

ANNUAL REPORT 2020



A dhi Company

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STATE MINING CORPORATION LTD.

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STATE MINING CORPORATION LTD.

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THE YEAR UNDER REVIEW

The year began on a promising note to consolidate and surpass our past achievement trend. With excitement, even two new portfolios, the supply of stone-based construction materials to KHEL and supply of railway ballast to the North East Frontier Railways were added in the Compact 2020. The revenue and profit targets were raised to Nu. 1.97 B and Nu. 447.96 M respectively. However, the closure of the border gates on 23 March 2020 and subsequent two nationwide lockdowns by COVID-19 dampened our performance. The two new portfolios did not take off due to reasons beyond SMCL's control.

The revenue achieved was Nu. 1,165.90 M, a decrease from Nu.1,432.76 M in 2019. However, the profit after tax (PAT) increased to Nu. 363.06 M from Nu. 336.35 in 2019. Net profit margin improved at 31.69%, registering a 32.41% increase over 2019, while the already high return on equity saw a slight improvement to 49.77% from 49.43%. SMCL has become a highly equitized Company over the years.

Though the quantity of gypsum production and sale decreased, PAT increased from Nu. 248.68 M to Nu. 263.48 M. Further, net return per ton soared from Nu.509.59 to Nu.802.88. Such an increase was the outcome of the Board and Company's resolute and aggressive stance, which raised the selling prices of gypsum in the different export markets segments, right from the beginning of the year.

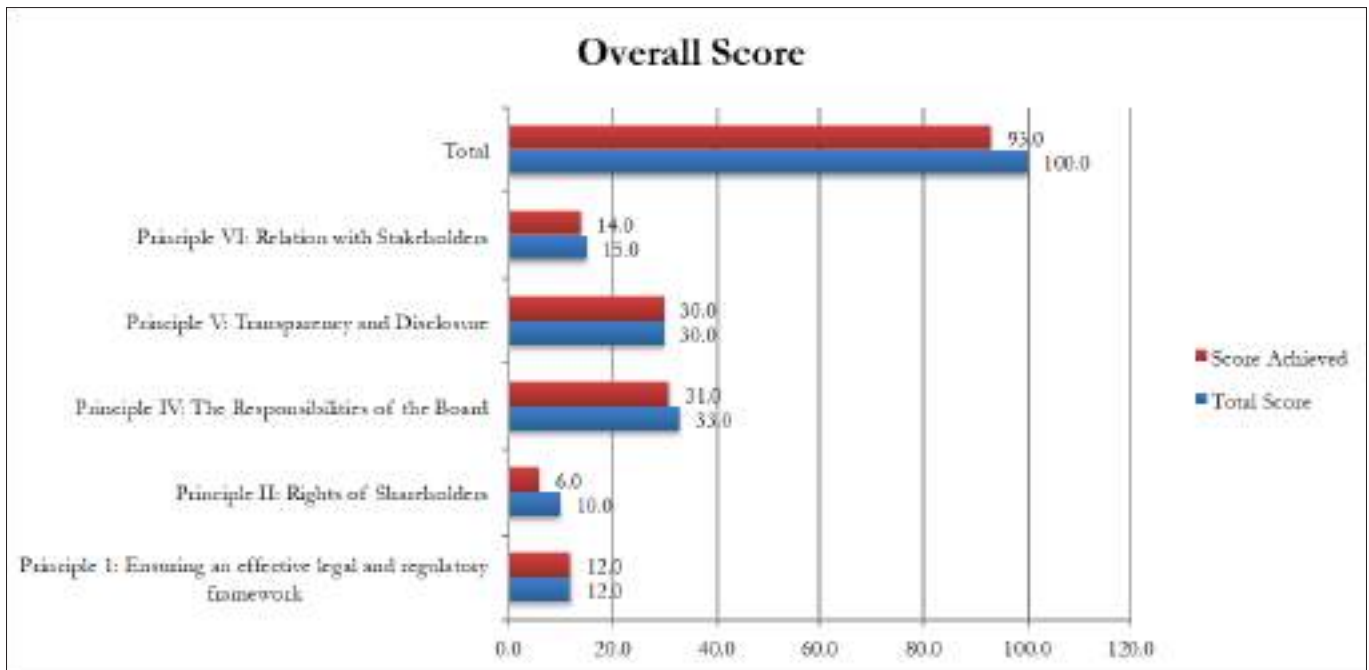
For the first time, in May 2020, the coal belt stretching from Jomotshangkha to Nganglam was leased to SMCL at an annual lease fee of Nu. 50 M. Coal production target of 92,625.58 MT was fulfilled. Sale target of 85,000 MT could not be achieved as only 72,160.75 MT was sold to the domestic industries. Sale target was severely impacted by border gates closure and nationwide lockdowns. To reduce the impact, coal was even transported via Pema Gatshel to Nganglam to keep DCCL operational. The PAT from coal was Nu. 111.92 M, a decrease from Nu. 132.68 M in 2019. However, if we consider the prorated amount paid as annual lease fee of Nu.50 M, there is a slight increase in PAT in 2020.

The production of boulders and aggregates was planned to meet the requirement of KHEL. As KHEL did not take off, we strategized to meet the local demands and avoided excessive stocking to reduce operation costs. Due to such stringent cost cutting measures, Dzongthung Stone Quarry and Crushing Plant made a small profit for the first time.

On 2 June 2020, the Ministry of Economic Affairs directed SMCL to take over the Chunaikhola Dolomite Mine (CDM) from Jigme Mining Corporation Limited (JMCL) for an interim period. Subsequently, SMCL took over CDM from JMCL, along with 128 employees on 1 October 2020. The Company negotiated and paid Nu.60 M for key equipment, machineries and infrastructures to ensure seamless operation of the mine. Mining operations started from 7 November and produced 307,315.15 MT of dolomite and crushed 279,917.23 MT against the targets of 300,000 MT and 270,000 MT, respectively. The company was not allowed to sell in 2020.

In view of the performance of the Company in earning profit during the pandemic year and considering need for finance by the national exchequer, the Board and Company declared the highest dividend till date at Nu.364.55 M, 124% of the share capital of Nu. 293.99 M.

In 2020, DHI conducted corporate governance (CG) assessment to examine the compliance of overall corporate governance in the Company. A report was issued based on the assessment conducted, reflecting the overall performance of the Company in corporate governance. The Company scored an aggregate of 93% for the five CG principles used for assessment as shown in the graph below. The score is among the highest in the DoCs under DHI.



In addition to corporate social responsibilities (CSR), SMCL believes in boosting local economies through broad-based benefits sharing. Out of the total annual expenditure of Nu. 634 M, Nu. 521 M, which was more than 82%, was ploughed back to the community in terms of expenditure on hiring of machineries, trucks for transport, local labor for manual works and on petty contracts.

Doing business during the year was not easy. A great lesson learnt was the need to be agile in restarting operations right after lockdowns to minimize impacts. As soon as the first lockdown eased, we were promptly able to resume our business. In close coordination with local COVID-19 Task Forces, we operated our business strictly with protocols. Hence the second lockdown had less impact as we had learnt to operate under containment mode from the first one. The Eastern COVID Task Force deserves a special appreciation for being extremely supportive to the Company in facilitating transport of gypsum and coal within the country as well as for export.

SMCL has to liaise and work closely with the regulatory authorities. The Management would like to thank regulatory agencies and stakeholders namely, Department of Geology and Mines, National Environment Commission, National Land Commission, Department of Forests and Park Services, their subsidiary field offices, Dzongkhags, Dungkhags, Gewogs and Communities for their services and support.

Finally, the Management and employees pledge our sincere commitment to work hard to sustain our performance from year to year.

Tashi Delek!

Kezang Jamtsho
Chief Executive Officer

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COMPANY PROFILE

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

As on 31st December 2020, the Company has two 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 Nu.729.50M.

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.

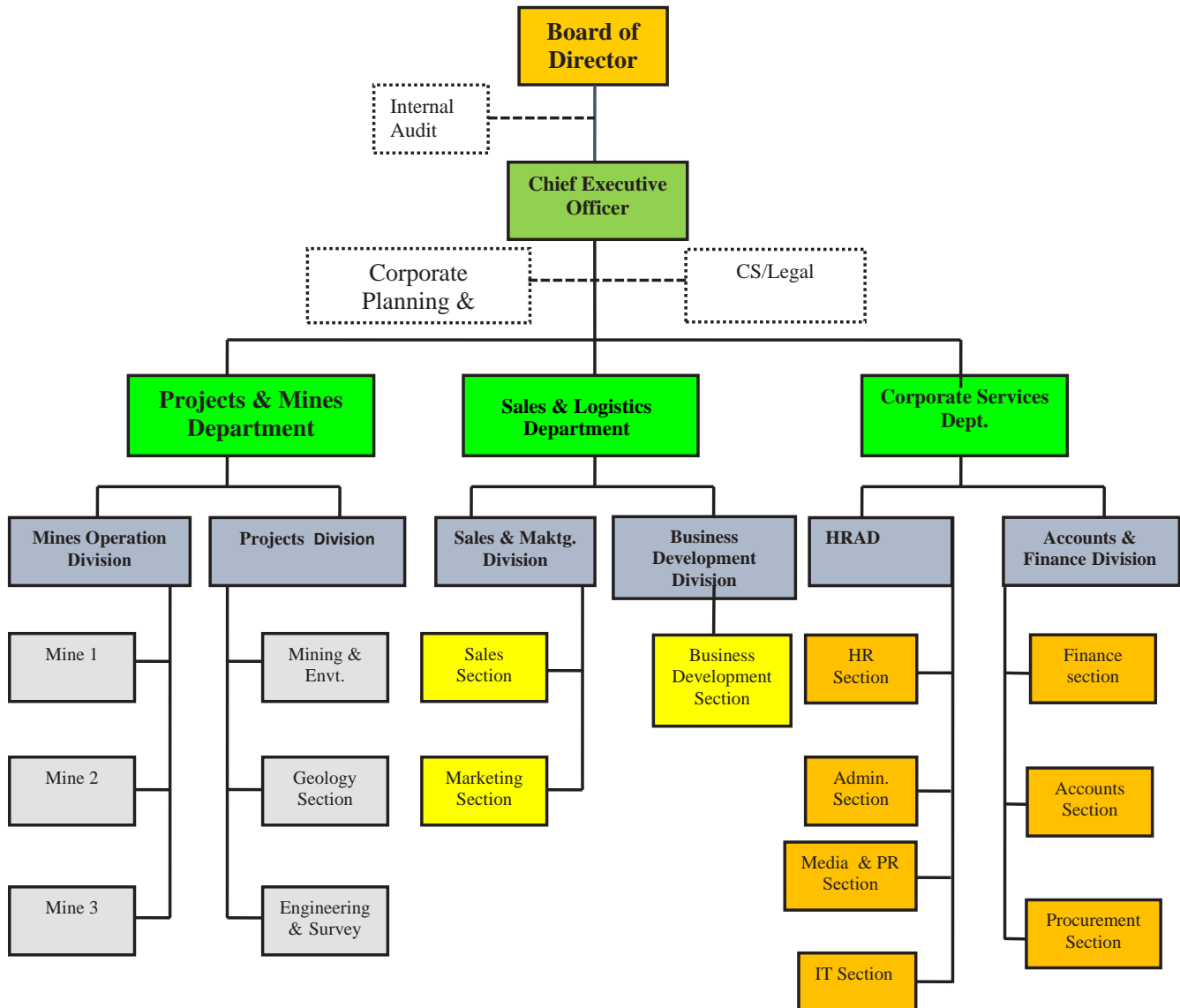
Responsibility

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

ORGANIZATION CHART



BOARD DIRECTORS

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



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

THINLEY NAMGYEL SECRETARY- GROSS NATIONAL HAPPINESS COMMISSION



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

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.

GELEY NORBU

DIRECTOR - NATIONAL LAND COMMISSION, THIMPHU



He has obtained 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 in the year 2000. He joined civil service as Urban Planner and served under Ministry of Works and Human Settlement. He served as Chief Urban Planner under Thimphu Thromde from 2009 till he was transferred to National Land Commission as the Director in 2017. He has extensive experience in urban planning, implementation of Asian Development Bank and World Bank projects in Bhutan, land and property related disputes resolutions, resettlement programs and instituted systems and processes in various organizations. 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.

KEZANG DEKI

CHIEF ENGINEER - DEPARTMENT OF INDUSTRY, MOEA



She has Master's Degree in Engineering (Specialization in Structural) from the University of Melbourne, Australia and B.Tech. in Civil Engineering from Indian Institute of Technology (IIT) Roorkee, India. She joined civil service in 2004 and served under Thimphu Thromde till 2008. Prior to her transfer to MoEA in 2015 she worked under Ministry of Works and Human Settlement. She has been heading the Industrial Infrastructure Development Division, Department of Industry, MoEA as the Chief Engineer since 2016.

JIGME DORJI

SENIOR ANALYST - DHI THIMPHU



He has MBA from Aarhus School of Business and Social Science, Aarhus University, Denmark in 2012 and Bachelor of Commerce from Pune University, India 2007. He started his career in 2008 in Bhutan Development Bank Limited as Assistant Branch Manager and later as Manager, HR Division. He joined DHI as Senior Analyst from 2014 till 2017 and currently serving as Senior Analyst, Office of Performance Management, His Majesty's Secretariat. He has wide knowledge in research and business development, banking & financial planning, performance management, policy formulations, developing standards/manuals, organizational development and restructuring, and manpower planning.

KEZANG JAMTSO

CHIEF EXECUTIVE OFFICER- SMCL



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

MANAGEMENT TEAM



KEZANG JAMTSO

CHIEF EXECUTIVE OFFICER

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

SANGAY RINZIN

DIRECTOR, SALES & LOGISTICS

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, HR & A

He has obtained Masters in Human Resource Management from Curtin University of Technology, Western Australian 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

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

KELDEN JATSHO

HEAD, ACCOUNTS & FINANCE

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)

DIRECTORS' REPORT

To the Shareholders

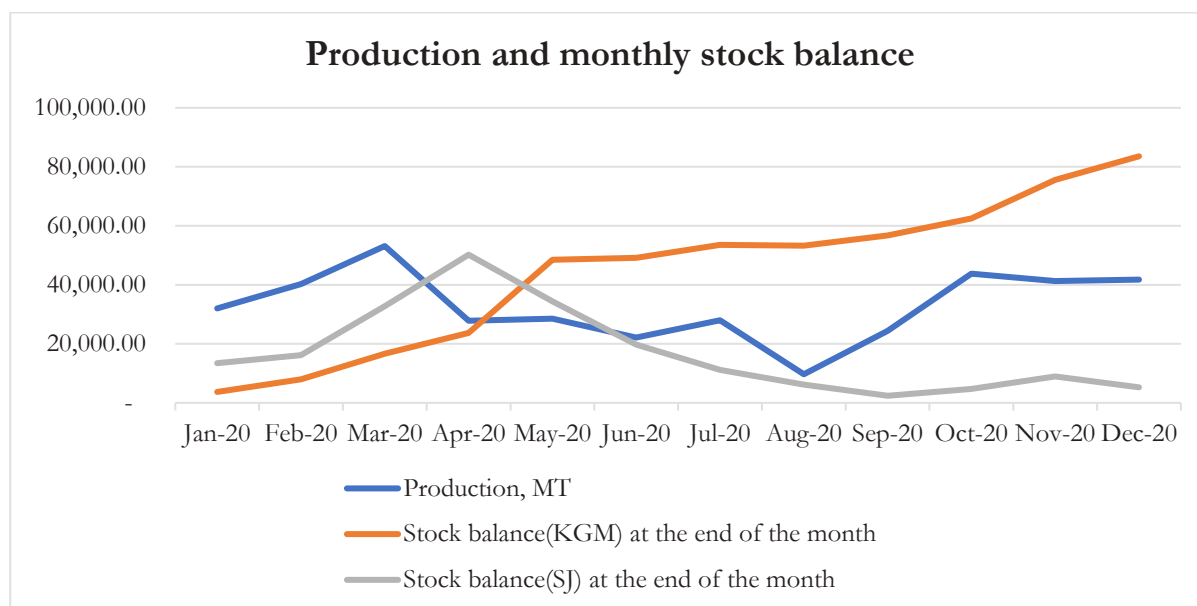
It is my honor and privilege, as the Chairman of the Board of SMCL, to present the Directors' Report for the year 2020. 2020 began on a promising note to consolidate and surpass our past achievements. Even two new portfolios, the supply of stone based construction materials to KHEL and supply of railway ballast to the North East Frontier Railways were added in the Annual Compact 2020. Accordingly, the revenue and profit targets were raised to Nu. 1.97 B and Nu. 447.96 M respectively. However, the closing of the border gates on 23 March 2020 and subsequent nationwide lockdowns due to the COVID-19 pandemic dampened our performance. The two new portfolios did not take off due to reasons beyond SMCL's control.

