



ANNUAL REPORT

2022



Drukair Corporation Limited
(a **dhi** company)

ANNUAL
REPORT
2022





THE YEAR IN REVIEW

I am pleased to present our Annual Report for FY2022, which marks the beginning of the recovery of the aviation industry from the COVID pandemic. Despite the challenges brought about by the pandemic, Drukair quickly adapted to the new changes in the travel industry and emerging requirement of its passengers and experienced slight growth compared to previous years, signalling the beginning of the recovery process. We operated 1,944 flights in 2022, carrying 91,126 passengers, which is a significant increase from the 850 flights and 23,858 passengers carried in 2021. The airline also transported 548 Metric Tons (MT) of cargo, out of which 10 MT were the final shipment of medical cargo symbolizing the end of the COVID-19 restrictions in the country. Furthermore, 143 MT of mail, and 169 MT of unaccompanied baggage were transported during the year.

Drukair dominated the market share on the four competitive routes of Bangkok, Delhi, Kathmandu, and Kolkata, and introduced an Inflight Entertainment System in the third quarter of 2022 to enhance our passenger experience.

Drukair achieved a daily utilization of 1.84 hours for each of its Airbus aircraft, which was an improvement from 0.7 hours in 2021. Similarly, for the ATR, Drukair achieved a daily utilization of 1.85 hours in 2022, up from 0.99 hours in 2021. The airline also resumed regular charter flights between Singapore and Dili, Timor Leste, which contributed to increased revenue and aircraft utilization.

Drukair is also in the process of converting an Airbus A319 into a cargo freighter to diversify its services and also the revenue streams.

On October 12, 2022, Royal Bhutan Helicopter Services (RBHSL) was merged with Drukair. RBHSL is a state owned enterprise whose primary mandate is to provide emergency services to provide air connectivity to inaccessible parts of the country, while also being utilized for commercial charters for transfer of passengers and cargo for its sustainability.

RBHSL carried a total of 2,264 passengers in 2022 as compared to 19,47 in 2021 with corresponding increase in revenue hours from 807 hours in 2021 to 1055 hours in 2022.

In adherence to the Royal Command during the 112th National Day regarding the preparedness towards the 21st Century Economic Roadmap, which requires organizational and human resource improvement in terms of efficiencies, performance and skills, the DHI group launched an Organizational Development Exercise (ODE) initiative for Drukair in the second half of 2022.

The ODE was conducted by deploying the Viable Systems Model for the organization by analysing the staffing trends before and after the pandemic to determine the right size. Review of existing documents, systems and processes, discussions and interactions with employees and online surveys were adopted for collection of information and validation. The initiative is set to be implemented in 2023.

The tourism industry is crucial to the socio-economic development of our small nation with limited resources. Drukair, the national airline of Bhutan, is leading the way in this industry, and is committed to ensuring that every guest has a memorable experience through our unwavering emphasis on safety, standard and services.

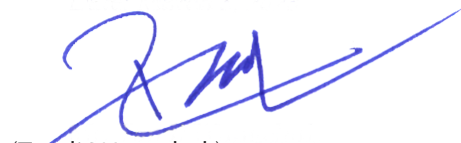
Bhutan has received high accolades in the travel industry as Lonely Planet, the guidebook company, and Travel Lemming, a US-based online travel guide, both recently recognized the country as a top travel destination for 2023. Lonely Planet included Bhutan in its list, while Travel Lemming named it the best country to travel to in Asia and the second-best travel destination globally in its annual ranking of the world's 50 best travel destinations.

This is promising for all tourism sectors including us, the national flag carrier, and we are optimistic about accomplishing all our customer as well as financial targets in the upcoming year.

On behalf of Drukair management, I would like to extend our heartfelt thankfulness to His Majesty and the government for providing relief measures during these challenging times, and for keeping us safe from the pandemic through their leadership. Furthermore, we would like to express our gratitude to the Board and DHI for their unwavering support. Our management team would also like to acknowledge our customers' loyalty and support to Drukair.

I would like to take this opportunity to thank all our employees for their outstanding efforts for the year. I hope that each employee will continue to be vigilant and dedicated to providing uncompromising safety and quality services to all our valued customers. Additionally, I would like to remind everyone of His Majesty's command to Drukair to always prioritize the three Ss: Safety, Standard, and Services. At Drukair, "Safety & Standard" will always remain the topmost priority.

Tashi Delek

A handwritten signature in blue ink, appearing to be "Tashi Delek".

(Tandi Wangchuk)

Chief Executive Officer

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COMPANY PROFILE

Drukair is the National Airline of the Kingdom of Bhutan owned by the Royal Government of Bhutan through its Investment Wing, Druk Holding & Investments Ltd. The airline operates a scheduled network within the South Asian region from its headquarters located in the beautiful valley of Paro in Western Bhutan.

The airline was established through a Royal Proclamation on April 5, 1981. It started commercial operations on February 11, 1983, from Paro, about a 55 km away from the capital, Thimphu. Drukair began humbly with an 18-seat Dornier 228-200 that made its historic touch down at Paro airport on January 14, 1983, to the chant of inauguration prayers, cymbals, conches and the like, with maroon-clad monks, blessing the occasion and the plane. The first link was Kolkata, followed by eight destinations in South Asia. As more and more people took to the skies, not just to connect but also to enjoy perhaps the most breath-taking view of the Himalayan range, including Mt. Everest, Mt. Kanchenjunga and the highest unclimbed mountains in Bhutan itself, another Dornier was added to meet the increasing demand.

Drukair had since then continued to upgrade its fleet; first to two BAe 146s in 1988, followed by Airbus A320 family and an ATR.

On October 12, 2022, Royal Bhutan Helicopter Services (RBHSL) merged with Drukair by acquisition as adopted by all the shareholders, becoming a single corporate entity with the name Drukair Corporation Limited. RBHSL was incorporated as a State-Owned Enterprise on July 9, 2015, to provide helicopter emergency services initially and which expanded to include local/tourist charters and cargo transport services to make the helicopter operations sustainable.

At the end of 2022, Drukair has a fleet size of seven aircraft, including three Airbus A319s, one A320, one ATR-42-600 for fixed-wing services, and two Airbus H130 helicopters for rotary services.

The airline operates in ten international airports in six countries (Bhutan, Bangladesh, India, Nepal, Thailand, and Singapore) and four domestic airports for fixed-wing services. The rotary services rebranded as Drukair Helicopter Services, provide mountain scenic charters and other commercial charters apart from emergency services. As of December 31, 2022, Drukair has a total staff strength of 494 employees.

Vision

To be the leading airline connecting Bhutan and the world

Mission

Drukair, as a National Airline shall provide safe and reliable air transport services, be competitive and meet the growing demands, and consistently meet customer expectation with excellence in service

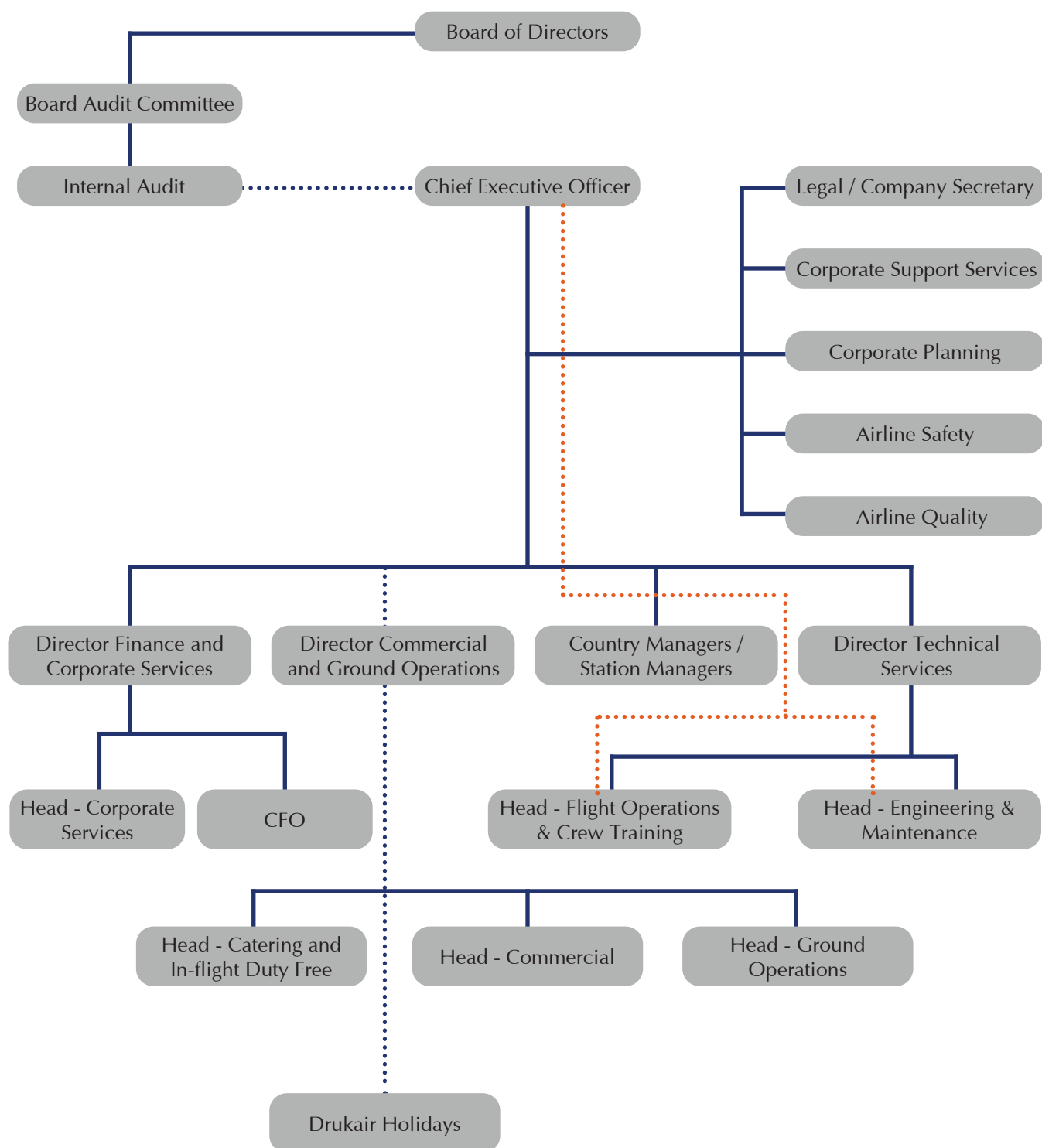
Core Values

Safety, Standard, Service Excellence, Integrity, Team Work and Open Door Culture

Slogan

On the wings of the dragon

ORGANIZATIONAL STRUCTURE



BOARD OF DIRECTORS



Mrs. Pema Choden

Mrs. Pema Choden is the Secretary of the Ministry of Foreign Affairs and External Trade. She joined the then Ministry of Foreign Affairs in 1989 and has served in various capacities. Prior to being appointed as the Secretary, she served as Bhutan's resident Ambassador to Belgium and the European Union with concurrent accreditation to Sweden, the Netherlands, Denmark, Finland and Spain from April 2016 to January 2021. She received her Bachelor's Degree from Sherubtse College, Kanglung, Bhutan and a Diploma in International Relations from the Institute International d'Administration Publique (IIAP), Ecole Nationale d'Administration (ENA), Paris, France.



Mr. Karma Lotey

Mr. Karma Lotey is the Chief Executive Officer of Yangphel Private Limited, one of Bhutan's leading tour operators and has been on the top since its inception in 1988. Mr. Lotey has been with the company since 1995 and he has a Bachelor's in Business majored in Marketing and an Executive Master's in Business Administration from Devry University, Chicago USA.



Mr. Karma Thinlay

Mr. Karma Thinlay is the Dzongdag of the Paro Dzongkhag Administration and has 30 years of work experience. He has a Bachelor's degree in Electrical and Electronics Engineering from Regional Engineering College in Warangal, India and a Master's in Public Policy from the Australian National University in Canberra, Australia.

Mr. Dorji Dhradhul, Board Director

Mr. Dorji Dhradhul is the Director General of the Department of Tourism under the Ministry of Industry, Commerce and Employment and has over 30 years of work experience. He has a Bachelor's Degree in Agricultural Science from Tribhuvan University, Nepal and a Master's degree in Agricultural Extension from the University of Reading, UK.



Mr. Karma Wangchuk, Board Director

Mr. Karma Wangchuk is the Director General of Department of Air Transport under the Ministry of Infrastructure and Transport and has over 32 years of work experience. He has a Bachelor's Degree in Commerce from Sherubtse College, Kanglung, Bhutan, Post Graduate Diploma in Aviation Management from NUS Singapore and Masters in Development Administration from Australian National University, Canberra, Australia.



Mr. Dorji Nima, Board Director

Mr. Dorji Nima is the Director at Druk Holding and Investments. He has over 19 years of professional work experience. He has a Bachelor's Degree in Business Administration from Madras University, India and Masters degree in Business Administration from Australian Graduate School of Entrepreneurship, Melbourne, Australia.



Mr. Tandi Wangchuk, CEO & Board Director

Mr. Tandi Wangchuk is the Chief Executive Officer of Drukair Corporation Limited. He has more than 32 years of work experience. He received his Bachelor's Degree in Electrical and Electronics Engineering from Bangladesh University of Engineering and Technology (BUET), Dhaka, Bangladesh and Master's in Operational Telecommunication from Coventry University, Midlands, England, UK.



MANAGEMENT



MR. NAMGAY WANGCHUK,
Director, Department of Commercial
and Ground Operations

MR. TANDI WANGCHUK,
CEO & Board Director

MR. KARMA PHUNTSHO WANGDI,
Director, Department of Technical
Services

MR. RINZIN DORJI,
Director, Department of Finance
and Corporate Services

Mr. Namgay Wangchuk is the Director of Commercial and Ground Operations Department. He received his Bachelor of Arts from Sherubtse College, Bhutan. He served Drukair for 34 years.

Mr. Tandi Wangchuk serves as the CEO of Drukair Corporation Limited and possesses an extensive work experience of over 32 years. He earned his Bachelor's degree from BUET, Dhaka, and later pursued a Master's degree from Coventry University in the UK.

Mr. Karma Phuntsho Wangdi is the Director of Technical Services Department. He received his Bachelor of Arts from Sherubtse College, Bhutan. He served Drukair for over 29 years.

Mr. Rinzin Dorji is the Director of Finance and Corporate Services Department. He received his Bachelor of Commerce from Meerut University, India. He served Drukair for over 30 years.

DIRECTORS' REPORT

Introduction

On behalf of the Drukair Board and the Management, I extend a warm welcome to:

1. DASHO Chairman, DHI
2. DHI Board Directors Aum Yunny and Mr. Nelson
3. DHI CEO,
4. DHI CPD members

to the **32nd Annual General Meeting** of Drukair Corporation Limited.

