benefit obligations	12	15,558,408	8,205,429
Long-term Borrowing	13	32,223,174	50,334,043
Lease Liability	14	1,460,378	-
Total non-current liabilities		58,381,980	62,586,592.00
Current liabilities			
Trade and other payables	15	83,706,347	74,724,270
Short term employee benefit	16	4,665,560	2,667,448
Other current liabilities	17	1,028,012,736	783,708,643
Short-term Borrowing	18	770,400	1,484,599
Total current liabilities		1,117,155,044	862,584,960.35
Total of equity and liabilities		3,223,201,266	2,856,276,270

The above accompanying notes form an integral part of Financial Statements.
Significant Accounting Policy and Notes of Financial Statement 1- 42

As per our report of even date

M/s. Dechok & associates Pvt. Ltd
Chartered Accountants
Motithang, Thimphu

Mr. Yesh Dorjee
Partner

Place :
Date :

For State Mining Corporation Limited

Dasho Karma Yezer Rayd
Chairman

Place :
Date :

Kezang Jamtsho
CEO

Chief Executive Officer
State Mining Corporation Limited
Samtse : BHUTAN

Chairman
State Mining Corporation Ltd
Regd. Office: Samtse



STATE MINING CORPORATION LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD

31-Dec-22

Particulars	Notes	31-Dec-22	31-Dec-21
Income-			
Revenue from sale of products	19	4,638,082,165	3,709,951,211
Other income	20	727,204,025	519,224,807
Total Income		5,365,286,190	4,229,176,018
Expenditure-			
Changes in Inventories of finished goods	21	(35,751,653)	115,158,584
Mining Cost	22	1,381,251,602	1,020,576,067
Operation & Maintenance Expenses	23	267,978,666	172,995,451
Depreciation and Amortisation	2A-2E	79,962,581	52,197,995
Employee Benefit Expenses	24	172,678,484	134,419,667
Finance Cost	25	10,247,284	9,187,824
ECL Cost	26	7,910,128	
Other Expenses	27	67,528,589	41,572,415
Selling & Distribution	28	561,549,888	411,859,588
Total Expenditure		2,513,355,569	1,957,967,591
Profit/(Loss) Before Income Tax		2,851,930,621	2,271,208,428
Income Tax Expenses			
Current tax		926,111,374	599,638,600
Deferred tax		5,092,900	3,282,845
Profit/(Loss) After Income Tax		1,920,726,347	1,568,286,983
Other Comprehensive (income)/Loss			
Actuarial Gain/(Loss) on post employment benefit obligations		2,550,592	2,130,207
Net Other Comprehensive (Income)/Loss		2,550,592	2,130,207
Total Comprehensive Income/(Loss)		1,918,175,755	1,566,156,776
Basic and Diluted Earnings per Share	29	653	533

M/s.Dechok & associates Pvt. Ltd
Chartered Accountants
Motithang, Thimphu

Mr. Yeshe Jamtsho
Partner

Place :
Date :



For State Mining Corporation Limited

Dasho Karma Yezer Rayd Chairman
Kezang Jamtsho CEO

Place :

Date :
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
31-Dec-22

Particulars	31-Dec-2022	31-Dec-2021
Net Profit Before Tax	2,851,930,621	2,271,208,428
Adjustment for:		
Depreciation and amortization	79,962,581	52,197,995
Actuarial Gain/(Loss) on post employment benefit obligations	(2,550,592)	(2,130,207)
Add Back Provisions	1,460,378	
Depreciation Adjustments in the trial and system		240,152
Provision for Deferred tax		(3,282,845)
Changes in Working Capital:		
Adjustment for:		
Increase in Environmental Bond	(20,283,816)	
Deferred Tax Asset	7,484,427	
Employee Benefit Long Term	7,352,979	
Adjustment in SOCE	(8,277,231)	
(Increase)/Decrease in Inventory	(71,169,468)	43,017,390
(Increase)/Decrease in Trade & Other Receivables	(93,737,476)	130,438,630
(Increase)/Decrease in Other Current Assets	(229,177,126)	(23,590,974)
(Increase)/Decrease in Non - Current Assets		(5,683,492)
(Increase)/Decrease in Trade & Other Payables	8,982,077	31,093,397
(Increase)/Decrease in Short - Term Employee Benefits	1,998,112	(108,241)
(Increase)/Decrease in Other Current Liabilities	(681,807,281)	35,950,552
Cash Generated from Operations	1,852,168,187	2,537,717,440
Less : Tax Paid	(412,855,874)	(368,367,890)
Net Cash used in Operating activities (A)	1,439,312,313	2,169,349,550
Cash Flow from Investing Activities		
Purchase of Fixed Assets and Capital Work in Progress	(226,056,379)	(237,766,399)
Net Cash used in Investing Activities (B)	(226,056,379)	(237,766,399)
Cash Flow from Financing Activities		
Proceed from long term Borrowing	(18,110,869)	(10,740,627)
Proceed from short Term Borrowing	(714,399)	(300,000,000)
Dividend Paid	(1,793,339,000)	(364,547,600)
Cash flow from Financing Activities (C)	(1,812,164,068)	(675,288,227)
Net Increase/ (Decrease) in Cash & Cash Equivalents (A+B+C)	(598,908,133)	1,256,294,925
Cash & Cash Equivalents at the beginning of the year	1,038,976,868	82,681,943
Cash & Cash equivalents at end of period	440,068,735	1,038,976,868

M/s. Dechok & associates Pvt. Ltd
Chartered Accountants
Motithang, Thimphu

Mr. Yesli
Partner

Place:
Date:



For State Mining Corporation Limited

Dasho Karma Yezer
Chairman

Kezang Jamtsho
CEO

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 as on
31-Dec-22

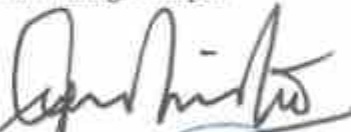
Amount in Nu

Description	No. of Equity Shares	Equity Share Capital	Retained earnings	Total
Balance at 01 January 2020	2,939,990	293,990,000	387,781,878	681,771,878
Change in Equity for the year				
Issue of share capital	500,000	-	-	-
Profit for the year		-	1,568,286,983	1,568,286,983
Other comprehensive income		-	2,130,207	2,130,207
Total comprehensive income for the year		-	1,570,417,190	1,570,417,190
Dividend payment		-	364,547,600	364,547,600
Balance at 31 December 2021	2,939,900	293,990,000	1,637,114,717	1,887,641,468
Change in Equity for the year				
Issue of share capital				
Profit for the year		-	1,920,726,347	1,920,726,347
Other comprehensive income		-	2,550,592	2,550,592
Total comprehensive income for the year		-	1,918,175,755	1,923,276,939
Dividend payment		-	1,793,339,000	1,793,339,000
Retain Earning			8,277,231	
Balance at 31 December 2022	2,939,900	293,990,000	1,753,674,241	2,047,664,241.44
Increase/Decrease in Equity				8.48%

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

M/s. Dechok & associates Pvt. Ltd
Chartered Accountants
Motithang, Thimphu

For State Mining Corporation Limited


Mr. Neshi Jamtsho
Partner


DASHO KARMA YEZER RAYDI
Chairman


Kezang Jamtsho
CEO

Place:
Date:



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

Chief Executive Officer:
State Mining Corporation Ltd.
Samtse : BHUTAN



ACCOUNTING POLICIES AND NOTES TO ACCOUNTS

Note 1: Significant Accounting Policies

i. 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 for the year ended 31 December 2022 were authorised for issue by the Board on.....

ii. Basis of preparation:

- **Compliance with Bhutanese Accounting Standards (BAS)**

Financial Statements of the Company have been prepared in accordance with Bhutanese Accounting Standards (BAS) as issued by the Accounting and Auditing Standard Board of Bhutan (AASBB) and with compliance with section 244 of Companies Act of Bhutan, 2016 the Accounting Standard Rules for Companies in Bhutan 2012.

- **Use of Estimates and judgment**

The preparation of Financial Statements in conformity with BAS/BFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosures of contingent assets and contingent liabilities at the date of financial statements, and income and expenses during the period. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods which are affected.

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.

- **Functional and Presentation Currency**

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the Company operates. The functional currency of SMCL is Bhutanese Ngultrum (Nu), which is also the presentation currency.

- **Foreign Currency**

Transactions in foreign currency are initially recognized in the financial statements in functional currency using exchange rates prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the relevant functional currency at the exchange rates prevailing at the reporting date. Foreign exchange gains and losses are generally recognised as profit or loss in the Statement of Income. Foreign exchange gains and losses are presented in the Statement of Comprehensive Income on a net basis within other income or other expenses.

- **Materiality and Aggregation**

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by BAS 1 Presentation of Financial Statements. Notes to Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statement of the company. Materiality assessment also involves making sure that information that is important to the users is not obscured by immaterial information, or by aggregating material items that have different natures or function.

The materiality threshold benchmarks, specific level of materiality for individual balances, class of transaction or disclosures are guided by DHI's guidelines on Materiality.

- **Historical cost convention**

Financial statements have been prepared on a historical cost basis, except for following:

- Financial Instrument- Measured at fair value
- Assets held for sale, if any, which are measured at fair value less cost of disposal.
- Defined benefit plans- Measured at fair value

- **Current versus non-current classification**

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

An asset is classified as current when it is:

- 1) Expected to be realized or intended to be sold or consumed in normal operating cycle.
- 2) Held primarily for the purpose of trading.
- 3) Expected to be realized within twelve months after the reporting period,
- 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.

ii. **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, labor 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 derecognized. 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
Property, Plant and Equipment	
Plant & Machinery	10 Years with 20% residual value
Furniture & Fixture	10 Years
Safety Equipment	4 to 7 Years
Survey Equipment	4 to 7 Years
Motor Vehicle	10 Years with 20% residual value
Building & Civil Structure	10 to 30 Years
Lab Equipment	4 to 7 Years

Office Equipment	4 to 7 Years
Data Processing Equipment	4 to 7 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 that 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.

iii. **Intangible assets:**
Computer software:

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized 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 programmed are recognized as an expense when incurred.

Other Intangibles:

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

iv. **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.

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

Expenditure on material, labour, contract expenses and directly attributable cost such as employee costs and overheads, project management expenses incurred during construction period for executing the particular project are included in CWIP till these are capitalized.

Indirect expenditure and overheads incurred is expensed off and are not capitalized.

vi. Financial Assets:

Initial measurement

At initial recognition, the Company measures a financial asset at its fair value and in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Classification and subsequent measurement

For the purpose of subsequent measurement, financial assets of the Company are classified in the following categories:

- At amortized cost;
- At fair value through other comprehensive income (FVTOCI); and
- At fair value through profit and loss (FVTPL)

The classification of financial assets depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

Financial assets measured at amortized cost

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the profit or loss. The losses arising from impairment are recognized under profit and loss account. This category generally applies to other receivables, security deposits, cash and cash equivalents, etc.

The Company's financial assets includes loans and trade receivables.

Financial instruments measured at fair value through other comprehensive income

A financial instrument shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- a. the objective of the business model is achieved by both collecting contractual cash flows and selling financial assets; and
- b. the asset's contractual cash flow represents SPPI.

Financial instruments included within FVTOCI category are measured initially as well as at each reporting period at fair value. Fair value movements are recognized in other comprehensive income (OCI).

Currently, the Company does not have any asset classified under this category.

Financial instruments measured at fair value through profit and loss.

Fair value through profit and loss is the residual category. Any financial instrument which does not meet the criteria for categorization as at amortized cost or FVTOCI is classified at FVTPL. Financial instruments included within FVTPL category are measured initially as well as at each reporting period at fair value. Fair value movements are recorded in statement of profit and loss.

Impairment of financial assets

The company recognizes an allowance for expected credit losses (ECLs) for all financial instruments except for financial assets classified at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows in accordance with the contract and all the cash flows that the company expect to receive, discounted at an approximation of the original effective interest rate. The ECL is recognized for 12 months and lifetime. The ECL is determined based on the significant increase in credit risk 'SICR' and objective evidence of the impairment over the life of the financial assets. For computation of ECL, the standard prescribes a rebuttable presumption of 30 days past due as approach for ECL and 90 days past due as default. As a practical expedient, the standard allows simplified approach for ECL computation of trade receivables, contract assets and lease receivable.

The company has trade receivable only and applies DHI's group accounting as follows:

- 30 days past due trigger point for SICR
- 90 days past due as default point.
- Simplified Approach for computation of ECL for trade receivable.

It is also further guided by guideline on ECL issued by DHL

vii. Financial Liabilities

All the financial liabilities are recognized initially at fair value and , in case of loans, borrowings and payables, net of directly attributable transaction costs.

