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Annual Report



dhi Company

2015

FROM THE CEO'S DESK



The Management is honored to present the achievement of the 1st year of State Mining Corporation Limited (SMCL), which got incorporated on 31st December 2014. As the Company started from ground zero, first six months was engaged on getting the organization started and fulfilling the requisite corporate compliances under the Companies Act of Bhutan – 2000 and Corporate Governance Code of DHI – 2013.

The formation of SMCL was triggered by the delivery of “State of Tsa-wa-sum” report on June 19th 2014 by Hon’ble Lyonchen when he expressed the need for state participation in the mining sector through the formation of the SMC to ensure the sustainable development of the mining sector and contribution to the national economy. Lyonchen identified the mining sector as one of the five jewels of the Bhutanese economy *“the mining sector has immense potential to increase economic opportunities, increase jobs, and generate more revenue not just for the government but also our local communities. And we can capitalize on this potential without destroying the environment by using environmentally friendly technology and enforcing environmental rules and regulations. A Mineral Development Policy is under consideration by the government to provide strategic overview and direction to the mineral sector and to ensure that mining has minimum impact on the environment and local communities.”*

Ensuing this important delivery, the Ministry of Finance vide Government Order No. MoF/PED/01/2014/1669 dated November 20, 2014 approved the establishment of the SMCL as a wholly owned subsidiary company under DHI as per the decision of the 45th Lhengye Zhungtshog held on August 15, 2014. The Company is formed with a mandate as the designated body to develop strategic minerals, increase revenue to national economy from the mineral sector, create gainful employment, engage in mineral prospecting and mining to play an exemplary role in the development of mining and mineral sector in terms of technology to make the mining economically sustainable, socially and environmentally responsive.

SMCL is incorporated with an authorized capital of Nu. 1.00 billion with subscribed share capital of Nu. 100.00 million by DHI. The Company received a paid up capital equity injection of Nu. 45.58 million against which 455,800 shares at face value of Nu.

100/each was issued to DHI. The fund utilized was Nu. 36.39 million. In spite of hard work and concerted efforts put by the staff and management, the company could not make any profit as it is in the 1st year since its formation.

Soon after the formation, the company started to set-up the office with recruitment of key staffs. However the company was constrained with acute scarcity of technical professionals such as geologists and mining engineers necessary to spearhead project development.

During the year, the company has obtained all the approvals for coal mine at Habrang under Samdrupcholing, Samdrupjongkhar that is ready to commence mining from the beginning of 2016. In addition, Company initiated works on the following minerals:

- i) All mandatory clearances obtained topo-survey and geological study completed on Dumsidara dolomite mine in Gomtu, Samtse.
- ii) All mandatory clearances obtained, topo-survey, geological study and FMFS completed on Tshophangma coalmine in Samrang, Samdrup jongkhar.
- iii) Prefeasibility study completed and initiated the community clearance on Kamji Quartzite mine in Chukha.
- iv) Prefeasibility study started on the stone quarry at Dzungthung in Bartsham at Trashigang for Kholongchu Hydroelectric Project, Trashiyangtse.

The 1st year targeted mainly in carrying out exploratory and pre-feasibility studies, community clearances and technical studies to start work on few mining projects. With regard to institutional front, the Company focused with recruitment of important positions in the management, development of Service Manual and Procurement Rules & Regulations and compliance to corporate statutory regulations.

The mining projects undertaken by SMCL are expected to have a significant strategic importance to the economy at large. In the coming years, SMCL will focus on developing major strategic & industrial minerals that will be of great importance to the domestic industry as raw materials and for the export market in the region and beyond.

Being a new mining company, the major challenge faced by the Company was getting key professionals in the areas of geology, mining and legal. This manpower scarcity will aggravate further as the Company starts to operate new projects. The other main challenges are in securing the community clearance, which is the first step to start any mining project and the need for numerous steps to follow for obtaining mining approvals from the regulatory agencies, which is a major cause of delays.

Despite these challenges, Organizational development will continue to implement over the next year as the company ventures into new mining projects. The projects in pipeline are a coal, dolomite, gypsum and quartzite mines for supply of aggregates to

hydropower projects and export to Bangladesh in collaboration with MoEA and STCBL respectively.

On behalf of the management of SMCL, I would like to express our appreciation and gratitude to the company's Board and DHI for their unfailing support and guidance. We would also like to record our appreciation to the government organizations namely the Department of Geology and Mines, National Environment Commission Secretariat and respective Local Governments for their support and cooperation. We commit to serve the people of Bhutan and our shareholder and look forward to success in leaps and bounds in the years to come.

Tashi Delek



(Kinzang Norbu)

Chief Executive Officer

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COMPANY PROFILE

Recognizing the potential of mining sectors' contribution to the national socio-economic development, the Royal Government of Bhutan envisioned the noble concept of establishing a state entity. This entity would participate with private businesses and would be the idol of operation leveraging best mining practices. Since then, during the 45th Lhengyel Zhungtshog, it was decided that State Mining Corporation Limited (SMCL) would be instituted. SMCL was incorporated as DHI's 100% subsidiary company on 31st December 2014.

The Minister of Economic Affairs, Lyonpo Norbu Wangchuk handed over the certificate of incorporation to DHI/SMCL. Five stone quarry sites to supply the materials needed for Kholongchu Hydro Electric Project (KHEP) were also awarded to DHI/SMCL along with the certificate. SMCL is one of the newest companies formed under DHI and its corporate office is based in Samtse. Its 22 dedicated employees support the company.

Rationale for establishing SMCL

The Hon'ble Lyonchen expressed in the state of Tsa-wa-sum on June 19th 2014, the need for state participation in the mining sector through the formation of SMCL to ensure the sustainable development of the mining sector and to contribute to the national economy. The establishment of the SMCL would expand economic opportunities, lead to employment opportunities and generate more revenue for the country. It shall be guided by:

Power- Based Investments Opportunity

Bhutan has clean and relatively cheap power. The expectation to generate 10000 MW of power by the year 2020 will attract potential investors from both outside and inside Bhutan to set up power intensive industries in Bhutan. Along with the power, the raw materials (mineral resources) for the industries need to be developed. SMCL would develop strategic minerals and industrial minerals such as Coal, Gypsum, Tungsten, Limestone etc, to supply raw materials to domestic industries at competitive prices to promote industrial growth. In addition to the domestic market, SMCL will also develop external markets.



>> *Economic Minister, Lyonpo Norbu Wangchuk handing over the SMCL Certificate of Incorporation to DHI Chairman, Dasho Sangay Khandu.*

Maximization of Stakeholder Benefits

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

Promotion of Private Sector

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

Social and Environmental Impact

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



To be a premier mineral resource company in Bhutan guided by the principles to safeguard the environment and social well-being at all times

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

- Revenue generation for the government
- Sustainable development of the mining sector in an environmental and social friendly manner
- Employment generation
- Serve as sole agency to mine the strategic minerals in the country

BOARD DIRECTORS' PAGE



Dasho Penjore - Chairman

Governor, RMA Thimphu

Served as the Gyalpoi Zimpon. Conferred the Red Scarf by His Majesty 5th King of Bhutan. Prior to his appointment as the Governor of the Royal Monetary Authority of Bhutan, Dasho served as the Chief Executive Officer of the National Pension and Provident Fund. He has vast Corporate experience as the Chairman and Board Director for number of companies. He graduated with B. Com (Hon) in 1986 from Delhi University, India and obtained M.A. in Economics in 1992 from Northeastern University, Boston, USA.



Dasho Karma Weezir - Director

Dzongda, Dzongkhag Administration, Samtse

He joined the Civil Service in July 1986 and served at various capacities in the Royal Government. He was the Dzongda of Gasa and Haa. Currently, he is the Dzongdag of Samtse Dzongkhag.

He obtained the Bachelor degree in Commerce from St. Anthony College, Shillong, India in 1985.



Thukten Choeda – Director

Nominee Director, DHI, Thimphu

He works as General Manager - Projects and Mines Department of State Mining Corporation Limited. He had been one of the active board members of Natural Resources Development Corporation Limited, DHI INFRA Limited and State Mining Corporation Limited, and a member of various committees in these companies. He also served as project management advisor to Dungsam Cement Corporation Limited in 2013. Before he joined the corporate world, he worked as a professional planner and civil engineer in the Department of Urban Development and Engineering Services, Ministry of Works and Human Settlement .

He has a Bachelors degree in Civil Engineering, Masters in Urban and Regional Planning, and professional certification in project management.



Yeshi Dorji – Director

GEO-Technical Advisor, DGPCCL

He served in the Department of Geology and Mines (1984-2011) in various mineral exploration projects, and he has been involved in many engineering geological studies. He was actively involved in the assessment of glacial lake outburst floods in Lunana after 1994 GLOF. He also led the team to carry out mitigation of likely GLOF from Thorthormi Tsho. He is the Geotechnical Advisor to DGPCCL.

He has B.Sc in Applied Geology and M.Sc in Engineering Geology from UK



Yeshi Dorji – Director

Chief Survey Engineer, NLCS Thimphu

He served in the National Land Commission in various capacities and became the Chief Survey Engineer. He successfully managed nationwide cadastral resurvey under His Majesty's major land reform program and worked as a lead GIS officer for delimitation of electoral constituencies for the first parliamentary election.

He completed his Bachelor of Science from Sherubtse College, Kanglung, followed by Survey engineering course from Survey Training Institute, Hyderabad, India. He completed his post graduation with the degree of MSc (GIS and Remote Sensing) from Asian Institute of Technology, Bangkok, Thailand.