The Board is pleased to report the company's performance for the period January 1, 2022 to December 31, 2022.

Operational highlights

After more than two years of unprecedented challenges, the year 2022 brought a renewed sense of hope and optimism to the aviation industry, with the pandemic easing its global grip due to advancements of medical facilities and vaccinations. The industry, including Drukair, quickly adapted to the evolving needs of the passengers resulting a slight growth compared to the previous years, thereby indicating the beginning of the recovery process.

Despite strict lockdown and travel restrictions in the first quarter of 2022, and a sluggish second quarter, Drukair still managed to operate a total of 1,944 flights, an increase of 129% from 850 flights operated in 2021. While the lock down had an adverse impact in the first quarter, the overall total number of passengers carried has increased by 282% to 91,126 from 23,858 passengers carried in 2021, consequently, achieving a load factor of 60% for 2022. Drukair ferried 548 Metric Tons (MT) of cargo, 143 MT of mail and 169 MT of unaccompanied cargo (Inclusive of Excess Baggage) in 2022.

Drukair achieved an average 90% of market share on the four competitive routes of Bangkok, Delhi, Kathmandu and Kolkata.

Towards third quarter of 2022, Drukair introduced Inflight Entertainment System which further enhanced onboard experience for our passengers.

In the third quarter, Drukair was able to resume regular charter flights between Singapore and Dili, Timor Leste from September 2022. This contributed to the increase in revenue and also the aircraft utilization. This charter operates during the night halts in Singapore.

While the financial impact of COVID-19 pandemic is far from over, it now appears the worst is behind, and the forecast looks better. Drukair will continue to improve its services both in air and on ground.

On October 12, 2022, Royal Bhutan Helicopter Services (RBHSL), a state owned enterprise, was merged with Drukair. RBHSL carried a total of 2,264 passengers in 2022 as compared to 1,947 in 2021 with corresponding increase in revenue hours from 807 in 2021 to 1055 hours in 2022.

DIRECTORS' REPORT

Financial highlights

1.1 Total asset and liability

The total non-current asset of the company increased by Nu. 133 million (or 2%), from 8,451 million in FY2021 to Nu. 8,584.07 million in 2022. There was an addition of Nu. 430 million property, plant and equipment to the company's assets, following the amalgamation of RBHSL with Drukair.

Under current asset, '*cash and cash equivalents*' improved significantly by Nu. 364 million (489%). Similarly, '*trade and other receivables*' during the year increased by Nu. 155 million with the increase in the number of passengers.

Consequently, the company's total asset increased by Nu. 658 million (or 7%), to Nu. 9,835.41 million from Nu. 9,177 million in FY2021.

While the Share Capital increased by Nu. 700 million, with the amalgamation of RBHSL, the net worth of the company reduced by Nu.174 million (or 10%), which was due to the transfer of Nu. 887 million loss for the year.

The non-current liabilities, however, reduced by Nu. 403 million (or 7%), to Nu. 5,399 million from Nu. 5,802 million in FY2021, mainly due to the refinancing of loans.

On the other hand, our 'borrowings' under current liabilities increased Nu. 875 million (or 79%), as we increased the low-cost Inter-Group borrowing by 132% (or Nu. 648 million), from Nu. 490 million in 2021 to Nu. 1,138 million in 2022.

1.2 Income

The summary of financial performance is as shown in the table below:

Amount in million Nu	2022	2021	Variance
Total Operating Revenue	1,855	556	233%
Total Operating Expenditure	2,742	1,916	43%
Operating Profit/(Loss)	-888	-1,360	-35%
Non-Operating Revenue	191	251	-24%
Non-Operating Expenses	-449	-399	13%
Profit/(Loss) before tax	-1,146	-1,508	-24%
Tax Credits	258	382	-32%
Profit/(Loss) after tax	-888	-1,126	-21%

Key Performance Indicators	2022	2021	Variance
Capacity in Available Seat Kilometer (ASK) (in million)- For Scheduled flights	203.54	60.16	238%
Capacity in Available Seat Kilometer (ASK) (in million)- For Chartered flights	13.06	15.86	-18%

DIRECTORS' REPORT

Passenger load factor for Scheduled Flights	60%	33%	81%
Passenger load factor including charter	59%	28%	111%
Passenger Revenue Available Seat Kilometer (PRASK) (Nu)	6.95	4.92	41%
Cost per Available Seat Kilometer (CASK) with fuel (Nu)	13.89	27.79	-50%
Cost per Available Seat Kilometer (CASK) without fuel (Nu)	11.34	26.31	-57%
Passenger Yield (Nu)	10.86	13.52	-20%

Overall capacity, measured by Available Seat Kilometer (ASK), was up by 238% for scheduled flights for the year and the number of passengers carried increased by 282%. The increase in the number of passengers resulted in an increase in the overall operating revenue from Nu. 556.41 million in 2021 to Nu. 1,854.58 million in 2022, increase by Nu. 1,298 million (or by 233%).

Revenue from Excess baggage and Cargo charges has also increased to Nu. 26.08 million and Nu. 168.35 million from Nu. 6.79 million and Nu. 165.09 million respectively. All the other operating revenue increased in comparison to 2021 was generated by increase in passenger flown.

However, the non-operating revenue decreased by Nu. 60 million (or 24%) i.e., from Nu 251.39 million in 2021 to Nu. 190.91 million in 2022 mainly due to decrease in subsidy on interest expenses and other RGoB subsidy for COVID-19.

1.3 Expenditure

The summary of operational expenditure are shown in the table below:

Amount in million Nu	2022	2021	Variance
Flight operation cost	868	259	235%
Other operation cost	88	23	288%
Aircraft maintenance cost	164	130	26%
Other maintenance cost	11	14	-20%
Employee cost	494	376	28%
Marketing and Sales cost	49	8	501%
Other Administration cost	204	190	70%
Depreciation and amortization expenses	877	916	-4%
Total operating expenditure	2,742	1,916	43%

The total operating expenditure increased by Nu. 826 (or 43%) from Nu. 1,916 million in 2021 to Nu. 2,742 million in 2022. The increase in number of flights from 850 in 2021 to 1,944 in 2022 (increase by 129%), has translated in increase in flight operation cost, other operation cost, aircraft maintenance cost. Employees cost has increased because of 39 additional Helicopter employees.

Marketing and Sales cost has increased due to the opening of tourism, which increased the number of passengers (by 282%) and thus the increase in agent commission. Increase in other cost was mainly due to the Forex loss of Nu. 73 million in 2022 as against Nu. 12 million in 2021 due to appreciating U.S dollar.

DIRECTORS' REPORT

Under other non-operating expenses, finance cost increased from Nu. 399.01 million in 2021 to Nu. 449.27 million in 2022 (increase by 13%). The interest expenses increased mainly with the increase in USD rate and LIBOR rate for USD loans, and also due to the additional loan taken during the year.

In 2022, there is Nu. 1,146 million loss before tax against Nu. 1,508 million in 2021 (decrease by Nu. 361 or 24%). As Income tax Act 2001 allows adjustment of taxes for losses incurred in three subsequent years, deferred tax income of Nu. 258.44 million is adjusted during the year, thereby reducing the losses after tax to Nu. 888 million. The losses after tax for the year 2022 decreased from Nu. 1,126 million in 2021 to Nu. 888 million (decrease by Nu. 238 or 21%).

Though the financial year 2022 has been a big challenge in terms of operation, business and financial conditions post COVID, yet as the national carrier, Drukair could maintain the required international connectivity, thereby allowing for commercial travel and import/export of essential commodities.

Customer Care

With ongoing pandemic in the start of the 2022, the airline industries were significantly affected by the new normal measures which restricted travel around the world. With minimal international customers travelling onboard, Drukair continued to face challenges. During these unprecedented times, customer service section played a pivotal role in disseminating reliable information and attending to customer queries through various channels in addition to assisting reservation and ticket issuance.

In 2022, contact center office has assisted 92,631 customer calls (increase from 44,166 in 2021) via our toll free 1300 along with 16,773 reservations, 3,266 date changes and 444 ticket cancellations via reservation@drukair.com.bt.

During the third quarter of 2022, after the reopening of our borders, inflight services were improved. The cabins were fully refurbished and an inflight entertainment system was introduced to enhance the customer experience.

Apart from the above services, customer service section played a vital role in coordinating and arranging transportation services with passengers during the lockdowns in the nation. We have continued to facilitate acquiring transit approval for the passengers transiting from Bangkok after communicating and coordinating with connecting airlines.

These initiatives have helped our passengers to travel onboard without disruption to their schedule.

Fleet Management

Drukair is also in the process of converting a 19-year-old Airbus A319 into a cargo freighter to diversify its revenue streams. The project is due for completion in the 2nd Quarter of 2023.

In 2022, Drukair achieved a daily utilization of 1.84 hours for each of its Airbus aircraft, which was an improvement from 0.7 hours in 2021. Similarly, for the ATR, Drukair achieved a daily utilization of 1.85 hours in 2022, up from 0.99 hours in 2021.

DIRECTORS' REPORT

HR and Other Systems

As of 31st December, 2022, Drukair had a total of 494 employees (including 37 Helicopter staff), consisting of 419 regular, 74 contract, and 1 daily wage staff. In 2022, a total of 28 employees left the company, while only 9 were replaced to meet the company's needs.

In the second half of 2022, DHI initiated an Organizational Development program for Drukair, with the final outcome set to be implemented in 2023.

Corporate Governance

The Company complied with the CG Code issued by DHI. The Company's Board had eight Board meetings, six Audit Committee meetings and five Human Resource Committee meetings.

The quorum at each of these meetings were duly met. Further, the gap between two meetings did not exceed three months in accordance with the Companies Act of Bhutan, 2016.

At the end of 2022, the Drukair Board consisted of seven Directors including the Chairperson and the CEO. During the 31st Drukair Annual General Meeting held on 18th April 2022, Mrs. Pema Choden, Secretary of the Ministry of Foreign Affairs was appointed as the Chairperson, Mr. Karma Thinlay, Paro Dzongdag and Mr. Karma Lotey, CEO of Yangphel Adventure Travels were appointed as Board Directors. Mr. Karma Wanghuck, Director General of Department of Air Transport, Mr. Dorji Dhradhul, Director General of Department of Tourism and Mr. Dorji Nima, Director of CPD, DHI, were reappointed and continued their directorship.

The average attendance of the Board Meetings in the FY 2022 stands at 91% with all the board members attending at least 75%.

The first quarter risk management meeting was held on 22nd March 2022 to update the DCL Risk Register and Risk Treatment Action Plan (RTAP) and the final risk management meeting was held on 13th June 2022 for final review of compliance to mitigation measures.

Corporate Social Responsibility

As a socially responsible company, Drukair attaches high priority in transparency, providing right & timely information and to social wellbeing. The Corporate Social Responsibility (CSR) of the Company is guided by the Company Guidelines on Corporate Social Responsibility 2013 issued by DHI. The company ensures to implement meaningful and sustainable CSR activities, including financial contributions and support towards the benefits of communities.

The Company as usual carried out Rimdos/Soekha/Rewsangchoe at all four domestic airports for the benefit and safety of all the employees and passengers.

Because of the pandemic, Drukair could not carry out our flagship CSR program, the Trongsa Penlop Inspire Program in FY2022.

Through the role Drukair played for repatriation of our citizens, transporting PPE, medical equipment, medicines and other essential goods, we have strengthened our corporate social responsibility activities.

Statutory Audit Report

The Royal Audit Authority has appointed M/s. Rinzing Financials Pvt. Ltd. of Thimphu as the Statutory Auditor for Drukair. The auditors have issued an unqualified audit report for FY2022 and reported that Drukair has complied with all the requirements of the Companies Act of Bhutan, 2016.

Way forward

As we enter 2023, our goal is to reach the revenue levels we achieved in 2019 before the pandemic. We have set an ambitious schedule to achieve this, now that almost all borders have lifted COVID-19 restrictions. We have already seen an improvement in the company's financial position in 2022, and we are optimistic that we will meet all of our targets in terms financials as well as customer service in 2023 and beyond.

Acknowledgements

On behalf of the Board of Directors, the Management, and all employees of Drukair, I would like to express our deepest gratitude to His Majesty The King for his exemplary leadership and selfless dedication in steering us through the unprecedented challenges posed by the pandemic

As the Chairperson, I would like to express gratitude for the continued support and guidance from the DHI, Ministry of Finance, Ministry of Economic Affairs, Ministry of Information and Communications, Bhutan Civil Aviation Authority, Department of Air Transport, Royal Audit Authority, and other government agencies.

The Board would like to thank the management and employees of Drukair for their resilience and hard work in improving the performance of the company. Finally, the company would like to express gratitude to all the customers for their loyalty and support to Drukair.

Thank you,

For and on behalf of the Board,

A handwritten signature in blue ink, appearing to read "Pema Choden".

[Pema Choden]

CHAIRPERSON

CORPORATE GOVERNANCE REPORT

The Company complied with the CG Code issued by DHI. The Company's Board had eight Board meetings, six Audit Committee meetings and five Human Resource Committee meetings.

The quorum at each of these meetings were duly met. Further, the gap between two meetings did not exceed three months in accordance with the Companies Act of Bhutan, 2016.

The average attendance of the Board Meetings in the FY 2022 stands at 91% with all the board members attending at least 75%.

CEO and Board Remunerations

For the FY2022 as well, the Board of Directors decided to forgo the Board sitting fees for and continue with the austerity measures taken during the 150th Board Meeting held on December 1, 2020, in response to the financial losses incurred by the company due to the pandemic.

Therefore, no sitting fees have been paid to any Board Directors for Board Meetings and Board Committee Meetings in 2022. However, 5 ID tickets (3 ID 75 and 2 ID 00) were provided to each Directors for the FY 2022.

The remuneration of the Chief Executive Officer in FY 2022 was Nu. 2,619,300.00 and ID tickets as per contract.

Annual General Meeting

The 32nd Annual General Meeting of Drukair Corporation Limited for the FY 2022 was held on March 29, 2023 and the DHI Board Room.

The AGM Resolved

That the amendment to Article XII of the Drukair Articles of Incorporation, reflecting the shareholder's number of shares as 43,086,329 and the paid-up capital as Nu. 4,308,632,900, is hereby endorsed.

That the Directors' report, Audited Accounts and the Auditor's Report for the financial year 2022 were received and adopted as presented by the Board of Directors.

That no Dividend is declared for the year 2022.

That the payment of the remunerations and other benefits of the Chief Executive Officer and Board Directors is endorsed.

That the AGM approved the PBVP of Compact Score of 86.49%.

Risk Management Systems

The Board also takes responsibility to identify, isolate and manage significant risks within the Company's business environment. A Risk Management Framework based on the Enterprise Risk Management principles has been issued by DHI to ensure that Risks related to the activities undertaken by the portfolio companies are managed deliberately and effectively through a properly established process of assessment, resource allocation, review and reporting.