The Financial liabilities are subsequently measured at:

- Amortized cost
- Fair value through profit and loss

The company's financial liabilities are measured at cost.

viii. Offsetting

Financial assets and financial liabilities or income and expenses are offset and the net amount reported in the Statement of Financial Position and Statement of Comprehensive Income when, and only when the entity has a legal right and is allowed by the Standard to offset the amounts and intends either to settle on a net basis or to realize the assets and settle the liability simultaneously. 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.

ix. Inventories:

Inventories are stated at the lower of cost and net realizable 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 labor, other direct costs and related production overheads (based on normal operating capacity).

Obsolete and defective items of inventory are identified at the time of physical verification of inventories and where necessary, adjustment is made for the same.

Stock of salvaged and scrapped materials has been stated at nil value. The amount realized on disposal of such stock is accounted for under Other Income.

x. 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. The cash flow for the period shall be classified as operating, investing and financing.

The standard provides option for preparing the cash flows from operations either by *direct method or the indirect method*. The Group Accounting Policy prescribes the **indirect method of presentation** of the cash flow statement.

xi. Current and deferred income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

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.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (Tax Base).

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the tax authority on the taxable entity, further they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

xii. 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 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.

xiii. Employee benefits:

a. Retirement Benefits:

Under defined contribution scheme:

As required by National Pension & Provident Fund (NPPF), both the employee and employer make monthly contributions to the provident fund, which is a Defined Contribution Plan, equal to a specified percentage of employee's basic salary. The company has no further obligations under the plan beyond its monthly contributions. The company does not have any legal or constructive obligation to pay further contributions if the NPPF does not have sufficient assets to pay all of the employee's entitlements. Obligation for contributions to the plan is recognized as an employee benefit expense in profit or loss when the contribution to NPPF becomes due.

Under Defined Benefit Scheme: Post Employment Benefit (Gratuity)

In accordance with the SMCL Service Rule, the company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan provides a lump sum payment to vested employees, at retirement or termination of employment, an amount based on the respective employee's last drawn salary and number of years of employment with the company. The company's net obligation in respect of the gratuity plan is calculated by estimating the amount of future benefits that the employees have earned in return for their service in the current and prior periods and that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary using the projected unit credit method and amount of obligation is provided in profit or loss and invested in the form of deposits with financial institutions of Bhutan. Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income and presented within equity.

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:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. All employee benefits payable wholly within twelve months of rendering the service are classified as short-term employee benefits and they are recognized in the period in which the employee renders the related service. The Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for services rendered as a liability (accrued expense) after deducting any amount already paid.

c. Other Long-Term Benefits

As per company's Service Rules, the employee who have rendered minimum five years of service are entitled to one-month basic pay as repatriation allowance and one-month basic pay as transfer grant at the time of leaving the service. One-month basic pay for this purpose is the pay at the time of leaving the service. The company's net obligation in respect of this terminal benefit is calculated by estimating the amount of benefits that the employees have earned in return for their service in the current and prior periods, and that benefit is discounted to determine its present value. The calculation is performed annually by a qualified actuary and amount of obligation is provided for in profit or loss. The plan is unfunded.

xiv. Provisions and Contingent Liabilities:

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. A provision for onerous contracts is recognized when the expected benefits to be derived by the entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Contingent liabilities are not recognized but disclosed for all possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

xv. Revenue recognition:

Revenue is measured at the fair value of the consideration received or receivable. The Company recognizes 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 company'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.

xvi. Government grants:

Grants from Royal Government of Bhutan (RGOB) and other organizations 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.

xvii. Leases (BFRS 16)

The company assesses all the lease contract at inception as to whether it contains a lease. If the contract conveys the right to control the use of an identified assets for the period of time in exchange for consideration, then a right-to-use asset is recognized, and lease liability is recognized for all future lease payments.

The lease contracts for periods less than 12 months and low value leases are directly recognized to profit and loss accounts.

i. Right-of-Use Assets

The standard provides the option to present right-of-use assets as separate item on the balance sheet or as a part of PPE or Investment property. For subsequent measurement of right-of -use, the standard provides choice to adopt cost model or revaluation model, or fair value model.

The company follows the DHI group account policies as follows:

- Apply exemption on short term and low value leases as defined in the guideline for materiality.
- Present the right-to-use asset as a separate item on balance sheet.
- Subsequent measurement based on cost model for leases recognized.

ii. Lease Liability

The company recognizes lease liabilities measured at present value of lease payments to be made over the lease term. The lease payment includes fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payment that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The company has adopted BFRS 16 from 1st January 2022 and has opted to apply modified approach option on transition as permitted by the standard.

xviii. 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.

xix. Comparative information:

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

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

(All amounts in Rupees, unless otherwise stated)

Particulars	Gross Block				Depreciation/Amortisation				Net Block	Net Block	12/31/21		
	Gross Block 1/1/22	Additions	Adjustments	Transfers	Gross Block 12/31/22	Opening Bal. 1/1/22	Gross Dep	Adj. in total				System Adjustment	Actual Charge
2A. Property, Plant and Equipment													
Plant & Machinery	403,874,128	67,681,814	2,116,137		473,672,080	73,817,057	46,323,814	223,958,880	-	46,199,838	120,143,871	349,268,913	300,057,089
Furniture & Fixture	4,057,415	1,436,813	5,000		5,499,228	1,482,006	493,916	413	-	493,503	1,965,922	3,523,306	3,575,409
Salvage Equipment	398,337	21,319	798		420,454	87,747	58,523	283,587	-	58,523	126,271	283,587	321,590
Survey Equipment	1,219,998	-	-		1,219,998	532,973	202,796	202,796	-	202,796	733,769	484,223	887,024
Motor Vehicle	107,808,031	105,190,280	270		213,076,551	21,629,359	16,609,813	-	-	16,609,813	38,238,172	174,837,879	86,256,672
Building & Civil Structure	81,077,363	11,439,510	3,235,954		95,752,827	41,104,880	7,554,909	106,991,71	-	7,447,917	48,639,789	40,621,130	39,972,482
Lab Equipment	3,087,109	21,335	21,335		3,129,779	1,119,885	475,592	-	-	475,592	1,595,067	1,492,042	1,967,424
Office Equipment	17,906,874	10,821,998	8,020		28,736,892	3,869,567	2,406,898	1,567	-	2,405,091	6,276,225	21,644,397	15,837,107
Data Processing Equipment	13,645,579	4,536,989	71,589		18,253,157	7,433,066	2,940,688	2,991,107	-	2,846,607	10,383,754	7,800,324	6,212,313
Total Property, Plant and Equipment	632,743,629	208,742,037	5,459,122	-	846,944,788	151,056,341	76,964,498	235,918	-	76,738,590	228,026,819	600,005,705	483,487,268
2B. Intangible Assets													
Software	970,843	-	-		970,843	306,103	236,468	-	-	236,468,19	542,571	428,272	664,740
Total Intangible Assets	970,843	-	-	-	970,843	306,103	236,468	-	-	236,468,19	542,571	428,272	664,740
2C. ROU Building													
Hire of Corporate Office	-	3,328,694	-		3,328,694	2,246,465	281,768	-	-	281,768	2,528,233	799,661	3,328,094
Total ROU Building	-	3,328,694	-	-	3,328,694	2,246,465	281,768	-	-	281,768	2,528,233	799,661	3,328,094
2D. Capital Work in Progress													
For Different Mines	31,861,564	28,162,801	1,093,686		61,117,051	-	-	-	-	-	-	50,930,279	31,861,564
Total Capital Work in Progress	31,861,564	28,162,801	1,093,686	-	61,117,051	-	-	-	-	-	-	50,930,279	31,861,564
2E. Exploration & Evaluation Cost													
For Different Mines	35,967,010	-	-		35,967,010	30,608,778	-	-	-	-	30,608,778	3,278,231	3,278,231
Total Exploration & Evaluation Cost	35,967,010	-	-	-	35,967,010	30,608,778	-	-	-	-	30,608,778	3,278,231	3,278,231
2F. Mines Development													
For Different Mines	6,569,372	10,822,619	-		17,391,991	3,047,659	2,715,265	-	-	2,715,265	5,763,421	11,428,567	3,521,213
Total Mines Development	6,569,372	10,822,619	-	-	17,391,991	3,047,659	2,715,265	-	-	2,715,265	5,763,421	11,428,567	3,521,213
Balance to Accounts	708,112,418	234,855,652	6,552,408	-	949,480,478	187,345,343	80,198,498	235,918	-	79,962,591	267,543,845	668,871,416	526,341,631

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

Particulars	31-Dec-22	31-Dec-21
Environment Restoration Bond	41,543,970	21,260,154
Total	41,543,970	21,260,154

Note 4: Other non current assets

Particulars	31-Dec-22	31-Dec-21
Unamortised mining cost	4,328,458	4,328,458
Total	4,328,458	4,328,458

Note 5: Deferred tax

Particulars	31-Dec-22	31-Dec-21
Property, plant and equipment		
Deffered tax asset (Timing Difference)	-	7,484,427
Total	-	7,484,427

Note 6: Inventories

Particulars	31-Dec-22	31-Dec-21
Inventory (Valued at cost MAP, Moving Average Price)		
Stock of Finished Goods	124,792,273	46,289,525
Stock of Work in Progress	82,668,389	125,392,886
Consumable & Spares	178,394,904	143,003,688
Total	385,855,566	314,686,099

(71,169,467.82)

Note 7: Trade & Other receivable(Current)

Particulars	31-Dec-22	31-Dec-21
Receivables from Customers	487,593,644	292,708,531
ECL Less Allowance - SMCL	(7,910,128)	-
Other Receivables	6,106,926	-
Investment	200,000,000	300,000,000
Security Deposit Placed	2,427,176	1,771,612
Total	688,217,618	594,480,143

Note 8: Cash and Cash Equivalents

Particulars	31-Dec-22	31-Dec-21
Cash-in-hand	420,363	287,347
Bank Balance		
Bank of Bhutan Ltd A/c No- 100891887	2,327,359	8,967,681
Bank of Bhutan Ltd A/c No- 200194054	107,946,198	243,566,790
Bank of Bhutan Ltd-201550717 - SMCL	13,750,390	29,585,208
Bank of Bhutan Ltd-201766760 - SMCL	72,806,565	396,470,819
Short term deposit	-	-
Bank of Bhutan Ltd - 203084061 - SMCL	173,888,741	305,553,228
Bank of Bhutan Ltd - 203125974 - SMCL	40,789,564	12,268,804
Bank of Bhutan Ltd - 203833862 - SMCL	18,367,529	36,694,785
Bhutan National Bank Ltd - 0100149610001 - SMCL	6,981,671	5,582,206
Gratuity Bank - SMCL - SMCL	2,790,354	-
Total	440,068,735	1,038,976,868

Note 9: Other Current Assets

Particulars	31-Dec-22	31-Dec-21
TDS	68,596	16,415,680
Advance Tax	412,940,146	269,332,999
Advance to Employee	415,095	(103,637)
Advance to Vendor	125,317,171	42,244,486
Prepaid Expenses	25,456,684	24,157,057
Loans & advance to Intra Company	430,034,761	-
Total	994,232,453	352,046,585

Note 10: Capital

Particulars	31-Dec-22	31-Dec-21
Authorised Share Capital		
10000000 Equity Shares of Nu.100 each		1,000,000,000
Issued, Subscribed and Paid-up		
2939900 Equity shares @ Nu. 100 each fully paid up	293,990,000	293,990,000
	293,990,000	293,990,000

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 shareholders.

Note 11: Deferred Tax Liability

Particulars	31-Dec-22	31-Dec-21
Deferred Tax Liability:-		
Timing Differences in respect of-		
Opening		-
Recognised during the year in relation to Property, Plant and Equipment, Intangible Assets and Amortization of Exploration and Evaluation costs	9,140,021	4,047,120
Total	9,140,021	4,047,120

Note 12: Employee benefit obligations

Particulars	31-Dec-22	31-Dec-21
Post Employment Benefit (Gratuity)	4,931,942	1,383,431
Long-term Employee Benefit (Leave Encashment)	5,538,408	4,629,061
Gratuity Bank Account - SMCL	2,790,354	-
Post Employee Benefits (Others)	2,297,704	2,192,937
Total	15,558,408	8,205,429

Note 13: Long term Borrowing

Particulars	31-Dec-22	31-Dec-21
Term Loans	32,223,174	50,334,043
Total	32,223,174	50,334,043

Note 14: Lease Liability

Particulars	31-Dec-22	31-Dec-21
Lease of Corporate Head Office	1,460,378	-
Total	1,460,378	-

The company has lease agreement for corporate head office entered on 1st April 2015 with Department of Geology and Mines (DGM). The initial term for lease is 10 years i.e from 1st April 2015 to 1st March 2025. The company has recognized the lease of building as Right-of- Use Assets separately in the balance sheet and Lease Liability under non-current liabilities.