Karma Choden - Director

Executive Director - Keshet Foundation Thimphu

She joined as a Trainee Officer and Served in various positions under Credit operations, BDBL.

She served as a General Manager - Credit Operations, Bhutan Development Bank. She has extensive knowledge and experience in credit investment, project appraisal, money and banking, project supervision and international financing, asset liability management and worked as a trainer of financial sectors in Bhutan.

She obtained Bachelors in Commerce from Sherubtse College, Delhi University



Kinzang Norbu- Director

Chief Executive Officer, State Mining Corporation Limited

Key positions held include the Mayor of Phuentsholing City Corporation. And Director of Department of Human Settlement . He also worked with COWI, a Danish International Consulting Firm as the Regional Technical Advisor in Lao PDR . Prior to his appointment as CEO for the State Mining Corporation Ltd., he worked as the CEO of DHI Hospitality Ltd. for a year. He possesses a BSc degree in Civil Engineering and a Masters in Environmental Engineering.

MANAGEMENT PAGE



Kinzang Norbu - Chief Executive Officer

He has been recruited as the first Chief Executive Officer of the company and under his able guidance the company has been able to process a number of mining projects.



Chhimi Rinzin - General Manager - HRAD

Chhimi Rinzin, has obtained his Bachelor of Arts in Geography (Hon) from Sherubtse College, Delhi University and Masters in Human Resource Management from Curtin University of Technology, Western Australia. He started his career as Trainee Officer and served various ministries and agencies in different positions. Prior to his appointment as the General Manager - HRA, SMCL he served as the Head of Human Resource Management Division, Royal Civil Service Commission.



Sangay Rinzin - General Manager - Marketing and Sales

He obtained his Bachelor of Commerce, Marketing (Hons) from Sherubtse College and Masters in Accounting from Curtin University of Technology, Western Australia. He started his career in teaching profession and served various schools. He served as a lecturer in Sherubtse College. At Gaeddu College of Business Studies, Royal University of Bhutan, he worked as the Dean of Research and Industrial Linkages. He has been a Research Consultant for Institute of Management Studies in Marketing and Management. He has experiences in Financial Management and Accounting, Business Research, Marketing, and development of project proposals.

Sangay



Thukten Choeda - General Manager (Projects)

Apart from being the Board Director representing DHI, he is on deputation to SMCL and serving as the General Manager (Projects). and spearheading the establishment of various mining projects.



Dechen - Head (Finance and Accounts)

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

Before taking up the post of Head (Finance & Accounts) at SMCL, she was the Finance Manager at Dungsum Cement Corporation Limited. She joined the company in 2015.

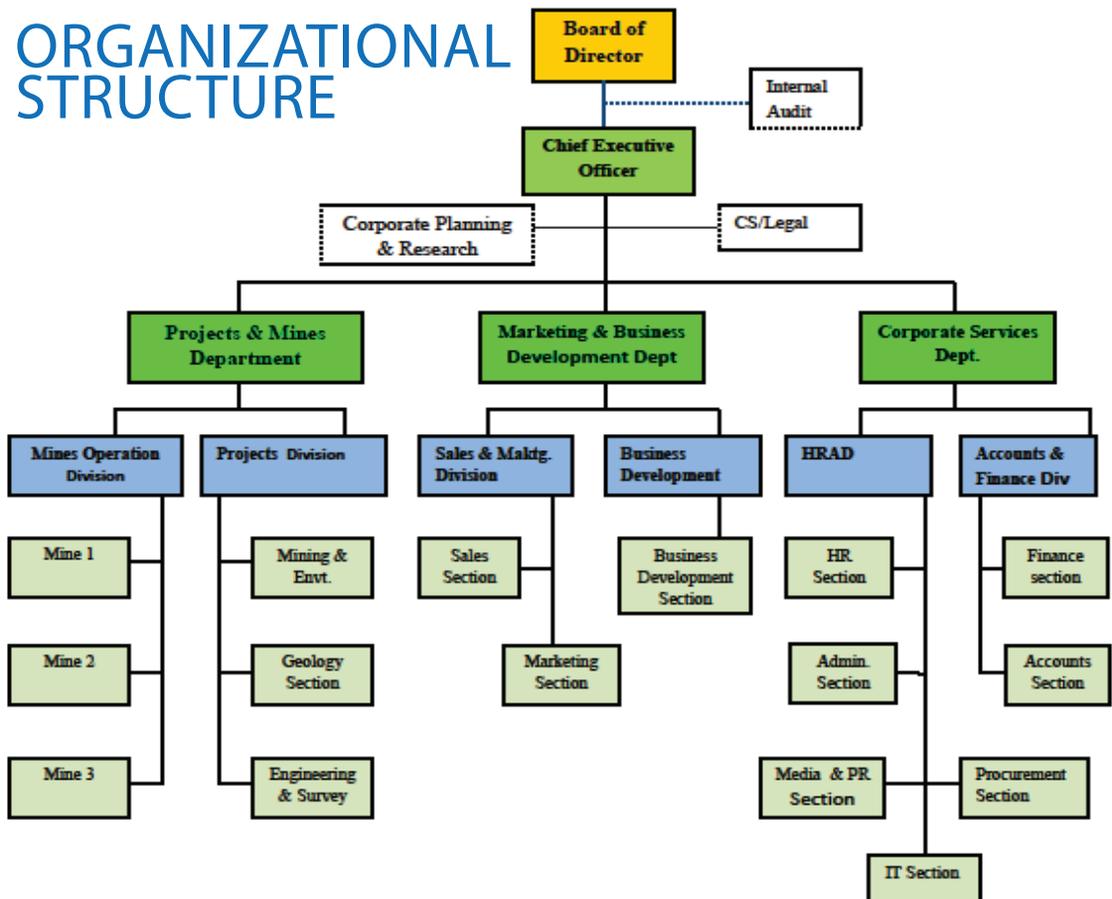
HABRANG PROJECT STAFF



CORPORATE OFFICE STAFF



ORGANIZATIONAL STRUCTURE



DIRECTORS' REPORT

On behalf of the Board and Management of State Mining Corporation Limited (SMCL), I am pleased to report to Druk Holding and Investments Limited (DHI), the shareholder of SMCL on the performance of the Company from 1st January 2015 till 31st December 2015. This is the first Annual Report since its inception on 31st December 2014

As SMCL is the newest Company formed under DHI with the objective to generate revenue for the government and to carry out mining in an environmentally and socially responsive manner based on best practices of the industry. The Company's operational thrust area for the 1st year was 100% non-financial related activities comprising of Institutional Development and investigating for establishing mining activities.

Institutional Development

1. As desired by the Shareholder, the assets worth Nu. 2,961,947.00 were taken over from DHI Hospitality Limited at book value.
2. SMCL obtained its Corporate Head Office space on rental from Department of Geology and Mines in Samtse. The office is located at Gurung Basti in Samtse town and started its operation from 4th May 2015.
3. Finalized and approved SMCL HR Manual and Procurement Manual for Works, Goods and Consultancy Services.
4. The Board approved the organizational structure and human resource requirements for the next 4 years and accordingly started the implementation.
5. As of 31st December 2015, the Company has recruited 23 staffs, of which 5 employees are on contract, 15 employees are regular and 3 employees on ESP.

Financial Highlights

The company's Authorized Share Capital is Nu.1 billion (10,000,000 shares with face value of Nu.100/ each). The paid up capital for 2015 financial year is Nu. 45.58 million with 455,800 shares at face value of Nu.100 each, injected by DHI.

Of the injected fund, SMCL has utilized on:

- | | |
|-----------------------------------|--------------------|
| a) Property Plant & Equipment | : Nu. 6.36 million |
| b) Intangible Asset | : Nu.7.00 million |
| c) Mines projects | : Nu.11.40 million |
| d) Operation/Head Office expenses | : Nu.11.63 million |

Operation/head office expenses are not attributable to asset as per Bhutanese Accounting Standards (BAS). Therefore, it has been considered in Statement of Comprehensive Income as expense and simultaneously recorded as loss of Nu.11.39 million in the financial year 2015.

PROJECTS

a. *Habrang Coalmine in Bhangtar (Samdrup Choeling)*

Habrang Coalmine Project is located in Phunsthothang Gewog in Samdrup Choeling Drungkhag, Samdrup Jongkhar. The Project was initiated before the incorporation of SMCL and was considered as a priority project by DHI. It has an area of 105.65 acres with estimated coal reserve of 600,000.00 MT over a mining life of 10 years. The quality of coal is found to be sub-bituminous.

The topo-survey and geological investigation was carried out from November 2014 and subsequently followed by FMFS and EIA study. The EIA report was completed in July 2015 and submitted to NECS for review and approval. The environmental clearance took considerable time of over 6 months. As of 31st December 2015, all mandatory processes and clearances were completed and obtained to commence the mine development after signing the lease agreement as planned for 2016.

Shareholder's approval was received to pay the auction fee of Nu. 16.93 million on 31st December 2015. The payment was necessary to access the right to mine by SMCL from the Private Operator as it is already leased to the Private Company

b. *Dumisdara Dolomite*

Dumisdara Dolomite mine is located at Pugli in Samtse covering an area of 100 acres. The topo-survey and geological investigation has been completed. Dumisdara dolomite contains average MgO of 19.39% and CaO of 29.86% making it a good grade against the pure dolomite with MgO of 21.80%. A reserve of 132.50 million tones is confirmed after adjusting 5% for dilution and operation loss.