Report of compliance of mitigation measures and Updated Risk Register to the board and DHI is being done half yearly or as per the DHI DCL Compact/TAS document, whichever comes earlier. However, if a risk has an extreme financial or reputation impact it should be raised immediately at the board level for further action.

In 2022, the first quarter risk management meeting was held on March 22, 2022 to update the DCL Risk Register and Risk Treatment Action Plan (RTAP) and the final risk management meeting was held on 13th June 2022 for final review of compliance to mitigation measures.

Considering the increasing passenger demand during the 2nd Quarter, the final meeting discussed on the inclusion of the directly impacted risks (operational risks) which have been disregarded due to minimal operations since the onset of the pandemic. However, looking at the severity of the current financial risk at hand, the meeting decided to still disregard those directly impacted risks and address them only after Drukair reaches at least 50% of the pre-covid level in terms of passenger numbers.

Therefore, as reported during the 1st quarter, the final report consisted of two high risks that have been addressed since the pandemic; The HR risk and Financial Risk. However, HR risk; which concerns health and safety of the employees was categorized as “avoided” since the impact of the pandemic was minimal during the 2nd quarter as over 80% of the employees have received their third COVID dose.

Corporate Social Responsibility

As a socially responsible company, Drukair attaches high priority in transparency, providing right & timely information and to social wellbeing. The Corporate Social Responsibility (CSR) of the Company is guided by the Company Guidelines on Corporate Social Responsibility 2013 issued by DHI. The company ensures to implement meaningful and sustainable CSR activities, including financial contributions and support towards the benefits of communities.

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Because of the pandemic, Drukair could not carry out our flagship CSR program, the Trongsa Penlop Inspire Program in FY2022.

Through the role Drukair played for repatriation of our citizens, transporting PPE, medical equipment, medicines and other essential goods, we have strengthened our corporate social responsibility activities.

Policies and Practices of CEO and Board Evaluation

The evaluation of Board Directors and CEO have been carried out for the FY 2022 as per the existing policies and practices of DHI and DHI owned companies.

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Independent Auditor's Report on the Financial Statements for year ended 31 December 2022

To the Shareholder(s) of Drukair Corporation Limited

Opinion

We have audited the financial statements of Drukair Corporation Limited (the Company), which comprises the Statement of Financial Position as at December 31, 2022, Statement of Comprehensive Income, Statement of Changes in Equity, and the Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respect, of the financial position of the Company as at December 31, 2022, and of its financial performance and its Cash Flows for the year then ended in accordance with Bhutanese Accounting Standards (BAS).

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 5 of the financial statements describing the adoption of Bhutanese Financial Reporting Standard (BFRS) 16 on Leases for the first time in the current period. Since the adoption of BFRS 16 tantamount to a change in accounting policy, the financials of prior years are restated per the requirement of BAS 8. As a result of this application, the financial statements presented reflects the adjusted comparative financials for the prior periods with the current period.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the financial year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We do not have any matters to report under this for the current audit.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- i. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions misrepresentations, or override of internal control;
- ii. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Company's internal control;
- iii. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- iv. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a Going concern; and
- v. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

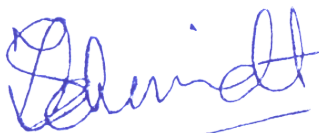
Report on Other Legal and Regulatory Requirements

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

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

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

For Rinzing Financial Private Limited
Firm License No. 1036380



Tashi Rinzing Schmidt
Audit Partner
CPA License No. 34762

Date: Mar. 28, 2023
Place: Thimphu, Bhutan



REPORT ON MINIMUM AUDIT EXAMINATION REQUIREMENTS

Appendix referred to in our audit Report of even date on Minimum Audit Examination and Reporting requirements.

As requirement by section 266 of the Companies Act of Bhutan, 2016 and its enabling provisions relating to Clause II of Schedule XIV of the erstwhile Companies Act of Kingdom of Bhutan, 2000 there to (the Minimum Audit Examination and Reporting Requirements) and as required by the Royal Audit Authority of Bhutan vide its Letter No. RAA(SA-10)/COAD/2021/2318, dated 10 December 2021 and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we report as follows:

General:

- a. Company audited adhere to the Corporate Governance guidelines and Regulations.
- b. The authority, they pursue a prudent and sound financial management practice.
- c. The financial statements are prepare applying the Bhutanese Accounting Standards.
- d. Proper books of accounts are maintained and financial statements are in agreement with the underlying accounting records.
- e. The adequate records specified under section 228 of the companies Act of Bhutan 2016 have been maintained.
- f. Mandatory obligations are being fulfilled.
- g. The amount of tax is computed correctly and reflected in the financial statements.

In the case of manufacturing, mining, or processing company:

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets for Head Quarter and all the stations. Physical verification of Fixed Assets conducted during the year.
2. We have been informed that the company follows cost model for accounting of fixed asset. Therefore, the fixed assets of the Company have not been revalued during the year.
3. Physical verification was conducted at reasonable intervals in respect of inventories of Catering Division and Engineering and Maintenance Division.
4. In our opinion and according to the information and explanations given to us, the procedure of physical verification of inventories followed by the management is reasonable and adequate in relation to the size of the Company and the nature of its business.
5. In our opinion and according to the information and explanations given to us, no discrepancy was noticed on physical verification of inventory as compared to the book records.
6. The Company is a service sector company and therefore, requirement of maintenance of reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials consumed to the respective jobs does not arise.
7. In our opinion and according to the information and explanations given to us, the Company prepares quantitative reconciliation at the end of accounting year in respect of all major items of inventories i.e., Inflight Catering & duty-free stocks, stock of tickets, Gift stocks, aircraft maintenance supplies and Uniform stores. The Company does not have any finished products and therefore, quantitative reconciliation is not required to be carried out in respect of finished products.
8. In our opinion and according to the information and explanations given to us, obsolete, damaged, slow moving, and surplus goods/inventories has been determined and if the value is significant, adequate provisions are made.

9. In our opinion and according to the information and explanations given to us, obsolete and surplus inventories are disposed off and proceeds from such disposals are accounted for appropriately.
10. In our opinion and according to the information and explanations given to us, the Company has a system of obtaining approval of Board/appropriate authority for writing off amounts due to material loss/discrepancies in physical/ book balances of inventories including stores and spares.
11. On the basis of examination of valuation of stocks and the information and explanations given to us and in our opinion, the valuation is fair and proper in accordance with the normally accepted accounting principles. The basis of valuation of inventory is the same as in the preceding year.
12. The Company has taken unsecured interest free loan of Nu. 507,160,012 from Royal Government of Bhutan in earlier years. The outstanding balance of such loan as on December 31, 2022 is Nu.109,884,669. The Company had also issued Drukair bonds amounting to Nu. 2,163,433,529 to National Pension and Provident Fund (NPPF) in earlier years. Year-end balance of such bonds and interest accrued is Nu. 913,085,371.09. The Company has also taken secured loans of Nu.2,692,590,289 from NPPF and USD 13,000,000 from SAARC Development Fund (SDF) in the earlier year. The year-end balance of such loans and interest accrued is Nu.14,436,969.60 and USD 177,160.73 respectively. The Company has taken loan for Covid Relief Measure and overdraft loan from Bank of Bhutan in 2020. The year-end outstanding balance of such loans (including interest accrued) is Nu.508,816,732.32 and Nu.627,443,948.93 respectively. During the year the company has also availed Nu. 1,233,000,000.00 inter-group borrowing from DHI, out of which Nu. Nu.783,423,889.00 was withdrawn in 2021. In our opinion and on the basis of information and explanations given to us, the rate of interest and the other terms and conditions of above loans are not prejudicial to the interest of the Company.
13. In our opinion and according to the information and explanations given to us, the Company has not granted any loan secured or unsecured to other companies, firms or other parties and/ or to the companies under the same management. Hence this sub-clause is not applicable.
14. In our opinion and according to the information and explanations given to us, the loans/ advances granted to officers/staff are in keeping with the provisions of service rules and no excessive / frequent advances are granted and accumulation of large advances against particular individual is avoided.
15. In our opinion and according to the information and explanations given to us, the Company has established adequate system of internal controls to ensure completeness, accuracy and reliability of accounting records, carrying out the business in an orderly and efficient manner, to safeguard the assets of the Company as well as to ensure adherence to the rules, regulations, system and procedures.
16. In our opinion and according to the information and explanations given to us, there is a reasonable system of authorization at proper levels, and an adequate system of internal control commensurate with the size of Company and the nature of its business on issue of stores.
17. In our opinion and according to the information and explanations given to us, having regard to certain exceptions that some of item purchased are of special nature where suitable alternative sources of supply does not exist for obtaining comparable quotations thereof, there is an adequate system of competitive biddings, commensurate with the size of the Company and the nature of its business, for the purchase of goods and services including stores, plant and machinery, equipment and other assets. As the Company is engaged in providing services, it has no requirement of raw materials.
18. (a) On the basis of checking of books of account and relevant records of the Company and according to the information and explanations given to us, we are of the opinion that the Company has not entered into any transaction for purchases and sale of goods and service made in pursuance of contracts or arrangements entered into with the director(s) or any other party(ies) related to the director(s) or with the Company or firms in which the director(s) are directly or indirectly interested except DHI & its subsidiaries, the details of which is duly disclosed in the Related party transactions in notes to accounts to the financial statements. (b) The examination of records does not reveal any transaction entered into by the Company which is prejudicial to the interest of the Company where-

in directors are directly or indirectly interested.

19. According to the information and explanations given to us and on the basis of our test checking of the accounts and other books and records, to the best of our knowledge, we are of the opinion that no personal expenses has been charged to the Company accounts other than those payable under contractual obligations/service rule and/or in accordance with generally accepted business practice.
20. In our opinion and according to the information and explanations given to us, there are no unserviceable or damaged stores, which have not been provided for in the books of account. The Company being a service sector company, does not have any raw materials or finished goods.
21. This section is not applicable to the company.
22. This section is not applicable to the company.
23. This section is not applicable to the company.
24. In our opinion and according to the information and explanations given to us, the Company is regular in depositing rates and taxes, duties, royalties, provident funds, and other statutory dues with the appropriate authorities.
25. In our opinion and according to the information and explanations given to us, there was no undisputed amount payable in respect of taxes, rates, duties, royalties, provident funds and other statutory deductions outstanding as on the last day of financial year concerned except for the disputes on the following which are disclosed as contingent liability under Note 35.
 - a. Demand of pax royalty amounting to INR 21.70 million payable to air India.
 - b. Outstanding of NRP 86.8 million was raised by Revenue Department Nepal.
 - c. Tax demand issued by Revenue and Customs, Bhutan for 3% TDS on commission for foreign agents amounting to Nu. 5,457,834.
 - d. Demand notice Rs.11,738,403 on account of service tax issued by CGST & CX, Kolkata.
26. This section is not applicable to the company.
27. This section is not applicable to the company.
28. In our opinion and according to the information and explanations given to us, the Company has a reasonable system of periodical review of tariffs and based on such review and considering the market and economic conditions, the tariff rates are determined and approved by the Commercial committee constituted by the management. Also, the Company has proper costing system for the purpose of fixation of tariff rates.
29. In our opinion and according to the information and explanations given to us, the credit sales policy of the Company is reasonable and no credit rating of customers is carried out as the same is not applicable for the Company.
30. In our opinion and according to the information and explanations given to us, the agency commission structure is in accordance with the industry norms/ market conditions. Additionally, according to the information and explanations given to us, the Company has a proper system of evaluating performance of each agent on a periodic basis.
31. In our opinion and according to the information and explanations given to us, the Company has reasonable system of continuous follow-up with debtors and other parties for recovery of outstanding amounts. Also age wise analysis is carried out for management information and follow up action.
32. In our opinion and according to the information and explanations given to us, the management of liquid resources particularly cash/bank and short-term deposits etc. are adequate and that excessive amount are not lying idle in non-interest-bearing accounts and withdrawals of loan amounts are made after assessing the requirement of fund from time to time and no excess amounts is withdrawn leading to avoidable interest burden on the Company.

33. In our opinion and according to the information and explanations given to us, the activities carried out by the Company are lawful and intra-vires the Articles of the Company.
34. In our opinion and according to the information and explanations given to us, the activities /investment decisions are made subject to prior approval of the Board and investments in new projects i.e., acquisition of aircrafts are made only after ascertaining the technical and economic feasibility of such new ventures.
35. In our opinion and according to the information and explanations given to us, the Company has established effective budgetary control system.
36. The Company being a service sector company and therefore the system of input-output relationship, Standard Costing and variance analysis is not applicable to the Company.
37. In our opinion and according to the information and explanations given to us, the details of remuneration, commission and other payments made in cash or in kind to the Board of Directors including the Chief Executive Officer or any of their relatives (including spouse(s) and child/children) if any, by the Company directly or indirectly.
38. In our opinion and according to the information and explanations given to us, the management of the Company complies with the directives of the Board of Directors as we have not come across any such incidence where it is not complied.
39. In our opinion and according to the information and explanations given to us, the officials of the Company have not transmitted any price sensitive information which are not made publicly available, unauthorized to their relatives / friends/ associates or close persons which would directly or indirectly benefit themselves. We have however relied on the management assertion on the same and cannot independently verify the same.
40. In our opinion and according to the information and explanations given to us, proper records are kept for inter unit transactions/services and arrangements for services made with other agencies engaged in similar activities.
41. In our opinion and according to the information and explanations given to us, the Company has executed agreements properly and the terms and conditions of leases are reasonable and the same are applied for machinery/ equipment acquired on lease or leased out to others.

In case of other service sector companies

1. All matters specified in the minimum audit examination and reporting requirements are applied to a service sector company.
2. In our opinion and according to the information and explanations given to us, the Company has a reasonable system of periodical review of tariffs and based on such review and considering the market and economic conditions, the tariff rates are determined and approved by the Commercial committee constituted by the management. Also, the Company has proper costing system for the purpose of fixation of tariff rates.
3. In our opinion and according to the information and explanations given to us, proper records are kept for inter unit transactions/services and arrangements for services made with other agencies engaged in similar activities.
4. In our opinion and according to the information and explanations given to us, r proper agreements are executed and that the terms and conditions of leases are reasonable

Computerized Accounting Environment:

1. In our opinion and according to the information and explanations given to us, the size and nature of I.T. (Computer) system and installations are adequate for organizational and system development and other relevant internal control.
2. In our opinion and according to the information and explanations given to us, the Company has

adequate safeguard measures and back up facilities. Additional offsite backup system has been implemented in Thimphu.

3. In our opinion and according to the information and explanations given to us, there are backup facilities of keeping files at different and remote locations.
4. In our opinion and according to the information and explanations given to us, the operational controls are adequate to ensure correctness and validity of input data and out-put information.
5. In our opinion and according to the information and explanations given to us, the measures to prevent unauthorized access over the computer installation and files are in existence and adequate.
6. In 2021, the company migrated to a new system (SAP) and ensured completeness and integrity of data as well as smooth operation of the system.