Set out below are the carrying amount of Right-of-Use Assets recognized and movement during the year:

	ROU-Land
Balance as at 1st Dec, 2021	-
Addition	-
Balance as at 31st December, 2021	-
Amount restated through opening balance	3,328,094.11
Depreciation restated through retain earning	2,246,465.52
As at 1st January, 2022	<u>1,081,630.59</u>
Addition during the year	-
Depreciation Expenses	281,768.34
Balance as at 31st December, 2022	<u>799,862.24</u>

Set out below are the carrying amount of lease liability recognized and movement during the year:

	2022	2021
Amount restated through opening balance	1,874,433.77	-
Accretion of Interest restated through retained earning	-	-
Restated payment adjustment through Retained earning	-	-
As at 1st January 2022	<u>1,874,433.77</u>	-
Payment	414,055.92	-
Balance as at 31st December	<u>1460,377.85</u>	-

Note: The maturity analysis of lease liability is disclosed under Note 31 (B)- Maturity of financial liabilities.

Following are the amount recognized in profit and loss:

Amount recognized in profit/loss account	2022	2021
Depreciation Expenses for Right-of-Use Asset	281,768.34	-
Interest on Financial liability	172,183.99	-
Total amount recognized in Profit/Loss	453,952.33	-

Note 15: Trade and Other Payables

Particulars	31-Dec-22	31-Dec-21
Employee Payables	532,989	1,346,831
Sundry Creditors - Domestic	54,725,544	57,339,393
Sundry Creditors - International	23,343,247	14,017,883
Advance from customer	1,790,626	(273,276)
Stock Received but not Billed	3,314,041	2,295,419
Total	83,706,347	74,724,270

Note 16: Short term employee benefit

Particulars	31-Dec-22	31-Dec-21
Post Employment Benefit (Gratuity)	1,623,935	1,902,740
Short-term Employee Benefit (Leave Encashment)	644,005	764,708
O/S Liability for Other Payable - SMCL	2,397,621	-
Total	4,665,560	2,667,448

Note 17: Other current liabilities

Particulars	31-Dec-22	31-Dec-21
TDS Payable	2,458,713	1,846,059
Other Liabilities	74,431,236	57,533,996
Provision for Income Tax	926,111,374	699,638,600
Security Deposits	24,535,946	24,537,573
Retention Money	475,468	152,415
Total	1,028,012,736	783,708,643

Note 18: Short-term Borrowing

Particulars	31-Dec-22	31-Dec-21
Loan Payable within 12 months - SMCL	770,400	1,484,599
Total	770,400	1,484,599

Note 19 : Revenue from sale of products

Particulars	31-Dec-22	31-Dec-21
Sale of Coal	769,079,302	611,149,481
Sale of Quartzite	32,121,013	61,958,817
Sale of Gypsum	976,736,460	925,469,370
Sale of Dolomite	2,860,145,390	2,111,373,543
Total	4,638,082,165	3,709,951,211

Note 20 : Other Income

Particulars	31-Dec-22	31-Dec-21
Sale of reject stone	477,411	2,014,531
Gain or (Loss) from Sales Transactions	(971,477)	(1,421,935)
Liquidated Damages	3,969,012	1,921,378
Interest from short term deposit	6,476,712	679,452
Miscellaneous Income	3,510,648	2,727,826
Guest House Charges	931,189	254,055
Income from Weigh bridge	11,779,926	6,611,190
Sales - Loading Charges	8,115,341	9,033,529
Sales - Transportation Charges	425,880,375	299,523,465
Sales - Local Transportation Charges	265,034,888	197,881,317
Total	727,204,025	519,224,807

Note 21 : Changes in Inventory of Finished Goods

Particulars	31-Dec-22	31-Dec-21
Cost of Good Manufacture	(35,751,653)	115,158,584
Total	(35,751,653)	115,158,584

Note 22 : Mining Cost

Particulars	31-Dec-22	31-Dec-21
Drilling & Blasting Cost	55,597,806	22,181,945
Mineral Extraction costs	306,089,210	274,542,818
Environment Management Cost - SMCL	2,450,219	4,179,634
Environment Restoration Expenses - SMCL	5,121,331	12,670,784
Mineral Raising Cost	8,523,808	8,329,143
Mineral Transportation Cost	467,492,294	407,617,676
Royalty	264,416,083	214,321,844
Mineral rent - SMCL	35,953,607	21,459,931
Surface Rent - SMCL	731,675	1,669,594
Wages	3,741,258	3,476,498
Project Affected Family-Compensation-CWIP - SMCL	255,796	-
License fee - SMCL	230,738,748	50,000,000
Environmental Assessment Fees - SMCL	139,766	226,200
Total	1,381,251,602	1,020,576,067

Note 23 : Operation & Maintenance Expenses

Particulars	31-Dec-22	31-Dec-21
R & M - Building - SMCL	2,344,883	3,738,414
R & M - Furniture, Fixtures and Equipments	606,813	533,586
R & M - Vehicles - SMCL	20,398,032	8,514,604
Vehicle Running Expenses (POL) - SMCL	55,232,125	18,734,070
R & M - Plant & Machinery - SMCL	54,993,885	72,090,984
POL Plant & Machinery	119,748,438	58,866,451
Power consumption for crushing plant - SMCL	2,735,420	3,429,790
Insurance - SMCL	2,433,017	1,703,755
Annual Maintenance-ERP	1,856,525	1,200,000
Hire of Screen Plant - SMCL	7,629,526	4,163,797
Total	267,978,666	172,995,451

Note 24: Employee Benefits Expenses

Particulars	31-Dec-22	31-Dec-21
Payroll & Related Expenses		
Salaries, wages and allowances	74,086,444	58,486,432
Allowances	30,188,896	31,675,655
Leave Travel Concession - SMCL	4,873,346	4,077,079
Overtime Payment	10,402,477	7,990,119
Performance Based Variable Pay - SMCL	11,336,030	9,841,521
Uniform expenses	4,220,068	3,457,775
Staff training and development expenses	266,708	105,109
Post Employment Benefits		-
GPF Contribution (Employer) - SMCL	11,122,434	8,724,780
Gratuity Contribution - SMCL	3,265,686	2,634,370
Repatriation Allowances - SMCL	374,776	269,256
Bonus	13,598,096	-
Carriage Charges - SMCL	1,500,474	480,850
Other Employee Benefits		-
Leave Encashment - SMCL	5,918,020	5,510,207
Long Term Studies - SMCL	-	-
Transfer Grant - SMCL	911,265	650,888
GPA	613,763	515,626
Employee Recognition Award -SMCL	-	-
Total	172,678,484	134,419,667

Note 25: Finance Cost

Particulars	31-Dec-22	31-Dec-21
Interest on Secured Loan	8,906,760	9,184,561
Interest (RoU Building) - SMCL	172,184	-
Loss on Foreign Exchange	1,168,340	3,264
Total	10,247,284	9,187,824

Note 26: ECL Cost

Particulars	31-Dec-22	31-Dec-21
Loss on impairment of Trade receivable	7,910,128	-
Total	7,910,128	-

Note 27: Other Expenses

Particulars	31-Dec-22	31-Dec-21
a) Administrative & Other Expenses		
Advertisement - SMCL	169,439	592,902
Audit Fees & Expenses	420,000	477,221
Bank Charges and fees for services paid to BoBL	1,516,636	1,430,066
Board meeting expenses and sitting fees	244,994	386,065
Books and Periodicals	28,780	17,007
Communication, internet and telephone charges	1,748,688	2,352,370
Consulting Fees	12,000	45,000
Corporate Social Responsibility	13,297,729	6,428,896
Donation	165,000	378,700
Electricity Charges	397,828	436,701
Fees & Subscription	23,579,088	6,107,031
General & Administrative Expenses	2,415,064	2,355,267
Hire/Other Service Charges	914,511	665,206
Hospitality & Entertainment Expenses	1,000,016	1,412,248
Lease & Rental Charges	2,200,314	2,189,242
Meeting & Retreat Expenses	357,109	456,079
Office Supplies, Printing & Stationeries	4,321,912	2,443,781
Registration & Renewal Fees	88,540	4,340
Staff Welfare and Engagement Expenses	1,377,471	835,622
Working lunch	6,511,170	5,534,503
Sub-Committee meeting expenses and sitting fees	297,344	288,671
Tax & Levy	60,000	-
Travel-Foreign	106,399	-
Travel-Local	6,098,556	6,735,498
Total (a+b) -	67,528,589	41,572,415

Note 28: Selling & Distribution

Particulars	31-Dec-22	31-Dec-21
Freight Outwards - SMCL	519,262,542	386,884,466
Loading & Unloading Charges - SMCL	29,804,418	23,549,106
Marketing & Selling Expenses - SMCL	1,202,652	1,205,832
Transportation from Mines to Motanga - SMCL	10,939,270	-
Foreign Bank Charges - SMCL	341,006	220,165
Total	561,549,888	411,859,588

Note 29: Earnings Per Share

Particulars	31-Dec-22	31-Dec-21
Net profit attributable to equity shareholders	1,920,726,347	1,568,286,983
Issued and outstanding ordinary shares at the beginning of the year	2,939,900	2,939,900
Effect of ordinary shares issued during the year	-	-
Weighted average number of ordinary shares	2,939,900	2,939,900
Number of shares at the end of the year		
Weighted average number of ordinary shares in issue		
Basic and Diluted Earnings per Share	653	533

Note 30: 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 31: 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	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 (ii) Interest Risk	Cash flow forecasting Sensitivity analysis	Currently the Company has transactions in Indian, Bangladesh and Local currency and timely updates on the exchange rates and no credit sales in foreign currency 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 from domestic customers only.

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.

Reconciliation

Credit loss provisions calculated earlier	0
ECL calculated in 2022	7,910,128
Total ECL Loss Allowance	7,910,128.15

Buckets	ECL
1-30	692,933.70
31-60	225,208.52
61-90	130,315.55
Above 90	6,861,670.39
Total	7,910,128

ii) Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's Finance & Accounts 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 Board of Company.

(i) Maturities of financial liabilities

The tables below analyze 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 2022	Less than 1 year	More than 1 years	Total
Trade and Other Payables	83,706,347	-	83,706,347
Total financial liabilities	83,706,347	-	83,706,347

Contractual maturities of financial liabilities 31 December 2021	Less than 1 year	More than 1 years	Total
Trade and Other Payables	74,724,270	-	74,724,270
Total financial liabilities	74,724,270	-	74,724,270

(All amounts in Nu., unless otherwise stated)

(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 Nu. or Indian currency and dollar, there is no fluctuation in the exchange rate between Indian currency and Local currency. Hence is not exposed to foreign currency risk from Rs. & Nu. The risk of foreign currency was taken care by the exchange rate timely updated by the Royal Monetary Authority with the Financial Institutions.

(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.

32. Allotment of shares have been made to Druk Holding & Investments Limited (DHIL) who is holding 100 percent shares of the Corporation. During the year, no amount has been received from DHIL as additional equity injection in support of business expansion.

33. Term loan of Nu.80 million was availed from National Pension and Provident Fund (NPPF) by pledging DHI guarantee in 2018 and there is no such loan availed from any financial institutions in financial year 2022.

34. 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.

35a. There are no contingent liabilities for the Company as on 31st December 2022.

35b. Capital Commitment

Particulars	2022	2021
2A. Property, Plant and Equipment		
Plant & Machinery	82,264,250	156,934,800
Furniture & Fixture	2,767,909	2,175,600
Safety Equipment	1,019,000	42,100
Survey Equipment	11,693,898	5,474,000
Motor Vehicle	11,825,000	34,560,000
Building & Civil Structure	569,997,172	155,403,471
Lab Equipment	3,230,000	1,848,021
Office Equipment	8,832,475	830,700
Data Processing Equipment	7,934,257	13,157,405
Total Property, Plant and Equipment	699,563,960	370,426,097
2B. Intangible Assets		
Software	10,000,000	5,000,000
Total Intangible Assets	10,000,000	5,000,000
Balance to Accounts	709,563,960	375,426,097

36. 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 IAS 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 IAS 24.