The geological study was completed in July 2015. The next phase of study on FMFS and EIA was kept in abeyance as MoEA has informed that value addition must be carried out without which SMCL will not be allowed to export crushed dolomite. However, the Board approved during its 9th meeting on 30th November 2015, to complete the process with FMFS and EIA. The issue on value addition still remains to be pursued with MoEA. A preliminary market segment was also identified to export dolomite in crushed form.

c. *Tshophangma Coal Mine*

Tshogphangma Coal Mine Project is located at Samrang Gewog in Samdrup Choeling Drungkhag, Samdrup Jongkhar. The mandatory public and sectoral clearances were obtained before the incorporation of SMCL and were considered a priority project by DHI. It has an area of 100 acres with estimated coal reserve of 150,000.00 MT. The mine life is estimated for 5 years. The quality of coal is said to be sub-bituminous.

The topo-survey, geological investigation, FMFS and EIA were outsourced as a single package in April 2015. Completing the geological study, studies of FMFS and EIA were deferred as the quality of sub-bituminous coal was found to be of lower grade with lesser deposits compared to Habrang Coal Mine. However, with the consent of the Shareholder, the Board directed to go ahead with the FMFS and EIA as the mine would still be financially viable.

The consultant completed the FMFS within the contract period but the EIA study was delayed to which the Firm will be levied liquidated damages as stated in the contract agreement. As of 31st December 2015, the draft report of EIA has not been submitted.

d. Quarries for Kholongchu Hydroelectric Project

While handing-over the Incorporation Certificate of SMCL to DHI on 31st December 2014, MoEA also handed-over five stone quarries to meet the requirement of Kholongchu Hydroelectric Project. However, two quarries were later withdrawn by DGM on the ground that one was already allotted to a private miner and the other was not feasible because of BPC transmission line crossing through the site. For the remaining three quarries, community clearance could not be obtained, primarily due to its location in drinking water source, irrigation channel, historical and local cultural evidences. One of the quarries is not feasible due to its long distance from the project site.

The company found it impracticable to firm up a single stone quarry for KHP from the identified quarries. The Board deliberated that under these circumstances; the Company cannot afford to incur any further expenses in pursuit of developing stone quarries for KHP. Moreover, there are private quarries located closer to the KHP sites. Based on these justifications and with the consent of the Shareholder, the Company wrote to MoEA to bring to a logical conclusion the 5 quarries' activities in October 2015. The activities were therefore dropped by SMCL.

e. Talcose Phyllite in Samtse

The study on market demand in the region for phyllite mineral was outsourced by DHI to M/s Deloitte Touche Tohmatsu India Pvt Ltd in April 2015. The study was completed in September 2015. The final assessment by the consultants indicated that the commercial mining of talcose-phyllite may not be sustainable on a stand-alone basis unless the company is able to diversify its operations by foraying into mining of other high value minerals.

Based on the findings and with the approval of the Board and the Shareholder, MoEA was informed to drop the project from its activities in October 2015. The activity was therefore dropped by SMCL.

f. *Kamji quartzite*

DHI had applied for quartzite mine in Kamji on 14th November 2014 for export to Bangladesh. After continued follow-up, PFS in favour of SMCL was released to DLLC, Chukha on 9th July 2015. Subsequently, two consultation meetings were held with the DLLC members and communities of Neyya Chiwog from Geling Gewog.

From the consultations, it is observed that the community is divided into two groups, one group not agreeing to give clearance as they claim that the whole site is a place of worship of their local deity (Nyep). The Department of Cultural Affairs (DOCA) was consulted wherein they also consulted with the select community members. Since the members refused to release the quarry site, DOCA decided to hold separate follow-up meeting engaging the entire households of the Chiwog and then to convey its confirmation to SMCL.

The indications are that the divided community may not come into consensus to give the clearance. As a result, further progress will be held up. Board directed the Management to pursue further with the quarry, as the economic benefit of the mine is far greater than the prejudice that the community held. The company should explore other alternatives such as joint visit by the relevant organizations besides educating the community. Hence, as directed by the Board, the Kamji quartzite mine was incorporated in the 2016 annual compact to re-vitalize the community clearance process and to take forward in the national interest.

g. *New stone Quarry for Kholongchu Hydroelectric Project*

Subsequent to the closure of five stone quarries for KHP, SMCL has applied for release of a new stone quarry at Dzongthung in Bartsham, Trashigang on 16th November 2015. The quarry is being reviewed to study the reserve and to assess the stone quality for non-wearing concrete in hydropower structures.

h. *Gypsum and Tungsten*

The Pre feasibility Study (PFS) is not yet released for Gypsum and Tungsten to SMCL, pending the approval of Mineral Development Policy (MDP) by the Government wherein, the strategic minerals are defined. As the MDP approval time-line is still not known and it is beyond the control of the Management, the Board in consultation with the Shareholder has decided to drop the activities and re-incorporate in the subsequent year.

Corporate Governance

The following Board level Committee was instituted to ensure good governance for effective functioning of the company.

- Human Resource Committee
- Budget Committee
- Nomination and Good Governance Committee (NGC)

- Project Technical Committee
- Tender Committee

A total of ten Board Meetings were convened. One Extra Ordinary General Meeting was also conducted. All the Board Directors have successfully attended Board Directors Training. The Division and Section Heads were oriented on Corporate Governance through DHI coordination.

Compact signed with DHI

SMCL in her very first year's establishment has achieved almost all the key targets and the achievement with respect to performance compact is 84.87%. The company shall aim to gear the performance to excellence.

Challenges

- a) The Mineral Development Policy (MDP) should be endorsed soon. The MDP will give strategic directions for better planning and execution for SMCL particularly as desired by the Royal Government to be the 'holder of the strategic minerals'. However, there have been some inherent reasons over the years to delay passing the Mineral Development Policy which is beyond the control of the Company.
- b) Mineral extractions demand numerous communities, local, and sector approvals. Lengthy approval processes and coordination issues across ministries and sectors is still continuing. The systemic processes are diligent enough to conserve the valuable and limited resources. Nevertheless, procedural aspects of seeking approval from various stakeholders are often subject to individual interpretations. Poor precedents on compensation and other mining related issues to the project affected family have developed strong resistance to mining proposals. These issues are repeatedly echoed over discussions. Same regulations and procedures are explained and interpreted contrarily.
- c) Lately, public clearances are becoming a major hurdle to start any mining project. The community at large assumes that they have complete right over clearances which in most cases are driven by few individuals. Under these circumstances, for SMCL to move forward, there is urgent need for State to intervene or DGM must identify and hand over the mines to be developed by SMCL, foregoing the community clearance. However, SMCL shall comply with all other technical studies and the clearances for mine development under the purview of environmental and mineral development regulations.
- d) In the human capital development, professionals in the field of mining and geology are very scarce. The company is still intensely looking for geologists, mining engineers and legal officer.

ACKNOWLEDGEMENT

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

Let me also place on the record, the enormous contribution made by the Board of Directors in providing strategic directions and unfailing support particularly when the company is in the critical and initial phase of operation. Your contributions are true reflections on the success of formation of SMCL and its operations of mines and projects.

The Chair and the Board of Directors would like to acknowledge the hard work and leadership provided by the Chief Executive Officer and his team towards realizing the aspirations of our Government, People and the Shareholder. As the company enters into its vital phase, I expect and appeal SMCL team to maintain the same attitude to the success of our company.

Tashi Delek!

For and on behalf of the Board.


(Dasho Penjore)
Chairman

CORPORATE GOVERNANCE REPORT

Corporate governance is a framework of rules and practices to ensure accountability, fairness, and transparency in a company's relationship with stakeholders.

Our shareholder Druk Holding Investment issued a Corporate Governance Code to DHI portfolio companies with an objective to enable operating in a manner that maximizes economic value and financial performance within the overall guidance of the Royal Charter and the DHI Ownership Policy.

SMCL is complying with all the relevant principles stated in the code.

Board Composition

SMCL Board comprised of seven Board Directors, including the chairman and the CEO. The Board met ten (10) times during the year and quorums for each of these meetings were duly met. Dates for the Board Meetings are decided in advance and communicated to the Directors. Agenda, along with necessary explanatory notes are sent to Directors before the meetings. Attendance details and remuneration paid for the Board Meetings held in the year 2015 are given below:

| SN | Board Meetings Held | Board Directors | Remuneration paid (Nu.) | Attendance |
|--------------------------|---|--------------------------|-------------------------|------------|
| 1 | 1st Board Meeting Venue: Board Room, NPPF, Thimphu Date: 7/1/2015 | Dasho Penjore, Chairman | Nu.8,000.00 | Present |
| | | Mrs Karma Choden | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (NLCS) | Nu.8,000.00 | Present |
| | | Mr. Kinzang Norbu | Nu.8,000.00 | Present |
| | | Mr. Thukten Choeda | Nu.8,000.00 | Present |
| 2 | 2nd Board Meeting Venue: Board Room, NPPF, Thimphu Date:16/1/2015 | Dasho Penjore, Chairman | Nu.8,000.00 | Present |
| | | Mr. Karma Weezir | Nu.8,000.00 | Present |
| | | Mrs Karma Choden | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (NLCS) | Nu.8,000.00 | Present |
| | | Mr. Kinzang Norbu | Nu.8,000.00 | Present |
| | | Mr. Thukten Choeda | Nu.8,000.00 | Present |
| 3 | 3rd Board Meeting Venue: Board Room, NPPF, Thimphu Date: 27/2/2015 | Mr. Yeshey Dorji (DGPCL) | Nu.8,000.00 | Present |
| | | Dasho Penjore, Chairman | Nu.8,000.00 | Present |
| | | Mr. Karma Weezir | Nu.8,000.00 | Present |
| | | Mrs Karma Choden | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (NLCS) | Nu.8,000.00 | Present |
| | | Mr. Kinzang Norbu | Nu.8,000.00 | Present |
| | | Mr. Thukten Choeda | Nu.8,000.00 | Present |
| Mr. Yeshey Dorji (DGPCL) | Nu.8,000.00 | Present | | |