Other requirements:

1. Going Concern Problem

Based on the attached Financial Statements for the year ended December 31, 2022, audited by us, the Company has incurred a loss during the year as reflected on the Statement of Comprehensive Income, however, with the continued support of the Royal Government of Bhutan and DHI (parent holding company) and the other facts mentioned in Note No.2A(iii), we have no reason to believe that the Company is not a going concern. Accordingly, the financial statements have been prepared under the going concern basis.

2. Ratio Analysis

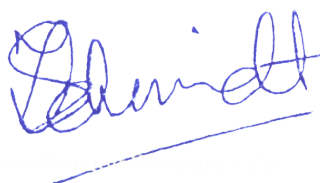
Relevant ratio analysis has been carried out and the details are under Section "Ratio Analysis."

3. Compliance with the Companies Act of Bhutan 2016

The company has complied with the various provisions of the Companies Act of Bhutan 2016, details are under section "compliance calendar & checklist."

4. Adherence to Laws, Rules, and Regulations

The audit of the Drukair Corporation Limited is governed by the Companies Act of Bhutan 2016, Internal Service manual, and Bhutanese Accounting Standards. The scope of audit is limited to examination and review of the financial statements prepared by the management. During our audit, we have considered the compliance of the provisions of the said Act, rules and regulations as well as the Bhutanese Accounting Standards.



For Rinzing Financial Private Limited
Firm License No. 1036380



Tashi Rinzing Schmidt
Audit Partner
CPA License No. 34762

Date:
Place: Thimphu, Bhutan

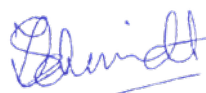
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2022

(Amount in Nu.)

Particulars	Note	December 31, 2022	December 31, 2021	January 1, 2021
Non-current assets				
Property, plant and equipment	3	7,516,943,957	7,643,204,168	8,517,584,033
Intangible assets	4	20,321,357	23,110,266	9,380,422
Right of use Assets	5	29,179,668	16,639,919	12,820,267
Trade and other receivables	6	921,477	2,854,863	4,632,092
Investment	7	102,429,800	36,680,943	46,974,554
Deferred tax asset	8	914,273,373	728,887,812	343,719,365
Total		8,584,069,631	8,451,377,971	8,935,110,733
Current assets				
Trade and other receivables	6	312,822,389	157,688,600	185,592,310
Investment	7	117,651,336	87,933,297	78,641,308
Capital Advances	9	78,916,709	194,633,542	196,571,085
Inventories	10	160,248,220	157,935,951	157,851,826
Cash and cash equivalents	11	438,162,957	74,354,539	68,167,555
Loan and advances	12	143,540,458	53,540,836	20,872,303
Total		1,251,342,069	726,086,765	707,696,387
Total assets		9,835,411,700	9,177,464,736	9,642,807,120
Equity attributable to owners of the parent				
Share capital	13	4,308,623,900	3,608,525,100	3,608,525,100
Reserves	13	37,417,568	32,415,317	24,100,549
Retained Earnings	13	(2,790,828,325)	(1,911,863,613)	(794,654,865)
Total		1,555,213,143	1,729,076,804	2,837,970,784
Non-current liabilities				
Borrowing	14	5,112,936,368	5,574,630,408	5,147,302,447
Provisions	15	142,046,271	114,238,695	107,001,000
lease liability	5	45,461,937	8,812,546	9,049,260
Other liabilities	17	98,086,435	104,467,646	110,980,005
Total		5,398,531,010	5,802,149,295	5,374,332,712
Current liabilities				
Borrowing	14	1,979,767,039	1,104,058,558	712,000,710
Provisions	15	154,879,742	141,383,109	133,492,411
Trade and other payables	16	355,389,689	344,737,148	454,303,150
lease liability	5	1,193,448	9,062,081	3,771,006
Other liabilities	17	390,437,629	46,997,741	126,936,347
Total		2,881,667,547	1,646,238,637	1,430,503,624
Total equity and liabilities		9,835,411,700	9,177,464,736	9,642,807,120

The above statement of Financial Position is to be read in conjunction with the accompanying notes.

For Rinzing Financial Private Limited:



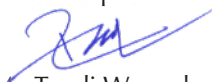
Ms. Tashi Rinzing Schmidt, CPA
Audit Partner
CPA License No. 34762
Date: Mar. 28, 2023
Place: Thimphu, Bhutan



For Drukair Corporation Limited:



Ms. Pema Choden
Chairperson



Mr. Tandi Wangchuk
Chief Executive Officer



Ms. Dechen Peldon
Chief Finance Officer

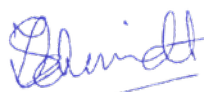
STATEMENT OF COMPREHENSIVE INCOME

(Amount in Nu.)

Particulars	Note	31 December 2022	31 December 2021
Operating revenue			
Traffic revenue	18	1,828,490,796	547,783,098
Other operating revenue	19	26,084,655	8,626,764
Total operating revenue		1,854,575,451	556,409,861
Operating expenditure			
Flight operation cost	21	868,420,277	259,227,901
Other operation cost	22	88,478,405	22,828,991
Aircraft maintenance cost	23	164,026,483	129,828,153
Other maintenance cost	24	11,046,688	13,841,754
Employee cost	25	480,815,193	376,102,018
Marketing and Sales cost	26	48,696,483	8,108,898
Other cost	27	204,455,447	190,078,532
Depreciation and amortisation expenses	3,4 & 5	876,509,893	916,328,281
Total operating expenditure		2,742,448,868	1,916,344,527
Operating profit/(loss)		(887,873,417)	(1,359,934,665)
Non-operating items			
Non-operating revenue	20	190,910,423	251,389,521
Finance cost	28	(449,272,735)	(399,009,745)
Profit/(loss) before tax		(1,146,235,728)	(1,507,554,890)
Tax			
Tax Income/ (Expense)	29	258,438,308	381,769,632
Profit/(loss) after tax		(887,797,420)	(1,125,785,258)

The above statement of Financial Position is to be read in conjunction with the accompanying notes.

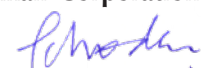
For Rinzing Financial Private Limited:



Ms. Tashi Rinzing Schmidt, CPA
Audit Partner
CPA License No. 34762
Date: Mar. 28, 2023
Place: Thimphu, Bhutan



For Drukair Corporation Limited:



Ms. Pema Choden
Chairperson



Mr. Tandi Wangchuk
Chief Executive Officer



Ms. Dechen Peldon
Chief Finance Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2022

(Amount in Nu.)

Particulars	Issued capital	Translation reserve	Retained Earnings	Total
Balance as at January 1, 2022	3,608,525,100	32,415,317	(1,911,863,613)	1,729,076,804
add: Equity shares issued during the year				
add: Equity shares issued during the year	700,098,800			700,098,800
Capital Contribution			47,853,627	47,853,627
Retained earnings from helicopter services			(37,259,521)	(37,259,521)
Profit/(Loss) for the year			(887,797,420)	(887,797,420)
Other Comprehensive Income/loss				-
Translation Loss		5,002,251		5,002,251
Actuarial gains/loss			(1,761,397)	(1,761,397)
Transaction with the owners				-
Dividend paid in 2022				-
Balance at 31 December 2022	4,308,623,900	37,417,568	(2,790,828,325)	1,555,213,143

For the year ended December 31, 2021

(Amount in Nu.)

Particulars	Issued capital	Translation reserve	Retained Earnings	Total
Balance as at January 1, 2021	3,608,525,100	24,100,549	(794,654,865)	2,837,970,784
Profit/(Loss) for the year	-	-	(1,125,785,258)	(1,125,785,258)
Capital Contribution	-	-	15,961,792	15,961,792
Other Comprehensive Income/loss	-	-	-	-
Translation Loss	-	8,314,768	-	8,314,768
Actuarial gains/loss	-	-	(7,897,549)	(7,897,549)
Prior period adjustments	-	-	512,267	512,267
Transaction with the owners	-	-	-	-
Dividend paid in 2021	-	-	-	-
Balance at 31 December 2021	3,608,525,100	32,415,317	(1,911,863,613)	1,729,076,804

The above statement of Financial Position is to be read in conjunction with the accompanying notes.

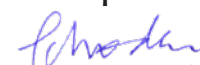
For Rinzing Financial Private Limited:



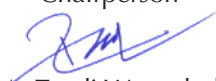
Ms. Tashi Rinzing Schmidt, CPA
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CPA License No. 34762
Date: Mar. 28, 2023
Place: Thimphu, Bhutan



For Drukair Corporation Limited:



Ms. Pema Choden
Chairperson



Mr. Tandi Wangchuk
Chief Executive Officer



Ms. Dechen Peldon
Chief Finance Officer

STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2022

(Amount in Nu.)

Particulars	2022	2021
Cash flow from operating activities (A)		
Profit before income tax expense	(1,146,235,728)	(1,507,554,890)
Depreciation, amortisation and impairment	876,509,893	916,328,281
Gain/Loss on sale of PPE	1,450,946	(2,884,122)
Interest Income	(88,343,272)	(102,132,830)
Interest Expense	436,858,076	393,490,660
Gain/Loss on forex rates	-	-
Stores and Spares written off	-	81,930
Operating profit before working capital changes	80,239,915	(302,670,971)
Current asset and liability changes		
Movement in Trade and other Liabilities	376,491,976	(196,016,966)
Movement in Provisions	(10,153,396)	16,651,157
Movement in Inventory	(2,312,269)	(166,056)
Movement in Trade and other receivables	(153,200,403)	29,680,939
Movement in other current asset	(3,169,101)	(32,668,532)
Movement in deposits receivable	(96,487,925)	(554,696)
	111,168,882	(183,074,154)
Taxes paid	(3,576,436)	(3,453,329)
	107,592,446	(186,527,482)
Total cash flow from operating activities	187,832,361	(489,198,454)
Cash flow from investing activities (B)		
Purchase of PPE and intangible assets	(644,283,689)	(53,740,716)
Sale Proceeds from PPE	(1,450,946)	2,884,122
Interest income	8,391,861	7,582,273
Total cash flow from investing activities	(637,342,774)	(43,274,321)
Cash flow from financing activities (C)		
Repayment of Bond	-	(187,739,453)
Repayment of SDF loan	(36,255,556)	(108,188,889)
COVID 19 relief loan from BOB	22,979,999	250,920,045
OD loan from BOB	(440,613,153)	287,285,689
Inter-group borrowing	648,423,889	490,000,000
Interest expense paid	(88,552,748)	(193,078,867)
Issue of shares	700,098,800	-
Total cash flow from financing activities	806,081,231	539,198,524
Changes in Cash and cash equivalents (A)+(B)+(C)	356,570,819	6,725,750
Cash and cash equivalents at beginning of year	74,354,539	68,167,555
	430,925,358	74,893,305
Effects of change in foreign exchange rate on cash and cash equivalents increase/(decrease)	7,237,600	(538,766)
Cash and cash equivalents at end of 31 December 2022	438,162,958	74,354,539

The above statement of Financial Position is to be read in conjunction with the accompanying notes.

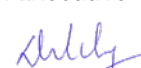
For Drukair Corporation Limited:



Ms. Pema Choden
Chairperson

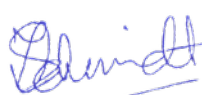


Mr. Tandi Wangchuk
Chief Executive Officer



Ms. Dechen Peldon
Chief Finance Officer

For Rinzing Financial Private Limited:



Ms. Tashi Rinzing Schmidt, CPA
Audit Partner
CPA License No. 34762
Date: *Mar. 28, 2023*
Place: Thimphu, Bhutan



ACCOUNTING POLICIES & NOTES TO ACCOUNTS

NOTE 1: General Information and Authorization of Financial Statement

Drukair Corporation Ltd. (the “Company” or “DCL”) is a wholly owned subsidiary of Druk Holding & Investments Limited (DHI - a Royal Government of Bhutan undertaking). Principal activities of the company cover transport of people and cargo by air and related activities, including leasing of aircraft both as lessee and as lessor. The company’s hub is at Paro airport and its aircraft fly to five countries in south-east Asia.

The Company is a limited liability company incorporated and domiciled in Bhutan with the address of its registered office at P.O. Box 1219, Paro. These financial statements relate to the year ended December 31, 2022.

The financial statements of the Company for the year ended December 31, 2022, were authorized for issue in accordance with the resolution of the Board of directors dated March 3, 2023.

Note 2: Significant Accounting Policies

A. Basis of preparation

i) Compliance with BAS

These financial statements have been prepared in accordance with the Bhutan Accounting Standards (BAS) and in conformity with the requirements of the Companies Act of Bhutan 2016.

These financial statements have been prepared on the accrual basis of accounting with the historical cost convention except as stated otherwise in the Financial Statements. The preparation of the Financial Statements requires the use of certain critical accounting estimates and judgments. It also requires management to exercise judgment in the process of applying the Company’s accounting policies and the reported amounts of revenue, expenses, assets and liabilities may differ from the estimates. In areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note P.

These financial statements are presented in Bhutanese Ngultrum and all values are rounded to the nearest ngultrum, except where indicated otherwise.

ii) Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial years except as follow:

On January 1, 2022, the Company adopted all the new and revised standards applicable with the implementation of BAS III phase. The adoption of these standards did not have any material effect on the financial performance or position of the Company.

The Company applied the BFRS 9 for the interest free borrowing from the parent company (DHI). Although there is no relevant standard for such loans the reference is made to the general concepts in the conceptual framework adopted by the DHI group of Companies. Retrospective application is made for this loan.

IFRS 16 was also adopted for the accounting treatment of lease for the financial year 2022. Although impact is immaterial, however, retrospective application is made for the lease accounting.

iii) Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its liabilities as and when they fall due. The Company has generated a loss before taxation of Nu.1,146,235,728 (FY 2021: Nu.1,490,358,390) for the year ended 31 December 2022, however, the Company was able to meet all its operational costs during the year. The Company has a cash inflow of Nu. 187,832,361 (FY 2021: cash outflow of Nu. 487,963,746) for the year ended 31 December 2022. The company also has a committed undrawn credit of Nu. 444,576,111 from its shareholder (Druk Holding and Investments Ltd.). In terms of the business, the number of passengers serviced by the Company increased to 91,126 in 2022 from 23,858 in 2021 (an increase of 282%). Additionally, given the demand in cargo transports, the Company plans to convert one of the aircrafts to a cargo freighter. Further, the Company has also initiated dedicated flights to East Timor through Charter agreement for the whole of 2023. With all these initiatives taken, the Company plans to continue its operation as a going concern and meet its financial obligations.

iv) Functional and Presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company is registered referred to as the “functional currency”. The functional currency and presentation currency of the Company is Bhutanese Ngultrum (Nu.).

v) Foreign currency transaction and balances

Foreign currency transactions in Bhutan are converted into the functional currency at the exchange rate prevailing at the date of the transaction. Monetary foreign currency assets and liabilities are converted at the year-end on the rate prevailing on that date. All foreign exchange gain/(loss) arising from the above are taken to the Profit & Loss Account.