The revenue achieved was Nu. 1,165.90 M, an 18.63% decrease when compared to Nu. Nu.1,432.76 M in 2019. However, the Profit after Tax (PAT) was Nu. 363.06 M, a 7.94% increase when compared to Nu. 336.35 in 2019. Net profit margin stood at 31.69%, registering a 32.41% increase over 2019, while the already high return of equity saw a slight improvement to 49.77% from 49.33%. A great lesson learnt was the need to be agile in restarting operations after lockdowns. The second lockdown had minimal impact since we operated under containment mode from the first one.

OPERATIONAL HIGHLIGHTS

GYPSUM

Gypsum production was severely affected by COVID-19, as illustrated in the following graph.



With the closure of the border gate on 23 March 2020, sale was completely stopped till 2 May. As a result, stock at Samdrup Jongkhar reached its capacity by the end of April and transportation of gypsum from Pema Gatshel was stopped from 1 to 26 May. Stock in Samdrup Jongkhar continuously diminished thereafter while stock in Pema Gatshel accumulated after May. This situation was the result of reduction in number of trucks carrying gypsum to Samdrup Jongkhar due to frequent breakdowns in the absence of spares and workshops services. Hence production had to be calibrated with the build up of stock at mines against the transportation and sale from Samdrup Jongkhar in order to control costs. Production and sale of gypsum was 392,872.02 MT and 328,336.62 MT, respectively.

In spite of the decrease in sales, the PAT for gypsum increased from Nu. 248.68 M to Nu. 263.48 M, a modest 6% increase. However, net return per metric ton soared from Nu. 509.59 to Nu. 802.88, a jump of 36.5%. Such increase is

attributed to the company's resolute and aggressive stance taken towards raising the selling price of gypsum in the export markets at the beginning of the year while also exercising stringent cost control measures in production.

COAL

In May 2020, following the completion of the lease period for Eastern Bhutan Coal Company in December 2019, the whole coal belt stretching from Jomotshangkha to Nganglam was leased to SMCL at an annual lease fee of Nu. 50 M. At the same time, a portion of the Reshore Coal Mine was given to SMCL for immediate operation to meet domestic demands. Our immediate response in operating the coalmine was short lived as it had to be suspended due to ground stability issues. As a replacement, Khichangpo Coal Mine was taken up, but was not very successful, as we had to wind it up even here due to pinching of coal seams. Demobilization was prompt to maintain break even status of this operation, though there was overall loss when combined with Reshore operation.

Our production target was fulfilled with 92,781.80 MT, a combined target of 2,500 MT from Khichangpo and 90,000 MT from Habrang and Tshophangma. Sale target of 85,000 MT was not achieved as only 72,160.75 MT was sold to domestic industries. Sale target was severely affected by closure of border gate and nationwide lockdowns. After sometime, coal was transported via Pema Gatshel to DCCL in Nganglam, though the number of trucks and frequency was reduced. But greater impact was caused by the lockdown from 11 August as coal sale in dry season from September onward reaches its peak during normal times. During this period, only limited trucks with escort was allowed by the health safety protocols. To boost sales, the Company strived hard and sold additional 5,178.85 MT coal from Motanga, for the first time from a temporary stockyard. Coal was lifted to Motanga from Habrang and dispatched to cement plants in Gomtu and AWPL in Gelephu from 28 October 2020. Indian trucks were engaged by the buyers to transport from Motanga to Gomtu and Gelephu as escort was not available to these places.

The PAT from coal was Nu. 111.92 M, a 15.65% decrease from Nu. 132.68 M in 2019. If we consider the prorated amount paid as annual lease fee of Nu. 50 M for the first time, there is an increase in PAT in 2020.

STONE BOULDER AND AGGREGATES

The production of boulders and aggregates was planned to meet the requirement of KHEL if it commenced. As KHEL did not take off, however, we strategized to meet the local demands and avoided excessive stocking to reduce operation costs. Dzongthung Stone Quarry and Crushing Plant produced 75,101.10 MT of boulders, 55,379.15 MT of aggregates and sold 25,377 MT, and for the first time made a small profit.

DOLOMITE

On 2 June 2020, the Ministry of Economic Affairs directed SMCL to take over the Chunaikhola Dolomite Mine (CDM) from Jigme Mining Corporation Limited (JMCL) for an interim period. Subsequently, SMCL took over CDM from JMCL, along with 128 employees on 1 October 2020. The Company negotiated and paid Nu. 60 M for key equipment, machineries and infrastructures to ensure seamless operation of the mine. Mining operations started from 7 November and produced 307,315.15 MT of dolomite and crushed 279,917.23 MT against the targets of 300,000 MT and 270,000 MT, respectively. The Company was allowed to sell dolomite only from 1 January 2021.

COAL WASHERY

The procurement of coal washery machine and construction of civil works at Habrang were on schedule except the 315 KVA transformer that was to be lifted from Birpara, India. However, erection of superstructure, installation, testing and commissioning got delayed due to the Indian experts and workers not willing to come and undergo 21 days mandatory quarantine.

FINANCIAL POSITION AND KEY FINANCIAL PERFORMANCE HIGHLIGHTS

INCOME

The total revenue for the year was Nu. 1,165.90 M, against the compact target of Nu. 1,973.64 M. When compared to revenue of 2019, there was a decrease by 18.63% due to COVID-19 impacts. Khothakpa Gypsum Mine contributed Nu. 684.74 M, Habrang and Tshoghphama Coal Mine contributed Nu. 460.89 M, Dzongthung Stone Quarry contributed Nu. 17.67 M and Corporate Office contributed Nu. 2.59 M to the total revenue of Nu. 1,165.90M.

EXPENDITURE

The total expenditure was Nu. 634.20 M, a 33.4% decrease from Nu. 952.26 M in 2019. The decrease in expenditure was primarily due to inventories of Nu. 212 M accumulated due to sale and transport difficulties. Expense on gypsum was Nu. 306.63 M, on coal Nu. 289.56 M, on stone quarry Nu. 16.42 M and on dolomite Nu. 21 M. The Corporate Office incurred expenses of Nu. 40.43 M. Khichangpo, combined with Reshore added Nu. 2.17 M to the total expenditure.

PROFITABILITY

The PAT achieved was Nu. 363.06 M, though the compact target was 477.96 M. If compared with PAT of 2019, there was an increase by 7.94%. Net profit margin at 31.69%, registered a significant increase of 32.41% from 2019.

CASH FLOW

There was decrease in cash flow position to Nu. 82.681 M from Nu. 190.64 M in 2019.

AUDIT ISSUES

The Company is pleased to report that there was no audit observation by the Statutory Auditors for the year 2020.

BOARD'S RECOMMENDATION OF DIVIDEND

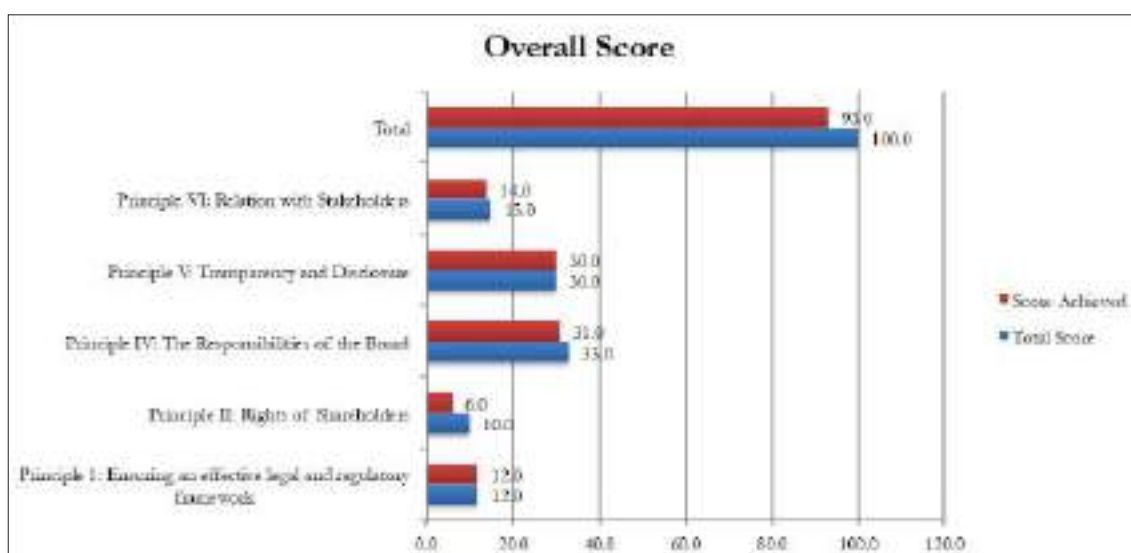
In view of the performance of the Company in earning profit during the year and considering need for finance by the national exchequer, the Board and Company declared dividend of Nu. 364.55 M, 124% of the share capital of Nu. 293.99 M.

CORPORATE GOVERNANCE

The Company strives at all times, to abide by the provisions of the 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. All members of the Board were identified and appointed by DHI with subsequent endorsement in the Annual General Meeting.

The Company's Board comprises seven Board Directors including the Chief Executive Officer. The Company conducted four Board Meetings and an Annual General Meeting. The Company has three Board Sub Committees, namely Board Audit Committee, Board Tender Committee and Board HR Committee. The Chairperson of Board Committees report all the matters deliberated at the sub-committee level to the full Board with recommendations for decision and final approval.

In 2020, DHI conducted CG assessment to examine the compliance of CG Code and to see the overall corporate governance in the Company. A report was issued based on the assessment conducted, reflecting the overall performance of Company in corporate governance. The Company scored an aggregate of 93% for the five CG principles used for assessment as shown in the graph below. The score is highest among the DoCs under DHI.



CORPORATE SOCIAL RESPONSIBILITY

SMCL contributed Nu. 1.66 M directly to support schools, institutes, colleges, lhakhangs and communities during the year. Besides contribution in cash, Company also assisted in the construction of roads, provided aggregates, stones and other construction materials.

In kind, Company donated raincoats, gumboots, IT equipment, protective gadgets, refrigerators and solar lights and construction materials to COVID-19 frontline workers. The Company deployed vehicles for delivery of essential items and transportation of frontline workers, reach samples to hospitals, transportation of students, construction materials for shade constructions, and water tankers for supply of drinking water.

SL. No	Beneficiaries	Amount (Nu)
1	Covid-19 (Desuups/frontliners)	548,546.60
2	Culture & religious events (Construction/renovation/preservation of lhakhangs, chortens and other monuments) & Community Development	416,791.15
3	Schools, institutes & colleges, hospital	702,500.00
	Total	1,667,837.75

BEYOND PROFITS: SHARING BENEFITS WITH THE COMMUNITIES

SMCL believes it has responsibility towards communities in boosting their livelihood through economic activities. The table below shows the details of revenues pumped into local community and businesses:

Particulars	Details	Amount.	Nos	Remarks
EMEs & Tippers	EMEs hired	239,721,030.82	50	42 nos excavators, and 8 nos wheel loaders.
	Tippers hired		184	182 nos tippers and 2 nos Water Tankers.
	Freelance individual Tippers-Transportation of minerals	266,714,765.07	383	Gypsum transported from Pema Gatschel to S/ Jongkhar & Coal transported from Habrang Coal Mines to Nganglam.
Construction works	Contract works (Labour contract to locals)	2,702,906.90	7	
Manpower Engaged	Coal raisers (including Students)	10,216,452.59	110	Awarded based on Output per Man-shift and per MT.
	Operators		50	
	Drivers		567	
	Daily wages earners	2,412,706.00	31	
Total		521,767,861.38	758	

Out of the total annual expenditure of Nu. 634 M, more than 82% is distributed to the private sector and individuals within the communities, which otherwise could have led to the concentration of wealth in the hands of a few. These figures prove our contention that state ownership in the natural resources sector is indeed beneficial to the larger private sector. It is a compelling illustration of how the public and private sector can not only co-exist but grow together in a mutually beneficial manner.

CHALLENGES AND WAY FORWARD

The main challenge for SMCL, which manifests and impedes in various ways, is uncertain policy environment. The Mines and Mineral Development Policy and the Mines and Minerals Bill are still under debate. The debate on private versus state operation of mines involves multiple interest groups. Under such a policy and legal environment, long-term planning and investments are at great risk. The mining sector is evolving fast and not taking the right decision at the right time could put us in great disadvantage over the years. Interim operations of mines will have long-term implication in choice of technologies, efficiency and consolidation of operations over the years.

Unexpected risks like COVID-19 can destroy the mining business. Cost of business operation can increase significantly, if proactive remedial measures are not initiated promptly. Mining operations face many risks and to be able to see imminent risks and manage them will be key to success.

Professionals/experts in the mining field are scarce in the existing work force. Further, it is a challenge to get staff with knowledge, skills and integrity. SMCL is already feeling the void at senior level as the business grows from year to year. Selecting and recruiting right people has become a challenge.

SMCL is maligned at the national and community level, which erodes morale of employees and institutional vitality to perform. The Company and its employees, however, draw inspiration from the noble vision and deeds of His Majesty the King. We are also constantly reminded of our efforts by the words of former American President, Theodore Roosevelt, who in his famous “The Man in the Arena” speech said that, *“It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood.”*

ACKNOWLEDGEMENTS

The Board would like to sincerely thank the Royal Government of Bhutan, Druk Holding and Investment Limited, all regulatory agencies and stakeholders like Department of Geology and Mines, National Environment Commission, National Land Commission, their subsidiary offices, Dzongkhags, and Communities for their support and helping SMCL to achieve its mandates. In particular, amidst the pandemic, the Eastern COVID Task Force has been extremely supportive to the company in facilitating transport of gypsum and coal within the country as well as for export.

The Board would also like to thank the Chief Executive Officer for his selfless leadership and hard work done by his team. Finally, I would like to encourage and wish SMCL family to continue its excellent performance in all your future endeavors.

Tashi Delek!

For and on behalf of the Board



Dasho Karma Yezer Raydi
(Chairman)

CORPORATE GOVERNANCE REPORT 2020

1. BOARD DIRECTORS

The Board is the apex 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.

2. BOARD COMPOSITION

The Board constitute 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 and objective decisions in the interest of the shareholder, company, employees and other stakeholders.

Board Members in 2020

Sl. No.	Name of Director	Designation & Address	Description	Date of Appointment	Remarks
1	Dasho Karma Yezer Raydi	Chief Executive Officer, DHI	Chairman	3/3/2020	Non-Independent
2	Kezang Jamtsho	Chief Executive Officer, SMCL	Board Member	1/7/2019	Non-Independent
3	Jigme Dorji	Sr. Analyst, DHI	Board Member	27/11/2019	Non-Independent
4	Chewang Rinzin	Director, RISS	Board Member	3/3/2020	Independent
5	Geley Norbu	Director, National Land Commission	Board Member	5/3/2019	Independent
6	Thinley Namgyel	Secretary, GNHC	Board Member	5/3/2019	Independent
7	Kezang Deki	Chief Engineer, IIDDD, MoEA	Board Member	5/3/2019	Independent

Board Directors' attendance and retired from March 2020

Name	Designation	Designation & Address	Attendance	Remarks
1	Dasho Karma Yezer Raydi	Chief Executive Officer, DHI	4/4	
2	Kezang Jamtsho	Chief Executive Officer, SMCL	4/4	
3	Sonam Wangyel	Dzongdag, Samtse Dzongkhag	1/1	Retired
4	Thinley Namgyel	Secretary, GNHC	4/4	
5	Chewang Rinzin	Director, RIGSS	3/4	
6	Geley Norbu	Director, National Land Commission	4/4	
7	Kezang Deki	Chief Engineer, IIDDD, MoEA	4/4	
8	Jigme Dorji	Sr. Analyst	4/4	

3. BOARD MEETINGS

Four Board Meetings were held 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

No. of Board Meeting	Date	Venue
35th	03/03/2020	Virtual
36th	29/09/2020	Virtual
37th	25/11/2020	Virtual
38th	25/12/2020	Virtual

4. BOARD COMMITTEES

The Board may from time to time establish Board Committees as is considered proper 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.

- a. Board Audit and Budget Committee
- b. Board Tender Committee
- c. 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.

a. 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.

- i. The audit committee shall undertake its activities in accordance with a board approved audit committee charter.
- ii. 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 2020

No. of Meeting	Date	Venue/Mode	Remarks
14th	28/9/2020	Virtual	Audit Meeting
15th	24/11/2020	Virtual	Audit & Budget Meeting
16th	1/12/2020	Virtual	Budget Meeting

b. Board HR Committee

The Board HR Committee of the company comprises three members, all being appointed by the Board from time to time and chairman identified by the Board.

The Board Human Resource Committee reviews and assess the policies & strategies to strengthen internal systems and processes related to 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.

The details of the Board HR Meetings held in 2020

No. of Meeting	Date	Venue
8th	19/10/2020	Virtual from Samtse

c. 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.

During the period, 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 2020

No. of Meeting	Date	Venue
9th	2/10/2020	DHI, Thimphu

5. POLICIES AND PRACTICES OF CEO AND BOARD EVALUATION

The shareholder ensures that the Board has an appropriate balance of skills, qualities and characteristics so that each board member is equipped with the proper tools and motivation to carry out the responsibilities.