| | | | | |
|---|--|--------------------------|-------------|-----------|
| 4 | 4th Board Meeting Venue: Migmar Hotel, Thimphu Date: 25/4/2015 | Dasho Penjore, Chairman | Nu.8,000.00 | Present |
| | | Mr. Karma Weezir | Nu.8,000.00 | Present |
| | | Mrs Karma Choden | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (NLCS) | Nu.8,000.00 | Present |
| | | Mr. Kinzang Norbu | Nu.8,000.00 | Present |
| | | Mr. Thukten Choeda | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (DGPCL) | Nu.8,000.00 | Present |
| 5 | 5th Board Meeting Venue: Board Room, NPPF, Thimphu Date: 15/7/2015 | Dasho Penjore, Chairman | Nu.8,000.00 | Present |
| | | Mr. Karma Weezir | Nu.8,000.00 | Present |
| | | Mrs Karma Choden | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (NLCS) | Nu.8,000.00 | Present |
| | | Mr. Kinzang Norbu | Nu.8,000.00 | Present |
| | | Mr. Thukten Choeda | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (DGPCL) | | Apologies |
| 6 | 6th Board Meeting Venue: Druk Hotel, Phuntsholing Date: 3/8/2015 | Dasho Penjore, Chairman | Nu.8,000.00 | Present |
| | | Mr. Karma Weezir | Nu.8,000.00 | Present |
| | | Mrs Karma Choden | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (NLCS) | Nu.8,000.00 | Present |
| | | Mr. Kinzang Norbu | Nu.8,000.00 | Present |
| | | Mr. Thukten Choeda | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (DGPCL) | | Apologies |
| 7 | 7th Board Meeting Venue: Board Room, NPPF, Thimphu Date: 18/9/2015 | Dasho Penjore, Chairman | Nu.8,000.00 | Present |
| | | Mr. Karma Weezir | | Apologies |
| | | Mrs Karma Choden | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (NLCS) | Nu.8,000.00 | Present |
| | | Mr. Kinzang Norbu | Nu.8,000.00 | Present |
| | | Mr. Thukten Choeda | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (DGPCL) | Nu.8,000.00 | Apologies |
| 8 | 8th Board Meeting Venue: Board Room, NPPF, Thimphu Date: 6/11/2015 | Dasho Penjore, Chairman | Nu.8,000.00 | Present |
| | | Mr. Karma Weezir | | Apologies |
| | | Mrs Karma Choden | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (NLCS) | Nu.8,000.00 | Present |
| | | Mr. Kinzang Norbu | Nu.8,000.00 | Present |
| | | Mr. Thukten Choeda | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (DGPCL) | Nu.8,000.00 | Present |
| 9 | 9th Board Meeting Venue: Board Room, NPPF, Thimphu Date: 30/11/2015 | Dasho Penjore, Chairman | Nu.8,000.00 | Present |
| | | Mr. Karma Weezir | Nu.8,000.00 | Present |
| | | Mrs Karma Choden | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (NLCS) | Nu.8,000.00 | Present |
| | | Mr. Kinzang Norbu | Nu.8,000.00 | Present |
| | | Mr. Thukten Choeda | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (DGPCL) | Nu.8,000.00 | Present |

| | | | | |
|----|---|--------------------------|-------------|-----------|
| 10 | 10th Board Meeting Venue: Board Room, NPPF, Thimphu Date: 16/12/2015 | Dasho Penjore, Chairman | Nu.8,000.00 | Present |
| | | Mr. Karma Weezir | | Apologies |
| | | Mrs Karma Choden | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (NLCS) | Nu.8,000.00 | Present |
| | | Mr. Kinzang Norbu | Nu.8,000.00 | Present |
| | | Mr. Thukten Choeda | Nu.8,000.00 | Present |
| | | Mr. Yeshey Dorji (DGPCL) | | Apologies |

SMCL has following Board Committee to further streamline the operation of the company.

1. *Nomination and Governance Committee:*

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

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

Details of Nomination and Governance Committee meetings held during 2015 are given below:

| Sl. No. | Subcommittee | Members Directors | Remuneration paid (Nu.) | Attendance |
|---------|--|-------------------------|-------------------------|------------|
| 1 | 1st Meeting of 1st NGC, 23/4/2015, DHI Conference Hall | 1. Dasho Sangay Khandu | 4,000.00 | Present |
| | | 2. Dasho Penjore | 4,000.00 | Present |
| | | 3. Dasho Pema Chewang | 4,000.00 | Present |
| | | 4. Karma Choden | 4,000.00 | Present |
| | | 5. Yeshi Dorji (NLC) | 4,000.00 | Present |
| | | 6. Thukten Choeda | 4,000.00 | Present |
| 2 | 2nd Meeting of 1st NGC, 4/6/2015, DHI Conference Hall | 1. Dasho Sangay Khandu | 4,000.00 | Present |
| | | 2. Dasho Penjore | 4,000.00 | Present |
| | | 3. Dasho Pema Chewang | 4,000.00 | Present |
| | | 4. Karma Choden | 4,000.00 | Present |
| | | 5. Yeshi Dorji (NLC) | 4,000.00 | Present |
| | | 6. Thukten Choeda | 4,000.00 | Present |
| 3 | 1st Meeting of 2nd NGC, 15/10/2015, DHI Conference Hall | 1. Dasho Sangay Khandu | 4,000.00 | Present |
| | | 2. Dasho Penjore | 4,000.00 | Present |
| | | 3. Karma Tsetop Rinchen | 4,000.00 | Present |
| | | 4. Karma Choden | 4,000.00 | Present |
| | | 5. Tenzin Dhendup | | Apologies |
| | | 6. Yeshi Dorji (NLC) | | Apologies |

| | | | | |
|---|---|--------------------------|----------|---------|
| 4 | 2nd Meeting of 2nd NGC, 25/12/2015, DHI Conference Hall | 1. Dasho Sangay Khandu | 4,000.00 | Present |
| | | 2. Dasho Penjore | 4,000.00 | Present |
| | | 3. Karma Tsetop Rinchhen | 4,000.00 | Present |
| | | 4. Karma Choden | 4,000.00 | Present |
| | | 5. Yeshi Dorji (NLC) | 4,000.00 | Present |

2. Board Level Human Resource Committee

Its primary responsibility is to:

- Advise the Board on the effective implementation and application of sound human resource policies that are aligned with the organization's vision, mission, values and aspirations;
- Recommend to the Board, for its consideration, matters relating to the Corporation's Human Resources and compensation policies as applicable to the function of the company to achieve its short and long term business objectives;
- Carry out any other related initiatives as may be necessary or desirable to enhance Board performance.

Details of Board Level Human Resource Committee meeting held during 2015 are given below:

| Sl. No. | Subcommittee | Members Directors | Remuneration paid (Nu.) | Attendance |
|---------|------------------------------------|-------------------------|-------------------------|------------|
| 1 | 1st HRC (10/3/2015, DHI ICT Room) | Directors | | |
| | | 1. Kinzang Norbu | 4,000.00 | Present |
| | | 2. Karma Choden | 4,000.00 | Present |
| | | 3. Thukten Choeda | 4,000.00 | Present |
| | | Special Invitees | | |
| | | 1. Pema Wangdhee | 2,000.00 | Present |
| | | 2. Sonam Lhendup | 2,000.00 | Present |
| 2 | 2nd HRC (27/11/2015, NLC Hall) | 1. Kinzang Norbu | 4,000.00 | Present |
| | | 2. Karma Choden | 4,000.00 | Present |
| | | 3. Thukten Choeda | 4,000.00 | Present |
| | | 4. Yeshi Dorji | 4,000.00 | Present |
| 3 | 3rd HRC (14/12/2015, DHI ICT Room) | 1. Kinzang Norbu | 4,000.00 | Present |
| | | 2. Karma Choden | 4,000.00 | Present |
| | | 3. Thukten Choeda | 4,000.00 | Present |
| | | 4. Yeshi Dorji | 4,000.00 | Present |