37.1 Name of the related parties and Relation

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

37.2 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 Ale Corporation Ltd.(DCL)
12. Construction Development Corporation Ltd.(CDCL)
13. Thimphu Tech Park Ltd.(TTPL)
14. Dagachu Hydro Corporation Limited
15. Bhutan Brand Export Limited
16. Koorfulu International Limited
17. Thimphu TechPark Limited
18. Tangtshji Hydro Energy Limited
19. Penden Cement Authority Limited

37.3 Transactions with fellow subsidiaries:

Name of related party	Description	2022	2021
Druk Holdings & Investment (DHI)-Holding Company	1.Guarantee fees	210,105	244,491
	2.Dividend Paid	1,793,339,000	364,547,600
	3.Brand Management	23,325,910	5,848,250
	4.Shares held by DHI	293,990,000	293,990,000
	5.Guarantee fees payable		
Bank of Bhutan Ltd.(BoBL)	1. Bank Charges & Fees paid to BoBL	1,516,636	1,430,066
	2. Bank Balance with BoBL	429,876,342	1,333,107,915
Bhutan Telecom Ltd.(BTL)	1. Internet & Telephone Charged	1,669,085	2,340,220
	2. Intragroup Trade Payables	38,534	83,514
State Trading Corporation of Bhutan Ltd.(STCBL)	1.Running & Maintenance of vehicle	-	5,448,217
	2.Payable to STCBL	4,571,932	278,473
Dungsam Cement Corporation Limited	1. Sale of Coal	598,729,538	632,678,162
	2. Sale of Gypsum	38,584,010	26,401,036
	3.Receivable from sale of coal/gypsum	454,634,455	266,066,612
Bhutan Power Corporation Ltd.(BPCL)	1. Electricity Charges-Paid to DHI Companies	3,133,248	3,866,490
	2. Intragroup Trade Payables	2,210,571	322,616
	3. Advance Payments	-	370,592
Natural Resources Development Corporation Limited	1.Precurement of sand and wood	-	39,181
Penden Cement Authority Limited	1.Sale of Coal	77,165,504	19,440,602
	2. Sale of Gypsum	6,835,739	16,607,807
	3. Inter-company trade receivable	13,685,738	7,032,979
Druk Green Power Corporation Ltd.(DGPCL)	3. Interest on borrowings-Intergroup	-	7,558,904
Thimphu Tech Park Ltd.(TTPL)	1. Inter company Trade Payables	7,441	144,068
	3. Yearly AMC for ERP and Others	1,856,525	1,411,848

37.4. List of Key Managerial Personnel

1. Mr Dasbo Karma Yezer Raydi, Chairman
2. Mr. Thinley Namgyel, Director (till 30th March)
3. Mr. Geley Norbu, Director
4. Mrs. Kezang Deki, Director (till 30th March)
5. Mr. Kezang Jamtsho, Director
6. Mr. Jigme Dorji, Additional Director (till 30th March)
7. Dasbo Chewng Rinzin (New Board Director)
8. Mrs. Kinley Yangzom
9. Mr. Pasang Dorji
10. Mr. Pem Tshering
11. Mrs. Kesang Dema (18th April to 14th Dec)

37.5 Related parties with whom transactions have taken place during the year:**Board Directors ->**

Name	Sitting Fees (2022)	Sitting Fees (2021)
1. Mr Dasbo Karma Yezer Raydi, Chairman	56,000	88,000
2. Mr. Thinley Namgyel, Director (till 30th March)		20,000
3. Mr. Geley Norbu, Director	68,000	88,000
4. Mrs. Kezang Deki, Director (till 30th March)		28,000
5. Mr. Kezang Jamtsho, Director	68,000	88,000
6. Mr. Jigme Dorji, Additional Director (till 30th March)		24,000
7. Dasbo Chewng Rinzin (New Board Director)	80,000	80,000
8. Mrs. Kinley Yangzom	20,000	40,000
9. Mr. Pasang Dorji	48,000	48,000
10. Mr. Pem Tshering	96,000	64,000
11. Mrs. Kesang Dema (18th April to 14th Dec)	28,000	
Total	464,000	568,000

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

37.7 Transactions during the year.

38. Managerial Remuneration

	2022	2021
Basic Pay	1,311,000	1,225,800
Allowances	1,348,950	1,103,220
PVBA and Bonus	345,000	302,400
GPF Contribution (Employer)	207,000	183,870
Travelling expense of CEO	266,982	337,750
Sitting fees to Board of Directors of the company	68,000	88,000
Leave Encashment	115,000	100,800
Leave Travel Concession	15,000	15,000
Grand Total	3,676,932	3,356,840

39. Auditors remuneration

Particulars	2022	2021
Auditors Fees	105,000	105,000
Auditors Expenses*	315,000	372,221
Total	420,000	477,221

*Provisional including RAA and Tax Audit

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

Note 41 : Fair value measurements

(All amounts in Nu , unless otherwise stated)

Financial instruments by category

Particulars	31-Dec-22			31-Dec-21			1-Jan-21		
	FVPL	FVOCI	Amortised cost	FVPL	FVOCI	Amortised cost	FVPL	FVOCI	Amortised cost
Financial assets									
Security Deposit	-	-	-	-	-	-	-	-	-
Environment Restoration Bond	-	-	41,543,979	-	-	23,260,154	-	-	13,438,891
Sundry Debtor Domestic	-	-	487,593,644	-	-	292,708,531	-	-	423,478,394
Sundry Debtors International	-	-	-	-	-	-	-	-	-
Security Deposit Placed	-	-	2,427,178	-	-	1,771,812	-	-	1,440,378
Other Receivable	-	-	6,106,928	-	-	-	-	-	-
Deposit due for refund	-	-	200,000,000	-	-	-	-	-	-
Cash and Cash Equivalents	-	-	440,068,735	-	-	1,338,976,868	-	-	82,683,943
Total financial assets	-	-	1,177,740,451	-	-	1,634,717,165	-	-	521,039,606
Financial liabilities									
Security Deposits	-	-	24,533,946	-	-	24,537,373	-	-	14,012,423
Employee Payables	-	-	532,989	-	-	1,346,881	-	-	717,371
Retention Money	-	-	475,468	-	-	152,415	-	-	125,193
Sundry Creditors - Domestic	-	-	54,723,544	-	-	57,339,393	-	-	38,784,847
Term Loan from Financial Institutions	-	-	770,400	-	-	1,484,599	-	-	9,405,698
Inter-Company Borrowing - SMCL	-	-	-	-	-	-	-	-	300,000,000
State Cheque	-	-	-	-	-	-	-	-	-
Other payable	-	-	-	-	-	-	-	-	-
Total financial liabilities	-	-	81,040,348	-	-	84,660,831	-	-	363,043,532

(All amounts in Nu , unless otherwise stated)

(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-22		31-Dec-21	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial assets				
Environment Restoration Bond	41,543,970	41,543,970	21,260,154	21,260,154
Total financial assets	41,543,970	41,543,970	21,260,154	21,260,154

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 42: Exploration and evaluation

Intangible Assets

Particulars	Gross Block			Amortisation			Closing balance as on 31-12-2022	Net carrying amount
	Opening as on 1-1-2022	Addition	Deletion/Adj.	Opening as on 1-1-2022	Amortisation for the year	Deletion/		
Capitalised exploration and evaluation expenditure	35,967,010	-	-	35,967,010	30,688,778	-	30,688,778	5,278,231
Total	35,967,010	-	-	35,967,010	30,688,778	-	30,688,778	5,278,231

Note 45 : Operating Segment

The Operating Segment are established on the basis of those components of the group that are regularly reviewed by the entity's chief operating decision maker to make decision about resources to be allocated to the segment and assess its performance as defined in Point 5 (b) of IFRS - 8 Operating Segment.

These have been identified taking into account for nature of the production processes and nature of product and services. The accounting policies adopted for segment are in line with the same policy of the Company adopted for financial reporting with following additional policies for segment reporting 31/12/2022

a) Revenue have been identified to the segment on the basis of operating and product segment

b) Segment results have been identified to the segment on the basis of operating and product segment

The reporting segment consist of Coal, Gypsum, Aggregates and Dolomite

Particulars	Coal		Gypsum		Dolomite		Quarite		Others		Overall	
	31-Dec-2022	31-Dec-2021	31-Dec-2022	31-Dec-2021	31-Dec-2022	31-Dec-2021	31-Dec-2022	31-Dec-2021	31-Dec-2022	31-Dec-2021	31-Dec-2022	31-Dec-2021
Revenues	772,759,243.53	613,345,565.52	952,083,933.78	838,220,103.77	3,567,122,713.92	2,612,560,994.92	12,717,208.49	62,753,119.17	2,296,245.87		5,365,286,189.72	4,229,176,019.25
Expenses	550,003,602.31	405,584,106.23	626,435,830.00	603,355,724.45	1,783,553,188.14	816,812,154.58	53,352,658.41	87,463,735.47	51,467,326.81		2,513,355,568.86	2,968,732,547.60
Earnings Before Income Tax	222,755,551.22	207,761,459.23	366,251,103.78	334,864,379.32	2,283,559,525.78	1,795,748,830.30	(20,635,559.92)	(24,730,116.30)	-		2,851,930,620.86	2,260,443,471.65
Tax	80,692,052.12	78,513,113.73	126,432,657.57	101,323,977.54	779,894,619.29	541,097,606.43	16,115,455.19	77,564,523.75	(13,677,825.66)		931,204,273.89	699,691,957.89
Net Profit After Tax	141,763,499.10	125,248,345.50	239,818,446.21	233,540,401.78	1,553,664,906.49	1,254,651,223.91	(14,320,304.72)	(17,165,202.55)	-		1,920,726,347.07	1,560,751,513.76

Others under 2021 consist of the Corporate Head Office cost, however, in 2022 the Corporate Cost was divided among the mineral segment based on the value of salable products

5.1 DETAILED FINANCIAL EXHIBITS

A. LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Present value of define benefit obligation	9,346,230.56	6,800,668.11
Fair value of plan assets	2,790,353.8	3,514,497.44
Funded status - surplus/(deficit)	(6,555,876.76)	(3,286,170.67)
Effect of asset ceiling	-	-
Net defined benefit asset/(liability)	(6,555,876.76)	(3,286,170.67)

B. COMPOSITION OF DEFINED BENEFIT COST

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Expense recognised in profit or loss	3,265,686.29	2,659,635.23
Expense recognised in other comprehensive income	401,084.8	956,000.3
Defined benefit cost	3,666,771.09	3,615,635.53

C. EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Current service cost	3,018,675.24	2,685,992.42
Past service cost	-	-
Loss/(Gain) on settlement	-	-
Interest on DBO	491,184.85	235,319.2
Less: Expected interest on plan asset	(244,173.8)	(261,676.39)
Expenses recognised in profit or loss	3,265,686.29	2,659,635.23

D. AMOUNT RECOGNISED AS OTHER COMPREHENSIVE INCOME

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Actuarial (gain) or loss due to experience adjustments	357,417.36	933,157.93
Actuarial (gain) or loss due to changes in financial assumptions	-	-
Actuarial (gain) or loss due to changes in demographic assumptions	-	4,708.56
Return on plan assets (greater) or less than discount rate	43,667.44	18,133.81
Expenses recognised as OCI	401,084.8	956,000.3

E. RECONCILIATION OF CHANGES IN PRESENT VALUE OF DEFINED BENEFIT OBLIGATION

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
DBO at the beginning of period	6,800,668.11	3,921,870
Add: Current service cost	3,018,675.24	2,685,992.42
Add: Past service cost	-	-
Add: Interest cost	491,184.85	235,319.2
Less: Benefits paid by the plan	(924,650)	(650,915)
Less: Benefits paid by the employer	(397,065)	(329,465)
Actuarial (gain) or losses due to experience adjustment	357,417.36	933,157.93
Actuarial (gain) or losses due to change in financial assumptions	-	-
Actuarial (gain) or losses due to change in demographic assumptions	-	4,708.56
DBO at the end of period	9,346,230.56	6,800,668.11

F. COMPOSITION OF PLAN ASSET

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Bonds (Government/corporate)	-	-
Gratuity savings/deposit in banks/insurance companies	2,790,353.8	3,514,497.45
Equities	-	-
Total	2,790,353.8	3,514,497.45

G. RECONCILIATION OF CHANGES IN FAIR VALUE OF PLAN ASSETS

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Fair value at the beginning of period	3,514,497.44	2,542,591.86
Contribution paid into the plan	-	1,379,278
Expected return on plan assets	244,173.8	261,676.39
Benefits paid from the plan	(924,650)	(650,915)
Return on plan assets greater or (less) than discount rate	(43,667.44)	(18,133.81)
Fair value at the end of period	2,790,353.8	3,514,497.44

H. BIFURCATION BETWEEN CURRENT & NON-CURRENT LIABILITY

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Current liability	1,623,935.10	1,902,739.76
Non-current liability	4,931,941.66	1,383,430.91
Net Liability	6,555,876.76	3,286,170.67

I. EXPECTED BENEFIT PAYMENTS IN FUTURE YEARS

<i>In.</i>	<i>Nu.</i>
December 31, 2023	1,753,849.91
December 31, 2024	2,713,697.08
December 31, 2025	2,322,059.69
December 31, 2026	2,014,308.44
December 31, 2027	2,986,922.45
December 2028 to December 2032	18,835,843.88
December 2033 to December 2042	73,206,752.5

J. ESTIMATED TERM OF LIABILITY (IN YEARS): 13.90

5.2 SENSITIVITY ANALYSES

The following table summarises the results of sensitivity tests performed on the present value of the defined benefit obligation by varying the assumption parameters as listed. The same model and valuation methodology as described in 4.4 was employed for this exercise.