The evaluation of individual Directors focuses on contributions of the Directors to the company as specified in the Board Charter. The Board evaluates the performance of the CEO on annual basis.

6. ANNUAL GENERAL MEETING

It decides on and approves important issues concerning the Company's management, including the reappointment & appointment of Directors, amendments to the Articles of Incorporation, approval of financial statements and dividend for the year.

The 6th Annual General Meeting of the company was held on 30th March, 2021 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, 2020 and auditors' report and declaration of dividend.

The AGM also discussed on the appointment and retirement of directors and remuneration of the Chief Executive Officer. As per the section 138 of the Companies Act of Bhutan 2016, the Directors need to retire during AGM.

Mr. Geley Norbu, Director, NLCS was reappointed as the Board Director for another term. Board Directors, Mr. Thinley Namgyel, Secretary, GNHC, Ms. Kezang Deki, Chief Engineer, IIDDD, MoEA and Mr. Jigme Dorji, Sr. Analyst, DHI have been retired and replaced by Ms. Kinley Yangzom, Former Chairperson, ACC, Mr. Pasang Dorji, Dzongdag, Samtse and Mr. Pem Tshering, Sr. Analyst, DHI respectively.

7. BOARD REMUNERATION

a. Board Directors' remuneration

Based on the remuneration fixed by DHI, the company paid total of Nu.264,000.00 during the 2020 for four Board Meetings, five Board Committee Meetings and two other board level meetings (MTR & Compact negotiation).

Sitting Fees	Amount
Board Meetings	180,000
Sub-committee fees	84,000
Grand Total	264,000

b. Remuneration of CEO

The CEO's remuneration for the 2020 has been presented in the table below:

Pay & Allowances	Amount
Basic Pay	1,193,400
Allowances	1,074,060
PBVP	294,300
GPF Contribution	179,010
Sitting fees	48,000
Grand Total	2,788,700

8. RISK MANAGEMENT

Risk Management is a priority for the Company and in every annual compact endorsed with DHI, activities related to management of risk is incorporated for implementation. The Company's overall risks are classified under 5 broad categories: Strategic, Financial, Operational, Compliance and Control risk.

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. 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.

The Company continue to dangle with policy ambiguity in mining creating uncertainties while making investment plans.

The background of the page is a repeating pattern of traditional Chinese dragon motifs. The dragons are depicted in various poses, some facing left and some facing right, surrounded by stylized, swirling clouds. The pattern is rendered in a light, monochromatic color, likely a pale green or grey, against a white background. The dragons have detailed scales, whiskers, and flowing manes, characteristic of the 'Long' (dragon) in Chinese mythology.

INDEPENDENT AUDITORS' REPORT



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

INDEPENDENT AUDITOR'S REPORT

To
The Shareholders of State Mining Corporation Limited

Opinion

We have audited the accompanying financial statements of State Mining Corporation Limited (the Company) which comprise the Statement of Financial Position as at 31 December 2020, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and the cash flows for the year then ended in accordance with the Bhutanese Accounting Standards.

Basis for Opinion

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

Responsibilities of Management and those charged with the Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the BAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.





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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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.





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

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, related safeguards.

Report on Other Legal and Regulatory Requirements

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

We also enclose for information purposes Annexure-II, a statement on applicability of Bhutanese Accounting Standards Phase I, Phase II and Phase III on the Company for the year ended December 31, 2020.

As required by Section 265 of the Act, we report that:

- a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books.
- c) The Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows dealt with by this report have been prepared in accordance with Bhutanese Accounting Standards and are in agreement with the books of account.
- d) In our opinion, the Company has complied with all other legal and regulatory requirements to the extent applicable.

For Dechok and Associates Pvt. Ltd


Managing Partner



Page 3 of 3

The background of the page is a repeating pattern of traditional Chinese dragon and cloud motifs. The dragons are depicted in various poses, some facing left and some facing right, with intricate scales and flowing manes. They are surrounded by stylized, swirling clouds. The entire pattern is rendered in a light, monochromatic color, likely a pale green or grey, against a white background.

REPORT ON MINIMUM AUDIT EXAMINATION REQUIREMENT



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

Minimum Audit Requirement, 2020

State Mining Corporation Limited

ANNEXURE - I TO THE INDEPENDENT AUDITORS' REPORT (Referred to under Report on Other Legal and Regulatory Requirements' in our Independent Auditor's Report of even date)

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

General:

- a) To the extent applicable, the company adheres to the Corporate Governance Guidelines issued by Druk Holding and Investments (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 2020 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.
1. The company is generally maintaining proper records of Fixed Assets showing full particulars including quantitative details and situations of its fixed assets. As per information provided to us by the Management, no material discrepancies were noticed on physical verification conducted by the Management during the year.
 2. Fixed assets have not been revalued during the year.
 3. Physical verification of finished goods, raw materials, stores & spares have been conducted by the management through use of services of Dzongkhag Survey



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Dechok & Associates Private Limited
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engineers as the management could not deploy its own verification team due to Covid 19 restrictions. In our opinion, the frequency of verification is reasonable.

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, material discrepancies in aggregate were noticed during the physical verification. Such discrepancies have been properly dealt with in the books of accounts.
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. 6,658,771.69 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 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 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





Dechok & Associates Private Limited
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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 its 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 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.





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

Sl.#	Particulars	Amount (Nu.)
1	Tax Deducted at Source	1,405,941.93

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 and no excessive amount are 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 intravires 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.





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

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. No data migration took place during the year.

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:





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

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



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FINANCIAL STATEMENTS

STATE MINING CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION AS ON
31-Dec-20

Particulars	Notes	31-Dec-20	31-Dec-19
ASSETS			
Non-Current Assets-			
Property, plant and equipment	2A	291,122,049	227,717,369
Intangible asset	2B	490,655	16,862
Capital work-in-progress	2C	51,836,440	20,234,780
Exploration & evaluation cost	2D	14,225,529	21,949,944
Mines Development	2E	1,613	78,659
Trade & other receivable	3	13,438,891	11,196,102
Other non current assets	4	3,027,105	5,767,729
Deferred tax Assets	5	8,923,552	8,923,552
Total non-current asset		365,074,831	295,884,997
Current Assets-			
Inventories	6	357,703,488	88,881,044
Trade & other receivable	7	424,918,772	339,563,538
Cash and cash equivalents	8	82,681,943	190,641,754
Other current assets	9	127,590,042	117,958,325
Total current asset		992,894,247	737,044,660
Total asset		1,357,969,078	1,032,929,658
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	293,990,000	293,990,000
Retain Earning		435,503,542	387,781,878
Total Equity		729,493,542	681,771,878
Non-current liabilities			
Deferred tax liability	11	1,337,542	211,650
Employee benefit obligations	12	2,548,351	2,625,241
Long-term Borrowing	13	53,153,570	53,153,570
Total non-current liabilities		57,039,463	56,990,461
Current liabilities			
Trade and other payables	14	43,630,873	18,989,383
Short term employee benefit	15	2,775,689	246,331
Other current liabilities	16	215,621,812	261,066,563
Short-term Borrowing	17	309,405,698	14,885,042
Total current liabilities		571,434,072	295,167,318
Total of equity and liabilities		1,357,969,078	1,032,929,658

The above accompanying notes form an integral part of Financial Statements.
 Significant Accounting Policy and Notes of Financial Statement 1- 41

As per our report of even date

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


 Mr. Yeshe Jamtsho
 Partner

 Place: Thimphu
 Date: 12/12/2020

For State Mining Corporation Limited

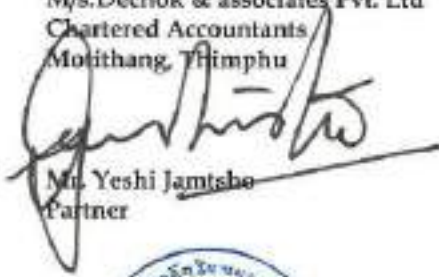

 Dasho Karma Yezer Raydi
 Chairman

 Kezang Jamtsho
 CEO
 Chief Executive Officer
 State Mining Corporation Limited
 Samtse: BHUTAN
 Place: Thimphu
 Date: 12/12/2020
 Chairman
 State Mining Corporation Ltd.
 Regd. Office: Samtse: BHUTAN

STATE MINING CORPORATION LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD
31-Dec-20

Particulars	Notes	31-Dec-20	31-Dec-19
Income-			
Revenue from sale of products	18	1,145,693,332	1,405,435,301
Other income	19	20,202,070	27,324,372
Total Income		1,165,895,401	1,432,759,673
Expenditure-			
Changes in Inventories of finished goods	20	(211,954,224)	(2,024,063)
Mining Cost	21	560,678,566	668,716,723
Operation & Maintenance Expenses	22	46,590,383	33,881,774
Depreciation and Amortisation	2A-2E	47,687,071	43,450,912
Employee Benefit Expenses	24	80,578,251	61,846,785
Finance Cost	25	5,566,162	7,919,965
Other Expenses	26	23,961,678	31,622,297
Selling & Distribution	27	81,095,290	106,842,647
Total Expenditure		634,203,678	952,257,042
Profit/(Loss) Before Income Tax		531,691,724	480,502,631
Income Tax Expenses			
Current tax		167,502,321	147,601,481
Deferred tax		1,125,892	(3,450,691)
Income tax for earlier year		-	-
Profit/(Loss) After Income Tax		363,063,510	336,351,842
Other Comprehensive (income)/Loss			
Actuarial Gain/(Loss) on post employment benefit obligations		1,100,153	500,733
Net Other Comprehensive (Income)/Loss		1,100,153	500,733
Total Comprehensive Income/(Loss)		364,163,663	336,852,575
Basic and Diluted Earnings per Share	28	124	114

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


 Mr. Yeshe Jamtsho
 Partner

Place: *Thimphu*
 Date: *13/04/2022*



For State Mining Corporation Limited

 
 Dasho Karma Yezer Raydi Chairman
 Kezang Jamtsho
 CEO / Executive Officer
 State Mining Corporation Limited
 Samtse: BHUTAN

Place: *Thimphu*
 Date:

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

STATE MINING CORPORATION LIMITED
STATEMENT OF CASH FLOW FOR THE YEAR ENDED
31-Dec-20

Particulars	31-Dec-2020	31-Dec-2019
Net Profit Before Tax	531,691,724	480,502,631
Adjustment for		
Depreciation and amortization	47,687,071	44,065,882
Actuarial Gain/(Loss) on post employment benefit obligations	1,100,133	(500,233)
Interest on Secured Loan		7,549,868
Loan processing fees - SMCL		370,097
Loss on Disposal of PPE	1,100,117	84,437
Payment of fees		
Interest earned on Short Term Deposit		(3,654,986)
Changes in Working Capital:		
Adjustment for:		
(Increase)/Decrease in Inventory	(268,822,445)	(4,868,688)
(Increase)/Decrease in Trade & Other Receivables	(85,355,235)	(132,254,591)
(Increase)/Decrease in Other Current Assets	67,518,283	(65,300,272)
(Increase)/Decrease in Non - Current Assets	(1,502,163)	326,826
(Increase)/Decrease in Trade & Other Payables	24,661,490	(30,916,333)
(Increase)/Decrease in Short - Term Employee Benefits	2,529,358	(251,899)
(Increase)/Decrease in Other Current Liabilities	(146,571,224)	105,390,614
(Increase)/Decrease in Non - Current Liabilities	(76,890)	1,042,185
Cash Generated from Operations	173,960,240	401,345,039
Less : Tax Paid	(143,525,848)	(72,973,664)
Net Cash used in Operating activities (A)	30,434,392	328,411,375
Cash Flow from Investing Activities		
Purchase of Fixed Assets and Capital Work in Progress	(116,474,859)	(78,778,725)
Interest earned on Short Term Deposit		3,654,986
Net Cash used in Investing Activities (B)	(116,474,859)	(75,123,739)
Cash Flow from Financing Activities		
Issue of Share Capital		-
Proceed from long term Borrowing	(5,479,344)	1,949,868
Proceed from short Term Borrowing	300,000,000	-
Payment of Short Term Borrowings		(55,246,256)
Interest on Secured Loans		(7,549,868)
Loan Processing Fees - SMCL		(370,097)
Dividend Paid	(316,440,000)	(64,677,800)
Cash flow from Financing Activities (C)	(21,919,344)	(125,894,154)
Net Increase/ (Decrease) in Cash & Cash Equivalents (A+B+C)	(107,959,810)	127,393,483
Cash & Cash Equivalents at the beginning of the year	190,641,754	63,248,272
Cash & Cash equivalents at end of period	82,681,943	190,641,754

Ms. Dechok & associates Pvt. Ltd
 Chartered Accountants
 Mokithang, Thimphu

Mr. Yeshi Jamtsho
 Partner

Place: *Thimphu*
 Date: *13/04/2021*



For State Mining Corporation Limited.

Dasho Karma Yezer R. Kezang Jamtsho
 Chairman CEO

Place: *Thimphu*
 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 Changes in Equity as on
31-Dec-20

Amount in Nu

Description	No. of Equity Shares	Equity Share Capital	Retained earnings	Total
Balance at 01 January 2019	2,939,990	293,990,000	116,608,569	410,598,569
Change in Equity for the year				
Issue of share capital	500,000	-	-	-
Profit for the year		-	336,351,842	336,351,842
Other comprehensive income		-	500,733	500,733
Total comprehensive income for the year		-	335,851,109	335,851,109
Dividend payment		-	64,677,800	64,677,800
Balance at 31 December 2019	2,939,900	293,990,000	387,781,878	681,771,878
Change in Equity for the year				
Issue of share capital				
Profit for the year		-	363,063,510	363,063,510
Other comprehensive income		-	1,100,153	1,100,153
Total comprehensive income for the year		-	364,163,663	364,163,663
Dividend payment		-	316,440,000	316,440,000
Balance at 31 December 2019	2,939,900	293,990,000	435,505,542	729,495,541.84

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

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


Kezang Jamtsho
Partner

Place: Thimphu
Date: 15/01/2021



For State Mining Corporation Limited


Dasho Karma Yezer Raydi
Chairman

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


Kezang Jamtsho
CEO
Chief Executive Officer
State Mining Corporation Limited
Samtse - BHUTAN



ACCOUNTING POLICIES,
NOTES TO ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES

General Information:

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

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

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

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

These financial statements relate to the year ended 31st December 2020.

1. Basis of preparation:

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

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

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

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

The functional currency is the Bhutanese Ngultrum.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

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



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

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

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

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

(ii) Historical cost convention

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

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

2. Current versus non-current classification

The Company presents assets and liabilities in the Balance Sheet based on current/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, or
- 4) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- 1) It is expected to be settled in normal operating cycle;
 - 2) It is held primarily for the purpose of trading;
 - 3) It is due to be settled within twelve months after the reporting period,
- or
- 4) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.



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

3. Foreign currency translation:

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

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

4. Property, Plant and Equipment:

All property, plant and equipment are stated at historical cost less depreciation and impairment, if any. Cost includes purchase price, taxes and duties, labour cost, direct financing costs, direct overheads for self-constructed assets, borrowing costs, other direct costs incurred up to the date the asset is ready for its intended use including initial estimate of dismantling and site restoration cost. Land received as grant from the Royal Government of Bhutan is accounted for at Nominal value.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is 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
<u>Property, Plant and Equipment</u>	
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 those had been capitalized prior to 2015 are continuing as assets in the books of the company as they are in good conditions and usable.

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

5. Intangible assets:

Computer software:

Acquired computer software 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 amortised using the units of production method.

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

6. Impairment of Non-financial assets:

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

Reversal of impairment loss:

An impairment loss in respect of goodwill is not reversed. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the



asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized directly in other comprehensive income and presented within equity.

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

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

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

8. Financial assets:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. The Company's loans and receivables comprise 'Trade and Other Receivables', 'Other Financial Assets', 'Advance to Ministry of Finance', 'Other Assets' and 'Cash and Cash Equivalents' in the Statement of Financial Position.

9. Inventories:

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

10. Trade and Other Receivables:

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

11. Cash and Cash Equivalents:

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



12. Trade and Other Payables:

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

13. Current and deferred income tax:

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Profit or Loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted at the balance date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

14. Borrowing costs:

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

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

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



15. Employee benefits:

a. Retirement Benefits:

Under defined contribution scheme:

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

Under Defined Benefit Scheme: Post Employment Benefit (Gratuity)

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

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

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

b. Other Short-Term benefits:

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

16. Provisions and Contingent Liabilities:

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. A contingent liability is only disclosed in the notes to the account if an outflow of resources embodying economic benefits is possible.