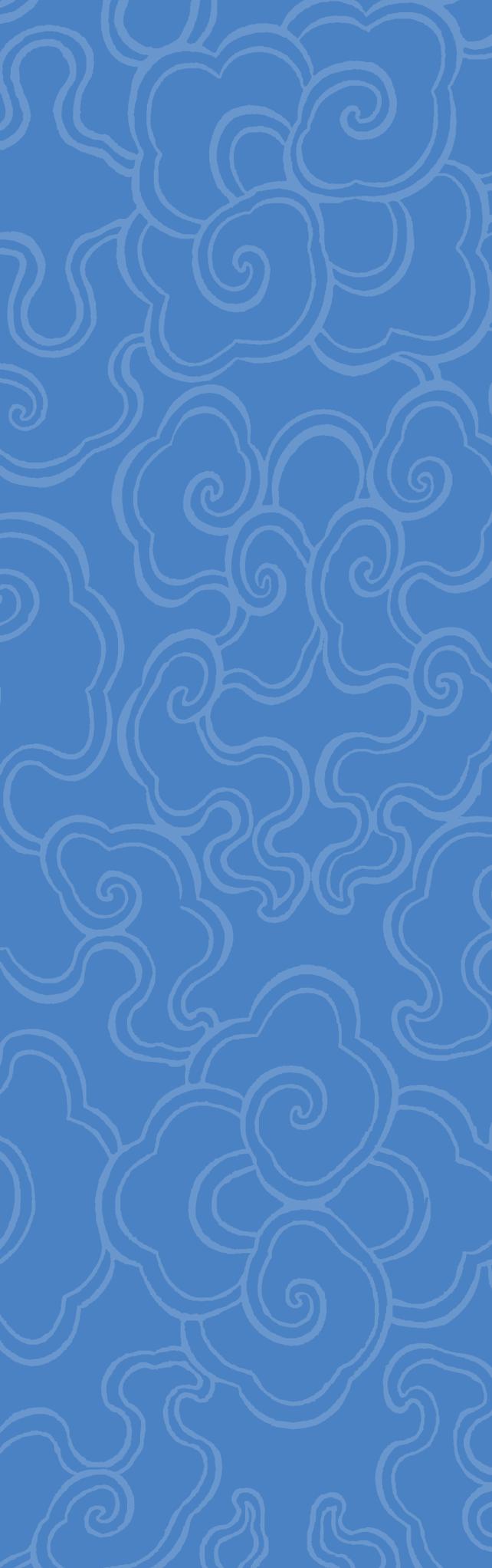
3. Board Level Project Technical Committee

The main objective of the Project Technical Committee (PTC) is to serve as independent body to review and advice the Management and the Board on the technical matters of various projects/mines that the company intends to undertake and act as interface between the management and the Board.

Details of Board Level Project Technical Committee meeting held during 2015 are given below:

| Sl. No. | Subcommittee | Members Directors | Remuneration paid (Nu.) | Attendance |
|---------|--|------------------------------|-------------------------|------------|
| 1 | 1st Project Technical Committee, 14/8/2015, Board Room, NPPF, Thimphu | 1. Yeshi Dorji (NLC) | 4,000.00 | Present |
| | | 2. Lhendup Gyeltshen | 4,000.00 | Present |
| | | 3. Mani Kumar Pradhan | 4,000.00 | Present |
| | | 4. Sanyay Tshering | 4,000.00 | Present |
| | | 5. Thukten Choeda | 4,000.00 | Present |
| | | 6. Yeshi Dorji (DGPCL) | | Apologies |
| | | A representative from NEC | | Apologies |
| 2 | 2nd Project Technical Committee meeting , 17/8/2015, Board Room, NPPF, Thimphu | 1. Yeshi Dorji (DGPCL) | 4,000.00 | Present |
| | | 2. Yeshi Dorji (NLC) | 4,000.00 | Present |
| | | 3. Lhendup Gyeltshen | 4,000.00 | Present |
| | | 4. Mani Kumar Pradhan | 4,000.00 | Present |
| | | 5. Thukten Choeda | 4,000.00 | Present |
| | | 6. Sanyay Tshering | | Apologies |
| | | 7. A representative from NEC | | Apologies |

The SMCL Board and the management will continue to strengthen the corporate governance systems and procedure to build a dynamic economy for vibrant democracy accepting as the premier Mineral Resources Development Company.



AUDITORS REPORT

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF STATE MINING CORPORATION LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of State Mining Corporation Limited ("the Company"), which comprise the Statement of Financial Position as at 31st December, 2015, the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended and a summary of the significant accounting policies and other explanatory information.

Managements' Responsibility for the Financial Statements

The Company's Management is responsible for the preparation and presentation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Bhutanese Accounting Standards and provisions of the Companies Act of the Kingdom of Bhutan, 2000 ("the Act"). This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Generally Accepted Auditing Standards, International Standards on Auditing and other generally accepted auditing principals. Those Standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of



CHOKSHI & CHOKSHI LLP

Chartered Accountants

the financial statements 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. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the Bhutanese Accounting Standards and provisions of the Companies Act of the Kingdom of Bhutan, 2000 ("the Act"):

- i. in the case of Statement of Financial Position, of the state of affairs of the Company as at 31st December, 2015;
- ii. in the case of Statement of Comprehensive Income, of the loss of the Company for the year ended on that date;
- iii. in the case of Statement of changes in Equity, of the changes in equity of the Company for the year ended on that date, and
- iv. in the case of Statement of Cash Flows, of the movement of cash flows of the Company for the year ended on that date.

Report on Other Legal and Regulatory Requirements

As required by Section 75 of the Companies Act of the Kingdom of Bhutan, 2000 read with Section II of Schedule XIV thereto (the Minimum Audit Examination and Reporting Requirements) we enclose in the Annexure-I, a statement on the matters specified therein to the extent applicable.

We also enclose for information purposes Annexure-II, a Statement on applicability of Bhutanese Accounting Standards Phase I on State Mining Corporation Limited for the year ended 31st December 2015 2015 as approved by the Company.



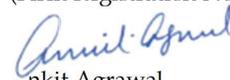
CHOKSHI & CHOKSHI LLP

Chartered Accountants

As required by Section 74(3) of the Act we report that:

- i. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- ii. in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the books.
- iii. the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows dealt with by this report have been prepared in accordance with accounting principles generally accepted and are in agreement with the books of account.
- iv. in our opinion, the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows comply with the Bhutanese Accounting Standards and provisions of the Companies Act of the Kingdom of Bhutan, 2000.

For **Chokshi & Chokshi LLP**
Chartered Accountants
(Firm Registration No. 101872W/W100045)



Ankit Agrawal

Partner

Membership No:- 413930



Place of Signature: Delhi

Date: 21 March, 2016

Annexure-I

MINIMUM AUDIT EXAMINATION AND REPORTING REQUIREMENTS

1. The Company has generally maintained proper records to show full particulars including quantitative details of its fixed assets. The Company's Management had conducted physical verification of fixed assets during the year at intervals considered appropriate by same. No material discrepancies were noticed on physical verification based on such report which we have relied upon.
2. The loans/advances granted to officers/staff are generally in keeping with the provisions of its service rules based on the test checks carried out and to the best of our knowledge and belief and information available to us and as informed us no excessive/frequent advances are granted and accumulation of large advances against particular individual is generally avoided which is relied by us.
3. In our opinion and according to the information and explanations given to us and to best of our knowledge and belief, the Company has a reasonable system of inhouse internal controls to ensure overall completeness, accuracy and reliability of accounting records during the year, to carry out the business in an orderly and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the applicable rules/regulations and systems and procedures.
4. In our opinion to the best of our knowledge and belief and according to the information and explanations given to us and checks carried out, there is a reasonable system of obtaining competitive biddings/ quotations from the parties as considered appropriate in respect of purchase of fixed assets and services commensurate with the size of the company and the nature of its business. As on 31st December 2015 the Company is not engaged in manufacturing or trading activities, hence the question of purchasing or selling goods does not arise.
5. The Company is regular in depositing rates and taxes, duties, provident funds, and other statutory dues with the appropriate authorities.
6. According to the information and explanations given to us, no undisputed outstanding amount is payable in respect of taxes, duties, provident funds and other statutory deductions etc. at the year ended 31st December 2015.
7. According to the information and explanations given to us, and test checks carried out no personal expenses of employees or directors have been charged to the account other than those payable as explained to us under normal contractual obligation in accordance with generally accepted practice.
8. As informed to us, since this is first year of the Company, the Company is in process of introducing the system of allocating man-hours utilized to the respective jobs.

9. According to the information and explanations given to us, the company has a reasonable system of authorization at internal levels, and an overall inhouse an adequate system of internal control commensurate with the size of the company and nature of its business As at 31st December 2015 the Company is not into the business of manufacturing or trading, and accordingly system of authorization and internal control on issue of stores and allocation of material to jobs are not applicable.
10. In our opinion and on the basis of information and explanations given to us, the management of liquid resources is done internally by the same, particularly cash/bank is generally adequate and as explained by them that excessive amounts as considered appropriate by Management are not lying idle in non- interest bearing accounts as on 31st December 2015. This is relied upon by us.
11. According to the information and explanations given to us, and on basis of examination of books and records on test check basis, the activities carried out by the Company during the year are in our opinion were lawful and intravires to the Articles of Incorporation of the Company.
12. According to the information and explanations given to us, and on basis of examination of books and records on test check basis, in our opinion the activities/ investment decisions are made with the prior approval of the Board and investment in new projects are made only after ascertaining the technical and economic feasibility of such new ventures as considered appropriate by the Management.
13. In our opinion, the Company has established a reasonable internal budgetary control system.
14. The details of remuneration, commission and other payments made in cash or kind, if any to the board of Directors or any of their relatives by the Company directly or indirectly are disclosed in the Note 20 of Notes to Financial Statements.
15. According to the information and explanations given to us, the directives of the Board have been complied with.
16. The clauses 2,3,4,5,6,7,8,9,13,14,15,16,17,21,22,23,26,27,28,29,34 and 37 of the Companies Act of the Kingdom of Bhutan 2000 read with Section II of Schedule XIV thereto the Minimum Audit Examination and Reporting Requirements are not applicable to the Company. In addition to the above, all clauses for Finance and Investment Company, Trading Company and other service sector Companies are not applicable.