Assumption/Parameter	Scenario	Defined Benefit Obligation (DBO)	Net effect of DBO	Percent change
Discount rate	+ 0.5%	8,941,347.47	(404,883.09)	-4.33%
	Base rate	9,346,230.56	-	0.00%
	- 0.5%	9,785,943.61	439,713.05	4.70%
Salary growth rate	+ 0.5%	9,822,805.85	476,575.29	5.10%
	Base rate	9,346,230.56	-	0.00%
	- 0.5%	8,904,380.77	(441,849.79)	-4.73%
Mortality rate	+ 10%	9,337,556.32	(8,674.24)	-0.09%
	Base rate	9,346,230.56	-	0.00%
	- 10%	9,354,944.65	8,714.09	0.09%
Employer turnover rate	+ 0.5%	9,198,474.51	(147,756.05)	-1.58%
	Base rate	9,346,230.56	-	0.00%
	- 0.5%	9,501,197.87	154,967.31	1.66%

The following chart shows a graphical representation of the above sensitivity analysis.



6. CERTIFICATION

I certify that the report has been prepared in accordance with the provisions of BAS 19. To the best of my knowledge, I do not hold any interest, direct or indirect with State Mining Corporation Ltd. that would impair objectivity of my work.

I am available to answer any questions or to provide explanations or further details regarding the materials contained in this report. Dated 23 January 2023, this version of the report nullifies all other versions, whether signed or not, preceding this date.



Tandin Dorji

Actuarial Consultant

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5.1 DETAILED FINANCIAL EXHIBITS

A. LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Present value of define benefit obligation	6,182,412.74	5,393,768.9
Fair value of plan assets	-	-
Funded status - surplus/(deficit)	(6,182,412.74)	(5,393,768.9)
Effect of asset ceiling	-	-
Net defined benefit asset/(liability)	(6,182,412.74)	(5,393,768.9)

B. COMPOSITION OF DEFINED BENEFIT COST

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Service Cost	788,643.84	2,618,079.9
Net interest on net defined liability (asset)	227,637.66	-
Immediate recognition of gains/losses - Other long term employee benefits	4,868,958.74	2,775,689
Expense recognised in other comprehensive income	-	-
Define Benefit Cost	5,885,240.24	5,393,768.9

C. EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Current service cost	788,643.84	2,618,079.9
Past service cost	-	-
Loss/(Gain) on settlement	-	-
Interest on DBO	227,637.66	-
Expected interest on plan asset	-	-
Immediate recognition of gains/losses - Other long term employee benefits	4,868,958.74	2,775,689
Expenses recognised in profit or loss	5,885,240.24	5,393,768.9

D. AMOUNT RECOGNISED AS OTHER COMPREHENSIVE INCOME

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Actuarial (gain) or loss due to experience adjustments	4,868,958.74	2,777,637.27
Actuarial (gain) or loss due to changes in financial assumptions	-	(1,948.27)
Actuarial (gain) or loss due to changes in demographic assumptions	-	-
Return on plan assets (greater) or less than discount rate	-	-
Immediate recognition of gains/losses - Other long term employee benefits	4,868,958.74	2,775,689
Expense recognised as OCI	-	-

E. RECONCILIATION OF CHANGES IN PRESENT VALUE OF DEFINED BENEFIT OBLIGATION

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
DBO at the beginning of period	5,393,768.9	2,775,689
Add: Current service cost	788,643.84	2,618,079.9
Add: Past service cost	-	-
Add: Interest cost	227,637.66	-
Less: Benefits paid by the plan	-	-
Less: Benefits paid by the employer	(5,096,596.4)	(2,775,689)
Actuarial (gain) or losses due to experience adjustment	4,868,958.74	2,777,637.27
Actuarial (gain) or losses due to change in financial assumptions	-	-
Actuarial (gain) or losses due to change in demographic assumptions	-	(1,948.27)
DBO at the end of period	6,182,412.74	5,393,768.9

F. COMPOSITION OF PLAN ASSET

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Bonds (Government/corporate)	-	-
Gratuity savings/deposit in banks/insurance companies	-	-
Equities	-	-
Total	-	-

G. RECONCILIATION OF CHANGES IN FAIR VALUE OF PLAN ASSETS

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Fair value at the beginning of period	-	-
Contribution paid into the plan	-	-
Expected return on plan assets	-	-
Benefits paid from the plan	-	-
Return on plan assets greater or (less) than discount rate	-	-
Fair value at the end of period	-	-

H. BIFURCATION BETWEEN CURRENT & NON-CURRENT LIABILITY

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Current liability	644,004.54	764,708.25
Non-current liability	5,538,408.2	4,629,060.65
Net Liability	6,182,412.74	5,393,768.9

I. EXPECTED BENEFIT PAYMENTS IN FUTURE YEARS

<i>In.</i>	<i>Nu.</i>
December 31, 2023	695,524.9
December 31, 2024	905,704.83
December 31, 2025	658,117.46
December 31, 2026	382,293.58
December 31, 2027	476,422.67
December 2028 to December 2032	2,225,640.22
December 2033 to December 2042	4,990,431.07

J. ESTIMATED TERM OF LIABILITY (IN YEARS): 9.81

5.2 SENSITIVITY ANALYSES

The following table summarises the results of sensitivity tests performed on the present value of the defined benefit obligation by varying the assumption parameters as listed. The same model and valuation methodology as described in 4.4 was employed for this exercise.

Assumption/Parameter	Scenario	Defined Benefit Obligation (DBO)	Net effect of DBO	Percent change
Discount rate	+ 0.5%	5,943,259.46	(239,153.28)	-3.87%
	Base rate	6,182,412.74	-	0.00%
	- 0.5%	6,440,655.63	258,242.89	4.18%
Salary growth rate	+ 0.5%	6,464,012.31	281,599.57	4.55%
	Base rate	6,182,412.74	-	0.00%
	- 0.5%	5,919,755.64	(262,657.1)	-4.25%
Mortality rate	+ 10%	6,182,412.74	0.0	0.00%
	Base rate	6,182,412.74	-	0.00%
	- 10%	6,182,412.74	0.0	0.00%
Employer turnover rate	+ 0.5%	6,255,007.24	72,594.5	1.17%
	Base rate	6,182,412.74	-	0.00%
	- 0.5%	6,105,709.06	(76,703.68)	-1.24%

The following chart shows a graphical representation of the above sensitivity analysis.



6. CERTIFICATION

I certify that the report has been prepared in accordance with the provisions of BAS 19. To the best of my knowledge, I do not hold any interest, direct or indirect with State Mining Corporation Ltd. that would impair objectivity of my work.

I am available to answer any questions or to provide explanations or further details regarding the materials contained in this report. Dated 23 January 2023, this version of the report nullifies all other versions, whether signed or not, preceding this date.



Tandin Dorji

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5. FINANCIAL EXHIBITS

5.1 DETAILED FINANCIAL EXHIBITS

A. LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Present value of define benefit obligation	2,843,840.07	746,480.84
Fair value of plan assets	-	-
Funded status - surplus/(deficit)	(2,843,840.07)	(746,480.84)
Effect of asset ceiling	-	-
Net defined benefit asset/(liability)	(2,843,840.07)	(746,480.84)

B. COMPOSITION OF DEFINED BENEFIT COST

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Expense recognised in profit or loss	1,056,973.88	349,614.02
Expense recognised in other comprehensive income	1,430,385.35	396,866.82
Defined benefit cost	2,487,359.23	746,480.84

C. EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Current service cost	1,012,855.41	349,614.02
Past service cost	-	-
Loss/(Gain) on settlement	-	-
Interest on DBO	44,118.47	-
Less: Expected interest on plan asset	-	-
Expenses recognised in profit or loss	1,056,973.88	349,614.02

D. AMOUNT RECOGNISED AS OTHER COMPREHENSIVE INCOME

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Actuarial (gain) or loss due to experience adjustments	1,430,385.35	396,884.28
Actuarial (gain) or loss due to changes in financial assumptions	-	-
Actuarial (gain) or loss due to changes in demographic assumptions	-	(17.46)
Return on plan assets (greater) or less than discount rate	-	-
Expenses recognised as OCI	1,430,385.35	396,866.82

E. RECONCILIATION OF CHANGES IN PRESENT VALUE OF DEFINED BENEFIT OBLIGATION

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
DBO at the beginning of period	746,480.84	415,443
Add: Current service cost	1,012,855.41	349,614.02
Add: Past service cost	-	-
Add: Interest cost	44,118.47	-
Less: Benefits paid by the plan	-	-
Less: Benefits paid by the employer	(390,000)	(415,443)
Actuarial (gain) or losses due to experience adjustment	1,430,385.35	396,884.28
Actuarial (gain) or losses due to change in financial assumptions	-	-
Actuarial (gain) or losses due to change in demographic assumptions	-	(17.46)
DBO at the end of period	2,843,840.07	746,480.84

F. COMPOSITION OF PLAN ASSET

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Bonds (Government/corporate)	-	-
Gratuity savings/deposit in banks/insurance companies	-	-
Equities	-	-
Total	-	-

G. RECONCILIATION OF CHANGES IN FAIR VALUE OF PLAN ASSETS

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Fair value at the beginning of period	-	-
Contribution paid into the plan	-	-
Expected return on plan assets	-	-
Benefits paid from the plan	-	-
Return on plan assets greater or (less) than discount rate	-	-
Fair value at the end of period	-	-

H. BIFURCATION BETWEEN CURRENT & NON-CURRENT LIABILITY

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Current liability	1,464,156.98	551,085.27
Non-current liability	1,379,683.09	195,395.57
Net Liability	2,843,840.07	746,480.84

I. EXPECTED BENEFIT PAYMENTS IN FUTURE YEARS

<i>In.</i>	<i>Nu.</i>
December 31, 2023	1,581,289.54
December 31, 2024	1,833,262.28
December 31, 2025	1,515,633.33
December 31, 2026	1,016,118.78
December 31, 2027	1,297,639.47
December 2028 to December 2032	5,777,095.73
December 2033 to December 2042	12,992,958.79

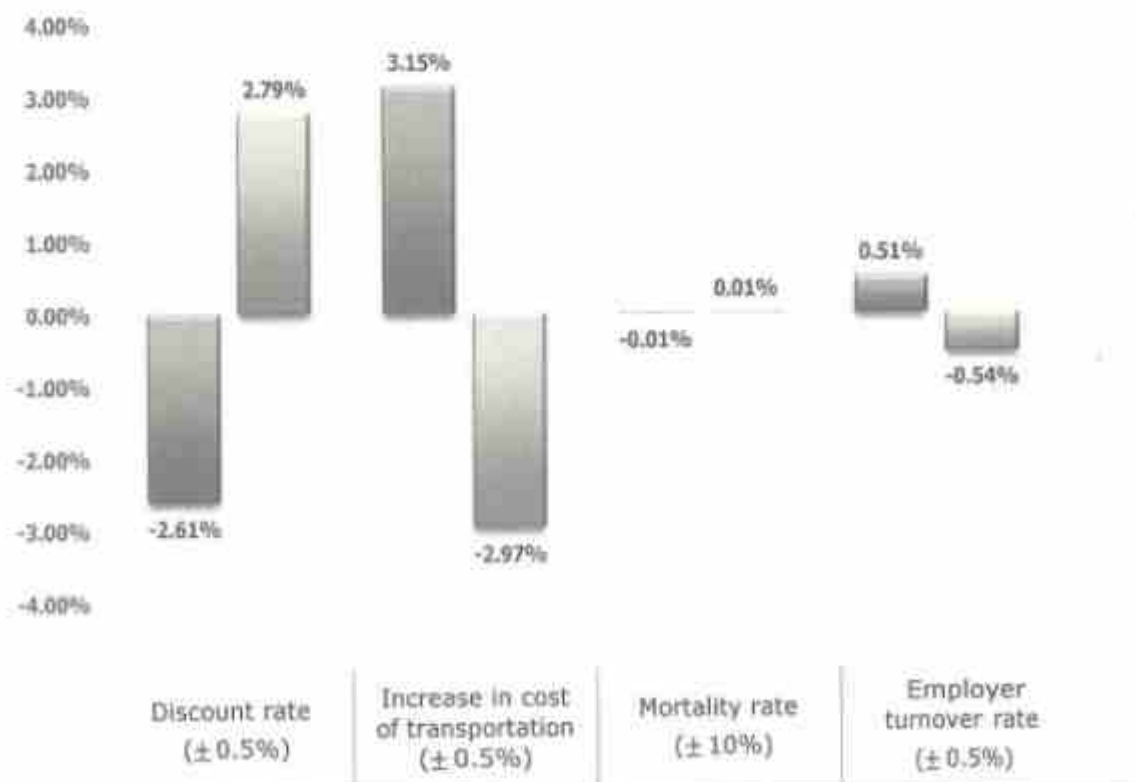
J. ESTIMATED TERM OF LIABILITY (IN YEARS): 9.78

5.2 SENSITIVITY ANALYSES

The following table summarises the results of sensitivity tests performed on the present value of the defined benefit obligation by varying the assumption parameters as listed. The same model and valuation methodology as described in 4.4 was employed for this exercise.