Foreign currency transactions in countries other than Bhutan are converted into the currency of that country at the exchange rate prevailing at the date of the transaction. Translation of all transactions from the currency of countries other than Bhutan to the functional currency is done at the month beginning rate, for each month of the year except at the year-end. When monetary foreign currency assets and liabilities are translated at the year-end rate, all foreign exchange gain/(loss) arising from the above are taken to the Statement of Other Comprehensive Income (OCI).

B. Property, Plant and Equipment (PPE)

i) Cost recognition

Property, plant and equipment are held at cost. The DHI Group has a policy of not revaluing property, plant and equipment. Depreciation is calculated to write off the cost less estimated residual value on a straight-line basis, over the economic life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis.

ii) Capitalization of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other qualifying assets under construction are capitalized and added to the cost of the asset concerned. All other borrowing costs are recognized in the income statement in the year in which they are incurred.

iii) Fleet

All aircrafts are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned, or right of use of assets, are disaggregated into separate components and depreciated based on the useful life of such assets on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Company's fleet plans, with useful economic lives of 16 years.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of five years or the remaining economic life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment, and generally depreciated in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalized, and amortized over the average expected life between major overhauls. All other replacement spares and costs relating to maintenance of fleet assets are charged to the income statement on consumption or as incurred respectively.

iv) Depreciation

Provision is made for the depreciation of all PPE. Except for buildings with a useful life of 30 years, other PPE are depreciated over periods ranging from 6.67 years to 10 years.

Detailed estimated range of useful lives of assets for depreciating its PPE, based on the evaluation performed by the Technical Department are as follows:

Asset Class	Useful life
Buildings and civil structures	30 years
Aircraft fleet – non-renewable:	
i. Aircraft frame	16 years
Aircraft fleet – renewable:	
ii. Engine	12 years
iii. APU	5 years
iv. APU LLP	6 years
v. Landing gear	10 years
vi. 6-year check	6 years
vii. 12-year check	12 years
Capital tools and rotatable spare parts	3 - 15 years
Furniture & Fixtures	10 years
Vehicles	6.67 years
Other Equipment	10 years

Cost and the accumulated depreciation for those PPE sold, scrapped, retired or otherwise disposed-off are eliminated from the financial statements and the resulting gains and losses are included in the Statement of OCI.

C. Intangible assets

Intangible assets include computer software and are carried at cost of acquisition/implementation less accumulated amortization. Amortization is recognized on a straight-line basis over the estimated useful life as estimated by the management.

D. Lease

The Company land and building. The lease terms of these assets are consistent with the determined useful economic life of similar assets within property, plant, and equipment.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Leases are recognised as a right of use ('ROU') asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company.

Right of use

At the lease commencement date, a ROU asset is measured at cost comprising the following: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs; and restoration costs to return the asset to its original condition.

The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If ownership of the ROU asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

Lease liabilities are initially measured at their present value, which includes the following lease payments: fixed payments (including in-substance fixed payments), less any lease incentives receivable and payments to be made under reasonably certain extension options.

The lease payments are discounted using the interest rate implicit in the lease. The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the fair value of the leased asset and any initial indirect costs of the lessor.

Each lease payment is allocated between the principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

The Group has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and those leases of low-value assets. Payments associated with short-term leases and leases of low-value assets are recognized on a straight line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

The Group is exposed to potential future increases in variable lease payments based on rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on a rate take effect, the lease liability is reassessed and adjusted against the ROU asset.

E. Income Tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recoverable from or payable to the Income Tax authority based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date by the Income Tax Authority.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, except when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and liabilities on net basis. Management evaluates positions taken in income tax returns with respect to situations in which applicable income tax regulation is subject to interpretation.

The income tax liabilities are recognized when, despite the Company's belief that its income tax return positions are supportable, the Company believes, it is more likely than not, based on the technical merits, that certain positions may not be fully sustained upon review by income tax authorities. Benefits from tax positions are measured at the single best estimate of the most likely outcome.

At each Statement of Financial Position date, the tax positions are reviewed, and to the extent that new information becomes available which causes the Company to change its judgment regarding the adequacy of existing income tax liabilities, such changes to income tax liabilities are duly recognized in income tax expense in the year in which such determination is made.

Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax charge for the year in which the assessment is completed.

F. Investments and Other Financial Assets

i) Initial measurement

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

ii) Classification and subsequent measurement

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

- a) Financial assets measured at amortized cost;
- b) Financial assets measured at fair value through other comprehensive income (FVTOCI); and
- c) Financial assets measured at fair value through profit and loss (FVTPL).

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

Financial assets measured at amortized cost:

A financial asset is measured at amortized cost if both the following conditions are met:

- a) The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows; and
- b) Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Financial instruments measured at fair value through other comprehensive income (FVTOCI)

A financial instrument shall be measured at FVTOCI if both of the following conditions are met:

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

Financial instruments included within FVTOCI category are measured initially as well as at each reporting period at fair value. Fair value movements are recognized in OCI. Currently, the Company does not have any asset classified under this category.

Financial instruments measured at fair value through profit and loss (FVTPL)

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

iii) Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses associated with its assets carried at amortized cost and FVOCI debt instruments. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 30 details how the Company determines whether there has been a significant increase in credit risk.

For trade receivables only, the Company applies the simplified approach permitted by BFRS 9 Financial Instruments, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

iv) De-recognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily de-recognized only when:

- a) The rights to receive cash flows from the asset have been transferred, or
- b) The Company retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients.

When the Company has transferred an asset, it evaluates whether it has substantially transferred all risks and rewards of ownership of the financial asset. In such cases, the financial asset is derecognized. When the Company has not transferred substantially all the risks and rewards of ownership of a financial asset, the financial asset is not derecognized.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

When the Company has neither transferred a financial asset nor retains substantially all risks and rewards of ownership of the financial asset, the financial asset is de-recognized if the entity has not retained control of the financial asset. When the entity retains control of the financial asset, the asset is continued to be recognized to the extent of continuing involvement in the asset.

v) **Income recognition**

Interest income: Interest income from debt instruments is recognized using the effective interest (EIR) rate method. An EIR is a rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. When calculating an EIR, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call, and similar options) but does not consider the expected credit losses.

G. Financial Liabilities

i) **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, payables. All financial liabilities are recognized initially at fair value and, in the case of borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, borrowings including bank overdrafts.

ii) **Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

Financial Liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the profit or loss.

Financial liabilities designated upon initial recognition at FVTPL are designated as such at the initial date of recognition, and only if the criteria in BFRS 9 are satisfied. For liabilities designated as FVTPL, fair value gains/losses attributable to changes in own credit risk are recognized in OCI. These gains/losses are not subsequently transferred to P&L. However, the Company may transfer the cumulative gain or loss within equity. All other changes in fair value of such liability are recognized in the statement of profit or loss. The Company has not designated any financial liability as at FVTPL.

Borrowings

Long-term borrowings are recorded at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the EIR. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Where there is a breach of a material provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity classify the

liability as current, if the lender does not agree to demand payment as a consequence of the breach before reporting date.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless the payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

iii) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other gains/(losses).

Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with BAS 37 - Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less cumulative amortization, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

iv) Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the group or the counterparty.

Investments primarily meant to be held over long-term period (i.e. for more than 12 months from date of acquisition) are valued at cost. Provision is made when in the opinion of the management there is a decline, other than temporary, in the carrying value of such investments. Current investments are stated at the lower of cost or quoted/fair value.

H. Current Assets

i) Advances

Advances represent advances paid to suppliers, contractors and employees in the ordinary course of business activities of the Company. Advances are initially recognized at the value of cash advanced

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

and are assessed at each Statement of Financial Position date for recoverability and the provision is recognized when it is more likely that the Company will not be able to collect the same. Advances are classified under current assets if payment is recoverable within one year or less as at Statement of Financial Position date, if not, they are classified under non-current assets.

ii) **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, bank balances and deposits, other short-term highly liquid investments with original maturities of three months or less and that are readily convertible to known amount of cash and cash equivalent and which are subject to an insignificant risk of changes in value.

iii) **Inventories**

An inventory consists of stores and spares held for operation & maintenance and other catering/duty free inventories.

Inventories are stated at the lower of cost or net realizable value (NRV). The NRV shall be obtained for an inventory item costing Nu.5,000.00 and above considering the materiality of the amount. Cost is determined using the weighted average cost formula and comprises cost of purchases and other incidental expenses incurred in acquiring inventories and bringing them to their existing location and condition.

I. Reserves

Nature and purpose of reserves are as follows:

i) **Retained Earnings**

Retained earnings is a free reserve. It is not maintained for any specific purpose. It serves as a tool for meeting future requirements. Retained Earnings may be used for future expansion of the business or to meet any contingent liability, or for any other purpose which may arise.

ii) **Translation Reserve**

Any gain or loss arising from conversion of the Financial Results of foreign operations into the local currency is transferred to the Translation Reserve. By maintaining a translation reserve, the Company is able to set off the unrealized foreign exchange loss in one year with the profits earned on translation of results of foreign operations in other years, without disturbing its general reserves.

iii) **Actuarial Reserve**

The Company accounts for the Employee Benefits on actuarial basis. Any profit or loss arising due to change in actuarial assumptions is recorded in the Actuarial Reserve. Any gain or loss arising on Defined Benefit Obligation is recorded in the Actuarial reserve.

J. Grants

Grants from Government and Non-Government sources are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with.

Grants relating to expense items are recognized as income on a systematic basis over the periods that the related costs, which it is intended to compensate, are expensed. The unallocated portion of such grant is presented as part of Deferred Grants in the Statement of Financial Position.

Grants related to non-current assets are treated as Deferred Income in the Statement of Financial Position and are recognized to the Statement of Comprehensive Income on a systematic basis over the useful life of the related assets.

Grant received as compensation for expenses/losses already incurred or with no future related costs is recognized as income in the year it is received or becomes receivable.

BAS 20 - Accounting for Government Grant and Disclosure of Government Assistance has been implemented by the Company retrospectively for the grants existed as on the transition date.

K. Borrowing Costs

Borrowing costs consist of interest and other costs that Company incurs in connection with the borrowing of funds.

General and specific borrowing costs (net of investment income on temporary investment of those borrowings) that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the costs of the asset, until such time the assets are substantially ready for their intended use or sale. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, which is two years or more as decided by the Company keeping in view the nature of assets and past trend of time taken for their completion. All other borrowing costs are charged as expense to Statement of Comprehensive Income in the period they occur.

L. Provisions

The Company recognizes provisions when the Company has a present obligation (legal or constructive) arising from past events (legal or constructive obligation), payment for the obligation is probable, and the expenditure for settling the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation as of the balance sheet date. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

M. Employee Benefit Liabilities

Contribution to Provident Fund (PF) administered by NNPPF is charged to Statement of Comprehensive Income as and when they fall due.

Retirement benefit liabilities are recognized when the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Gratuity and Leave encashment are provided for based on actuarial valuation as at the Statement of Financial Position date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Further, the contribution towards the gratuity liability is invested in fixed deposits with the banks.

The expected cost of Performance Based Variable Payout and Annual Bonus Payout is recognized as an expense when there is a legal or constructive obligation to make such payments as a result of past performance and a reliable estimate of the obligation can be made.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

N. Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Description of revenue are as follows:

i. Traffic Revenue

Revenue is recognized when the transportation services are rendered. Passenger tickets are generally paid in advance of transportation and are recognized, net of discounts, as deferred revenue on sales of tickets in current liabilities until the customer has flown. All these revenue amounts related to transportation of passenger and cargo are categorized under Traffic Revenue. Prior to the impact of COVID-19 on the ability of passengers to utilize the transportation services, unused tickets were recognized as revenue after the contracted date of departure using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends. If as a result of the impact of COVID-19 a flight is cancelled, the passenger is entitled to either a refund and rescheduling the original. In such cases the expired tickets are also shown as liability.

The Company provides loyalty scheme through “HappinesSmiles” program where members can convert accumulated mileage to a cabin upgrade, free tickets and other member reward. The revenue recognized when the transportation service is provided is reduced by the price of the loyalty points issued.

Other items of revenue which arise from the provision of services incidental to the core activities of the business are recognized when the services are provided, and it is probable that economic benefits associated with the transaction will flow to the Company and amount can be measured reliably.

ii. Other Revenue

Revenue attributable from the Catering services, Drukair holiday services, cargo and transship handling charges are presented under this head. These revenue amounts are recognized when related performance obligations are satisfied, being where the control of the goods or services are transferred to the customer.

iii. Non-operating Revenue

These are revenue amounts attributable from non-operational activities such as interest subsidy, interest income earned from deposits and other miscellaneous incomes. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the EIR applicable.

O. Earnings Per Share ('EPS')

The Company presents the basic and diluted EPS data for its ordinary shares. Basic EPS is computed by dividing the net profit for the year attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is computed by adjusting the net profit for the year attributable to the ordinary shareholders and by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

P. Critical Accounting Estimates and Assumptions

Preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the year in which they become known.

Actual results may differ from management's estimates if these results differ from historical experience or other assumptions do not turn out to be substantially accurate, even if such assumptions were reasonable when made.

The said estimates are based on the facts and events, that existed as at the date of statement of financial position, or that occurred after that date but provide additional evidence about conditions existing as at the statement of financial position date.

Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are discussed below.

i. Useful lives of Property, Plant and Equipment (PPE)

Property, Plant and Equipment are depreciated on a straight-line basis at rates that can be used to write down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Company on the basis of past experience and fleet operation performance in the industry which are detailed in the accounting policy vide Note 1 (B). Changes in the expected level of usage, technological developments, and level of wear and tear could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised and could have an impact on the profit in future years.

ii. Retirement benefit obligations

Costs of retirement benefits and present value of the retirement benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and its long-term nature, retirement benefit obligations are sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

iii. Provision for doubtful debts

As at each Statement of Financial Position date, the Company assesses recoverability of trade receivables. Provision for doubtful debts is recognized based on the historical experience of collectability of debts. The Company estimates the portion of its outstanding receivables that cannot be collected based on aging schedules at an increasing percentage of each aging category. Actual doubtful debts could differ from these estimates.

iv. Frequent Flyer Program

The Company has a "HappinesSmiles" program through which members can convert accumulated mileage to a cabin upgrade, free tickets, and other member reward. A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The entity recognizes this deferred revenue as revenue only when the entity has fulfilled its obligations on the granting of rewards or when the period for converting the mileage to rewards has expired. The liability for frequent flyer program is provided based on the actuarial method which is determined from the redemption rate, loyalty points accrued and cost per point.

v. **Impairment of aircraft and related equipment**

Impairment of aircraft and related equipment was based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional or reversal of impairment losses.

vi. **Fair Value for Financial Instruments**

Fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The chosen valuation techniques and assumptions determine the fair value of financial instrument.