17. Revenue recognition:

Revenue is measured at the fair value of the consideration received or receivable. The Company 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 group's activities, as described below:

Interest income



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

Dividend income

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

18. Government grants:

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

19. Earnings per Share

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

20. Comparative information:

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



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

(All amounts in Nu, unless otherwise stated)

Particulars	Gross Block		Gross Block		Depreciation/Amortisation		Net Block	Net Block	
	31/03/2020	31/03/2019	Transfers	Disposal	Opening Bal. 01/01/2019	During the year			Disposal/A
2A. Property, Plant and Equipment									
Plant & Machinery	158,738,417	79,780,900		1,058,400		22,649,814	7,505	69,836,891	184,844,106
Furniture & Fixture	2,799,271	453,960		107,245		281,876	48,726	1,356,829	1,899,307
Safety Equipment	30,390	164,000		-		10,405	-	20,135	160,437
Survey Equipment	615,996	-		-		88,753	-	296,355	312,295
Motor Vehicle	63,509,329	3,996,572		100,564		5,487,687	31,383	15,670,091	53,735,437
Building & Civil Structure	55,211,683	14,102,712		239,943		8,666,346	26,310	31,594,103	36,980,399
Lab Equipment	1,902,784	315,090		32,425		272,008	13,017	777,208	1,408,150
Office Equipment	7,686,967	2,528,948		565,679		1,413,590	197,232	2,922,134	6,778,102
Data Processing Equipment	7,273,315	3,336,144		61,660		1,178,722	31,594	5,511,882	5,051,266
Total Property, Plant and Equipment	295,860,852	185,679,336	-	2,665,832		39,848,482	269,548	187,882,317	291,322,889
2B. Intangible Assets									
Software	180,843	300,000		-		17,200	-	181,188	497,665
Total Intangible Assets	180,843	300,000		-		17,200	-	181,188	497,665
2C. Capital Work in Progress									
For Different Mines	20,234,780	11,492,650		90,990		-	-	-	31,836,440
Total Capital Work in Progress	20,234,780	11,492,650		90,990		-	-	-	31,836,440
2D. Exploration & Evaluation Cost									
For Different Mines	35,967,810	35,967,810		-		7,724,415	-	21,741,461	14,325,529
Total Exploration & Evaluation Cost	35,967,810	35,967,810		-		7,724,415	-	21,741,461	14,325,529
2E. Mines Development									
For Different Mines	3,047,261	3,047,261		-		77,846	-	3,645,748	1,433
Total Mines Development	3,047,261	3,047,261		-		77,846	-	3,645,748	1,433
Balance to Accrue	355,250,846	117,871,968		2,759,813		47,487,871	259,548	132,460,795	327,485,285

Mr. Dandak & Associates Pvt. Ltd
Chartered Accountants
Maitubang, Thimphu

For State Mining Corporation Limited

Desho Karma Xeer Baydi
Chairman

Kenzang Jambho
CEO

For State Mining Corporation Limited
Chief Executive Officer
State Mining Corporation Limited
Samtse, BHUTAN

Place: Phuentsholing
Date: 13/04/2020

Place: Chhityangphu
State Mining Corporation Ltd.
Pony Office, Samtse: BHUTAN

Place: Samtse
Date: 13/04/2020



STATE MINING CORPORATION LIMITED
NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS ON
31-Dec-20

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

Particulars	31-Dec-20	31-Dec-19
Environment Restoration Bond	13,438,891	11,196,102
Total	13,438,891	11,196,102

Note 4: Other non current assets

Particulars	31-Dec-20	31-Dec-19
Unamortised mining cost	5,027,103	5,707,729
Total	5,027,103	5,707,729

Note 5: Deferred tax

Particulars	31-Dec-20	31-Dec-19
Property, plant and equipment Deferred tax asset (Timing Difference)	8,923,552	8,923,552
Total	8,923,552	8,923,552

Note 6: Inventories

Particulars	31-Dec-20	31-Dec-19
Inventory (Valued at cost or NRV whichever is lower)		
Coal	117,314,798	44,002,113
Quartzite	30,800,762	4,779,898
Gypsum	77,654,833	24,350,480
Dolomite	61,348,512	
Consumable & Asset	29,584,583	14,988,548
Total	357,783,486	88,881,044

Note 7: Trade & Other receivable(Current)

Particulars	31-Dec-20	31-Dec-19
Sundry Debtor	423,478,396	336,435,049
Security Deposit Placed	1,440,378	1,128,488
Total	424,918,772	339,563,538

Note 8: Cash and Cash Equivalents

Particulars	31-Dec-20	31-Dec-19
Cash-in-hand	413,380	359,153
Bank Balance		
Bank of Bhutan Ltd A/c No- 100891887	8,072,361	(5,697,939)
Bank of Bhutan Ltd A/c No- 200194054	41,799,286	67,407,273
Bank of Bhutan Ltd-201530717 - SMCL	13,735,987	(2,561,436)
Bank of Bhutan Ltd-201766760 - SMCL	18,660,929	31,134,704
Short term deposit	-	100,000,000
Total	82,681,943	190,641,754

Note 9: Other Current Assets

Particulars	31-Dec-20	31-Dec-19
Other Current assets	127,363	
TDs	7,735,110	14,614,400
Advance Tax	77,150,000	89,012,391
Advance to Employer	117,958	577,164
Advance to Vendor	18,272,085	13,314,991
Prepaid Expenses	24,189,526	439,380
Unamortised mining cost	-	-
Loans & advances to Intra Company	-	-
Total	127,596,042	117,956,325



Note 10: Capital

Particulars	31-Dec-20	31-Dec-19
Authorised Share Capital		
1000000 Equity Shares of Rs.100 each		1,000,000,000
Issued, Subscribed and Paid-up		
2939900 Equity shares @ Rs. 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 Rs. 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-20	31-Dec-19
Deferred Tax Liability:		
Timing Differences in respect of- Operating		
Recognised during the year in relation to Property, Plant and Equipment, Intangible Assets and Amortization of Exploration and Evaluation costs	1,337,542	211,450
Total	1,337,542	211,450

Note 12: Employee benefit obligations

Particulars	31-Dec-20	31-Dec-19
Post Employment Benefit (Gratuity)	1,379,278	2,473,899
Long-term Employee Benefit (Leave Encashment)	-	1,685,279
Gratuity Bank Account - SMCL	-	(2,279,053)
Post Employee Benefits (Others)	1,169,073	745,126
Total	2,548,351	2,625,261

Note 13: Long term Borrowing

Particulars	31-Dec-20	31-Dec-19
Term Loan from NPPF	53,153,570	53,153,570
Intra Company Borrowings (NC) - SMCL	-	-
Total	53,153,570	53,153,570

Note 14: Trade and Other Payables

Particulars	31-Dec-20	31-Dec-19
Other Trade & payable	-	-
Employee Payables	717,371	808,799
Sundry Creditors - Domestic	38,784,847	15,579,256
Sundry Creditors - International	100,957	808,912
State Cheque	-	-
Advance from customer	1,642,125	1,642,125
Stock Received but not Billed	2,365,574	130,291
Total	43,630,873	18,969,383

Note 15: Short term employee benefit

Particulars	31-Dec-20	31-Dec-19
Post Employment Benefit (Gratuity)	-	155,421
Short-term Employee Benefit (Leave Encashment)	2,775,689	90,910
Total	2,775,689	246,331

Note 16: Other current liabilities

Particulars	31-Dec-20	31-Dec-19
TDS Payable	1,405,942	994,522
Other Liabilities	32,575,933	6,318,290
Provision for Income Tax	167,500,321	185,446,425
Security Deposits	14,012,423	9,473,404
Retention Money	125,193	150,648
Advance from Customers	-	58,683,274
Total	215,631,812	261,066,563



Note 17: Short-term Borrowing

Particulars	31-Dec-20	31-Dec-19
Working Capital from Bank of Ethiopia		-
Term Loan from NPF I	9,405,698	14,885,042
Term Loan from NPF II		
Intra-Company Borrowing - SMCL	300,000,000	
Total	309,405,698	14,885,042



State Mining Corporation Limited
Notes forming part of Statement of Comprehensive Income As On
31-Dec-20

Note 18 : Revenue from sale of products

Particulars	31-Dec-20	31-Dec-19
Sale of Coal - SMCL	481,364,789	537,305,338
Less: Quality Compensation - SMCL	(1,728,434)	(1,599,533)
Less: Normal Loss - SMCL	(1,006,908)	(1,230,679)
Less: Abnormal Loss - SMCL	32,364	142,966
Sale of Quartzite - SMCL	16,343,631	15,486,630
Sale of Gypsum-SMCL	670,707,918	857,220,594
Sale of Talc	-	-
Total	1,145,693,332	1,405,435,301

Note 19 : Other Income

Particulars	31-Dec-20	31-Dec-19
Gain on Sale of Assets - SMCL	(1,100,117)	(2,812)
Sale of reject stone	129,531	4,120
Liquidated Damages	2,457,882	6,134,799
Interest from short term deposit	2,672,176	3,654,986
Interest income from financial instruments at amortised	-	-
Miscellaneous Income	1,366,886	26,374
Guest House Charges	80,475	97,650
Income from Weigh bridge - SMCL	2,607,956	4,009,724
Sales - Loading Charges - SMCL - SMCL	11,578,282	13,399,531
Total	30,202,070	27,324,372

Note 20 : Changes in Inventory of Finished Goods

Particulars	31-Dec-20	31-Dec-19
Opening inventory of finished goods		
Less: Closing inventory of finished goods		
Stock Expenses (as per system)	(211,954,224)	(2,024,061)
Total	(211,954,224)	(2,024,061)

Note 21 : Mining Cost

Particulars	31-Dec-20	31-Dec-19
Drilling & Blasting - SMCL	10,400,259	6,538,533
Environment Management Cost - SMCL	1,054,550	533,878
Mineral Rent	5,574,769	8,137,893
Safety & Protective Gadgets - SMCL	2,400,657	1,453,476
Surface Rent	1,577,140	1,200,406
Mineral Testing Expenses - SMCL	72,870	339,547
Stripping Cost	121,475,775	220,689,933
Product Handling & Miscellaneous - SMCL	18,825,491	-
Mineral Raising - SMCL	76,238,518	-
Transportation from Tsbeyhangma to Chabring - SMCL	11,026,599	4,005,502
Coal Raising Cost - SMCL	10,224,233	12,332,613
Royalty	53,471,516	81,790,889
Coal Handling cost	53,640	81,212
Transportation from Plant 1 to Plant 2 - SMCL	-	2,683,032
Transportation from Mines to stockyard - SMCL	213,024,845	319,125,949
Rock Expenses	-	458,703
Gypsum raising cost - SMCL	-	7,600
Wages	2,412,706	2,399,139
Environment Restoration Bond - SMCL*	3,267,734	4,975,728
Amortisation of deferred mining cost	746,026	1,982,721
License fee - SMCL	26,737,228	-
Total	560,678,566	668,716,722



Note 22 :Operation & Maintenance Expenses

Particulars	31-Dec-20	31-Dec-19
R & M - Building - SMCL	676,009	533,928
R & M - Office Equipment - SMCL	18,000	6,300
R & M - Vehicles - SMCL	4,515,999	4,520,541
Vehicle Running Expenses (POL) - SMCL	8,270,155	9,005,810
R & M - Plant & Machinery - SMCL	13,069,586	8,314,110
R & M -data processing equipment - SMCL	132,145	49,705
POL Plant & Machinery	14,362,581	7,346,186
Power consumption for crushing plant - SMCL	2,139,175	2,067,147
Road Maintenance - SMCL	672,010	11,429
Insurance - SMCL	1,534,724	898,936
Annual Maintenance-ERP	1,200,000	1,097,652
Total	46,590,383	33,881,774

Note 24: Employee Benefits Expenses

Particulars	31-Dec-20	31-Dec-19
Payroll & Related Expenses		
Salaries ,wages and allowances	39,106,433	23,648,166
Allowances	17,076,999	12,385,311
Leave Travel Concession - SMCL	2,292,022	1,793,253
Overtime Payment	3,200,973	1,909,429
Performance Based Variable Pay - SMCL	5,708,107	4,582,746
HRD expenses	71,235	4,632,478
Post Employment Benefits		
GPF Contribution (Employer) - SMCL	5,688,038	3,055,162
Gratuity Contribution - SMCL	1,988,210	1,159,468
Repatriation Allowances - SMCL	270,633	345,504
Bonus	-	5,010,535
Carriage Charges - SMCL	842,454	526,322
Other Employee Benefits		
Leave Encashment - SMCL	3,067,010	1,989,936
Long Term Studies - SMCL	-	-
Transfer Grant - SMCL	867,487	578,764
GPA	398,629	269,711
Employee Recognition Award -SMCL	-	20,000
Total	80,578,251	61,846,785

Note 25: Finance Cost

Particulars	31-Dec-20	31-Dec-19
Interest on Secured Loan	5,446,174	7,549,868
Loan processing fees	119,988	370,097
Total	5,566,162	7,919,965

Note: The interest on NPPF term loan is net off of the interest waiver from Royal Government of Bhutan and NPPF with consideration of the impact due to COVID - 19. The interest waiver amounts to Nu. 2,687,803.90



Note 26: Other Expenses

Particulars	31-Dec-20	31-Dec-19
a) Administrative & Other Expenses		
Audit Fees & Expenses - SMCL	408,720	549,254
Board Meeting Expenses - SMCL	34,710	346,214
Corporate Social Responsibility - SMCL	1,667,838	1,211,993
Electricity Charges - SMCL	206,655	211,835
Hospitality & Entertainment Expenses - SMCL	978,215	732,679
Interest Charges - SMCL	1,204,739	1,016,067
License Processing Fees - SMCL	6,100	-
Office Expenses - SMCL	1,281,631	1,115,179
Office Rent - SMCL	1,430,687	1,444,687
Office Supplies, Printing & Stationeries - SMCL	1,699,504	1,772,622
Telephone & Fax - SMCL	287,365	405,531
Sub-Committee Meeting expenses - SMCL	-	71,600
Sub-committee sitting fee - SMCL	110,000	228,000
Inaugural/sanctification Expenses - SMCL	-	150,000
Board Sitting Fees - SMCL	232,000	324,000
Fees & Subscriptions - SMCL	5,414,844	4,795,398
Bank Charges - SMCL	464,404	54,796
Travel-Foreign - SMCL	162,908	1,256,184
Travel-Local - SMCL	4,447,583	5,025,887
Meeting & Retreat Expenses - SMCL	284,900	604,342
Hire Charges - SMCL	151,866	5,500
Working lunch - SMCL	1,536,901	999,050
Guest House Expenses - SMCL	337,773	148,741
Donation - SMCL	511,409	522,540
Data Center Charges - SMCL	230,504	194,960
Bad Debt	-	1,066,934
Inventory Balance - Written Off (Net)	-	6,289,791
Depreciation Adjustment (Previous Years)	-	(61,854)
Lease rent - SMCL	24,894	-
Sports/Recreation - SMCL	40,630	-
Sub Total (a) -	23,491,020	30,931,285
b) General Expenses		
Books, Newspaper & Magazines - SMCL	2,130	18,760
Spares / Terminal Expenses - SMCL	833,239	593,043
Store & Spares - SMCL	16,278	660
Fines & Penalties	-	(1,600)
Media & Publications Expenses - SMCL	-	40,857
Postage & Courier charges - SMCL	16,982	37,290
Sub Total (b) -	870,628	647,912
Total (a+b) -	23,561,673	31,622,297

Note 27: Selling & Distribution

Particulars	31-Dec-20	31-Dec-19
Freight Outwards - SMCL	74,116,644	70,431,085
Loading & Unloading Charges - SMCL	6,703,723	12,953,697
Stacking charges - SMCL	-	787,500
Transportation from Sij to Rangiya - SMCL	-	21,174,051
CST Clearing Expenses - SMCL	-	244,549
Marketing & Selling Expenses - SMCL	1,236	768,833
Advertisement - SMCL	274,190	480,952
Selling & Distribution (Last Year)	-	-
Total	81,095,790	106,842,647

Note 27: Earnings Per Share

Particulars	31-Dec-20	31-Dec-19
Net profit attributable to equity shareholders	364,189,430	335,351,842
Issued and outstanding ordinary shares at the beginning	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 2020	-	-
Basic and Diluted Earnings per Share	124	114



(All amounts in Nu , unless otherwise stated)

Note 28: Capital management

(a) Risk management

The company's objectives when managing capital are to

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

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

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

Note 29: Financial Risk Management

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

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

Risk	Exposure arising from	Measurement	Management
Credit risk	Cash and cash equivalents, trade receivables, financial assets measured at amortised	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	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

(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 (DCCI), being the sister company, credit term has been extended.

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

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 accented. 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 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 2020	Less than 1 year	More than 1 year	Total
Trade and Other Payables	43,630,873	-	43,630,873
Total financial liabilities	43,630,873	-	43,630,873

Contractual maturities of financial liabilities 31 December 2019	Less than 1 year	More than 1 year	Total
Trade and Other Payables	18,969,383	-	18,969,383
Total financial liabilities	18,969,383	-	18,969,383

(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

(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.



30. 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.

31. 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 2020, However the Company availed Inter Corporate Loan of Nu 300 million from DGPC (Druk Green Power Corporation) to meet the short-term cash deficits towards the mid of November 2020 for term of 1 year.