Assumption/Parameter	Scenario	Defined Benefit Obligation (DBO)	Net effect of DBO	Percent change
Discount rate	+ 0.5%	2,769,746.95	(74,093.12)	-2.61%
	Base rate	2,843,840.07	-	0.00%
	- 0.5%	2,923,116.81	79,276.74	2.79%
Increase in cost of transportation	+ 0.5%	2,933,441.48	89,601.41	3.15%
	Base rate	2,843,840.07	-	0.00%
	- 0.5%	2,759,333.31	(84,506.76)	-2.97%
Mortality rate	+ 10%	2,843,619.97	(220.1)	-0.01%
	Base rate	2,843,840.07	-	0.00%
	- 10%	2,844,063.23	223.16	0.01%
Employer turnover rate	+ 0.5%	2,858,316.78	14,476.71	0.51%
	Base rate	2,843,840.07	-	0.00%
	- 0.5%	2,828,476.52	(15,363.55)	-0.54%

The following chart shows a graphical representation of the above sensitivity analysis.



6. CERTIFICATION

I certify that the report has been prepared in accordance with the provisions of BAS 19. To the best of my knowledge, I do not hold any interest, direct or indirect with State Mining Corporation Ltd. that would impair objectivity of my work.

I am available to answer any questions or to provide explanations or further details regarding the materials contained in this report. Dated 23 January 2023, this version of the report nullifies all other versions, whether signed or not, preceding this date.



Tandin Dorji

Actuarial Consultant

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5. FINANCIAL EXHIBITS

5.1 DETAILED FINANCIAL EXHIBITS

A. LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Present value of define benefit obligation	924,177.06	721,662.64
Fair value of plan assets	-	-
Funded status - surplus/(deficit)	(924,177.06)	(721,662.64)
Effect of asset ceiling	-	-
Net defined benefit asset/(liability)	(924,177.06)	(721,662.64)

B. COMPOSITION OF DEFINED BENEFIT COST

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Expense recognised in profit or loss	359,011.33	322,777.44
Expense recognised in other comprehensive income	302,883.09	398,885.2
Defined benefit cost	661,894.42	721,662.64

C. EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Current service cost	319,653.52	307,704.84
Past service cost	-	-
Loss/(Gain) on settlement	-	-
Interest on DBO	39,357.81	15,072.6
Less: Expected interest on plan asset	-	-
Expenses recognised in profit or loss	359,011.33	322,777.44

D. AMOUNT RECOGNISED AS OTHER COMPREHENSIVE INCOME

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Actuarial (gain) or loss due to experience adjustments	302,883.09	398,853.89
Actuarial (gain) or loss due to changes in financial assumptions	-	-
Actuarial (gain) or loss due to changes in demographic assumptions	-	31.31
Return on plan assets (greater) or less than discount rate	-	-
Expenses recognised as OCI	302,883.09	398,885.2

E. RECONCILIATION OF CHANGES IN PRESENT VALUE OF DEFINED BENEFIT OBLIGATION

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
DBO at the beginning of period	721,662.64	376,815
Add: Current service cost	319,653.52	307,704.84
Add: Past service cost	-	-
Add: Interest cost	39,357.81	15,072.6
Less: Benefits paid by the plan	-	-
Less: Benefits paid by the employer	(459,380)	(376,815)
Actuarial (gain) or losses due to experience adjustment	302,883.09	398,853.89
Actuarial (gain) or losses due to change in financial assumptions	-	-
Actuarial (gain) or losses due to change in demographic assumptions	-	31.31
DBO at the end of period	924,177.06	721,662.64

F. COMPOSITION OF PLAN ASSET

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Bonds (Government/corporate)	-	-
Gratuity savings/deposit in banks/insurance companies	-	-
Equities	-	-
Total	-	-

G. RECONCILIATION OF CHANGES IN FAIR VALUE OF PLAN ASSETS

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Fair value at the beginning of period	-	-
Contribution paid into the plan	-	-
Expected return on plan assets	-	-
Benefits paid from the plan	-	-
Return on plan assets greater or (less) than discount rate	-	-
Fair value at the end of period	-	-

H. BIFURCATION BETWEEN CURRENT & NON-CURRENT LIABILITY

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Current liability	466,731.92	540,018.68
Non-current liability	457,445.14	181,643.96
Net Liability	924,177.06	721,662.64

I. EXPECTED BENEFIT PAYMENTS IN FUTURE YEARS

<i>In.</i>	<i>Nu.</i>
December 31, 2023	504,070.47
December 31, 2024	600,332.11
December 31, 2025	482,929.06
December 31, 2026	307,671.74
December 31, 2027	406,016.69
December 2028 to December 2032	1,752,242.98
December 2033 to December 2042	3,953,650.33

J. ESTIMATED TERM OF LIABILITY (IN YEARS): 9.79

5.2 SENSITIVITY ANALYSES

The following table summarises the results of sensitivity tests performed on the present value of the defined benefit obligation by varying the assumption parameters as listed. The same model and valuation methodology as described in 4.4 was employed for this exercise.

Assumption/Parameter	Scenario	Defined Benefit Obligation (DBO)	Net effect of DBO	Percent change
Discount rate	+ 0.5%	901,137.89	(23,039.17)	-2.49%
	Base rate	924,177.06	-	0.00%
	- 0.5%	948,817.95	24,640.89	2.67%
Salary growth rate	+ 0.5%	952,157.85	27,980.79	3.03%
	Base rate	924,177.06	-	0.00%
	- 0.5%	897,769.62	(26,407.44)	-2.86%
Mortality rate	+ 10%	924,177.06	(0.0)	-0.00%
	Base rate	924,177.06	-	0.00%
	- 10%	924,177.06	(0.0)	-0.00%
Employer turnover rate	+ 0.5%	928,427.45	4,250.39	0.46%
	Base rate	924,177.06	-	0.00%
	- 0.5%	919,653.39	(4,523.67)	-0.49%

The following chart shows a graphical representation of the above sensitivity analysis.



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Effect of asset ceiling	-	-
Net defined benefit asset/(liability)	(924,177.06)	(721,662.64)

B. COMPOSITION OF DEFINED BENEFIT COST

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Expense recognised in profit or loss	359,011.29	322,777.44
Expense recognised in other comprehensive income	302,884.13	398,885.2
Defined benefit cost	661,895.42	721,662.64

C. EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS

<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Current service cost	319,653.52	307,704.84
Past service cost	-	-
Loss/(Gain) on settlement	-	-
Interest on DBO	39,357.77	15,072.6
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Bonds (Government/corporate)	-	-
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Equities	-	-
Total	-	-

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<i>Nu.</i>	31-Dec-2022	31-Dec-2021
Fair value at the beginning of period	-	-
Contribution paid into the plan	-	-
Expected return on plan assets	-	-
Benefits paid from the plan	-	-
Return on plan assets greater or (less) than discount rate	-	-
Fair value at the end of period	-	-

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	Base rate	924,177.06	-	0.00%
	- 10%	924,177.06	(0.0)	-0.00%
Employer turnover rate	+ 0.5%	928,427.45	4,250.39	0.46%
	Base rate	924,177.06	-	0.00%
	- 0.5%	919,653.39	(4,523.67)	-0.49%

The following chart shows a graphical representation of the above sensitivity analysis.



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RATIO ANALYSIS

State Mining Corporation Limited

RATIO ANALYSIS

Exhibit - 1

#	Particulars	Derivation of Ratios	31-Dec-22	31-Dec-21	Variance (%)
1	Earning Per Share	Profit After Tax/No. of Shares Issued	653.33	533.45	22.47%
2	Net Profit Ratio	Net Profit/Turnover*100	41.41	42.27	-2.04%
3	Return on Asset	Net Profit/Total Asset*100	59.59	54.91	8.53%
4	Return on Equity (ROE)	Net Profit/Owners Equity*100	93.80	81.21	15.50%
5	Debtors Turnover Ratio	Sales/Average Debtors	9.51	12.67	-24.95%
6	Current Ratio	Current Assets/Current Liabilities	2.25	2.67	-15.80%
7	Quick Ratio	(Current Asset-Inventory)/Current Liabilities	1.90	2.30	-17.46%
8	Debtors Collection Period Ratio	(Sundry debtors*366)/Sales	38	29	33.61%

COMPLIANCE CALENDER AND CHECKLIST

COMPLIANCE CALENDAR

Sl. No.	Activity	Section		Remarks
1	33.1. <i>Submission of Annual Return</i> a) Companies listed with Royal Securities Exchange of Bhutan Limited b) All unlisted companies includes: i) Duly filled form as per Annual Return Form ii) Balance sheet iii) Profit & Loss Account iv) Cash flow statement v) Auditor's report vi) Directors' report	267	On or before 31 May On or before 31 July	-Annual return filed on July 06, 2022 - Tax filed in the RAMIS system on March 28, 2022
2	33.2. Annual General Meeting a) Listed Companies b) Unlisted Companies c) Government Companies	177	On or before 30 April On or before 30 June Same timing	AGM was held on April 18, 2022
3	Notice Calling General Meetings	185	21 days before the AGM	Notice for AGM was provided on March 25, 2022
4	Payment of Dividend	204	Within 30 days of declaration in AGM	Not Applicable
5	Presentation of B/S, P&L A/c and Cash Flow Statement at every AGM	244		Audited accounts for 2021 submitted to the AGM on April 18, 2022.
6	Filing of Documents with Registrar	267		See Sl. No. 1 above
7	33.3 Appointment of auditor GCC and GC Reappointment Removal Resignation	251	AGM Notify the Registrar within 15 days from passing the resolution Convene the EGM within 14 days to discuss resignation	In accordance with Section 255 of the Companies Act of Bhutan 2016, Royal Audit Authority has appointed the incumbent auditor Dechok and Associates Pvt. Ltd. as the statutory



				auditor for Financial Year ended 31 December 2022 vide Audit Appointment Letter RAA(SA-28)/COAD/2022/2054 dated 14 November 2022.
8	Consent to act as directors	140		1 new Board Directors was appointed on April 18, 2022 and submitted on May 06, 2022 to Company Register.
9	Board Meetings 1 st BM 2 nd BM 3 rd BM 4 th BM 5 th BM	146 & 149	3 months after last BM 2 months after last BM 3 months after last BM 3 months after last BM 2 months after last BM	
10	Appointment of CEO	210	Every 3 years	Continuation to Second term, appointed for additional 2 years on June 7, 2022
11	Power of Regulatory Authority to accord approval	412	Approval of Regulatory Authority	Approvals from the Regulatory Authority were obtained as and when required.
12	Appointment of Company Secretary	213	As per prescribed by MFI	
13	Statutory Record and Inspection	228	All times	Records and Registers are updated yearly.

Sl. No.	Ss.	INCORPORATION OF A COMPANY & SECURITIES	COMPLIANCE CHECKLIST			REMARKS
			YES	NO	N/A	
1	28	Changes to Articles/Approval		✓		
2	47	Change of name/Approval		✓		
3	12	Increase or consolidation of		✓		



	3	share capital				
4	12 4	Reduction of share capital		✓		
5	82	License Copy and Share Certificate filing	✓			
6	10 7	Public offer of shares & Debentures - ROC Approval			✓	
MANAGEMENT & ADMINISTRATION						
7	21 7	Registered Office of Company (Postal Address & Contact Number)	✓			Gurung Busty, Samtse, Bhutan
8	22 1	Publication of name by Company (Letter Head, Seals and Sign Board)	✓			Complied
9	24 1	Financial Year of Companies as of 31st Dec.	✓			
	24 2	Extension up to 15 months - ROC approval			✓	
	24 3	Extension up to 18 months - Authority's approval			✓	
10	24 5	Financial Statements to follow BAS	✓			
11	26 7	Annual Return Submission On/before 31 May for listed; Others - 31 July	✓			Annual return filed on Submitted on July 06, 2022 - Tax filed in the RAMIS system on March 28, 2022
12	17 7	Annual General Meeting (Minutes)	✓			AGM was held on April 18, 2022
13	18 0	Extraordinary General Meeting (Minutes)			✓	Not conducted any Extraordinary General Meeting in 2022.
14	18 5	Notice for calling general meeting	✓			Notice for AGM was provided on March 25, 2022
15	18 7	Listed Co. - written as well as in media Public Co/Private Co. - Written Notice			✓	Not applicable as the company is a DHI Company with only two shareholders.
16	19 0	Chairman of meeting (CEO cannot chair)		✓		CEO is not the Chair
17	19 2	Representation of corporations at meetings (Appointed by	✓			CEO - through appropriate Office Orders