Note 3: Property, Plant and Equipment (PPE), Work-In-Progress (WIP)

Particulars	Cost			Depreciation			Net Block Value	
	Balance as at January 1, 2022	Additions for the year	Disposal during the year	Balance as at December 31, 2022	Depreciation for the year	Disposal for the year	Balance as at December 31, 2022	December 31, 2021
Aircraft - Fixed Wing	12,493,731,531	267,390,968	-	12,761,122,499	5,056,518,327	789,097,803	-	5,845,616,130
Aircraft - Helicopter	-	582,636,461	-	582,636,461	-	187,621,333	-	395,015,128
Furniture & Fixture	22,248,361	7,127,540	(1,437,421)	27,938,480	9,171,096	3,657,415	(1,127,063)	11,701,449
Office Equipment	51,420,236	4,472,684	(6,704,112)	49,188,809	31,503,440	4,925,819	(5,986,169)	30,443,090
Electrical Fitting & Equipment	16,017,513	593,995	(493,747)	16,117,761	7,296,479	1,814,983	(363,736)	8,747,726
Ramp Equipment	67,223,878	167,359	-	67,391,237	55,391,675	2,018,122	-	57,409,797
Engineering Equipment	26,664,121	-	(220)	26,663,901	24,589,163	412,642	(186)	25,001,619
Building	50,437,094	-	-	50,437,094	11,352,723	1,512,797	-	12,865,520
Motor Vehicle	68,573,997	18,496,355	(1,375,670)	85,694,682	47,529,967	14,013,898	(1,260,435)	60,283,430
Miscellaneous Asset	20,636,641	1,029,833	(1,080,722)	20,585,752	7,970,729	2,679,669	(589,634)	10,060,765
Catering Equipment	8,361,637	-	-	8,361,637	5,287,153	440,429	-	5,727,582
Tools & Spares	191,856,629	5,126,471	(923,124)	196,059,976	119,444,500	11,632,981	(292,860)	130,784,621
AFT Equipment - Heli	-	9,190,788	-	9,190,788	-	8,384,156	-	806,604
GSE-Heli	-	4,966,007	-	4,966,007	-	3,801,610	-	3,801,610
Tools & LLP - Heli	-	15,508,909	-	15,508,909	-	11,669,940	-	11,669,940
Capital work in progress	2,087,780	3,110,980	-	5,198,760	-	-	-	5,198,760
Total of PPE	13,019,259,418	919,818,350	(12,015,016)	13,927,062,752	5,376,055,252	1,043,683,597	(9,620,082)	6,410,118,767
								7,516,943,957
								7,643,204,168

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 4: Intangible Asset

(Amount in Nu.)

Particulars	2022	2021
Opening Balance - January 1	32,000,952	16,640,675
Additions	156,266	15,360,277
Disposals	-	-
Closing Balance - December 31	32,157,218	32,000,952
Opening Accumulated Amortization (i)	(8,890,686)	(7,260,253)
Additions	(2,945,175)	(1,630,433)
Depreciation on Disposal/Adjustments	-	-
Closing Accumulated Amortization (ii)	(11,835,861)	(8,890,686)
Net Carrying Value (i-ii)	20,321,357	23,110,266

Note 5: Lease

Right of use assets

(Amount in Nu.)

Particulars	Land	Building
Cost		
Balance as at January 1, 2021	2,777,035	16,511,063
Additions	-	10,312,896.72
Balance as at December 31, 2021	2,777,035	26,823,960
Additions	-	42,323,713
Balance as at December 31, 2022	2,777,035	69,147,673
Depreciation/Amortization		
Balance as at January 1, 2021	840,371	5,627,461
Additions	92,568	6,400,676
Balance as at December 31, 2021	932,939	12,028,137
Additions	92,568	29,691,397
Balance as at December 31, 2022	1,025,506	41,719,534
Net Book Value		
Balance as at December 31, 2021	1,844,097	14,795,823
Balance as at December 31, 2022	1,751,529	27,428,139

Other liabilities include the following lease liabilities:

(Amount in Nu.)

Lease	2022	2021
Opening Balance - January 1	17,874,627	13,817,047
Additions	42,323,713	10,312,897
Repayments	(17,304,864)	(7,446,762)
Interest Expense	3,761,908	1,191,446
Closing Balance - December 31	46,655,385	17,874,627

Lease Liabilities as at December 31	2022	2021
Current	1,193,448	9,062,081
Non-current	45,461,937	8,812,546

Note 6: Trade and other receivables

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Non-Current			
Trade debtors	8,697,083	11,570,563	13,347,793
Less: Provision for doubtful debts	(7,775,607)	(8,715,700)	(8,715,701)
Total	921,477	2,854,863	4,632,092
Current			
Trade debtors	145,140,807	24,573,838	43,982,028
Security deposit paid	75,658,504	68,220,502	65,946,076
Accrued income	1,893,275	1,040,619	882,170
Insurance claim receivable	41,581,238	-	-
RGoB subsidy receivable	48,548,565	63,853,641	74,782,035
Total	312,822,389	157,688,600	185,592,310

Note 7: Investments

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Non-Current			
Term Deposit	98,409,446	28,533,065	38,826,676
Accrued interest	4,020,353	8,147,878	8,147,878
Total	102,429,800	36,680,943	46,974,554
Current			
Term Deposit	109,245,381	82,633,837	71,785,530
Accrued interest	8,405,955	5,299,460	6,855,778
Total	117,651,336	87,933,297	78,641,308

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 8: Deferred tax asset & Liability

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Deferred Tax Asset	914,273,373	728,887,812	343,719,365
Total	914,273,373	728,887,812	343,719,365

Refer Note 29 (c) for details on deferred tax

Note 9: Capital Advances

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Capital Advances	78,916,709	194,633,542	196,571,085
Total	78,916,709	194,633,542	196,571,085

Note 10: Inventories

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
In-flight catering & duty-free stocks	81,631,606	95,656,345	102,002,734
Stock of tickets	764,867	1,337,574	1,347,172
Gift stocks	803,464	803,464	803,464
Aircraft maintenance consumables	72,949,411	57,141,313	50,972,681
Uniform stocks	3,211,227	2,609,786	2,725,775
Other stock	887,645	387,470	-
Total	160,248,220	157,935,951	157,851,826

Note 11: Cash and cash equivalents

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Cash and cheques in hand	2,471,224	1,066,785	409,225
In current account with banks	435,691,733	73,287,754	67,758,329
Total	438,162,957	74,354,539	68,167,555

Note 12: Loans and advances

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Advance to parties	87,151,876	15,148,547	14,101,942
Advance to employee	1,239,170	1,528,123	1,627,528
Prepaid expenses	24,154,987	3,615,982	5,059,635
Advance tax paid	30,994,425	33,248,184	83,199
Total	143,540,458	53,540,836	20,872,303

Note 13: Share capital

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Authorized 50,000,000 equity shares of Nu 100 each	5,000,000,000	5,000,000,000	5,000,000,000
Issued, subscribed, and fully paid up 36,085,251 Equity shares of Nu 100 each, fully paid in cash	4,308,623,900	3,608,525,100	3,608,525,100
Total	4,308,623,900	3,608,525,100	3,608,525,100
Reserves			
As per statement of change in equity	37,417,568	32,415,317	24,100,549

Note 13.1: All ordinary shares are ranked equally. Fully paid shares carry one vote per share and the right to dividends. There are no restrictions on the transfer of shares in the Company or on voting rights between holders of shares. Entire share capital is held by the Holding Company, DHI.

Note 13.2: Reconciliation of Share capital

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
At the beginning of the year			
- Number of shares	36,085,251	36,085,251	36,085,251
- Amount (in Nu.)	3,608,525,100	3,608,525,100	3,608,525,100
Add: issued during the year			
- Number of shares	7,000,988	-	-
- Amount (in. Nu)	700,098,800	-	-
Less: Redeemed during the year			
- Number of shares	-	-	-
- Amount (in Nu)	-	-	-
At the end of the year			
- Number of shares	43,086,239	36,085,251	36,085,251
- Amount (in. Nu)	4,308,623,900	3,608,525,100	3,608,525,100

During the company received Nu.93,051,400 against equity injection from the shareholder and Nu. 607,047,400 was transferred from RBHSL with the merger of the Company.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 14: Borrowing

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Unsecured borrowings			
Non-Current			
Drukair Bonds from National Pension and Provident Fund	840,684,758.82	840,684,759	812,080,859
Interest free loan from RGOB	101,432,002	76,074,002	76,074,002
Loan from National Pension and Provident Fund	2,492,706,595	2,492,706,595	2,492,706,595
SDF Loan	706,333,333	752,772,222	860,888,889
COVID relief measure loan from BOB	425,107,142	425,107,142	205,552,103
Overdraft loan from BOB	546,672,536	987,285,689	700,000,000
Total	5,112,936,368	5,574,630,408	5,147,302,447
Current			
Drukair Bonds from National Pension and Provident Fund	-	-	216,343,353
Interest free loan from RGOB	8,452,667	33,810,667	33,810,667
Loan from National Pension and Provident Fund	199,883,695	199,883,695	199,883,695
SDF Loan	117,722,222	107,538,889	107,611,111
Inter-group Borrowing	1,138,423,889	490,000,000	
COVID relief measure loan from BOB	83,709,590	60,729,592	29,364,586
Accrued interest but not due on Bonds	55,220,103	58,134,485	68,477,349
Accrued interest but not due on NPPF loan	280,496,708	135,710,965	39,450,862
Accrued interest but not due for SDF Loan	14,367,573.02	6,628,995	6,304,686
Accrued interest but not due OD Loan	81,490,591	11,621,270	10,754,401
Total	1,979,767,039	1,104,058,558	712,000,710

Nature of Security, Interest Rate and terms of repayments:

Note 14.1 Bonds

Following series of Bonds were issued to NPPF for the purchase of aircraft – JSW. These bonds are secured on the same aircraft. The coupon for these bonds were paid by MoF and the same has been treated as government revenue grant. The coupon expense amounting to Nu. 55,555,533 has been treated as interest subsidy as shown under non-operating revenue Note 20.

- i. Drukair Bond series I of Nu.246,886,529 at coupon rate of 9% p.a. repayable within 10 years in 10 annual installments with last installment due on February 24, 2024.
- ii. Drukair Bond series I of Nu.286,039,000 at coupon rate of 9% p.a. repayable within 10 years in 10 annual installments with last installment due on August 25, 2024.
- iii. Drukair Bond series I of Nu.1,630,508,000 at coupon rate of 8.5% p.a. repayable within 10 years in 10 annual installments with last installment due on March 3, 2025.

The repayment related to these bonds for the year 2022 and 2023 has been deferred till 2024.

Note 14.2 Royal Government of Bhutan - Interest free loan

Interest-free loan of Nu.507,160,012.12 was obtained for the purchase of aircraft BAE-146 and is repayable within 15 years in 60 quarterly equal installments. The repayment of loan installment was deferred, and the applicable installment amounting to Nu.33,810,667 (previous year Nu.33,810,667) for the financial year was deferred.

Note 14.3 National Pension and Provident Fund

A term loan was availed amounting to Nu.2,709,754,345 equivalent to USD37,375,922 at an interest rate of 7.15% p.a. repayable within 10 years in 40 quarterly equal installments for the purchase of A320 Neo (JKW). The loan is secured against the sovereign guarantee provided by the Ministry of Finance (MoF).

During the year, the company received an interest waiver of 50% under the Druk Gyelpo's Relief Kidu amounting to Nu.47,734,462 (Previous Year Nu.96,260,102). In line with the monetary measures issued by the Royal Monetary Authority of Bhutan in response to the COVID 19, the loan installment amounting to Nu.381,283,677 payable for the year as per the amortization schedule was deferred. The interest expense has been treated as revenue grant and shown as RGoB subsidy under non-operating revenue under Note 20.

Note 14.4 SAARC Development Fund

A term loan was availed amounting to Nu.942,500,000 equivalent of USD13,000,000 at an interest rate of USD 6 months LIBOR rate + 2% p.a. repayable within 10 years semi-annually for the purchase of ATR 42-600 aircraft. This loan is secured against the sovereign guarantee provided by the Ministry of Finance (MoF) and the applicable interest on the loan thereon amounting to Nu.25,416,908 was paid by the MoF. The same has been treated as government revenue grant which is reflected as interest subsidy under non-operating income under Note. 20.

Note 14.5 Bank of Bhutan

- i) COVID relief measure loan

The term loan was availed amounting to Nu.459,600,000 (previous year Nu.459,600,000) at an interest rate of 5% p.a. repayable within four years in 48 monthly installments to meet the working capital of the Company. The applicable interest on the loan thereon have been added to the loan and Nu.508,816,732 is outstanding as on December 31, 2022.

- ii) Overdraft loan

The overdraft loan amounting to Nu.1 billion at an interest rate of 7.02% p.a. was availed in 2020. The same has been renewed in 2022. Nu 627,443,948 is outstanding as on December 31, 2022.

Note 14.6 Druk Holding & Investment – Interest-free Inter-group borrowing

Interest-free inter-group borrowing of Nu.788,423,889 is outstanding as on 31 December 2022. The loan amounting to Nu. 725,000,000 was approved in 2021 and additional loan Nu. 508,000,000 was sanctioned during the year. Loan amounting to Nu. 444,576,111 is available e for withdrawal in 2023.

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 14.7 State Mining Corporation Limited (SMCL)

Intercompany borrowing of Nu.350,000,000 at 3% p.a. was availed from SMCL during the year and same amount is outstanding as on December 31, 2022.

Note 15: Provisions

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Non-Current			
Provisions for gratuity	104,297,160	88,101,342	87,095,636
Provisions for leave encashment	32,495,630	23,604,720	15,263,318
Provision For Travel Allowance	1,174,618	-	-
Provision For Transfer Grant	1,174,618	-	-
Liability for frequent flyer program	2,904,245	2,532,633	4,642,046
Total	142,046,271	114,238,695	107,001,000
Current			
Corporate income tax liability	122,084,866	111,883,528	111,938,041
Provisions for gratuity	15,456,609	20,111,015	11,003,855
Provisions for leave encashment	3,844,870	4,323,301	1,266,422
Provision For Travel Allowance	3,842,454	-	-
Provision For Transfer Grant	3,842,454	-	-
Liability for frequent flyer program	5,808,489	5,065,265	9,284,093
Total	154,879,742	141,383,109	133,492,411

Provision for Gratuity, Leave Encashment, and frequent flyer program are based on the actuarial valuation. The details are reflected in Note 36. Reconciliation of corporate tax liability is as shown below.