32. All the balances against debtor, creditors and advances are based on the invoices raised to/raised from and advances paid respectively, which are not settled as at reporting date. The company has already initiated the process of availing confirmation from various parties. Pending completion of the same including reconciliation, any further adverse adjustments to be made in these accounts are not presently ascertainable at this stage. The Directors are of the opinion that the effect of process may not be significant and material in relation to these financial statements.

33a. There are no contingent liabilities for the Company as on 31st December 2020.

33b. Capital Commitment

Particulars	2021	2020
2A. Property, Plant and Equipment		
Plant & Machinery	54,295,193	109,035,000
Furniture & Fixture	995,800	2,369,150
Safety Equipment	385,840	470,425
Survey Equipment	3,004,000	310,740
Motor Vehicle	10,570,000	7,370,000
Building & Civil Structure	84,482,480	51,064,790
Lab Equipment	2,486,766	575,730
Office Equipment	902,400	690,700
Data Processing Equipment	5,334,750	6,803,000
Total Property, Plant and Equipment	162,457,229	178,689,535
2B. Intangible Assets		
Software	1,500,000	1,500,000
Total Intangible Assets	1,500,000	1,500,000
Balance to Accounts	163,957,229	180,189,535



5. FINANCIAL EXHIBITS

5.1 DETAILED FINANCIAL EXHIBITS

A. LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

Nu.	31-Dec-2020	31-Dec-2019
Present value of define benefit obligation	3,921,870	2,629,310
Fair value of plan assets	2,542,592	2,279,053
Funded status - surplus/(deficit)	(1,379,278)	(350,257)
Effect of asset ceiling	-	-
Net defined benefit asset/(liability)	(1,379,278)	(350,257)

B. COMPOSITION OF DEFINED BENEFIT COST

Nu.	31-Dec-2020	31-Dec-2019
Expense recognised in profit or loss	1,976,000	1,130,263
Expense recognised in other comprehensive income	(918,144)	188,990
Defined benefit cost	1,057,856	1,319,253



C. EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS

Nu.	31-Dec-2020	31-Dec-2019
Current service cost	1,949,133	1,200,264
Past service cost	-	-
Loss/(Gain) on settlement	-	-
Interest on DBO	209,191	112,323
Interest on plan asset	182,324	182,324
Expenses recognised in profit or loss	1,976,000	1,130,263

D. AMOUNT RECOGNISED AS OTHER COMPREHENSIVE INCOME

Nu.	31-Dec-2020	31-Dec-2019
Actuarial (gain) or loss due to experience adjustments	(836,929)	6,666
Actuarial (gain) or loss due to changes in financial assumptions	-	-
Actuarial (gain) or loss due to changes in demographic assumptions	-	-
Return on plan assets (greater) or less than discount rate	81,215	(182,324)
Expenses recognised in profit or loss	(755,714)	(175,658)

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

Nu.	31-Dec-2020	31-Dec-2019
DBO at the beginning of period	2,629,310	1,498,025
Add: Current service cost	1,949,133	1,200,264
Add: Past service cost	-	-
Add: Interest cost	209,191	112,323
Less: Benefits paid by the plan	-	(187,968)
Less: Benefits paid by the employer	(28,835)	-
Actuarial (gain) or losses due to experience adjustment	(836,929)	6,666
Actuarial (gain) or losses due to change in financial assumptions	-	-
Actuarial (gain) or losses due to change in demographic assumptions	-	-
DBO at the end of period	3,921,870	2,629,310



F. COMPOSITION OF PLAN ASSET

Nu.	31-Dec-2020	31-Dec-2019
Bonds [Government/corporate]	-	-
Fixed deposit	2,542,592	2,279,053
Equities	-	-
Total	2,542,592	2,279,053

G. RECONCILIATION OF CHANGES IN FAIR VALUE OF PLAN ASSETS

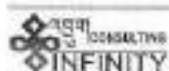
Nu.	31-Dec-2020	31-Dec-2019
Fair value of the beginning of period	2,279,053	181,229
Contribution paid into the plan	-	2,285,792
Return on plan assets	182,324	182,324
Benefits paid from the plan	-	(187,968)
Return on plan assets greater or (less) than discount rate	81,215	(182,324)
Fair value of the end of period	2,542,592	2,279,053

H. BIFURCATION BETWEEN CURRENT & NON-CURRENT LIABILITY

Nu.	31-Dec-2020	31-Dec-2019
Current liability	511,764	155,421
Non-current liability	867,515	194,836
Net Liability	1,379,278	350,257

I. EXPECTED BENEFIT PAYMENTS IN FUTURE YEARS

In.	Nu.
December 31, 2021	833,095
December 31, 2022	503,127
December 31, 2023	932,542
December 31, 2024	1,185,598
December 31, 2025	1,759,668
December 2026 to December 2030	13,549,784
December 2031 to December 2040	50,151,291

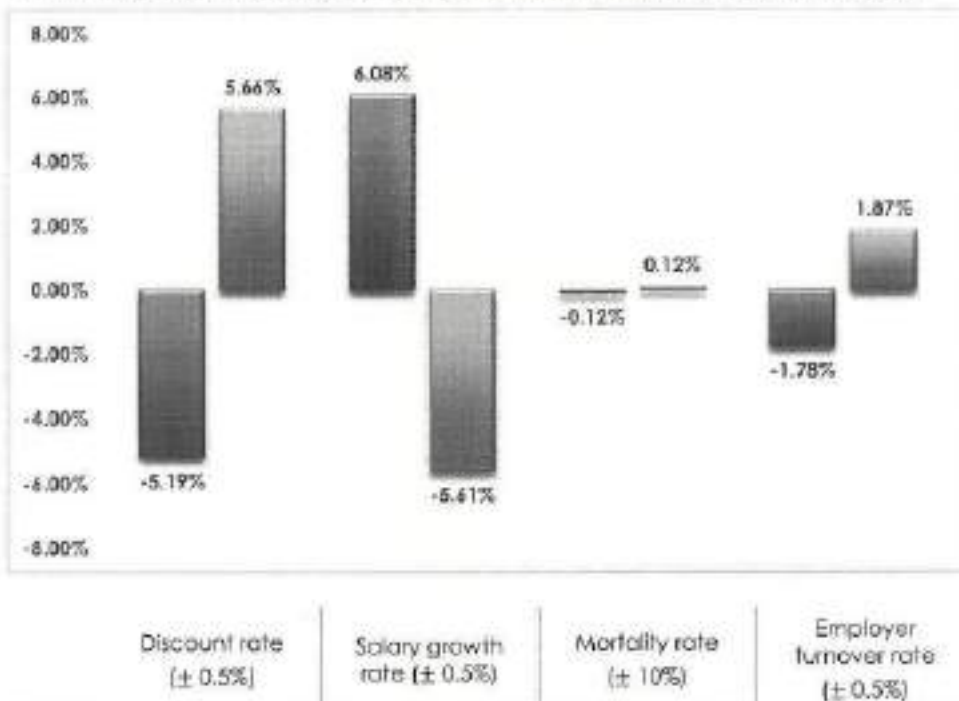
J. ESTIMATED TERM OF LIABILITY (IN YEARS): 14.87

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 3.4 was employed for this exercise.

Assumption/Parameter	Scenario	Defined Benefit Obligation (DBO)	Net effect of DBO	Percent change
Discount rate	+ 0.5%	3,718,368	(203,502)	-5.19%
	Base rate	3,921,870	-	0.00%
	- 0.5%	4,143,683	221,813	5.66%
Increase in transportation cost	+ 0.5%	4,160,383	238,513	6.08%
	Base rate	3,921,870	-	0.00%
	- 0.5%	3,701,665	(220,205)	-5.61%
Mortality rate	+ 0.5%	3,917,317	(4,553)	-0.12%
	Base rate	3,921,870	-	0.00%
	- 0.5%	3,926,446	4,576	0.12%
Employer turnover rate	+ 0.5%	3,852,236	(69,634)	-1.78%
	Base rate	3,921,870	-	0.00%
	- 0.5%	3,995,169	73,299	1.87%

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 with regard to the materials contained in this report. Dated 17 January, 2021, this version of the report nullifies all other versions, whether signed or not, preceding this date.



Tandin Dorji

Actuarial Consultant

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<https://drukinfinity.com>



[11]

Leave Valuation Report

5. FINANCIAL EXHIBITS

5.1 DETAILED FINANCIAL EXHIBITS

A. LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

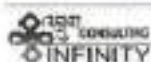
No.	31-Dec-2020	31-Dec-2019
Present value of define benefit obligation	2,775,689	1,776,189
Fair value of plan assets	-	-
Funded status - surplus/(deficit)	(2,775,689)	(1,776,189)
Effect of asset ceiling	-	-
Net defined benefit asset/(liability)	(2,775,689)	(1,776,189)

B. COMPOSITION OF DEFINED BENEFIT COST

No.	31-Dec-2020	31-Dec-2019
Service Cost	999,500.00	1,011,699.00
Net interest on net defined liability (asset)	(22,459.00)	61,159.00
Immediate recognition of gains/losses - Other long term employee benefits	2,079,387.00	-
Expense recognised in other comprehensive income	-	-
Define Benefit Cost	3,056,428.00	1,072,858.00

C. EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS

No.	31-Dec-2020	31-Dec-2019
Current service cost	999,500.00	1,011,699.00
Past service cost	-	-
Loss/(Gain) on settlement	-	-
Interest on DBO	(22,459.00)	61,159.00
Interest on plan asset	-	-
Immediate recognition of gains/losses - Other long term employee benefits	2,079,387.00	-
Expenses recognised in profit or loss	3,056,428.00	1,072,858.00



[7]



D. AMOUNT RECOGNISED AS OTHER COMPREHENSIVE INCOME

No.	31-Dec-2020	31-Dec-2019
Actuarial (gain) or loss due to experience adjustments	2,079,387.00	-
Actuarial (gain) or loss due to changes in financial assumptions	-	-
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	2,079,387.00	-
Expense recognised as other comprehensive income	-	-

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

No.	31-Dec-2020	31-Dec-2019
DBO at the beginning of period	1,776,189	764,490
Add: Current service cost	999,500	1,011,499
Add: Past service cost	-	-
Add: Interest cost	(22,459)	61,159
Less: Benefits paid by the plan	-	-
Less: Benefits paid by the employer	(2,056,928)	(61,159)
Actuarial (gain) or losses due to experience adjustment	2,079,387	-
Actuarial (gain) or losses due to change in financial assumptions	-	-
Actuarial (gain) or losses due to change in demographic assumptions	-	-
DBO at the end of period	2,775,689	1,776,189

F. COMPOSITION OF PLAN ASSET

No.	31-Dec-2020	31-Dec-2019
Bonds (Government/corporate)	-	-
Fixed deposit	-	-
Equities	-	-
Total	-	-



G. RECONCILIATION OF CHANGES IN FAIR VALUE OF PLAN ASSETS

Nu.	31-Dec-2020	31-Dec-2019
Fair value at the beginning of period	-	-
Contribution paid into the plan	-	-
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

Nu.	31-Dec-2020	31-Dec-2019
Current liability	88,070	22,450
Non-current liability	2,687,619	1,776,189
Net Liability	2,775,689	1,798,639

I. EXPECTED BENEFIT PAYMENTS IN FUTURE YEARS

In.	Nu.
December 31, 2021	286,822
December 31, 2022	202,228
December 31, 2023	215,774
December 31, 2024	209,496
December 31, 2025	209,809
December 2026 to December 2030	1,174,641
December 2031 to December 2040	2,473,551

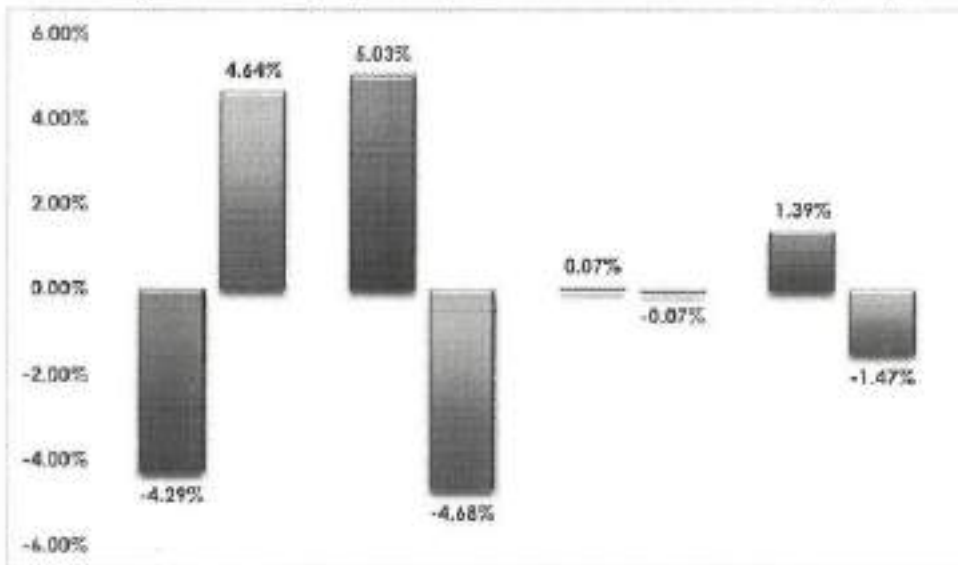
J. ESTIMATED TERM OF LIABILITY (IN YEARS): 10.06

5.2 SENSITIVITY ANALYSES

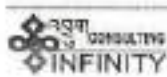
The following table summarises the results of sensitivity tests performed on the present value of the defined benefit obligation by varying the assumption parameters as listed. The same model and valuation methodology as described in 3.4 was employed for this exercise.

Assumption/Parameter	Scenario	Defined Benefit Obligation (DBO)	Net effect of DBO	Percent change
Discount rate	+ 0.5%	2,656,618	(119,071)	-4.29%
	Base rate	2,775,689	-	0.00%
	- 0.5%	2,904,447	128,758	4.64%
Increase in transportation cost	+ 0.5%	2,915,222	139,533	5.03%
	Base rate	2,775,689	-	0.00%
	- 0.5%	2,645,781	(129,908)	-4.68%
Mortality rate	+ 0.5%	2,777,526	1,837	0.07%
	Base rate	2,775,689	-	0.00%
	- 0.5%	2,773,899	(1,890)	-0.07%
Employer turnover rate	+ 0.5%	2,814,302	38,613	1.39%
	Base rate	2,775,689	-	0.00%
	- 0.5%	2,734,916	(40,773)	-1.47%

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



Discount rate (± 0.5%) Salary growth rate (± 0.5%) Mortality rate (± 10%) Employer turnover rate (± 0.5%)



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 with regard to the materials contained in this report. Dated 17 January, 2021, this version of the report nullifies all other versions, whether signed or not, preceding this date.