COMPUTERISED ACCOUNTING ENVIRONMENT

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

1. in our opinion the organizational and system development controls and other internal controls are reasonable considering the size and nature of computer installations
2. the Company has certain safeguard measures and backup facilities of financial data.
3. back up facilities and disaster recovery measures, we are given to understand that the back-up files are kept at internal server of the Company which we have relied upon.
4. operational controls are found reasonable to ensure correctness and validity of input data and output information.
5. overall measures taken by the Company to prevent unauthorized access over the computer installation and files are generally adequate.

GENERAL

1. Going Concern Problem

Based on the Company's financial statements for the year ended 31st December 2015, audited by us, the company is in project phase during the year. The Company is a Government company and the commercial activity is yet to be commenced. We have no reason to believe that the company is not a going concern as being the year under audit is first year of the Company and commercial production is yet to be commenced. Accordingly, the financial statements have been prepared under the going concern basis.

2. Ratio analysis.

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

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

3. Adherence to Laws, Rules and Regulations:

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



FINANCIAL STATEMENT

STATE MINING CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER, 2015

(Amount in Nu)

| Particulars | Notes | 31 December 2015 |
|--|-------|-------------------|
| ASSETS | | |
| Non-Current Assets- | | |
| Property, Plant and Equipment | 2A | 5,562,920 |
| Intangible Asset | 2B | 66,164 |
| Capital Work-in-Progress | 2C | 11,395,932 |
| Trade & Other Receivable | 3 | 1,717,962 |
| Total Non-Current Asset | | 18,742,978 |
| Current Assets- | | |
| Trade & Other receivable | 4 | 3,203 |
| Cash and Cash Equivalents | 5 | 17,607,271 |
| Other Current Assets | 6 | 808,921 |
| Total Current Asset | | 18,419,395 |
| Total Asset | | 37,162,373 |
| EQUITY AND LIABILITIES | | |
| Capital and Reserves- | | |
| Share Capital | 7 | 45,580,000 |
| Retained Earnings / (Losses) | | (11,385,717) |
| Total Equity | | 34,194,283 |
| Deferred Tax Liability- | 8 | 39,733 |
| Total Deferred Tax Liability | | 39,733 |
| Non-Current Liabilities- | | |
| Retirement Benefit Obligations | 9 | 290,853 |
| Total Non-Current Liabilities | | 290,853 |
| Current Liabilities- | | |
| Trade and Other Payables | 10 | 2,637,504 |
| Other Liabilities | | - |
| Total Current Liabilities | | 2,637,504 |
| Total of Equity and Liabilities | | 37,162,373 |

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

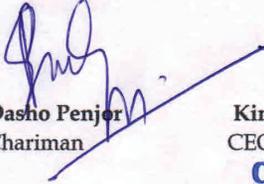
As per our report of even date
For CHOKSHI AND CHOKSHI LLP
Chartered Accountants
Firm Registration Number: 101872W/W100045

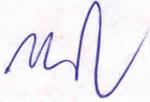

Ankit Agrawal
Partner
Membership Number : 413930



Place : Delhi
Date : 21 March, 2016

For STATE MINING CORPORATION LTD.


Dasho Penjor
Chariman


Kinzang Norbu
CEO

Chief Executive Officer
State Mining Corporation Ltd.
Samtse

Place : Samtse
Date :

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

STATE MINING CORPORATION LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st DECEMBER 2015

(Amount in Nu)

| Particulars | Notes | 31 December 2015 |
|--|-----------|---------------------|
| Income- | | |
| Revenue from sale of products | | - |
| Other income | 11 | 284,100 |
| Total Income | | 284,100 |
| Expenditure- | | |
| Operation & Maintenance Expenses | 12 | 267,748 |
| Depreciation and Amortisation | 2 | 807,826 |
| Employee Benefit Expenses | 13 | 5,980,008 |
| Finance Cost | | - |
| Other Expenses | 14 | 4,574,502 |
| Total Expenditure | | 11,630,084 |
| Profit/(Loss) Befor Income Tax | | (11,345,984) |
| Income Tax Expenses | | (39,733) |
| Profit/ (Loss) After Income Tax | | (11,385,717) |
| Other Comprehensive (income)/Loss | | |
| Actuarial(Gain)/Loss on post employment benefit obligations | | - |
| Net Other Comprehensive (Income)/Loss | | - |
| Total Comprehensive Income/(Loss) | | (11,385,717) |
| Basic and Diluted Earnings per Share | 15 | (39.64) |

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

As per our report of even date
For CHOKSHI AND CHOKSHI LLP
 Chartered Accountants
 Firm Registration Number: 101872W/W100045

Ankit Agrawal
Ankit Agrawal
 Partner
 Membership Number : 413930



Place : Delhi
Date : 21 March, 2016

For STATE MINING CORPORATION LTI

Dasho Penjor
Dasho Penjor
 Chariman

Kinzang Norbu
Kinzang Norbu
 CEO

Place : Samtse
Date :
Chairman

Chief Executive Officer
State Mining Corporation Limited
 Samtse, BHUTAN

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

STATE MINING CORPORATION LIMITED
STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31st DECEMBER 2015

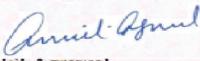
(Amount in Nu)

| Particulars | 31 December 2015 |
|--|---------------------|
| Cash flows from Operating activities | 0 |
| Net cash generated from operating activities | 0 |
| Cash flows from Investing activities | |
| Purchase of property, plant and equipment | (6,355,418) |
| Purchase of intangible assets | (81,493) |
| Investment in mining Projects | (13,113,894) |
| Cash paid for Pre-operative expenses | (8,706,024) |
| Cash received from sale of tender documents and Liquidated Damages | 284,100 |
| Net cash used in investing activities | (27,972,729) |
| Cash flows from Financing activities | |
| Proceeds from issuance of Equity shares | 45,580,000 |
| Net cash generated from financing activities | 45,580,000 |
| Net increase or (decrease) in cash and cash equivalents | 17,607,271 |
| Cash and cash equivalents at beginning of year | 0 |
| Exchange gains/(losses) on cash and cash equivalents | 0 |
| Cash and Cash Equivalents at end of the year (Refer note 5) | 17,607,271 |

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

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

As per our report of even date
For CHOKSHI AND CHOKSHI LLP
 Chartered Accountants
 Firm Registration Number: 101872W/W100045

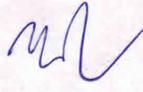

Ankit Agrawal
 Partner
 Membership Number : 413930

Place : Delhi
 Date : 21 March, 2016



For STATE MINING CORPORATION LTD.


Dasho Penjor
 Chariman


Kinzang Norbu
 CEO

Place : Samtse
 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 for the year ended 31st December 2015

(Amount in Nu)

| | Ordinary Shares | | | Retained Earnings | General Reserve | Total |
|---|--|---------------------|-----------------------|---------------------|-----------------|-------------------|
| | No. of Shares (issued and fully paid up) | Par value per share | Total value of shares | | | |
| Balance as at 1st January 2015 | - | - | - | - | - | - |
| Profit/(loss) after Income Tax | - | - | - | (11,385,717) | - | - |
| Share allotment against Money received from | 455,800 | 100 | 45,580,000 | - | - | 45,580,000 |
| Other Comprehensive Income for the year | - | - | - | - | - | - |
| Balance as at 31st December 2015 | 455,800 | 100 | 45,580,000 | (11,385,717) | - | 45,580,000 |

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

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

As per our report of even date
For CHOKSHI AND CHOKSHI LLP
 Chartered Accountants
 Firm Registration Number: 101872W/W100045

Ankit Agrawal

Ankit Agrawal
 Partner
 Membership Number : 413930

Place : Delhi
Date : 21 March, 2016



For STATE MINING CORPORATION LTD.

Dashe Penjor
Dashe Penjor
 Chairman
 CEO
Kinzang Norbu
 CEO

Chief Executive Officer
State Mining Corporation Ltd.
Samtse, DITIM, BHUTAN

Place : Samtse
Date :

Chairman

State Mining Corporation Ltd.
Regd Office: Samtse; BHUTAN

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 2015.

1. Basis of preparation:

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

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

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

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

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

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

Actuarial valuation of employee benefits: Expected uptake of the gratuities and the discount rate used in the valuation.

The functional currency of preparation is the Bhutanese Ngultrum(Nu).



2. Application of Bhutanese Accounting Standards (BAS):

All standards in the first phase of implementation have been implemented wherever appropriate. The Company has decided on the early adoption of BAS 19 "Employee Benefits", which is in second phase of Bhutanese Accounting Standards. As the Accounting Standards Board has not pronounced BAS 19, the Company has applied the most recent version of the equivalent International Accounting standard (IAS) 19, IAS 19 (Revised 2011), which applies for financial periods commencing on or after 1 January 2013. In addition to above, Company has decided on the early adoption of Bhutanese Financial Reporting Standard (BFRS) 6 - Exploration for and Evaluation of Mineral Resources. The company has considered IFRIC 20:- Stripping Costs in the Production Phase of a Surface Mine in setting its accounting policies.

3. Foreign currency translation:

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

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

4. Property, Plant and Equipment:

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

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

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



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

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

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

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

5. Intangible assets:

Computer software:

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

Other Intangibles:

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

6. Impairment of asset:

The carrying amount of assets are assessed/ reviewed at the end of the reporting period whether there is any indication of impairment based on internal/external factors. If such indication exists, the company estimates the recoverable amount of the assets. An impairment loss is recognized if the carrying amount of the asset exceeds the recoverable amount on the reporting date, as the carrying amount is reduced to the recoverable amount. The recoverable amount is measured as the higher of the net selling price and the value in use determined by the present value of estimated future cash flow.