		Board Directors)				
18	19 3	Ordinary and special resolutions (Minutes)			✓	
19	19 5	Minutes of Annual General Meeting and Board Meetings (maintained ss.195-198)	✓			
20	19 9	Declaration and payment of dividend (199-209)	✓			
21	23 2	Books of account to be kept by company (Location & time period)	✓			Gurung Busty, Samtse Dzongkhag, Bhutan
22	25 0	Board's report (signed by Chairman)	✓			
23	25 2	Appointment and removal of Auditors Re-appoint annually (251-259)	✓			Audit Appointment Letter RAA(SA-28)/COAD/2022/2054 dated 14 November 2022.
24	26 0	Resignation of Auditors from office (Annual Resignation)			✓	No Resignation
25	26 6	Auditing standards (Audit using Auditing Standards issued by AASBB)	✓			BAS and ISA followed
26	13 3	Number of directors	✓			7 BD as on October 19, 2022 and 6 Board Members thereafter
27	13 4	One third of all Public Companies shall be independent			NA	
28	13 8	(Minimum No. & retirement on rotation)	YES			
29	13 9	Additional directors	✓			
30	14 0	Consent to act as directors	✓			1 new Board Directors was appointed on April 18, 2022 and submitted on May 06, 2022 to Company Register.
31	14 1	Certain persons not to be appointed as Directors	✓			Complied with.
32	14 2	Resignation by a director	✓			Complied with.
33	14 3	Removal of directors / Change of Directors.	✓			1 new Board Directors was appointed on April 18, 2022 and submitted on May 06, 2022 to



					Company Register.
34	14 6	Board meetings (Four Meetings for Public Companies and two Meetings for Private Companies)	✓		Complied with
35	15 2	General powers of the board	✓		Complied with.
36	15 6	Restriction on powers of Board		✓	Complied with.
37	21 0	Appointment of Chief Executive Officer (Max. 5 years terms & 2 consecutive terms only)	✓		Continuation to Second term, appointed for additional 2 years on June 7, 2022
38	21 3	Company Secretary required in all Public Companies		✓	
39	41 4	Appointment of selling or buying agents (Government Approval obtained or not)			✓
40	15 7	No loans to directors (only for Public Co.)		✓	No loans to directors were given.
41	53	Inter-corporate investments (Investments to be disclosed) apply old rule		✓	Inter-corporate loan availed from DHL.
42	15 8	Contracts in which directors are interested		✓	Complied with.
43	16 1	Standard of care required by directors (Reckless decision)	✓		No incidents of breach of standard of care by directors were noticed during the audit.
STATUTORY RECORD AND INSPECTION					
39	22 8	Statutory record and inspection			
	(a)	Register of buy-back of shares	✓		
	(b)	Register of transfers	✓		
	(c)	Register of charges	✓		
	(d)	Register of inter-corporate loans	✓		
	(e)	Register of inter-corporate investments	✓		SMCL invested Nu. 350 M to Druk Air and Nu. 80 M to TTPL in the month of December
	(f)	Register of contracts in which		✓	No such incidents were seen during



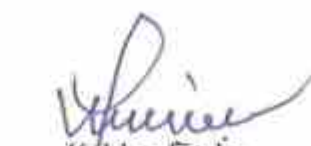
	directors are interested.				the year.
(g)	Register of directors	✓			
(h)	Register of directors' shareholding			✓	No director had any shareholding in any company related to SMCL.

For Dechok and Associates Pvt. Ltd.


Yoshi Jamtsho, FCCA
Managing Partner



For State Mining Corporation Ltd


Kelden Jatscho
Head, F&A Division

Kezang Jamtsho
Chief Executive Officer

MANAGEMENT AUDIT REPORT

MANAGEMENT AUDIT REPORT

1. Inappropriate Hiring of Earth Moving Equipment for Loading at Sale Point (3.3.1)

Hired Earth Moving Equipment's are deployed for loading crushed dolomite and gypsum at sale point both in Pugli, Gomtu as well as in Motanga, S/Jongkhar.

At Pugli, five Pay loaders (including one standby) are hired from M/S Khandum Transport & Hiring for loading crushed dolomite from stock yard (sale point). The hire charge is agreed at machine hour rate. During the financial year a sum of Nu. 130.357 million was incurred on account of hire charges of four pay loaders. Likewise, in Motanga Stockyard (gypsum sale point) S/Jongkhar two excavators are hired from M/s Tama Hiring Services. The hire charge is agreed at per metric ton loaded. Total amount of hire charges incurred during the financial year amounted to Nu.6.423 million.

Based on the analysis of facts stated above, audit is of the view that loading at sale point should be handled by the management due to following reasons:

- a) The job is routine in nature with relatively low operating cost compared to excavation works,
- b) Efficiency in loading at sales point is key to increase sale volume, the contractors may not view with similar lens,
- c) Preparing loading site, due care for stock and management is important which private contractors will be least concerned,

In addition, in case the company's going concern is short-term, it is feasible to contract out such services, but in case of long-term perspective this arrangement will be expensive to the company.

In light of above audit observations, the management may comment justifying such decisions.

Management Response:

The taking over of Gypsum Mine during 2019 was on interim term. Therefore, any investment the Company plan for had to reel through the investment viability test. It was only last year in April that Gypsum and Dolomite mines were given for long term lease by the Government. The Company shall do a thorough cost benefit analysis for deployment of Company owned equipment at the loading sale points as against the present practice of engaging hired equipment and report the outcome for implementation to the Board.



Auditor's Further Comments:

Now that the SMCL has obtained approval for long term lease arrangements of the mines from the government, the management as submitted in the response to the observation should proceed with the cost benefit analysis of deploying the company owned equipment vs hired equipment's at the sale points at Pugli and Samdrup Jongkhar. The outcome of the cost benefit analysis and the Boards resolution on the above should be furnished to RAA for review and further comments and recommendations.

Who is Accountable?

Direct Accountability: Sangay Rinzin, Director
CID #11503003618

Supervisory Accountability: Kezang Jamtsho, Chief Executive Officer
CID #10905006022

2. Weakness in trip recording system (3.3.34)

Transportation cost of removing Over-Burden (OB) under mineral raising cost is a major cost component of SMCL. Basis of deriving such transportation cost is the number of round trips made by trucks for a given lead distance. For instance, as per Geology and Mines guidelines, 4.4 round trips for a lead distance of 0.3 KM is equivalent to 1 hour. Hence, amount payable to a trucker is derived by number of trips completed converted into hours multiplied by the hourly rate.

At Rishore coal mines, it is observed that the trip recorder records 44 trips per truck (in most cases) which is equivalent to 10 working hours in a day. But there is no methodical trip recording system in practice. It is manually recorded in a plain register noting number of round trips made by each truck engaged at site. It is usually done by the site supervisor who is also required to look into other logistics at site.

At Pugli mines site, no systemic and reliable trip recording system is seen in place. Lack of such system undermines reliability and accuracy of source data which is the basis for arriving at the cost to be paid to the truck owners.

Capturing accurate and reliable data at source is important as it has implications on the input cost of production and the bottom-line. Considering its importance, the management should look for ways and means to design system of controls and monitoring devices to capture reliable as well as verifiable data.



Management Response:

The concern of the Statutory Audit is well noted even before the issue was raised. For the same, the company has budgeted in 2023 to purchase equipment called "Load Scanner" which can measure the number of trips and the volume of materials each truck is carrying. We are yet to see the effectiveness of such machines as it will be first of kind being adopted in Bhutan. We will be doing pilot testing of such equipment in a particular mine and based on the effectiveness, it will be replicated in other mines of the company.

In near future, the company proposes to undertake feasibility studies to upgrade fleet management system by fitting all the trucks with GPS hardware and record live deployment of machine in the mines. Based on the feasibility, a system may be developed. However, from our preliminary discussion with IT firms in Bhutan, no one has undertaken such projects till date.

Auditor's Further Comments:

We take note of the initiatives that is going to be taken by the management to address the current weaknesses in the trip recording system. We would like to reiterate that the current practice of trip recording is prone to intentional or unintentional mistakes which would ultimately impact on the SMCL's costs. Therefore, we recommend that SMCL institute a reliable trip recording system which would capture accurate and verifiable source data for computation and authentication of costs incurred.

As proposed by the management to purchase Load Scanner to pilot test the effectiveness and to undertake feasibility study to upgrade fleet management system with GPS hardware, we once again acknowledge the management initiatives. We would remind the management that the outcome of these initiatives be intimated to RAA for their comments and recommendations.

Who is Accountable?

Direct Accountability: Karma Chopel
CID #10604001035

Supervisory Accountability: Sangay Tshering
CID #11508004101

3. Improper accounting for PPE (3.2.13)

Analysis of PPE records produced from the ERP system reveal inconsistency in: a) application of depreciation rates, (b) calculation of NBV, and (c) grouping of assets under right Assets Class. Each of these issues is highlighted below:



- a) Depreciation rates applied to assets are inconsistent with the depreciation rates issued by DHI. Annexure B, DHI Group Accounting Policy (2022 version) provides ranges of asset's useful life for different class of assets. For instances, Computer & Office Equipment range of useful life is 3-7 years equivalent to 33.33% - 14.29%. But in this instance, depreciation rate applied to wooden chairs is 6%, some conference tables, plastic chairs 5% wooden chodroms, furniture at site office 4% or less.
- b) Many PPE items shown in the account have net book values less than one ngultrum or negative values. Some instances are shown in the Table below:

	Asset Category	Total items	Total items with (-) NBV or less than Nu. 1	%
1	Plant & Machinery	120	6	5%
2	Software Application	6	4	67%
3	Building and civil structure	128	13	10%
4	Data Processing equipment	439	98	22%
5	Office Equipment	120	6	5%
6	Office Equipment*			

According to depreciation policy, net book value (NBV) of asset should be recorded as ngultrum one at end of its useful life. Asset value of less than one ngultrum or negative amount is inconsistent with the policy.

- c) DHI Group Accounting Policy listed **14 Assets Class**, based on this mother group, management could have as many sub-class of assets. But audit observed, many assets are recorded under wrong class. For example, Tata Trippers recorded under Plant & Machinery, rice cooker, water boiler, Sintax (3000 litres), circular saw; electric poles etc. are recorded under Office Equipment.

In light of above, the management should consider revisiting overall PPE management system, including determination of capitalization threshold.



Management Response:

The management have planned to reconstruct overall PPE in the FY 2023 to resolve the issues noted by the SA and moreover upon completion of migrating the data in system from old version of e-mines to current new e-mines the issues will be resolved.

The overall asset reconstruction/valuation shall be carried out using the expertise (CA) firms and reported to RAA.

Auditor's Further Comments:

The management should revisit the accounting for PPE and resolve all discrepancies that currently exist. The management should ensure that accounting for PPE is consistent with DHI accounting policies as well as with its own accounting policies. The outcome of the initiatives that the management has proposed to address the current situation should be intimated to RAA for further comments.

Who is Accountable:

Direct Accountability: Kelden Jatsho

CID #10104000536

Supervisory Accountability: Chhimi Rinzin

CID #10716000103



PRIOR YEAR FOLLOW-UP REPORT

1. Summary Follow-up Report for the year ended 31 December 2021

Audit Period	Total No. of recommendations provided	No. of recommendations implemented	No. of recommendations partially implemented	Balance recommendations to be implemented
2021	1	1	0	0

Follow up on the management report for the year 2021

Para No.	Observation in Brief	Management Response	RAA's Further Comments	Current Status
1	Write off of stocks worth Nu. 11,094,523.58	<i>The Board has endorsed the authority to the management to write-off the stock if it is within the reasonable limit. However, did not fixed the permissible ceiling reviewing the risk of misuse of materials if rights of write-off being pre-established. Therefore, it was directed to the management to assess the write-off of stock with highest diligence and accordingly consider the decision whether to act within the management level or if to put up to the Board if it demands Board's endorsement. However, management will avail approval from SMCI Board and submit to the audit team.</i>	<i>Stock losses written off during the year by the management may be submitted to the Board for endorsement and subsequently submitted to RAA for further review</i>	<i>As the Board has endorsed the write off of stock losses written off by the management, the para shall be treated as settled.</i>



MANAGEMENT APPRAISAL REPORT

**1. Omission of Gratuity Fund Account from the Accounting System of SMCL
Nu. 2,790,354.00**

During our review of the Actuarial Valuation Report pertaining to gratuity, we observed that SMCL maintains its gratuity fund account with the Bhutan Insurance Limited, Samtse. As per the actuarial report, the fund balance at the financial year end amounted to Nu. 2,790,354.00.

We observed that SMCL had omitted the gratuity fund balance from the books of accounts.

The management must immediately correct this omission and record its gratuity fund as an asset in the accounting system.

Management Response:

The gratuity fund maintained with Bhutan Insurance Limited was separated from Company books as separate Plant Asset as per Statutory Auditors recommendation in 2019 and the financial values of the gratuity was taken in books as per the actuarial valuation report. However, from 2022 closing the plant asset was taken under company's books of accounts.

Therefore, management would like to consider the memo to be dropped or taken under recommendatory section.

The observation is treated as settled:

As the gratuity fund account maintained with the Bhutan Insurance has been brought into the books of accounts of SMCL, the audit observation shall not be pursued further. We would like to remind that keeping company assets outside the books of accounts would be susceptible to misuse as well as deviating from the accounting principles.