Tandin Dorji

Actuarial Consultant

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[11]

Carriage Charges Valuation Report

5. FINANCIAL EXHIBITS

5.1 DETAILED FINANCIAL EXHIBITS

A. LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

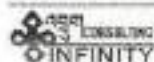
Nu.	31-Dec-2020	31-Dec-2019
Present value of define benefit obligation	415,443	181,818
Fair value of plan assets	-	-
Funded status- surplus/(deficit)	(415,443)	(181,818)
Effect of asset ceiling	-	-
Net defined benefit asset/(liability)	(415,443)	(181,818)

B. COMPOSITION OF DEFINED BENEFIT COST

Nu.	31-Dec-2020	31-Dec-2019
Expense recognised in profit or loss	318,494	91,322
Expense recognised in other comprehensive income	15,131	90,496
Defined benefit cost	333,625	181,818

C. EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS

Nu.	31-Dec-2020	31-Dec-2019
Current service cost	311,949	91,322
Past service cost	-	-
Loss/(Gain) on settlement	-	-
Interest on DBO	6,545	-
Interest on plan asset	-	-
Expenses recognised in profit or loss	318,494	91,322



[7]



D. AMOUNT RECOGNISED AS OTHER COMPREHENSIVE INCOME

Nu.	31-Dec-2020	31-Dec-2019
Actuarial (gain) or loss due to experience adjustments	15,131	90,496
Actuarial (gain) or loss due to changes in financial assumptions	-	-
Actuarial (gain) or loss due to changes in demographic assumptions	-	-
Return on plan assets (greater) or less than discount rate	-	-
Expenses recognised in profit or loss	15,131	90,496

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

Nu.	31-Dec-2020	31-Dec-2019
DBO at the beginning of period	181,818	-
Add: Current service cost	311,949	91,322
Add: Past service cost	-	-
Add: Interest cost	6,545	-
Less: Benefits paid by the plan	-	-
Less: Benefits paid by the employer	(100,000)	-
Actuarial (gain) or losses due to experience adjustment	15,131	90,496
Actuarial (gain) or losses due to change in financial assumptions	-	-
Actuarial (gain) or losses due to change in demographic assumptions	-	-
DBO at the end of period	415,443	181,818

F. COMPOSITION OF PLAN ASSET

Nu.	31-Dec-2020	31-Dec-2019
Bonds (Government/corporate)	-	-
Fixed deposit	-	-
Equities	-	-
Total	-	-

G. RECONCILIATION OF CHANGES IN FAIR VALUE OF PLAN ASSETS

Nu.	31-Dec-2020	31-Dec-2019
Fair value at the beginning of period	-	-
Contribution paid into the plan	-	-
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

Nu.	31-Dec-2020	31-Dec-2019
Current liability	167,245	35,599
Non-current liability	248,198	146,219
Net Liability	415,443	181,818

I. EXPECTED BENEFIT PAYMENTS IN FUTURE YEARS

In.	Nu.
December 31, 2021	480,275
December 31, 2022	330,827
December 31, 2023	347,117
December 31, 2024	380,011
December 31, 2025	356,351
December 2026 to December 2030	1,807,206
December 2031 to December 2040	3,878,981

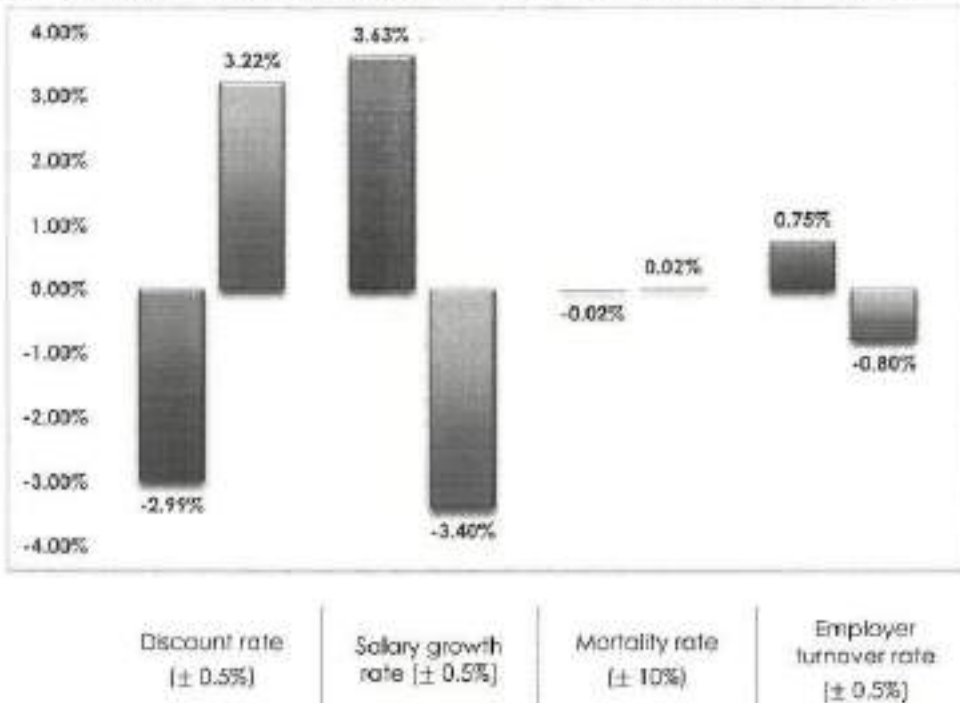
J. ESTIMATED TERM OF LIABILITY (IN YEARS): 10.02

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 3.4 was employed for this exercise.

Assumption/Parameter	Scenario	Defined Benefit Obligation (DBO)	Net effect of DBO	Percent change
Discount rate	+ 0.5%	403,017	(12,426)	-2.99%
	Base rate	415,443	-	0.00%
	- 0.5%	428,827	13,384	3.22%
Increase in transportation cost	+ 0.5%	430,517	15,074	3.63%
	Base rate	415,443	-	0.00%
	- 0.5%	401,317	(14,126)	-3.40%
Mortality rate	+ 0.5%	415,373	(70)	-0.02%
	Base rate	415,443	-	0.00%
	- 0.5%	415,514	70.82	0.02%
Employer turnover rate	+ 0.5%	418,569	3,126	0.75%
	Base rate	415,443	-	0.00%
	- 0.5%	412,128	(3,315)	-0.80%

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 with regard to the materials contained in this report. Dated 17 January, 2021, this version of the report nullifies all other versions, whether signed or not, preceding this date.



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Repatriation Allowance Valuation Report

5. FINANCIAL EXHIBITS

5.1 DETAILED FINANCIAL EXHIBITS

A. LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

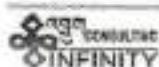
No.	31-Dec-2020	31-Dec-2019
Present value of define benefit obligation	376,815	281,654
Fair value of plan assets	-	-
Funded status - surplus/(deficit)	(376,815)	(281,654)
Effect of asset ceiling	-	-
Net defined benefit asset/(liability)	(376,815)	(281,654)

B. COMPOSITION OF DEFINED BENEFIT COST

No.	31-Dec-2020	31-Dec-2019
Expense recognised in profit or loss	258,423	140,451
Expense recognised in other comprehensive income	(98,570)	141,203
Defined benefit cost	159,853	281,654

C. EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS

No.	31-Dec-2020	31-Dec-2019
Current service cost	238,478	140,451
Post service cost	-	-
Loss/(Gain) on settlement	-	-
Interest on DBO	19,945	-
Interest on plan asset	-	-
Expenses recognised in profit or loss	258,423	140,451



[7]



D. AMOUNT RECOGNISED AS OTHER COMPREHENSIVE INCOME

Nu.	31-Dec-2020	31-Dec-2019
Actuarial (gain) or loss due to experience adjustments	(98,570)	141,203
Actuarial (gain) or loss due to changes in financial assumptions	-	-
Actuarial (gain) or loss due to changes in demographic assumptions	-	-
Return on plan assets (greater) or less than discount rate	-	-
Expenses recognised in profit or loss	(98,570)	141,203

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

Nu.	31-Dec-2020	31-Dec-2019
DBO at the beginning of period	281,654	-
Add: Current service cost	238,478	140,451
Add: Past service cost	-	-
Add: Interest cost	19,945	-
Less: Benefits paid by the plan	-	-
Less: Benefits paid by the employer	(64,692)	-
Actuarial (gain) or losses due to experience adjustment	(98,570)	141,203
Actuarial (gain) or losses due to change in financial assumptions	-	-
Actuarial (gain) or losses due to change in demographic assumptions	-	-
DBO at the end of period	376,815	281,654

F. COMPOSITION OF PLAN ASSET

Nu.	31-Dec-2020	31-Dec-2019
Bonds (Government/corporate)	-	-
Fixed deposit	-	-
Equities	-	-
Total	-	-



[8]



G. RECONCILIATION OF CHANGES IN FAIR VALUE OF PLAN ASSETS

Nu.	31-Dec-2020	31-Dec-2019
Fair value at the beginning of period	-	-
Contribution paid into the plan	-	-
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

Nu.	31-Dec-2020	31-Dec-2019
Current liability	152,514	51,807
Non-current liability	224,301	229,847
Net Liability	376,815	281,654

I. EXPECTED BENEFIT PAYMENTS IN FUTURE YEARS

In.	Nu.
December 31, 2021	387,685
December 31, 2022	246,413
December 31, 2023	259,539
December 31, 2024	271,110
December 31, 2025	259,652
December 2026 to December 2030	1,410,569
December 2031 to December 2040	2,847,948

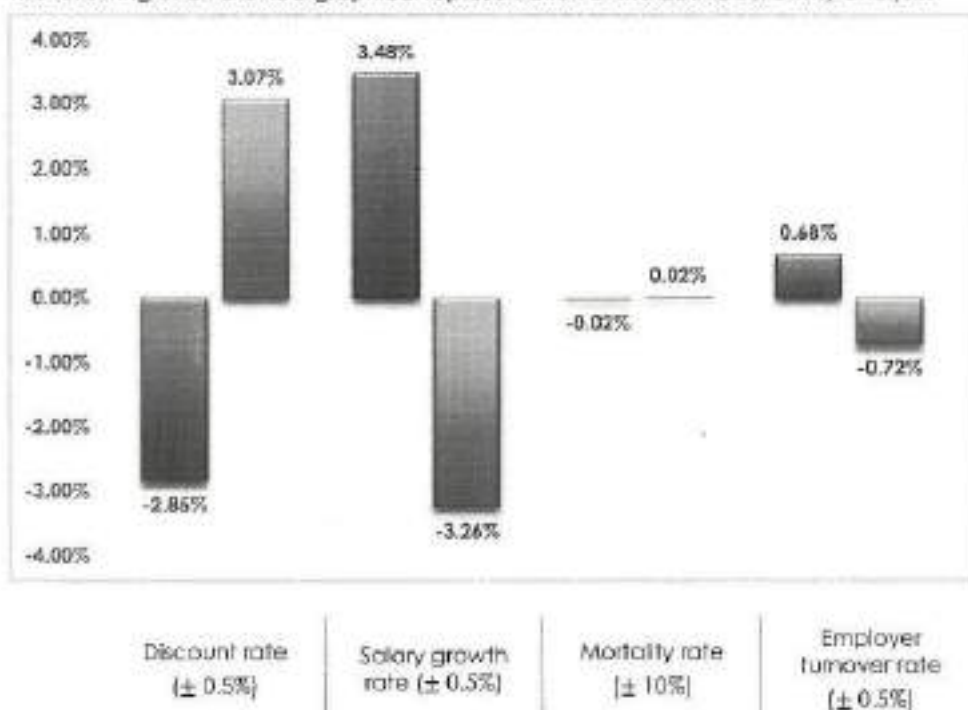
J. ESTIMATED TERM OF LIABILITY (IN YEARS): 10.02

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 3.4 was employed for this exercise.

Assumption/Parameter	Scenario	Defined Benefit Obligation (DBO)	Net effect of DBO	Percent change
Discount rate	+ 0.5%	366,075	(10,740)	-2.85%
	Base rate	376,815	-	0.00%
	- 0.5%	388,376	11,560	3.07%
Increase in transportation cost	+ 0.5%	389,913	13,098	3.48%
	Base rate	376,815	-	0.00%
	- 0.5%	364,528	(12,287)	-3.26%
Mortality rate	+ 0.5%	376,727	(88)	-0.02%
	Base rate	376,815	-	0.00%
	- 0.5%	376,903	88.06	0.02%
Employer turnover rate	+ 0.5%	379,388	2,573	0.68%
	Base rate	376,815	-	0.00%
	- 0.5%	374,083	(2,732)	-0.72%

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.

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[11]

5. FINANCIAL EXHIBITS

5.1 DETAILED FINANCIAL EXHIBITS

A. LIABILITY RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

No.	31-Dec-2020	31-Dec-2019
Present value of define benefit obligation	376,815	281,654
Fair value of plan assets	-	-
Funded status - surplus/(deficit)	(376,815)	(281,654)
Effect of asset ceiling	-	-
Net defined benefit asset/(liability)	(376,815)	(281,654)

B. COMPOSITION OF DEFINED BENEFIT COST

No.	31-Dec-2020	31-Dec-2019
Expense recognised in profit or loss	258,423	140,451
Expense recognised in other comprehensive income	(98,570)	141,203
Defined benefit cost	159,853	281,654

C. EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS

No.	31-Dec-2020	31-Dec-2019
Current service cost	238,478	140,451
Post service cost	-	-
Loss/(Gain) on settlement	-	-
Interest on DBO	19,945	-
Interest on plan asset	-	-
Expenses recognised in profit or loss	258,423	140,451



D. AMOUNT RECOGNISED AS OTHER COMPREHENSIVE INCOME

No.	31-Dec-2020	31-Dec-2019
Actuarial (gain) or loss due to experience adjustments	(98,570)	141,203
Actuarial (gain) or loss due to changes in financial assumptions	-	-
Actuarial (gain) or loss due to changes in demographic assumptions	-	-
Return on plan assets (greater) or less than discount rate	-	-
Expenses recognised in profit or loss	(98,570)	141,203

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

No.	31-Dec-2020	31-Dec-2019
DBO at the beginning of period	281,654	-
Add: Current service cost	238,478	140,451
Add: Past service cost	-	-
Add: Interest cost	19,945	-
Less: Benefits paid by the plan	-	-
Less: Benefits paid by the employer	(64,692)	-
Actuarial (gain) or losses due to experience adjustment	(98,570)	141,203
Actuarial (gain) or losses due to change in financial assumptions	-	-
Actuarial (gain) or losses due to change in demographic assumptions	-	-
DBO at the end of period	376,815	281,654

F. COMPOSITION OF PLAN ASSET

No.	31-Dec-2020	31-Dec-2019
Bonds (Government/corporate)	-	-
Fixed deposit	-	-
Equities	-	-
Total	-	-



[8]



G. RECONCILIATION OF CHANGES IN FAIR VALUE OF PLAN ASSETS

Nu.	31-Dec-2020	31-Dec-2019
Fair value at the beginning of period	-	-
Contribution paid into the plan	-	-
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

Nu.	31-Dec-2020	31-Dec-2019
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Non-current liability	224,301	229,847
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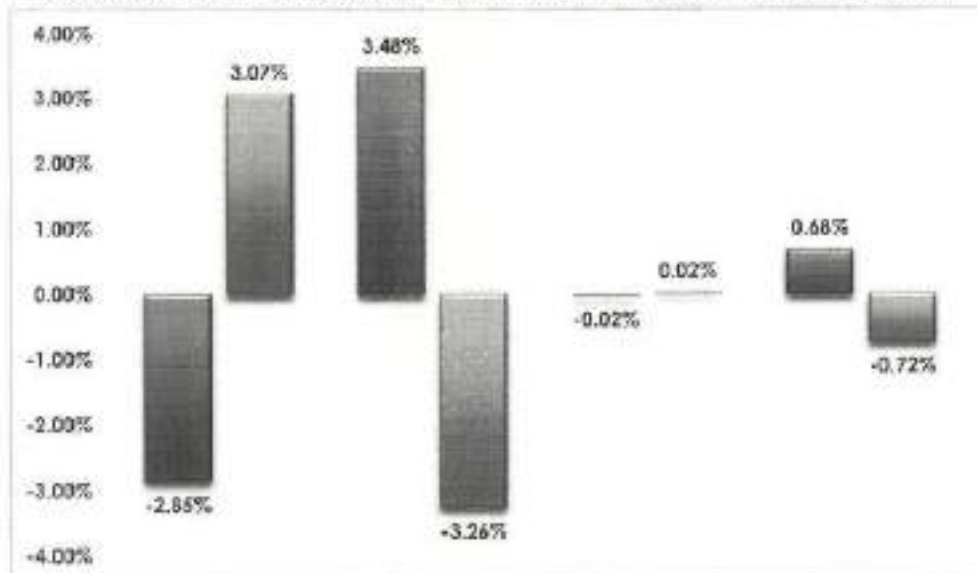
J. ESTIMATED TERM OF LIABILITY (IN YEARS): 10.02

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 3.4 was employed for this exercise.

Assumption/Parameter	Scenario	Defined Benefit Obligation (DBO)	Net effect of DBO	Percent change
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	Base rate	376,815	-	0.00%
	- 0.5%	388,375	11,560	3.07%
Increase in transportation cost	+ 0.5%	389,913	13,098	3.48%
	Base rate	376,815	-	0.00%
	- 0.5%	364,528	(12,287)	-3.26%
Mortality rate	+ 0.5%	376,727	(88)	-0.02%
	Base rate	376,815	-	0.00%
	- 0.5%	376,903	88.06	0.02%
Employer turnover rate	+ 0.5%	379,388	2,573	0.68%
	Base rate	376,815	-	0.00%
	- 0.5%	374,083	(2,732)	-0.72%

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



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[11]





35. Related Party Disclosure:
The Company is a wholly owned subsidiary of Druk Holding & Investments (Royal Government of Bhutan underwriting). The Company has no subsidiary Company. The Company considers that for the purpose of IAS 24 the Royal Government of Bhutan is a provider of control over it, and therefore regards the Royal Government of Bhutan and its affiliated companies/corporations as related.