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

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



8. Financial assets:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

9. Inventories:

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

10. Trade and other receivables:

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

11. Cash and Cash Equivalents:

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

12. Trade and other payables:

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

13. Current and deferred income tax:

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

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

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

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



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

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

14. Borrowing costs:

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

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

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

15. Employee benefits:

a. Retirement Benefits:

Under defined contribution scheme:

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

Under Defined Benefit Scheme:

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

b. Other benefits:

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

16. Provisions and Contingent Liabilities:

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

17. Revenue recognition:

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts,



returns and taxes. The company recognises revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the company.

18. Government grants:

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

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

19. Comparative information:

The Company commenced operations on 1st January 2015. Accordingly there is no comparative information to be included in these financial statements.



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

2A. Property Plant & Equipment

(Amount in Nu)

| Particulars | Furniture & Fixture | Data Processing Equipment | Office Equipment | Vehicle* | Total |
|---|---------------------|---------------------------|------------------|------------------|------------------|
| Balance as at 1 January 2015- | | | | | |
| Cost | - | - | - | - | - |
| Accumulated Depreciation | - | - | - | - | - |
| Book Value as at 1 January 2015 | - | - | - | - | - |
| Changes in book value during the year- | | | | | |
| Addition | 1,512,049 | 2,201,703 | 119,390 | 2,522,277 | 6,355,418 |
| Deletion/ Adjustment | - | - | - | - | - |
| Depreciation on deletions and Adjustm | - | - | - | - | - |
| Depreciation for the year | (85,177) | (373,312) | (2,312) | (331,697) | (792,498) |
| Total Changes | 1,426,872 | 1,828,391 | 117,078 | 2,190,580 | 5,562,920 |
| Balances as at 31 December 2015- | | | | | |
| Cost | 1,512,049 | 2,201,703 | 119,390 | 2,522,277 | 6,355,418 |
| Accumulated Depreciation | (85,177) | (373,312) | (2,312) | (331,697) | (792,498) |
| Book value as at 31 December 2015 | 1,426,872 | 1,828,391 | 117,078 | 2,190,580 | 5,562,920 |

*Car purchased in used condition thus

Company considers the remaining useful life as 5 years.

2B. Intangible Assets

| Particulars | (Amount in Nu) |
|---|----------------|
| Balance as at 1 January 2015- | |
| Cost | - |
| Accumulated Amortization | - |
| Book Value as at 1 January 2015 | - |
| Changes in book value during the year- | |
| Addition | 81,493 |
| Deletion/ Adjustment | - |
| Amortization on deletions and Adjustm | - |
| Amortization for the year | (15,329) |
| Total Changes | 66,164 |
| Balances as at 31 December 2015 | |
| Cost | 81,493 |
| Accumulated Amortization | (15,329) |
| Book value as at 31 December 2015 | 66,164 |

2C. Capital Work in Progress*

| Particulars | (Amount in Nu) |
|---|-------------------|
| Book Value as at 1 January 2015 | - |
| Changes in book value during the year: | |
| Addition | 11,395,932 |
| Deletion/ Adjustment | 0 |
| Total Changes | 11,395,932 |
| Book value as at 31 December 2015 | 11,395,932 |

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

| Projects | (Amount in Nu) |
|-----------------|----------------|
| Bangtar | 5,034,010 |
| Samrang Coal | 3,169,986 |
| Dolomite | 2,331,855 |
| Quarzite/Quarry | 784,371 |
| Phyllite | 75,710 |

NOTES FORMING PART OF STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER

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

| | 31 December 2015 |
|------------------|------------------|
| Capital Advances | 1,707,962 |
| Security Deposit | 10,000 |
| Total | 1,717,962 |

Note 4: Trade & Other receivable (Current) (Amount in Nu)

| | 31 December 2015 |
|---------------------|------------------|
| Advance to Employee | 3,203 |
| Total | 3,203 |

Note 5: Cash and Cash Equivalents (Amount in Nu)

| | 31 December 2015 |
|----------------------------------|-------------------|
| Cash-in-hand | 18,392 |
| Bank Balance | |
| Bank of Bhutan - Current Account | 17,588,879 |
| Total | 17,607,271 |

Note 6: Other Current Assets (Amount in Nu)

| | 31 December 2015 |
|-------------------------|------------------|
| Receivables | |
| Deposite due for refund | 792,516 |
| Other receivables | 16,405 |
| Total | 808,921 |

| Note 7: Capital | | (Amount in Nu) |
|--|--|-------------------------|
| | | 31 December 2015 |
| Authorised Capital | | 1,000,000,000 |
| Issued, Subscribed and Paid-up 455,800 Equity shares @ Nu. 100 each fully paid up | | 45,580,000 |
| Total | | 45,580,000 |

Terms/Rights attached to equity shares

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

| Note 8: Taxation* | | (Amount in Nu) |
|---|--|-------------------------|
| | | 31 December 2015 |
| Deferred Tax Liability:- Timing Differences in respect of- Opening Recognised during the year in relation to Property, Plant and Equipment | | 39,733 |
| Total | | 39,733 |

*Refer Note No:- 18

| Note 9: Retirement Benefit Obligations | | (Amount in Nu) |
|---|--|-------------------------|
| | | 31 December 2015 |
| Gratuity | | 290,853 |
| Total | | 290,853 |

| Note 10: Trade and Other Payables | | (Amount in Nu) |
|--|--|-------------------------|
| | | 31 December 2015 |
| Security Deposits | | 423,874 |
| Sundry Creditors - Inter Company | | 298,213 |
| Sundry Creditors - Others | | 933,490 |
| Employee Payables | | 746,942 |
| Leave Encashment | | 154,985 |
| Other payables | | 80,000 |
| Total | | 2,637,504 |

Notes forming part of Statement of Comprehensive Income

| Note 11 : Other Income | | (Amount in Nu) |
|-------------------------------|--|-------------------------|
| | | 31 December 2015 |
| Liquidated Damages | | 274,200 |
| Sale of tender documents | | 9,900 |
| Total | | 284,100 |

| Note 12 : Operation & Maintenance Expenses | | (Amount in Nu) |
|---|--|-------------------------|
| | | 31 December 2015 |
| Vehicles | | 133,660 |
| Building | | 131,788 |
| Computer System | | 1,800 |
| Office Equipment & Furniture | | 500 |
| Total | | 267,748 |

| Note 13 :Employee Benefits Expenses | | (Amount in Nu) |
|--|--|-------------------------|
| | | 31 December 2015 |
| Payroll and related expenses | | |
| Salaries,Wages and Allowances | | 3,881,612 |
| Leave Travel Concession | | 163,040 |
| Staff Welfare | | 251,286 |
| HDR Expenses | | 875,272 |
| Post employment benefits- | | |
| Provident Fund Contribution (Employer) | | 269,502 |
| Gratuity | | 290,853 |
| Other Employee Benefits - | | |
| Leave Encashment | | 248,443 |
| Total | | 5,980,008 |

| Note 14 :Other Expenses | | (Amount in Nu) |
|--|--|-------------------------|
| | | 31 December 2015 |
| Travel Expenses-local | | 1,047,659 |
| Board Sitting Fees | | 672,000 |
| Office Rent | | 381,808 |
| Rimdo / Tendral Expenses | | 344,061 |
| Office Supplies, Printing & Stationaries | | 296,197 |
| Sub-Committee Sitting Fee | | 260,000 |
| Advertisement | | 223,472 |
| Hospitality & Entertainment | | 218,602 |
| Internet | | 215,964 |
| Office Expenses | | 204,713 |
| Vehicle Expenses | | 140,742 |
| Meeting & Retreat Expenses | | 123,033 |
| Audit Fees and Expenses (Refer Note 21) | | 120,000 |
| Donation | | 115,000 |
| Honorarium | | 66,000 |
| Telephone & Fax | | 55,262 |
| Hire of Vehicles | | 26,900 |
| Electricity Charges | | 20,347 |
| Insurance Charges | | 18,529 |
| License Processing Fees | | 14,100 |
| Library Books | | 3,550 |
| Postage | | 3,505 |
| Bank Charges | | 1,010 |
| Newspaper & Magazines | | 490 |
| Transportation Charges | | 300 |
| Miscellaneous Expenses | | 1,258 |
| Total | | 4,574,502 |

| Note 15: Earnings Per Share | | (Amount in Nu) |
|--|--|-------------------------|
| | | 31 December 2015 |
| Profit/(Loss) after income-tax | | (11,385,717) |
| Number of shares at the beginning of the year | | - |
| Number of Shares allotted to DHI Ltd. on 14th January 2015 | | 250,000 |
| Number of Shares allotted to DHI Ltd. on 09th October 2015 | | 205,800 |
| Number of shares at the end of the year | | 455,800 |
| Weighted average number of ordinary shares in issue | | 287,209 |
| Basic and Diluted Earnings per Share | | (39.64) |

OTHER NOTES TO FINANCIAL STATEMENTS

16. There are no contingent liabilities for the Company as on 31st December 2015.

17. Retirement Benefit Obligations:

A. Defined Contribution Plan:

Qualifying employees are members of a defined contribution plan operated by the National Pension and provident Fund. The Company matches employee contributions to the fund. The only obligation on the Company is to make the contribution monthly. Total cost of contributions for the year ended 31st December 2015 was Nu. 425,069 (Including Nu. 155,567 in CWIP for employees working at sites)