Current tax liability

Particular	2022	2021
Balance as at January 1	111,883,528	111,938,041
Income tax outside Bhutan	13,777,775	3,398,815
Paid during the year	(3,576,436)	(3,453,329)
Balance at December 31	122,084,866	111,883,528

Note 16: Trade and other payables

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Current			
Trade creditors	89,487,601	65,143,791	14,054,008
Accrued expenses	56,479,147	28,785,951	116,831,033
Deposits received	203,957,781	244,224,590	317,274,872
Employees payables	5,465,160	6,582,817	6,143,236
Total	355,389,689	344,737,148	454,303,150

Note 17: Other liabilities

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021	January 1, 2021
Non Current			
Deferred liability for credit memo	94,310,182	99,936,142	105,693,251
Deferred Government Grant for Domestic Operations	3,776,253	4,531,504	5,286,754
Total	98,086,435	104,467,646	110,980,005
Current			
Deferred revenue on sale of tickets	340,997,674	29,233,819	63,977,590
Deferred liability for credit memo	5,757,109	5,757,109	5,757,109
Liability for stale cheque	3,549,265	3,257,064	3,202,379
Taxes and duties payable	39,378,331	7,994,499	53,244,018
Deferred Government Grant for Domestic Operations	755,250	755,250	755,250
Total	390,437,629	46,997,741	126,936,347

*Taxes and Duties payable includes Nu 32,300,221 of taxes collected from customers for the un-flown tickets as of December 31, 2022.

Note 18: Traffic revenue

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
Passenger revenue	1,110,473,672	241,044,712
Insurance & Fuel Surcharge	256,643,569	31,342,332
Helicopter services revenue	67,770,324	-
Excess Baggage	26,081,212	6,795,816
Cargo	168,354,737	165,085,399
Chartered sales	178,090,516	101,601,545
Administrative fee	5,475,141	1,248,945
No show charges	5,841	52,931
Cancellation charges	15,595,784	611,418
Total	1,828,490,796	547,783,098

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Note 19: Other operating revenue

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
Duty free sales	19,563,719	7,075,136
Commission earned	237,974	15,444
B3 Catering sales	2,069,431	570,694
Drukair holidays sales	2,860,163	-
Cargo Transshipment and handling charges	1,353,369	965,490
Total	26,084,655	8,626,764

Note 20: Non-operating revenue

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
Liability Written back	12,475,122	32,630,699
Subsidy on Interest Expense	80,972,441	96,106,875
Interest income	7,370,831	6,025,955
Gain on sale of property, plant, and equipment	-	2,884,122
Forex gain	-	-
Rent Recovery	84,000	45,500
RGoB subsidy for COVID 19	76,299,501	106,746,439
Miscellaneous Revenue	5,842,598	437,571
Amortization on credit memorandum	7,110,680	5,757,109
Amortization of deferred government grant	755,250	755,250
Total	190,910,423	251,389,521

Note 21: Flight operation costs

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
Aircraft fuel and oil	551,857,766	112,730,447
Aircraft overflying and navigation charges	74,486,896	43,506,698
Aircraft landing and parking fees	30,890,393	6,928,964
Aircraft ground handling and security charges	102,148,062	29,490,742
Simulator expenses	18,743,028	10,746,264
Chartered Expenses	72,412,124	39,927,291
Crew meal and outstation expenses	12,889,309	3,322,039
Quarantine Expenses	4,992,699	12,575,456
Total	868,420,277	259,227,901

Note 22: Other operation costs

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
In- flight catering expenses	68,814,445	17,518,565
Drukair Holidays Expenses	337,085	-
Disrupted flight expenses	2,230,978	590,276
Loss baggage claim/Deportees	378,724	10,273
Purchase of duty-free items	12,437,655	4,263,359
Service charges	3,031,949	250,100
Cargo transport & handling charges	1,247,569	196,417
Total	88,478,405	22,828,991

Note 23: Aircraft maintenance costs

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
Consumption stores and spares	9,307,601	12,059,676
Aircraft maintenance	157,090,464	115,099,535
Less: Credit Memorandum Utilised	(11,187,617)	(4,891,515)
Freight charges	8,358,386	6,578,419
Stores & scrap written off	457,650	982,038
Total	164,026,483	129,828,153

Reconciliation of credit memorandum (Amount in USD)

Particulars	CFM	B/E Aerospace	ATR	Saint Gobain Sully	Total
Balance as on 1 January 2022	264,062	24,196	121,399	874	410,530
add credits received	-	-	765	1,975	2,740
less credits utilized	(10,683)	(13,918)	(112,671)	-	(137,271)
Balance as on 31 December 2022	253,379	10,278	9,493	2,849	275,999

- The credit memorandum from CFM was received for the purchase engine of A320 neo (JKW) in 2020. During the year USD 10,683 was utilised for the maintenance of aircraft equipment.
- B/E Aerospace has provided Credit Memorandum against the purchase of equipment for airbus A319 (JSW) and A32eo. During the year USD 13,918 was utilised for the maintenance of aircraft equipment.
- In 2019, for the purchase of ATR MSN 1412, ATR had provided Credit Memorandum of USD150,000 as per Credit Note No.90607847 against goods & services and USD 4,000 as per Credit Note No.90607849 against Letter of Agreement No.6. During the year USD 112,671 was utilised for the maintenance of aircraft equipment.

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Note 24: Other maintenance costs

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
Ground transport maintenance	1,793,649	415,155
Maintenance of ground transport equipment	4,119,843	2,087,820
Maintenance of hanger and workshop	391,640	274,815
Other maintenance	4,741,556	11,063,963
Total	11,046,688	13,841,754

Note 25: Employee costs

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
Pay and allowances	389,908,470	321,090,572
Leave travel allowance	7,458,338	7,527,203
Productivity Allowance	7,500,000	3,053,399
Bonus and variable pay	-	-
Overtime	388,911	10,947
Uniform/make up expenses	6,792,111	-
Medical expenses	1,260,315	1,204,449
Staff welfare	146,977	61,300
Staff training and development	8,599,670	2,904,442
Leave encashment	12,985,612	12,100,532
Provident fund contribution	19,192,710	19,161,682
Retirement benefits	16,217,912	8,782,502
Transfer grant	10,364,169	204,990
Total	480,815,193	376,102,018

Note 26: Marketing and Sales promotion

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
Marketing sales promotion	1,869,059	550,793
Agent Commission	46,423,918	7,104,740
Advertisement & souvenir	403,506	453,365
Total	48,696,483	8,108,898

Note 27: Other costs

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
Board meeting expenses	173,520	180,718
Fee & subscriptions	18,336,961	14,983,642
Printing and stationery	4,224,291	2,005,017
Office Tea expenses	884,368	896,171
Lease rent (non-aircraft)	3,512,736	14,800,506
Interest Expense for Lease Liability	3,761,908	-
Travelling expenses	7,783,854	2,786,864
Transportation expenses	3,331,905	1,718,030
Rates and taxes	53,686	-
Insurance	53,698,137	104,798,418
In-flight magazine	777,000	-
Communication expenses	24,669,947	25,291,426
Security Services	1,186,966	1,152,397
Electricity charges	1,087,499	998,949
Brand Management Fee	-	-
Entertainment expenses	432,911	136,831
Books & periodicals	16,240	178,746
Employee Engagement & religious expenses	1,727,977	3,241,516
Consulting fees	2,248,456	2,012,996
Audit fees	1,077,226	1,059,736
Forex loss	73,192,087	11,474,459
Loss of sale of PPE	1,450,946	-
other write off	-	81,930
Interline expenses	826,825	410,471
Miscellaneous Expenses	-	635,000
Total	204,455,447	188,843,824

Note 28: Finance costs

(Amount in Nu.)

Particular	December 31, 2022	December 31, 2021
Bank charges	12,414,658	5,519,085
Interest on borrowing & others	436,858,076	377,528,868
Total	449,272,735	383,047,953

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Note 29: Taxes

a. Tax (charge)/ (credit) in the income statement

Tax (charge)/ (credit) in the income statement

(Amount in Nu.)

Particular		2022	2021
i	Income tax expense		
	Current tax on profit for the year	-	-
	Tax adjustment for earlier year	-	-
	Tax for operation outside	(13,777,775)	(3,398,815)
	Total current tax	(13,777,775)	(3,398,815)
ii	Deferred tax		
	Deferred tax income for the year	272,216,082	385,168,447
	Total deferred tax	272,216,082	385,168,447
	Total Tax expense	258,438,308	381,769,632

b. Current tax liability

(Amount in Nu.)

Particular	2022	2021
Balance as at January 1	111,883,528	111,938,041
Income tax outside Bhutan	13,777,775	3,398,815
Paid during the year	(3,576,436)	(3,453,329)
Balance at December 31	122,084,866	111,883,528

c. Deferred tax

(Amount in Nu.)

Particular	2022	2021
Balance as at January 1	728,887,812	343,719,365.48
add: Deferred tax Income 2022	272,216,082	385,168,447
Adjustment of deferred tax liability of RBHSL	(86,830,522)	
Balance at December 31	914,273,373	728,887,812

d. Reconciliation of total tax charged in the income statement

(Amount in Nu.)

Particular	2022	2021
Accounting (loss)/profit before tax	(1,146,235,728)	(1,490,358,390)
Tax calculated at the standard rate of corporate tax in Bhutan of 30%	343,870,718	447,107,517
Non-deductible expense	(71,654,636)	(61,939,070)
Tax paid outside Bhutan	(13,777,775)	(3,398,815)
Balance at December 31	258,438,308	381,769,632

Note 30: Earnings Per Share (EPS)

(Amount in Nu.)

Particular	2022	2021
Net profit/loss attributable to the owners of the company	(887,797,420)	(1,108,588,758)
Issued and outstanding ordinary shares at the beginning of the year	36,085,251	36,085,251
Share allotted to DHI during the year	7,000,988	-
Outstanding ordinary shares at the end of the year	43,086,239	36,085,251
Weighted average number of ordinary shares	39,084,941	36,085,251
Basic and Diluted EPS attributable to ordinary shares	(22.71)	(30.72)

Note 31: Fair Value Measurement

Particulars	December 31, 2022			December 31, 2021		
	FVPL	FVOCI	Amortized Cost	FVPL	FVOCI	Amortized Cost
Financial assets						
Security deposit paid	-	-	75,658,504	-	-	68,220,502
Cash and cash equivalents	-	-	438,162,957	-	-	74,354,539
Trade receivables	-	-	146,062,284	-	-	27,428,701
Other receivables	-	-	1,893,275	-	-	882,170
Total financial assets	-	-	661,777,021	-	-	170,885,912
Financial liabilities						
Borrowing	-	-	7,092,703,406	-	-	6,678,688,967
Trade payables	-	-	89,487,601	-	-	65,143,791
Security deposit received	-	-	203,957,781	-	-	244,224,590
Other payables	-	-	5,465,160	-	-	126,176,648
Total financial liabilities	-	-	7,391,613,948	-	-	7,114,233,995

i. Fair value hierarchy

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

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

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

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

- ii. Valuation techniques used to determine fair value
Specific valuation techniques used to value financial instruments include the fair value of the financial instruments as determined using discounted cash flow analysis.
- iii. Fair value of financial assets and liabilities measured at amortized cost

Particulars Carrying amount Fair value Carrying amount	December 31, 2022		December 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Trade receivables	146,062,284	146,062,284	27,428,701	27,428,701
Total Financial Asset	146,062,284	146,062,284	27,428,701	27,428,701

Financial liabilities				
Borrowing	7,092,703,406	7,067,835,457	6,678,688,967	6,682,501,218
Total financial liabilities	7,092,703,406	7,067,835,457	6,678,688,967	6,682,501,218

- i. The carrying amounts of current sundry debtor, cash and cash equivalents, current investment, interest accrued, other receivables, security deposit given and paid, trade payables and other payables are considered to be the same as their fair values, due to their short-term nature.
- ii. The fair values for financial instruments were calculated based on cash flows discounted using current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Note 32: Capital Management

Risk management

The Company is formed as a wholly owned subsidiary of Druk Holding & Investments Limited (DHI). For the purpose of the Company's capital management, capital includes issued capital, General Reserve, Translation Reserve and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximize the shareholder value and ensure that funds are available to meet future commitments. The Company manages its capital structure and makes adjustments in light of the changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Capital expenditure is mostly met from operating cash flows. Fixed term borrowings are only made for major capital projects. Such borrowings are repaid when the project is completed and generating positive cash flows. In addition to commitments to outside parties, the company has a requirement to meet dividend and tax expectations, as contained in the Annual Compact with the parent company and RGoB. The amount mentioned under total equity in balance sheet is considered as capital by the Company.

Note 33: Financial Risk Management

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

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

Risk	Exposure arising from	Measurement	Management
Credit risk	Cash and cash equivalents, trade receivables, financial assets measured at amortized cost	Aging analysis	Diversification of customer base
Liquidity risk	Borrowings and other liabilities	Cash flow forecasts	Availability of committed facilities
Market risk – foreign exchange	Future commercial transactions and recognized financial liabilities not denominated in Bhutanese Ngultrum (Nu.)	Cash flow forecasting Sensitivity analysis	Diversification of liability
Market risk – interest rate	Long-term borrowings at fixed rates	Sensitivity analysis	Portfolio of loan contains fixed interest loans from financial institutions

A. Market risk

i) Foreign currency risk

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

The Company is in aviation industry and has its operation in various countries. As a result, the Company is exposed to foreign currency exposure through its operational activities. The risk is measured through a forecast of highly probable foreign currency cash flows. Further the Company manages its foreign currency risk by maintaining its foreign currency exposure, as approved by Board as per established risk management policy.

Foreign currency risk exposure

The Company's exposure to foreign currency risk at the end of the reporting period expressed in Nu. are as follows:

Particulars	December 31, 2022		December 31, 2021	
	USD	SGD	USD	SGD
Financial assets	63,386,903	10,150,611	-	4,390
Financial liabilities	(44,932,180)	(3,269,344)	(46,384,113)	(633,021)
Net exposure to foreign currency risk	18,454,723	6,881,266	(46,384,113)	(628,631)

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

Particulars	December 31, 2022		December 31, 2021	
	Thai Baht	NPR	Thai Baht	NPR
Financial assets	1,601,723	3,906,913	11,347,656	-
Financial liabilities	(1,210,039)	(3,511,368)	(4,547,149)	(60,075)
Net exposure to foreign currency risk	391,684	395,544	6,800,507	(60,075)

Particulars	December 31, 2022		December 31, 2021	
	Taka	INR	Taka	INR
Financial assets	14,794	10,299,403	-	2,338,858
Financial liabilities	(4,516,050)	(2,977,709)	(109,643)	(2,825,451)
Net exposure to foreign currency risk	(4,501,256)	7,321,695	(109,643)	(486,593)

Sensitivity

The sensitivity of profit or loss to changes in the exchange rates arises mainly from foreign currency denominated financial instruments.