35.1 Name of the related parties and Relation

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

35.2 Name of the fellow Subsidiaries

1. Drukam Cement Corporation Ltd.(DCCCL)
2. Wood Craft Center Ltd.(WCCL)
3. Druk Green Power Corporation Ltd.(DGPCL)
4. Drukam Polyments Ltd.(DPL)
5. Bhutan Power Corporation Ltd.(BPCL)
6. Bank of Bhutan Ltd.(BoBL)
7. Bhutan Board Product Ltd.(BBPL)
8. National Resources Development Corporationise Ltd.(NRDCL)
9. State Trading Corporation of Bhutan Ltd.(STCBL)
10. Bhutan Tobacco Ltd.(BTL)
11. Druk Air Corporation Ltd.(DACL)
12. Construction Development Corporation Ltd.(CDCL)
13. Thangphu Tech Park Ltd.(TTPPL)
14. Dagsheva Hydro Corporation Limited
15. Bhutan Board Export Limited
16. Kinfuki International Limited
17. Thangphu TechPark Limited
18. Tangshu Hydro Energy Limited
19. Pension Council Authority Limited

35.3 Transactions with fellow subsidiaries:

Name of related party	Description	2020	2019
Druk Holdings & Investment (DHI)-Holding Company	1.Guarantee loan	119,985	370,067
	2. Dividend Paid	316,480,000	64,677,840
	3. Branch Management	5,315,034	1,541,149
	4. Shares sold by DHI	293,940,000	285,990,040
	5.Guarantee fees payable	119,985	570,067
	6. Trade Taxable		24,136
	7. Trade Receivable		1,726
Bank of Bhutan Ltd.(BoBL)	1. Bank Charges & Fees paid to BoBL	464,404	-
	2. Bank Balance with BoBL	82,268,564	90,182,641
	3. Fixed Deposit with BoBL		100,000,000
	4. Interest Receivable from FD		5,336,966
	5. Interest Received from Bank		318,000
Bhutan Telecom Limited	1. Purchase of lease Line Equipment		34,340
	2. Internet & Telephone Charges	1,442,101	1,421,618
	3. Intragroup Trade Payables	2,67,294	200,000
	4. Funding & Maintenance LC to Bank - Intragroup		1,097,652
State Trading Corporation Limited	1. Purchase of vehicle		21,638,116
	2.Purchase of explosive		6,267,538
	3.Repairing & Maintenance of vehicle	2,017,094	2,649,441
	4 Payable to STCBL	5,590,473	33,700
Drukam Cement Corporation Limited	1. Sale of Coal	3,69,740,624	403,748,240
	2. Sale of Gypsum	28,161,003	
	3. Receivable from sale of coal/gypsum	414,080,541	273,481,700
Bhutan Power Corporation Limited	1. Electricity Charges Paid to DHI Companies	2,315,279	3,299,002
	2. Intragroup Trade Payables		-
	3. Security Deposit Received	79,362	30,000



Bhutan Beerd Product Limited	1. Purchase of pre-fab house		300,000
	2. Payable for payable purchased		48,865
Natural Resources Development Corporation Limited	1. Procurement of sand and wood	115,430	-
	2. Trade payable		-
	1. Sale of Coal	14,421,005	23,672,270
	2. Sale of Gypsum	25,377,120	
	3. Inter-company Trade receivable	8,235,001	
Drak Green Power Corporation Ltd.(DGPCL)	1. Inter-group Loans	300,000,000	
	2. Intra group Accrued Interest on loans	2,516,655	
	3. Interest on borrowings-Inter-group	2,516,655	
	1. Training fees		45,000
Thimphu TechPark Ltd	2. Inter company Trade Payables	500,000	
Drak Air Corporation	3. Yearly AMC for EEP and Others	1,200,000	
	Inter - Company Trade Payable		(35,948)



35.4 List of Key Managerial Personnel:

1. Mr Dashe Karma Yezer Baydel, Chairman
2. Soomai Wangyel, Director
3. Mr. Thinley Namgyel, Director
4. Mr. Jigme Thinley, Director
5. Mr. Geley Norbu, Director
6. Mrs. Kozang Deki, Director
7. Mr. Kozang Jamtsho, Director
8. Mr. Jigme Dorji, Additional Director
9. Dashe Chawng Rhetin (New Board Director)

35.5 Related parties with whom transactions have taken place during the year:

Board Directors:-

Name	Sitting Fees (2020)	Sitting Fees (2019)
1. Mr Dashe Karma Yezer Baydel, Chairman	44,000	64,000
2. Mr. Soomai Wangyel, Director	8,000	40,000
3. Mr. Thinley Namgyel, Director	40,000	8,000
4. Mr. Jigme Thinley, Director	48,000	40,000
5. Mr. Geley Norbu, Director	40,000	32,000
6. Mrs. Kozang Deki, Director	48,000	64,000
7. Mr. Kozang Jamtsho, Director	52,000	-
8. Mr. Jigme Dorji, Additional Director	28,000	-
9. Dashe Chawng Rhetin (New Board Director)	308,000	296,000
Total-		

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

35.7 Transactions during the year.

36. Managerial Remuneration

	2020	2019
Basic Pay	3,193,440	1,535,315
Allowances	3,474,060	827,800
EVBA and Bonus	490,300	407,021
OFF Contribution (Employee)	179,000	129,009
Travelling expense of CEO	263,250	417,962
Sitting fees to Board of Directors of the company	48,000	35,000
Leave Encashment	98,100	84,871
Leave Travel Concession	15,000	15,000
Grand Total	9,361,820	3,451,979

37. Auditors remuneration

Particulars	2020	2019
Auditors Fees	105,000	65,000
Auditors Expenses*	303,750	160,000
Total	408,750	225,000

*Provisional including PAA and Tax Audit

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

Note 39 : 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 BFRS - 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 31/12/2020

- 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 and Gypsum.

I. Primary Segment Information

Particulars	Sales of Coal Products		Sales of Gypsum Products		Other		Total	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
Income-								
Gross Segment Revenue	460,890,525	335,545,554	684,740,772	874,618,384	20,264,104	22,595,735	1,165,895,401	1,432,759,673
Less: Intra Segment Revenue	-	-	-	-	-	-	-	-
Net Segment Revenue	460,890,525	335,545,554	684,740,772	874,618,384	20,264,104	22,595,735	1,165,895,401	1,432,759,673
Segment Results before Tax	171,331,556	189,549,019	378,108,434	355,254,159	17,748,267	64,300,547	531,691,724	480,502,630



Note 48 : Fair value measurements

(All amounts in Nu., unless otherwise stated)

Financial instruments by category

Particulars	31-Dec-20			31-Dec-19			1-Jan-19		
	FVPL	FVOC	Amortised cost	FVPL	FVOC	Amortised cost	FVPL	FVOC	Amortised cost
Financial assets									
Security Deposit	-	-	-	-	-	-	-	-	-
Environment Restoration Bond	-	-	13,438,891	-	-	11,196,302	-	-	10,826,102
Sundry Debtor Domestic	-	-	423,478,394	-	-	308,423,049	-	-	206,396,696
Sundry Debtors International	-	-	-	-	-	(58,683,274)	-	-	-
Security Deposit Placed	-	-	1,440,378	-	-	1,128,488	-	-	912,251
Other Receivable	-	-	-	-	-	-	-	-	-
Deposit due for refund	-	-	-	-	-	-	-	-	-
Cash and Cash Equivalents	-	-	82,681,943	-	-	190,641,755	-	-	63,248,272
Total financial assets	-	-	521,039,607	-	-	482,718,120	-	-	281,383,120
Financial liabilities									
Security Deposits	-	-	14,012,423	-	-	9,473,804	-	-	7,709,600
Employer Payables	-	-	717,371	-	-	808,799	-	-	686,400
Retention Money	-	-	125,193	-	-	150,648	-	-	109,282
Sundry Creditors - Domestic	-	-	38,784,847	-	-	15,579,256	-	-	45,771,652
Term Loan from Financial Institutions	-	-	9,405,698	-	-	14,885,032	-	-	41,535,000
Intra Company Borrowing - SMCL	-	-	300,000,000	-	-	-	-	-	-
Bank Cheque	-	-	-	-	-	-	-	-	3,560
Other payable	-	-	-	-	-	-	-	-	-
Total financial liabilities	-	-	363,045,533	-	-	40,897,148	-	-	95,614,497



(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-20		31-Dec-19	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial assets				
Environment Restoration Bond	13,438,891	13,438,891	11,196,102	11,196,102
Total financial assets	13,438,891	13,438,891	11,196,102	11,196,102

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 41: Exploration and evaluation

Particulars	Gross block			Amortisation		Closing balance as Net carrying amount on 31-12-2020
	Opening as on 1-1-2020	Addition	Deletion/Adj	Closing balance as on 31-12-2020	Opening as on 1-1-2020	
Capitalized explorations and evaluation expenditure	35,967,010	-	-	35,967,010	14,017,066	21,949,944
Total	35,967,010	-	-	35,967,010	14,017,066	21,949,944

M/S. Dechok & associates Pvt. Ltd
Chartered Accountants
Mediterranean, Thimphu

[Signature]
Place: *[Signature]*
Date: 13/04/2021



For State Mining Corporation

[Signature]
Dasho Karma Gyelzer Rajel
Chairman

Place: *[Signature]*
Date: *[Signature]*

Chairman
State Mining Corporation Ltd.
Regd. Office: Samshe, BHUTAN

[Signature]
Kozang Jamcho
CEO

Chief Executive Officer
State Mining Corporation Limited
Samshe, BHUTAN

The background of the page is a repeating pattern of traditional Chinese dragon motifs. The dragons are depicted in various poses, some facing left and some facing right, with intricate scales and flowing manes. They are surrounded by stylized, swirling clouds. The entire pattern is rendered in a light, monochromatic grey color.

RATIO ANALYSIS

State Mining Corporation Limited

RATIO ANALYSIS

Exhibit - 1

#	PARTICULARS		31-Dec-20	31-Dec-19
1	Earning Per Share	Profit After Tax/No. of Shares Issued	123.50	114.41
2	Net Profit Ration	Net Profit/Turnover*100	31.69	23.93
3	Return on Asset	Net Profit/Total Asset*100	26.74	32.56
4	Return on Equity (ROE)	Net Profit/Owners Equity*100	49.77	49.33
5	Debtors Turnover Ratio	Sales/ Average Debtors	2.71	4.15
6	Current Ratio	Current Assets/Current Liabilities	1.74	2.50
7	Quick Ratio	(Current Asset-Inventory)/Current l	1.11	2.20
8	Debtors Collection Period Ratio	(Sundry debtors*366)/Sales	135	88





COMPLIANCE CALENDARS &
CHECKLIST

CHECK LIST FOR COMPLIANCE OF PROVISION OF THE COMPANIES ACT OF BHUTAN, 2016

NAME OF THE COMPANY:		State Mining Corporation Limited				
REGISTERED NO:		U20141231TH10458				
COMPLIANCE CHECKLIST						
No.	Ss.	PARTICULARS	YES	NO	NA	REMARKS
INCORPORATION OF A COMPANY & SECURITIES						
1	28	Changes to Articles/ Approval		<input checked="" type="checkbox"/>		
2	47	Change of name/ Approval		<input checked="" type="checkbox"/>		
3	123	Increase or consolidation of share capital		<input checked="" type="checkbox"/>		
4	124	Reduction of share capital		<input checked="" type="checkbox"/>		
5	82	License Copy and share Certificate filing			<input checked="" type="checkbox"/>	
6	107	Public offer of shares & Debentures-ROC Approval			<input checked="" type="checkbox"/>	
MANAGEMENT & ADMINISTRATION						
7	217	Registered Office of Company (Address and Contact Number)	<input checked="" type="checkbox"/>			
8	221	Publication of name by company (Letter Head, Seals and Sign Board)	<input checked="" type="checkbox"/>			
9	241	Financial Year of Companies as of 31 st Dec.	<input checked="" type="checkbox"/>			
	242	Extension up to 15 months – ROC approval			<input checked="" type="checkbox"/>	
	243	Extension up to 18 months – Authority's approval			<input checked="" type="checkbox"/>	
	245	Financial Statements to follow BAS	<input checked="" type="checkbox"/>			
10	267	Annual Return Submission (On/ before 31 st May for listed; others 31 st July)	<input checked="" type="checkbox"/>			
11	177	Annual General Meeting (Minutes)	<input checked="" type="checkbox"/>			
12	180	Extraordinary General Meeting (Minutes)		<input checked="" type="checkbox"/>		
13	185	Notice for calling general meeting	<input checked="" type="checkbox"/>			
	187	Listed Co. – written as well as in media			<input checked="" type="checkbox"/>	
		Public Co/Private Co. – Written notice	<input checked="" type="checkbox"/>			
14	190	Chairman of meeting (CEO can not chair)	<input checked="" type="checkbox"/>			CEO is not a Chair
15	192	Representation of corporations at meetings (appointed by Board Directors)	<input checked="" type="checkbox"/>			
16	193	Ordinary and special resolutions (Minutes)	<input checked="" type="checkbox"/>			
17	195	Minutes of Annual General Meeting and Board Meetings (maintained ss.195 – 198)	<input checked="" type="checkbox"/>			
18	199	Declaration and payment of dividend (199 – 209)	<input checked="" type="checkbox"/>			100% of paid up capital declared as dividend
19	232	Books of account to be kept by the company (location & time period)	<input checked="" type="checkbox"/>			Books of accounts maintained at registered office
20	250	Boards report (signed by Chairman)	<input checked="" type="checkbox"/>			
21	252	Appointment and removal of Auditors (Need to re-appoint annually (251 – 259)			<input checked="" type="checkbox"/>	Appointed by the RAA on an annual basis
22	260	Resignation of Auditors from office (Annual Resignation)			<input checked="" type="checkbox"/>	
23	266	Auditing standards (Audit using Auditing Standards issued by AASBB)	<input checked="" type="checkbox"/>			
24	133	Number of Directors	<input checked="" type="checkbox"/>			7 Directors on the Board of



		(Minimum No. & retirement on rotation)				SMCL
No.	Ss.	PARTICULARS	YES	NO	NA	REMARKS
25	139	Additional directors		<input checked="" type="checkbox"/>		
26	140	Consent to act as directors	<input checked="" type="checkbox"/>			
27	141	Certain persons not to be appointed as Directors			<input checked="" type="checkbox"/>	
28	142	Resignation by a director				
29	143	Removal of directors	<input checked="" type="checkbox"/>			
30	146	Board meetings ((4 Meetings for Public Cos & 2 Meetings for Pvt)	<input checked="" type="checkbox"/>			
31	152	General powers of the Board	<input checked="" type="checkbox"/>			
32	156	Restrictions on powers of Board		<input checked="" type="checkbox"/>		
33	210	Appointment of Chief Executive Officer (Max 5 years terms & 2 consecutive terms only)	<input checked="" type="checkbox"/>			
34	414	Appointment of selling or buying agents (govt. Approval obtained or not)			<input checked="" type="checkbox"/>	
35	157	No loans to directors (only for Public Co.)		<input checked="" type="checkbox"/>		
36	53	Inter – corporate investments (investments to be disclosed) apply old rule			<input checked="" type="checkbox"/>	
37	158	Contracts in which Directors are interested		<input checked="" type="checkbox"/>		Directors have no interest in the contracts entered by company.
38	213	Company Secretary Required in all Public Companies	<input checked="" type="checkbox"/>			
39	161	Standard of care required by directors (Reckless decision)	<input checked="" type="checkbox"/>			
STATUTORY RECORD AND INSPECTION						
40	228	Statutory record and inspection				
	a)	Register of buy – back of shares	<input checked="" type="checkbox"/>			
	b)	Register of transfers	<input checked="" type="checkbox"/>			
	c)	Register of charges	<input checked="" type="checkbox"/>			
	d)	Register of inter – corporate loans	<input checked="" type="checkbox"/>			
	e)	Register of inter – corporate investments	<input checked="" type="checkbox"/>			
	f)	Register of contracts in which directors are interested	<input checked="" type="checkbox"/>			
	g)	Register of directors	<input checked="" type="checkbox"/>			
	h)	Register of directors' shareholding	<input checked="" type="checkbox"/>			

For Dechok & Associates Pvt. Ltd.

Yeshi Jamtsho



Membership No. 2641177

Place: Thimphu

Date: 18/01/2021





MANAGEMENT REPORT

STATE MINING CORPORATION LIMITED
MANAGEMENT REPORT FOR FINANCIAL REPORT 2020

1. Review of Bank Reconciliation Statements (3.3.7)

We reviewed the bank reconciliation statements prepared by the SMCL's Finance department and observed the following:

- i. That the reconciliations prepared by the finance department has not been reviewed by the next senior level management.
- ii. That there were cheques issued but not presented for payment and cheques deposited but not cleared pertaining to periods more than 6 months after the issue/deposit date as follows:

Bank Account	Cheque Date	Amount	Remarks
201550717	31-12-2019	4,764.50	Cheque issued but not encashed
100891887	10-06-2019	1875.72	Cheque issued but not encashed
200194054	13-11-2019	11,003.90	Cheque deposited but not credited by bank

We provide the following observations and recommendations for the management to comment upon:

- a. In order to effectively establish adequate control over the transactions involving inflow and outflow of funds and to mitigate any possibilities of unidentifiable movements in and out of the bank accounts, the bank reconciliations should not be limited to review within the finance department but should be extended to review by a next independent reviewer or by a higher level.
- b. The cheques listed in the table above are followed up and necessary accounting adjustments made appropriately.
- c. The bank reconciliation prepared through the use of accounting system produces complex reconciliation items without cheque numbers for cheques issued but not presented for payment due to bulk payment entries passed through the bank ledger before the cheque is issued. The management might discuss to see if the BRS through the system can be made more simpler for a reviewer to understand immediately.

Management's Response:

BRS prepared by the finance division is reviewed by internal auditor upon the verification of transactions during the course of internal audit at present, henceforth the next level of cross checking for the BRS prepared by finance division shall be handed over to the internal auditor on monthly basis.

SMCL accounts and finance team are under progress for the simplification of BRS and once we confirm from our side, we will propose TTPL (entire developer) for modification in the system. We discussed with them in late January 2021.