Compliance to be made:

The existence of the said account in the books of accounts of SMCL shall be verified in the next audit.

2. Delay in payment of dividend and conversion of unpaid dividend as Inter-Corporate Loans resulted to interest burden of Nu. 8,290,930.03

During our review of the Inter-Corporate Loans between the DHI and SMCL, we observed that unpaid dividend of Nu. 607,002,550.00 was converted as Inter Corporate Loan between the DHI and SMCL. We also observed that SMCL had paid Nu. 8,290,930.03 as interest on the unpaid dividend converted as ICL.



With the above Inter Corporate Loan arrangements to convert the unpaid dividend into ICL, we also reviewed the DHI's Inter-Corporate Loan Policy as to whether such arrangements were covered in the ICL Policy.

The ICL policy did not specify that unpaid dividend could be converted as ICL. The Policy's definition of ICL was "all borrowings or any deposit of money by one company with another company, not being a banking company".

Having reviewed the ICL Policy and the arrangements that took place, the management may clarify on the following:

- i. How unpaid dividend by SMCL to the DHI was classified as ICL as nothing is specified about this arrangement in the ICL Policy.
- ii. How the management proposed the dividend as the dividend approved apparently was not in alignment with the available cash and bank balances. In other words, the SMCL had cash flow problems as the company was not able to pay the dividend declared and approved by its Board and the shareholders.
- iii. How do the management justify the extra interest burden of Nu. 8,290,930.03 due to its inability to pay dividends on time.

We would like to seek the managements clarification on the above observations.

Management Response:

The dividend payment as planned after considering the cashflow status was distorted with the ad hoc disbursement of cash such as annual licence fee for long term lease granted by the Government for Chunaikhola dolomite and Khothakpa Gypsum Mine. The total amount paid to MoEA was Nu. 275 M in April which was not budgeted as the grant of long-term lease was uncertain. Further, the Company had to invest on one-time purchase of 25 numbers of dumper trucks to relieve the risk of suspension of operation of dolomite and gypsum mine since the individual hired truckers had called on strike to raise the transport cost. The threat to take the company for ransom was sensed and hence had to immediately act on call. Nu 72.29 million was spent for the purchase in June.

Collections from DCCL did not materialize as planned against the cash-flow projection and it has also affected dividend payment.



The management has appraised to DHI to waive-off the interest portion on the late payment of dividend. However, with the circulation of notice from DHI, the management had to pay the interest portion to DHI. The management will take up the issue with DHI and respond accordingly to RAA for consideration.

The observation is treated as settled:

The SMCL must propose its dividend considering its profit after tax and the cashflow position. As the cashflow position was affected by adhoc outflow of cash which impacted on timely payment of dividend, and that the net impact on the group is none as a result of interest payment, the observation for now will not be pursued further.

Compliance to be made:

As agreed by the management, the issue may be taken up with the DHI and outcome intimated to RAA for information.

3. Pre-financing Bhutan Oil Distributors and Private Transporters

The SMCL management makes huge amount of cash deposit in advance with BOD, S/Jongkhar on behalf of the private transporters engaged in transporting gypsum boulders and crushed stones from Khothakpa, Pemagatshel to Motang Stock Yard, S/Jongkhar. The private transporters who signed service contract with SMCL management are authorized (controlled fashion) to fuel from the BOD. The fuel advance is replenished on daily or weekly basis as soon as it is exhausted. The quantity of fuel utilized and the total cost of fuel is recorded in management accounting system on daily basis, against each transporter, based on the data supplied by the BOD. More than 100 truckers have joined this scheme. Table below shows summary of monthly deposits made, amount recovered from truckers during the current financial year.

Table showing total amount paid to BOD and adjustment effected

Month	Advance Paid to BOD (Nu.)	Advance Recovered from truckers (Nu.)	Cumulative Balance (Nu.)
Opening balance b/d			(529,309.18)
January	18,000,000.00	14,009,312.15	3,461,378.67
February	9,000,000.00	8,709,301.55	3,752,077.12
March	12,100,000.00	14,521,965.25	1,330,111.87
April	21,000,000.00	21,458,459.70	871,652.17



May	30,095,000.00	29,325,594.00	1,641,058.17
June	15,350,000.00	13,555,944.85	3,435,113.32
July	30,000,000.00	31,120,848.50	2,314,264.82
August	30,050,000.00	31,459,116.10	905,148.72
September	27,000,000.00	25,499,412.45	2,405,736.27
October	24,000,000.00	25,357,929.60	1,047,806.67
November	27,815,920.00	26,103,212.45	2,760,514.22
December	27,000,000.00	29,230,231.91	530,282.31
TOTAL	271,410,920.00	270,351,328.51	

As shown in the Table above, a sum of Nu. 271.41 M were paid to the BOD and an amount of Nu. 270.351 M recovered from the transporter bills.

However, in view of audit, the arrangement of fuelling system practiced by the management tantamount to pre-financing BOD business (interest free) whose core business is buying and selling fuel with its own finance. It is also seen that SMCL pre-finances the transporters through the payment of advances to BOD as the transporters can obtain fuel against the advances deposited by SMCL with the BOD.

We are also of the opinion that implementing such fuelling practice incur additional cost to the company:

- as the company had to recruit additional employees solely for maintaining private transporters and BOD fuel accounts.
- As there is an opportunity cost of Nu. 271.41 million in the form of interest lost had the company invested these amounts in the short-term deposits.
- As the amount could have been used to settle other liabilities such as the dividend and other interest-bearing liabilities.

The management may deliberate as to how long this practice will continue and management's perspectives on cost and benefits analysis of this practice in light of



additional staffs requirement and the bank interest foregone by deploying huge amount of corporate fund to serve financial interest of other businesses.

Management Response:

Pre-financing for POL to the individual trucks is the key strategic scheme that SMCL undertake to encourage trucks to work with the Company. This scheme also functions as opportunity for the Company to negotiate on transport rate. Such scheme if not incentivised to the truckers, with our experience of operating mines over these years, will put the Company under pressure to constantly look for transporters and thereby, affecting the supply chain. The Company strongly believe that implementing such scheme though cost the company of paying advance to fuel station and as well deploy staff to manage the logistics, yet the benefits of having reliable transport to ensure uninterrupted export offsets such cost incurred.

The observation is treated as settled:

In the absence of other alternatives which would outweigh the cost of pre-financing transporters through the BOD which ensures uninterrupted exports, the observation shall not be pursued further.

Compliance to be made:

The management may continuously explore other possibilities which may serve the interest of the company. The management may also see if the pre-financing are not limited to BOD alone as there are other suppliers of fuel in the regions.

4. Need for improving Working Conditions at different mine sites

We visited the mine sites at Chunaikhola Dolomite mines, Gypsum mines in Khothakpa, Coal mines in Bhangtar and Dewathang. In most of the sites, we observed that working spaces for staff required further improvement to enhance employee morale and productivity.

The management may look into this matter.

Management Response:

Mining is a physically demanding job exposing workers to numerous risks. Harsh working conditions and remote locations does not encourage many to opt for. The Company continues to



struggle to recruit good people because of such conditions. And now with many leaving for Australia and other countries, the recruitment has become even more acute.

By assessing the living situations of our employee at site, it was noted that our employees are enduring difficult life in a makeshift currently available. At the same time staff working at the mine sites also have reported and requested the management and higher officials about the persisted of accommodation/facility challenges they had to endure. Towards this, the management had noted the underscore housing issues persisted at the sites and proposed for a decent accommodation to promote conducive working environment and motivate employees at mine sites. Therefore, the budget for same has also been booked and onward prior approval from the Board will be sorted in the coming Board Meeting.

The observation is treated as settled:

In view of the management's proposals to improve the working conditions at the mines site for its employees, the observation shall not be pursued further.

Compliance to be made:

The execution of management's proposals will be verified in the next audit.

5. Lack of internal control system at sale point risks misuse of cash

Dzongthung/Dzungdi boulders and stone crushing unit, Trashigang sell boulders and stone chips of different sizes (20mm, 10mm and 0-5mm) to the local market in the Eastern Region on cash basis. Most payments are, now-a-days, effected through MBOB but some are still dealt on cash basis.

During the current financial year, the system records cash sale amounting to Nu. 32 million from Dzongthung/Dzungdi boulders and stone crushing unit. Analysis of sales account revealed following issues:

- a) Total cash collection does not reconcile with the amounts deposited into the Bank Account. Other than the cash sales paid through MBOB, delay in deposit of cash sales are detected in few instances. Delay in deposit of cash sales could lead to temporary misuse of fund. Detailed list of transactions are shown in the table below:



Table show delay in deposit of cash sales

Invoice Date	Deposit Date	Invoice Amount (Nu.)	WB Charge	Total Amount (Nu.)	Delay (days)
11-Aug-22	31-Dec-22	780.00	80	860.00	142
24-Oct-22	26-Dec-22	25,810.00	80	25,890.00	63
25-Oct-22	26-Dec-22	26,430.00	80	26,510.00	62
26-Oct-22	26-Dec-22	24,980.00	80	25,060.00	61
26-Oct-22	26-Dec-22	26,210.00	80	26,290.00	61

b) Weigh Bridge (WB) slip not accounted in full.

A serially numbered Weigh Bridge slip is auto generated every time a truck passes through the bridge. This WB slip forms the basis for raising sales invoice-cash or credit sale. It was observed that the WB slips are not accounted in full in monthly sales statement.

- c) It is observed, only one person is made responsible for receiving order, raise sales invoice, collect/receive cash and deposit into Bank Account. Bank reconciliation of the sale account is done at SMCL HQ, Samtse but do not track late deposit of cash sales.

In light of above audit observation, management should consider improving internal control system at site or improve monitoring and supervision from Head Office.

Management Response:

- a. The management noted the delay in deposit of cash against the sales made. Credit sales without the approval from the higher management is not allowed and therefore, the officer concerned was asked for the explanation and reprimand order issued for such default that would risk for misuse of fund.



b. This has happened due to the manual record keeping in excel sheet. For local individual sales, sales manager has kept the record in one sheet and for bulk buyer/major buyer, the record was kept in another sheet. We were able to locate the sample weighbridge slip No 6842 and 6833 which was asked by our auditors in the weighbridge system record. The missing serial number has basically happened while we put the vehicle on weighbridge and suddenly light gets off or fluctuation in power supply, already generated slip numbers get cleared and we get subsequent serial number. Henceforth, for any incidence of error in weighbridge slip not recorded for invoicing, the committee shall endorse the error and record the evidence for reference. Further, technical default shall be discussed with the weighbridge experts.

c. We started the DSQ project primarily to supply aggregates to KHEL. KHEL project getting deferred indefinitely has caused lot of issues to the Company. Manpower recruitment for accounts in DSQ had to be deferred since given the volume of transaction, it was not sensible to recruit staff for full swing operation. Therefore, as a downsizing strategy to reduce or control the cost at DSQ, multitasking was encouraged, just enough to sustain meeting local demand.

The monthly sales report and deposits were reviewed/monitored from the Head Office and accordingly notified and reminded to the Sales Office, DSQ.

Auditor's Further Comments:

In view of the explanations provided by the management, the observation shall not be pursued further.

Compliance to be made:

The compliance as assured by the management shall be verified in the next audit.



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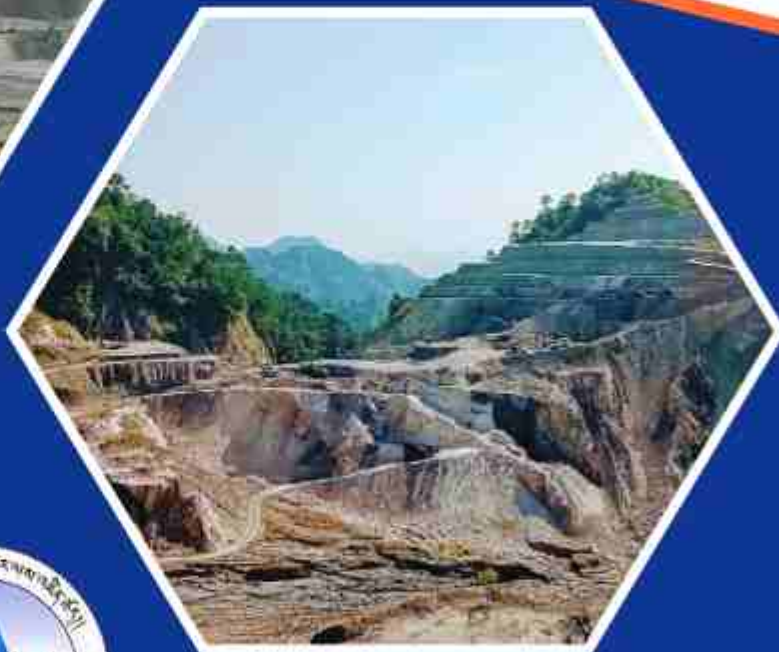
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