B. Defined benefit Scheme:

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

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

a) Gratuity as at 31 December 2015

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

| (a)(1). Change in Defined Benefit Obligation (DBO) | 31/12/2015 |
|--|-------------------|
| DBO at the beginning of the reporting period | - |
| Current service cost | 290,853 |
| Interest cost | - |
| Past service cost | - |
| Benefits paid from plan assets | - |
| Benefits paid by employer | - |
| Actuarial (gain)/loss due to plan experience | - |
| Actuarial (gain)/loss due to change in demographic assumptions | - |
| Actuarial (gain)/loss due to change in financial assumptions | - |
| DBO at the end of the reporting period | 290,853 |
| <hr/> | |
| (a)(2). Change in fair value of Plan Assets | 31/12/2015 |
| Fair Value of Assets at the beginning of reporting period | - |
| Interest income on plan assets | - |
| Employer contributions | - |
| Benefits paid | - |
| Amount withdrawn by company | - |
| Return on plan assets greater or (less) than discount rate | - |
| Assets at the end of the reporting period | - |



| | |
|--|-------------------|
| (a)(3). Statement of Profit or Loss | 31/12/2015 |
| Current Service Cost | 290,853 |
| Past service cost | - |
| Net interest cost on net DB liability/(asset) | - |
| Net cost for the year recognised in Profit or Loss | 290,853 |
| (a)(4). Other Comprehensive Income (OCI) | 31/12/2015 |
| Actuarial (Gain)/Loss due to liability experience | - |
| Actuarial (Gain)/Loss due to liability assumption changes | - |
| Return on plan assets (Greater) or Less than discount rate | - |
| Remeasurement (Gain)/Loss recognized in OCI | - |
| (a)(5). Defined Benefit Cost | 31/12/2015 |
| Current service cost | 290,853 |
| Past service cost | - |
| Net interest cost on net DB liability/(asset) | - |
| Remeasurement (Gain)/Loss recognized in OCI | - |
| Total Defined Benefit Cost | 290,853 |
| (a)(6). Development of Net Financial position | 31/12/2015 |
| Defined Benefit Obligation | (290,853) |
| Fair Value of Plan Assets | - |
| Funded Status - (Deficit)/Surplus | (290,853) |
| Net Defined Benefit Asset/(Liability) | (290,853) |
| (a)(7). Reconciliation of Net Financial position | 31/12/2015 |
| Net Defined Benefit liability/(asset) at the beginning of reporting period | - |
| Amount recognized in the profit or loss | 290,853 |
| Amount recognized in the OCI | - |
| Employer contributions | - |
| Benefits paid by employer | - |
| Amount withdrawn by company | - |
| Net Defined Benefit liability/(asset) at the end of reporting period | 290,853 |
| (a)(8). Expected Benefit Payments for the year ending | Amount |
| December 31, 2016 | 31,791 |
| December 31, 2017 | 49,829 |
| December 31, 2018 | 356,740 |
| December 31, 2019 | 73,239 |
| December 31, 2020 | 595,244 |
| December 31, 2021 to December 31, 2025 | 638,318 |



| | |
|---|-------|
| (a)(9). Estimated Term of Liability (Years) | 18.41 |
|---|-------|

| (a)(10) Scheme Asset Allocation | Amount (Nu.) | Percentage |
|---------------------------------|--------------|------------|
| Nil | - | - |

| (a)(11) Sensitivity Analyses | | |
|---|-------------------------------|----------------------|
| | Defined Benefit Obligation | Net Effect on DBO |
| 1. Discount Rate | | |
| <i>Base Discount Rate of 7.5%</i> | 290,853 | - |
| <i>Discount rate of 8% (+0.5%)</i> | 275,865 | (14,988) |
| <i>Discount rate of 7% (-0.5%)</i> | 307,334 | 16,481 |
| 2. Salary Escalation Rate | | |
| <i>Base Salary Escalation Rate of 5%</i> | 204,451 | - |
| <i>Salary Escalation Rate of 6% (+1%)</i> | 234,317 | 29,866 |
| <i>Salary Escalation Rate of 4% (-1%)</i> | 179,466 | (24,985) |
| 3. Attrition Rate | | |
| <i>Base Attrition Rate of 3%</i> | 204,451 | - |
| <i>Attrition Rate of 4% (+1%)</i> | 194,912 | (9,539) |
| <i>Attrition Rate of 2% (-1%)</i> | 215,059 | 10,608 |

(a)(12). Summary of actuarial assumptions

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



b) Leave Encashment Benefits as at 31 December 2015

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

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



| (b)(5). Expected Benefit Payments for the year ending | Amount |
|--|---------------|
| December 31, 2016 | 7,042 |
| December 31, 2017 | 7,188 |
| December 31, 2018 | 7,338 |
| December 31, 2019 | 7,492 |
| December 31, 2020 | 30,096 |
| December 31, 2021 to December 31, 2025 | 42,276 |

| (b)(6). Estimated Term of Liability (Years) | 14.32 |
|--|--------------|
|--|--------------|

(b)(7). Sensitivity Analyses

| | Defined Benefit Obligation | Net Effect on DBO |
|------------------------------------|---------------------------------------|------------------------------|
| 1. Discount Rate | | |
| Base Discount Rate of 7.5% | 154,985 | - |
| Discount rate of 8% (+0.5%) | 146,011 | (8,973) |
| Discount rate of 7% (-0.5%) | 164,853 | 9,869 |
| 2. Salary Escalation Rate | | |
| Base Salary Escalation Rate of 5% | 154,985 | - |
| Salary Escalation Rate of 6% (+1%) | 176,919 | 21,934 |
| Salary Escalation Rate of 4% (-1%) | 136,625 | (18,360) |
| 3. Attrition Rate | | |
| Base Attrition Rate of 3% | 154,985 | - |
| Attrition Rate of 4% (+1%) | 160,441 | 5,457 |
| Attrition Rate of 2% (-1%) | 148,719 | (6,266) |

(b)(8). Summary of actuarial assumptions

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



18. Deferred Tax Asset:

The Company's Business operations of mining projects are currently at differed stages of mining and commercial operations yet to commence. Such projects are long term in nature and the company is in project phase during the year The entity has incurred certain tax loses which are permitted to be set off against taxable profits arising from reversal of temporary timing differences. Accordingly, out of prudence, the deferred tax asset is not created for this financial year.

19. Related Party Disclosure:

19.1 Name of the related parties and Relation

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

19.2 Name of the fellow Subsidiaries

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

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

| | |
|---------------------|----------|
| Dasho Penjore, | Chairman |
| Dasho Karma Weezir, | Director |
| Mr. Yeshi Dorji, | Director |
| Mr. Yeshey Dorji | Director |
| Ms.Karma Choden | Director |
| Mr.Thukten Choeda | Director |
| Mr.Kinzang Norbu | Director |

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



19.5 Transactions during the year.

(Amount in Nu)

| Company | Description | Transaction During the Year | Balance as at 31 st December 2015 |
|--|--|-----------------------------|--|
| Bank of Bhutan Limited | Intergroup Current Deposits | - | 17,588,879 |
| Bhutan Power Corporation | Electricity Charges | 20,347 | - |
| Bhutan Telecom Limited | Internet Charges | 215,963 | - |
| Bhutan Telecom Limited | Telephone & Fax | 55,261 | 5,192 |
| Druk Holding & Investment | Shares held by DHI | 45,580,000 | 45,580,000 |
| Bhutan Board Product Ltd. | Purchase of Furniture | 397,432 | - |
| Druk Holding & Investment | Sundry Creditors -Inter Company | 293,021 | 293,021 |
| State Trading Corporation Limited | Tata service & spare (R & M vehicle) | 13,435 | - |
| Wood Craft Center Limited | Purchase of Furniture | 153,195 | - |
| Construction Development Corporation Limited | Advance Payment for Construction of infrastructure | 1,707,962 | 1,707,962 |



20. Managerial Remuneration

| | Amount in Nu |
|--|------------------|
| Remuneration to the Chief Executive Officer (CEO) | |
| Basic Pay | 840,000 |
| Corporate Allowance | 462,000 |
| GPF Contribution (Employer) | 92,400 |
| Leave Encashment | 70,000 |
| Leave Travel Concession | 15,000 |
| Performance Based Variable Allowance(PBVA) | 51,555 |
| Total | 1,530,955 |
| Travelling expense of CEO | 285,979 |
| Sitting fees to Board of Directors of the company | 672,000 |

21. Auditors remuneration

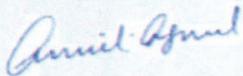
| Particulars | Amount in Nu |
|--------------------|-----------------|
| Auditors Fees | 40,000 |
| Auditors Expenses* | 80,000 |
| Total | 120,000 |

*Provisional

22. The Company commenced operations on 1st January 2015. Accordingly there is no comparative information to be included in these financial statements.

As per our report of even date

For CHOKSHI AND CHOKSHI LLP
Chartered Accountants
Firm Registration Number: 101872W/W100045



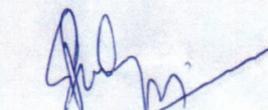
Ankit Agrawal
Partner
Membership Number : 413930

Place : Delhi

Date : 21 March, 2016



For STATE MINING CORPORATION
LTD.



Dasho Penjor
Chariman

Kinzang Norbu
CEO

Chief Executive Officer
State Mining Corporation
Samtse : BHITAN

Place : Samtse

Date :
Chairman

State Mining Corporation Ltd.
Regd. Office: Samtse, BHITAN

**Corporate Office: State Mining Corporation Limited
Samtse Bhutan
Post Box No. 320
Tel: 05-365885/86
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www.smcl.bt**

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