Even after the accounting entries for the cheques tabulated above, the figures reflect in the BRS with matching Dr. & Cr balance, however it shall be resolved upon the completion of simplification of BRS in system.

Auditor's Further Comments:

The Bank reconciliations prepared by the finance department should be reviewed regularly by an independent reviewer and documented with evidence that it has been reviewed.

All cheques which are not presented for payment or cleared after six months should be appropriately dealt for accounting purposes.

Bank Reconciliations done through the accounting system should be reviewed and simplified in consultation with the system administrator. Ideally the reconciliation items should reflect only cheque number and the amount.

As agreed in the exit meeting, the management may implement the recommendations and evidence of compliance submitted to RAA for further review and endorsement.

Who is Accountable?

Direct Accountability: Kelden Jatsha, Finance Manager, CID 10104000536

Supervisory Accountability: Cumi Rintzin, General Manager, HRAD, CID 10716000103

2. Write off of stocks worth Nu. 6,556,695.03 and fixed assets worth Nu.914,677.53 (2.1.2)

Review of the financial statements together with the physical verification report revealed shortages/ differences between the book quantity and actual quantity at the respective stockyards. The value of the differences amounting to Nu. 6,556,695.03 were written off in the financial statements through adjustment with the change in inventory value of opening and closing stocks.

Similarly, damaged and obsolete assets worth Nu. 914,677.53 were also found written off during the year.

While we reviewed the management approval to write off these differences, we request the management to obtain the endorsement of these management decision from the Board of SMCL.

Management's Response:

The physical stock verification is usually conducted on a quarterly basis and gets presented to the Board for confirmation. However, under Covid-19 situation, in 2020 it was verified half yearly. The final verification of the stockyard was outsourced to NLC in the respective regions where our projects are located.

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 misstatement 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.

The major stock write-off value is explained by Gypsum boulders with Nu 5.46 M. The shortfall in the gypsum boulder is primarily due to the reject stones being segregated from the conveyor belt while crushing. The gypsum boulder extracted from mines are often mixed with other materials and these deleterious materials, as far as possible, have to be segregated to maintain the gypsum quality. Therefore, workers are engaged at the crusher site to hand pick the stones from being crushed together with gypsum. The total reject was 4723 MT out of total production of 392,872 MT, constituting loss of 1.2%. The gypsum boulder loss at KGM appears high as the COP is taken at S/J stock value, adding up the transportation cost of about Nu 800 per MT, since e-mines values the stock at S/J COP.

All losses are within the normal handling loss of minerals. The coal loss from Kluichungpa and Motangga Stockyard are high as they are the first time ground loss due to new establishment of the stockyard.

Auditor's Further Comments:

As deliberated during the exit meeting and also explained to us via the management response, we take note of the justifications provided by the management. As suggested in the exit meeting, the management may explore to study the past trends of the stock losses and to relate it to the future losses to be written off.

As agreed in the exit meeting, 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 and comments.

As the write off of assets are within the powers delegated to the CEO, the observation may be considered as settled.

Who is Accountable?

Direct Accountability: Ramesh Kumar Thapa, Mining Engineer, CID 10311001518

Supervisory Accountability: Sangny Tshering, GM Project and Mines, CID 11508004101

3. Need to institute levels of control for processing transactions through the accounting system (3.3.34)

We noticed that the accounting system permits the individual processing the transaction to also approve the transaction in the system. This means that a person preparing a payment voucher or a journal voucher can approve the same voucher in the system.

To ensure that there are no misstatements or any mistakes in the processing of payment vouchers and adjustment vouchers, the individual processing the transactions should not have the right to approve the same transaction.



Management's Response:

The payment procedure from accounts module completes with two levels (entry and submit) at present. Further the role for both entry as well as submit has been assigned to one person at present and final verification were done by cheque signatory authority with preceeding of supporting documents through hardcopy by the accounts concern official.

However, the assignment of additional role in system in between entry and submit for the verification and approval from the concern signatory official from accounts & finance division has been discussed with TTPL (mines developer) and will incorporate ASAP.

The new process from system will be

1. Entry/preparation of financial transaction (accountants)
2. Verification/approval of the financial transaction (cheque signatory official)
3. Submit the transaction for final disbursement (accountant)

Further the assignment of roles in steps of the transactions from accounts module shall be reviewed by the management for the implementation based on the efficiency in process for the release of payment from SMCL, however the process in the system shall be adopted ASAP.

Auditor's Further Comments:

To ensure effective controls over processing of payments and adjustments, a single person should not be assigned the right to both process and approve the transactions. Since the management is considering to review the steps and processes of the accounting transactions, the impact if any on the efficiency of processing of transactions due to incorporating another different layer of approving function may also be taken into account. The changes implemented by the management may be communicated to RAA for review and further comments.

Who is Accountable?

Direct Accountability: Kelden Jatshe, Finance Manager, CID 10104000536

Supervisory Accountability: Chimi Rinzin, General Manager, HRAD, CID 10716000103

4. Unrealised Sale proceeds from Dungsam Cement Corporation Limited Nu. 417,468,986.23 (3.3.16)

Contract Agreement for supply of 80,000 MT coal was signed between the SMCL and DCCL under the following payment terms and condition:

Clause B 1 Rate	1. High Quality- Nu. 6,712.00 per MT 2. Medium Quality-Nu. 6,200.00 per MT
Clause B 3 Payment	DCCL shall pay SMCL Nu. 25 Million every month for the coal purchased and balance amount shall be done in installment basis. However, DCCL should ensure that balance amount receivable as per the consolidated bill submitted by SMCL should be paid within 60 days from the date of submission of consolidated bill.

Detailed review of the sales transactions and details of payment received from DCCL showed unpaid amount receivable from DCCL amounting to Nu. 417,468,986.23 as under as of 31/12/2020:



Balance outstanding prior to 2020	Nu. 268,973,815.60
Proceeds for sale of coal and Gypsum outstanding for 2020	Nu. 145,116,728.63
Goods in Transit	<u>Nu. 3,378,442.00</u>
Total Outstanding	<u>Nu. 417,468,986.23</u>

Our review also revealed that terms and conditions stipulated in the Agreement between SMCL and DCCL were not applied to the ongoing sales transactions of coal and Gypsum. The clause on collection of Nu. 25 million every month for the coal purchased by DCCL and balance amount to be paid on installment basis within 60 days from the date of submission of consolidated bill were not enforced.

Huge amount of SMCL's funds are tied up in the receivables. From our review of the financial statements, we observed that SMCL had borrowed Nu. 300 million from DGPC during the year at an interest rate of 6.5% per annum and Nu. 80 million from NPPF prior to the year 2020.

In view of the observations mentioned above, we invite managements comments on non enforcement of the terms and conditions of the Contract Agreement and the accumulation of outstanding receivables year on year despite its own shortfall of the funds required.

Management's Response:

The major challenge that SMCL continued to face is raising poor quality coal, having high ash content on an average of 35%. The coal in our mines is inherently of lower quality deposits. The issue further gets aggravated by not being able to sell poor-quality coal to our domestic industries since they relish the option of importing better quality coal at a very competitive price from Meghalaya, neighboring state of India. SMCL suffered from having huge unsold poor-quality coal in stock.

The cement industries have stringent coal quality parameters laid in their purchase terms. Normally, the minimum acceptance ash content limit is 20% and any increase in the ash from the minimum limit, suppliers will be obliged to compensate by deducting certain value from the coal supplied. Towards late 2018, import of coal from Meghalaya was severely affected due to environment concerns that had directed to suspend mining in those zones by the Indian Government. The coal supply market was then distorted. SMCL took advantage of the coal market situation and undertook the issue of having huge unsold poor-quality coal by resorting a special request from Department of Geology and Mines for export of poor quality to India and Bangladesh.

With short supplies from India, the import coal price shot abnormally high. The domestic industries then started to inquire and buy coal from SMCL with some relaxation in their quality parameters with acceptable ash level as high as 37%.

However, even after the relaxation of acceptable ash content limit, our stock of poor coal still persists. As of 26th Feb 2021, the coal stock records 34,489 MT.

DCCL have been our major consumer of coal since the beginning of the operation of coal mines by SMCL. Their per day consumption capacity ranges from 450 MT to 600 MT. The other buyers are Lhuki Cement, PCAL, AWP and domestic industries in Pasakha, P/sing. In 2020, the total coal sale achieved was 72,161 MT and DCCL alone lifted 58,778 MT (81% of the total coal sale) of coal and out of the total dispatch to DCCL, 56,334 MT were low-quality coal.



Therefore, in the interest of DCCL being one of the main consumers of our poor-quality coal, certain consideration was made in the payment terms. However, the Marketing and Logistics Department has constantly followed up with DCCL with regard to accumulating receivables and also not adhering to the agreement on the monthly payment of Nu 25 M. The management also deliberated several times with DCCL and in turn expressed that DCCL is also affected with huge receivables from Hydro Power Projects. With Covid-19, our receivables further got affected from DCCL. The same issue was apprised to the SMCL Board and accordingly accorded the directives.

In our recent discussion with DCCL, they promised to prioritize payment to SMCL. The company is constantly following up with DCCL on the receivables.

Auditor's Further Comments:

The management may apprise the Board and obtain further directives on the outstanding receivables from DCCL and RAA intimated accordingly.

Direct Accountability: Sangay Rinzin, Director Marketing and Logistics
CID 11503003618

Supervisory Accountability: Kezang Jamtsho, Chief Executive Officer
CID 10906006022



STATE MINING CORPORATION LIMITED

RECOMMENDATORY NATURE REPORT FOR FINANCIAL REPORT 2020

1. Inconsistent Accounting Policy for determination of useful lives of PPE

Asset Category	Group Policy Useful Life	SMCL Useful Life
Building and Civil Structures	30-40 Years	Mostly Below 10 years
Data Processing Equipment	3-7 years	3-17 years
Vehicles	7-10 years	7-13 years
Office Equipment	3-7 years	2-10 years
Plant and Machinery	5-30 years	2-10 years

Review of the Accounting Policies/estimates adopted by SMCL with that of its parent company, DHI revealed inconsistencies as follows in the determination of useful lives of assets for depreciation purposes:

As can be seen from the table above, the SMCL's accounting policies/estimates are not aligned with that of the DHI. On the other hand, the useful lives and residual value of the assets of the SMCL are also not reviewed and determined keeping in mind the lease term/period for the operation of the mines.

The management may respond whether it could align its applicable accounting policy and estimates consistent to the policy and estimates adopted by its parent company or review and determine the useful lives and residual value of its assets in relation to the lease term for operating the mines.

Management's Response:

Except for the operation of coal mines for five years with reference to the mining fees document from June 2020, all other mines are under the interim period. To determine the useful lives and residual value and to align along with the CIT base with minimum difference for calculation of depreciation becomes challenging for SMCL, however we will review based on the approved FMFR (Final Mine Feasibility Report) and align along with the DHI group policy for PPE hereafter.

Auditor's Further Comments:

As discussed during the exit meeting held on 26th February 2021, the management should review the estimated useful life of the property, plant and equipment taking into account the circumstances of the nature of business that SMCL is engaged in as well as the accounting policies and estimates adopted by the DHI and other subsidiaries so as to derive a reasonably reliable depreciation expenses to be charged annually. Any changes made in the estimates may be applied prospectively. The observation is recommendatory in nature and shall not be pursued further.



2. Inaccurate calculation of depreciation in the Accounting System

As per the Bhutanese Accounting Standards, Property Plant and Equipment (PPE) depreciation of an asset is charged on the difference between the assets cost (or revalued cost) less residual value over its estimated useful life. Our test check for depreciation calculated by the accounting system with that of the formula prescribed in the accounting standards did not match and small insignificant differences were observed.

Necessary measures may be taken to correct the system so that depreciation expenses charged in the statement of comprehensive income are accurate and as per the Bhutanese Accounting System.

Management's Response:

Finance and accounts team with consultation to the end users concern officials from SMCL requested TTPL (emines developer) to use common decimals in the system for all the modules with intention to cross check the insignificant differences observed in the depreciation.

Further the finance and accounts team will be working on the overall asset revaluation, which will support to rectify the differences and to derive the actual expenses from the PPE

Auditor's Further Comments:

As agreed in during the exit meeting, the Finance Department must ensure that depreciation formula is configured in the accounting system to produce exact depreciation as per the Bhutanese Accounting Standards in consultation with the system administrator. The observation is recommendatory in nature and shall not be pursued further.

3. In-consistency in deduction of security deposit from the transporters (Tshophangma to Habrang)- Nu. 420,650.06

We reviewed the transportation contract agreements between the SMCL and individual local transporters engaged to transport gypsum products from Pemagatshel and the coal products from Tshophangma and Habrang coal mines with regard to payment of transportation charges including the rates fixed and security deposits deducted from the transportation bills.

Our review showed that 5% security deposits were retained by the SMCL from the transportation bills of gypsum transporters while exceptions were found in case of security deposit deduction from the transportation bill of coal from Tshophangma and Habrang. Except for deduction of security deposit from transportation bills of July and December 2020, deductions were not effected from remaining bills submitted during the year in case of transportation bills pertaining to Tshophangma and Habrang were as follows:

Description	Amount (Nu.)
Total Bill paid	10,522,291.97
5% SD to be deducted	526,114.60
5% SD deducted	105,464.54
5% SD Less deducted	420,650.06



We observed that transportation contract with the transporters of coal from Tshopangma and Habrang did not stipulate the clause to retain 5% security deposit similar to the agreements signed with the transporters of gypsum in Pemagatshel.

The management may comment on the above observation

Management's Response:

Initially the work for the transportation of coal from Tshopangma to Habrang was awarded to Ms. Choki Wangmo Transport in September 2018. Later, from March 2020, in line with company's broad based benefit sharing concept, opportunities were given to individual tipper owners. The performance security was fixed for the licensed contractors as per the company's procurement manual. As for individual tipper owners, depending upon the contract duration, security deposit was fixed. Following are the basis for determining the security deposit:

Security deposit for contract duration less than 3 months, is not retained, as in the case of coal Transportation from Tshopangma to Habrang and local transportation of dolomite at Chuinaikhola Dolomite Mine for the first contract. For the contract duration more than three month, security deposit amount is determined considering the nature of risk involved and past trend followed by previous mine operators. For instance, 2% bill amount is deducted for Gypsum transportation from Khothakpa Gypsum mine to Samdrupjongkhar stockyard. For local dolomite transportation at CDM, lump sum of Nu. 12,000 is fixed. Similarly, water tanker was hired for CDM from licensed contractor, Ms. Dukar Private Limited. The contract duration was for 6 months and security amount of 5% on monthly bill amount was retained.

Way forward: Henceforth, uniform security deposit shall be applied depending upon the duration of the contract as under:

- 1) Individual owners and duration less than 3 months one rate/amount shall be applied
- 2) Individual owners and contract duration more than 3 months and less than one year one rate/amount shall be applied.

Auditor's Further Comments:

To ensure and safeguard uninterrupted transportation of coal from mine sites to the selling point stockyards, we opine that it would be in the interest of the SMCL to revise the terms of the contract agreement in line with the terms stipulated in the agreements with the gypsum transporters and retain 5% of the transportation bills as the security deposit. As agreed during the exit meeting, the management should apply a uniform security deposit and other clauses in the Transportation Agreement depending on the duration of the contracts.

The observation is recommendatory in nature and shall not be pursued further.





FOLLOW-UP REPORT

STATE MINING CORPORATION LIMITED
FOLLOW-UP REPORT

Summary of Follow up Report

Sl.No.	Accounting Year	Total # of recommendations provided	Total # of recommendations implemented	Total recommendations partially implemented	Balance recommendations to be implemented
1	2015	Nil	Nil	Nil	None
2	2016	5	5		None
3	2017	6	6		None
4	2018	3	3	NA	None

Follow up on AIN 16865

Para No.	Observation in Brief	Management Response	RAA's Further Comments	Current Status
1	Inadequacy of system and development controls of accounting package (5.15.1)	The issue has been corrected and solved. Company Secretary appointed from July 15, 2020	Justification reviewed by RAA and accepted.	Observation settled
2	Need for recruitment of Company Secretary		Based on the appointment order produced, the observation shall not be	Observation settled.

[Signature]
Yashraj Janitsio
Bechok and Associates Pvt. Ltd.



Branch Offices

Habrang Coal Mine
Samdrupcholing, Dungkhag
Samdrup Jongkhar
Tel: 17121651

Tshophangma Coal Mine
Samdrupcholing Dungkhag
Samdrup Jongkhar
Tel: (+975)-17121651

Dzongthung Stone Quarry
Tashigang
Tel: (+975)-17453433

Crushing Plant 2, Zungdi
Tashi Yangtse
Tel: (+975)-17453433

Khothakpa Gypsum Mine
Pema Gatshel
Tel: (+975)-07-471114

Sales Office
Samdrup Jongkhar
Tel: (+975)-07-252047/252048

Chunaikhola Dolomite Mine
Phuentshopelri, Samtse
Tel: (+975)-77106537



A dhi Company

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