	Impact on profit before tax	
	December 31, 2022	December 31, 2021
SGD sensitivity		
Nu. depreciate by 5%	344,063	(31,432)
Nu. appreciate by 5%	(344,063)	31,432
USD sensitivity		
Nu. depreciate by 5%	922,736	(2,319,206)
Nu. appreciate by 5%	(922,736)	2,319,206
NPR sensitivity		
Nu. depreciate by 5%	19,777	(3,004)
Nu. appreciate by 5%	(19,777)	3,004
Thai Baht sensitivity		
Nu. depreciate by 5%	19,584	340,025
Nu. appreciate by 5%	(19,584)	(340,025)
Taka sensitivity		
Nu. depreciate by 5%	(225,063)	(5,482)
Nu. appreciate by 5%	225,063	5,482

Holding all other variables constant. As the value of INR is equivalent to Nu. historically, the company is not exposed to foreign exchange risk arising from foreign currency transactions in INR.

ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company has only fixed rate borrowings and are carried at amortized cost. Further the loan given and investment made by the Company is at fixed rate interest. Interest expenses/income are therefore not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

iii) Price Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. As the company does not have any investment in listed securities which are exposed to price risk, company is not exposed to significant price risk.

B. Liquidity risk

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

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

Maturities of financial liabilities

The tables below analyze the group's financial liabilities into relevant maturity groupings based on the contractual maturities for all financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

(Amount in Nu.)

Contractual maturities of financial assets December 31, 2022	Less than 1 year	More than 1 years	Total
Trade and Other Payables	355,389,689	-	355,389,689
Borrowings	1,548,192,063	5,112,936,368	6,661,128,431
Interest	431,574,975	-	431,574,975
Total financial liabilities	2,335,156,727	5,112,936,368	7,448,093,095

(Amount in Nu.)

Contractual maturities of financial assets December 31, 2021	Less than 1 year	More than 1 years	Total
Trade and Other Payables	344,737,148	-	454,303,150
Borrowings	1,137,869,226	5,574,630,408	5,859,303,158
Interest	578,918,524.06	1,306,326,019	1,470,809,803
Total financial liabilities	2,061,524,898	6,880,956,427	7,784,416,110

C. Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

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i) Trade receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management.

The Company's long term trade receivable usually from government bodies and management expects to recover the entire amount subsequently. However, the management has evaluated the long-term trade receivable for time value of money impact and considered it for impairment as per BFRS 9. Other trade receivables are from sale agents with a credit tenure of 30-45 days.

However, from financial year 2015, the Company has instituted a policy to either furnish bank guarantee or make advance payments from the sale agents before issuing the ticket vouchers to them for further sale to the customers. Trade receivables are usually from government bodies which are non-interest bearing and are generally on credit term of 30-45 days. The Company regularly monitors its outstanding customer receivables.

The ageing of trade receivables as of balance sheet date is given below. The age analysis has been considered from the due date:

(Amount in Nu.)

Particulars	Less than six months	More than six months less than 3 years	More than 3 years	Total
Trade receivable as on 31 December 2022 (Gross)	121,417,576	23,723,231	8,697,083	153,837,890
Less: Provision for impairment loss	-	-	(7,775,607)	(7,775,607)
Trade receivable as on December 31, 2022 (Net)	121,417,576	23,723,231	921,477	146,062,284

The requirement for impairment is analyzed at each reporting date. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 30.

ii) Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's finance department. Investments of surplus funds are made only with approved counterparties in accordance with the Company's policy. Counterparty credit limits are reviewed by the Companies' Board of Directors on an annual basis. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through counterparty's potential failure to make payments. For banks and financial institutions, only high rated banks/institutions are accepted.

Note 34: Related Party Transactions

The Company is a wholly owned subsidiary of DHI. The Company considers that for the purpose of BAS 24 the RGoB is in a position of control over it, and therefore regards the Royal Government of Bhutan and its controlled companies/corporations as related parties for the purpose of the disclosures required by BAS 24.

A summary of the Company's transactions with the RGoB and its related entities is included below:

Name of related party	Relationship	Nature of transaction with related party	Amount in Nu.
Druk Holding & Investment	Holding company	a) Consideration for issue of equity shares	4,308,623,900
		b) Sale of air tickets	3,378,561
		c) Dividend paid	-
		d) Commission	
		e) Intra group Borrowing	788,423,889
		f) Interest on borrowing	47,853,627
		g) Security Deposit Received	467,170
Bank of Bhutan Limited	Fellow Subsidiary	a) Sale of air tickets	751,084
		b) Bank Charges	6,120,518
		c) Loans	
		d) Commission	13,050
		e) Interest on borrowing	93,130,141
		f) Borrowing	1,136,260,682
		g) Trade receivable	17,971
Bhutan Power Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	1,505,466
		b) Electricity Charges	935,248
Bhutan Telecom Limited	Fellow Subsidiary	a) Sale of air tickets	42,206
		b) Telephone and Internet Charges	4,987,936
		c) Rental Charges	-
Dungsum Cement Corporation Limited	Fellow Subsidiary	a) Commission	23,802
		b) Sale of air tickets	2,952
Druk Green Power Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	1,541,995
		b) commission	38,671
		c) Trade receivable	35,467
State Trading Corporation Limited	Fellow Subsidiary	a) Sale of air tickets	960,668
		b) Commission	29,719
		c) Trade receivable	70,822.00
Thimphu Tech Park Limited	Fellow Subsidiary	a)) Sale of air tickets	147,587
		b) Software	
		c) Staff Training Expenses	
Bhutan Hydro Power services limited	Fellow Subsidiary	a) Sale of air tickets	79,934
		b) Commission	3,590
Koufuku International Limited	Fellow Subsidiary	-	-
Bhutan Broad Product Limited	Fellow Subsidiary	-	-
Dungsam Polymers Limited	Fellow Subsidiary	-	-
Bhutan Board Export Limited	Fellow Subsidiary	-	-
Tangsibji Hydro Energy Limited	Fellow Subsidiary	-	-

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Name of related party	Relationship	Nature of transaction with related party	Amount in Nu.
State Mining Corporation Limited	Fellow Subsidiary	a) Interest on borrowing b) Borrowing	747,945 350,000,000
Penden Cement Authority Limited	Fellow Subsidiary	-	-
Construction Development Corporation Limited	Fellow Subsidiary	a) Sale of air tickets b) Commission	62,298 2,363
Dagachhu Hydro Power Corporation Limited	Fellow Subsidiary	a) sale of air tickets b) Commission	260,148 2,826
Natural Resources Development Corporation Limited	Fellow Subsidiary	a) Sale of air tickets b) Commission	117,102 4,285

Key management personnel ('KMP')

KMPs are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly including any director whether executive or otherwise. Key management personnel of the company for the purpose of disclosure of compensation include the Chief Executive Officer as required by the Companies Act of Bhutan 2016.

Summary of compensation paid to the KMP:

For the year ended December 31	2022	2021
Basic Salary, Allowance, PF and leave encashment	2,604,300	2,348,700
Sitting Fees	-	-
Leave Travel Concession	15,000	15,000
Total	2,619,300	2,363,700

As the liabilities for gratuity and leave encashment are provided on actuarial basis for the Company as a whole, the amounts pertaining to KMP are not included above.

Note 35: Contingent Liabilities

- On behalf of Air India, the Embassy of India has sent a reminder vide letter No THI/Adm/551/1/2015 dated 07.12.2015 to settle outstanding due payable to Air India at the earliest possible. This outstanding amount of Rs.21.70 million is purported to be the pax compensation on the 5th freedom sector under commercial agreement which was applicable up to 11.09.2006. The Liabilities against this claim has not been provided in the current year accounts in light of the matter being appealed at the highest level of both governments.
- Starting from the Fiscal Year 2014-2015 till 2018-2019, Nepal Tax Department has raised till total tax demand amounting to NPR 86.8 m till date, of which NPR 35.3 m (NPR 24.2 m paid to the Tax Department and NPR 11.1 m paid to the Tribunal Court) has been paid as security deposits. The balance payable tax amount is NPR 51.5 m. This tax dispute is being taken up with the Tax Department and the Tribunal Court in Kathmandu.

- iii) During the tax assessment in 2018 there was a tax demand of Nu.5,457,834.18 pertaining to 3% TDS for commission for foreign agents. The tax assessments were completed 2018, 2019 and 2020 however, the tax dispute on the mentioned amount is still pending.
- iv) A show cause cum demand notice dated 31.12.2020 for Rs.11,738,403.00 on account of service tax (including cess) for the period 2014-15 to 2017-18 was raised by Additional Commissioner, CGST & CX, Kolkata, Audit-I Commissionerate. This was raised based on the assumption that all passengers travelled by “business class”. The Company issued a protest letter with all the supporting documents confirming the “false statement” conceived by the inspecting officials. The case is lying with the office of the Commissioner of CGST & CX as on date.

Note 36: Employee Benefits

i) **Gratuity**

Defined Benefit Plans

Valuation in respect of Gratuity has been carried out by independent actuary, Druk infinity consulting firm, Bhutan. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit (PUC) Method.

Disclosure as per BAS 19, ‘Employees Benefit’ for defined benefit scheme (Gratuity)

1: Changes in Present Value of Obligations:

Period	2022
Present value of the obligation at the beginning of the period	108,212,357
Interest cost	7,848,665
Past service cost	-
Current service cost	9,058,334
Benefits paid (if any)	(7,126,984)
Actuarial gain/(loss)	(1,761,397)
Present value of the obligation at the end of the period	119,753,769

2: The amount to be recognized in the statement of financial position:

Period	2022
Present value of the obligation at the end of the period	119,753,769
Fair value of plan assets at end of period	-
Fund status – surplus/(deficit)	-
Net asset/(liability) recognized in Balance Sheet	119,753,769

3 (a): Expense recognized in the statement of Profit and Loss:

Period	2022
Interest cost	7,848,665
Past service cost	-
Current service cost	9,058,334
Expected return on plan asset	-
Expenses to be recognized in P&L	16,906,999

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3 (b): Other comprehensive (income) / expenses

Period	2022
Actuarial (gain)/loss - obligation	1,761,397
Actuarial (gain)/loss - plan assets	-
Total Actuarial (gain)/loss	1,761,397

4: Table showing changes in the Fair Value of Planned Assets:

Period	2022
Fair value of plan assets at the beginning of the period	111,166,902
Expected return on plan assets	-
Contributions	(111,166,902)
Benefits paid	-
Actuarial gain/(loss) on plan assets	-
Fair Value of Plan Asset at the end of the Period	-

5: The assumptions employed for the calculations are tabulated:

Discount rate	7.50 % per annum
Salary Growth Rate	7.00 % per annum
Mortality	100% of IALM (2012-14)
Employee turnover rate (Per Annum)	5.00% p.a.

6: Bifurcation of net Liability:

Period	2022
Current Liability	15,456,609
Non-Current Liability	104,297,160
Net Liability	119,753,769

ii) Leave Encashment Liability

This has been determined by actuarial method at Nu.36,340,500 the following is the summary of leave encashment as per the actuary valuation report:

The table below shows a summary of the key results for the year ending 31 December 2022:

1: Present Value of Obligations:

Period	2022
Present value of the obligation at the beginning of the period	27,928,021
Interest cost	1,923,109
Past service cost	-
Current service cost	8,412,479
Benefits paid (if any)	(4,573,1320)
Actuarial (gain)/loss	(2,650,023)
DBO at the end of the period	36,340,500

2: The amount to be recognized in the statement of financial position:

Period	2022
Present value of the obligation at the end of the period	36,340,500
Fair value of plan assets at end of the period	-
Funded Status	(36,340,500)
Net defined benefit asset/(liability)	(36,340,500)

3 (a): Expense recognized in the statement of comprehensive income:

Period	2022
Interest cost	1,923,109
Past service cost	-
Current service cost	8,412,479
Interest on plan asset	-
Immediate recognition of gains/losses-other long term employee benefits	2,650,023
Expenses to be recognized in P&L	12,985,611

3 (b): Other comprehensive income:

Period	2022
Actuarial (gain)/loss - obligation	2,650,023
Actuarial (gain)/loss - plan assets	-
Immediate recognition of gains/losses- other long term employee benefits	(2,650,023)
Expense recognized as OCI	-

4: The assumptions employed for the calculations are tabulated:

Discount rate	7.50 % per annum
Salary Growth Rate	7.00 % per annum
Mortality	100%of IALM (2012-14)
Withdrawal rate (Per Annum)	5.00% p.a.

5: Bifurcation of net Liability

Period	2022
Current Liability (Short Term) *	3,844,870
Non-Current Liability (Long Term)	32,495,630
Total Liability	27,928,021

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

iii) Travel allowances

This has been determined by actuarial method at Nu. 5,017,071 the following is the summary of travel allowance as per the actuary valuation report:

The table below shows a summary of the key results for the year ending 31 December 2022:

1: Present Value of Obligations:

Period	2022
Present value of the obligation at the beginning of the period	-
Interest cost	-
Past service cost	5,091,828
Current service cost	486,879
Benefits paid (if any)	(561,635)
Actuarial (gain)/loss	
DBO at the end of the period	5,017,072

2: The amount to be recognized in the statement of financial position:

Period	2022
Present value of the obligation at the end of the period	5,017,072
Fair value of plan assets at end of the period	-
Funded Status	(5,017,072)
Net defined benefit asset/(liability)	(5,017,072)

3 (a): Expense recognized in the statement of comprehensive income:

Period	2022
Interest cost	-
Past service cost	5,091,828
Current service cost	486,879
Interest on plan asset	-
Expenses to be recognized in P&L	5,578,707

3 (b): Other comprehensive income:

Period	2022
Actuarial (gain)/loss - obligation	-
Actuarial (gain)/loss - plan assets	-
Immediate recognition of gains/losses- other long term employee benefits	-
Expense recognized as OCI	-

4: The assumptions employed for the calculations are tabulated:

Discount rate	7.50 % per annum
Salary Growth Rate	7.00 % per annum
Mortality	100% of IALM (2012-14)
Withdrawal rate (Per Annum)	5.00% p.a.

5: Bifurcation of net Liability:

Period	2022
Current Liability (Short Term)*	1,174,618
Non-Current Liability (Long Term)	3,842,454
Total Liability	5,017,072

iv) Transfer grant

This has been determined by actuarial method at Nu. 5,017,071 the following is the summary of travel allowance as per the actuary valuation report:

The table below shows a summary of the key results for the year ending 31 December 2022:

1: Present Value of Obligations:

Period	2022
Present value of the obligation at the beginning of the period	-
Interest cost	-
Past service cost	5,179,752
Current service cost	486,879
Benefits paid (if any)	(649,559)
Actuarial (gain)/loss	
DBO at the end of the period	5,017,072

2: The amount to be recognized in the statement of financial position:

Period	2022
Present value of the obligation at the end of the period	5,017,072
Fair value of plan assets at end of the period	-
Funded Status	(5,017,072)
Net defined benefit asset/(liability)	(5,017,072)

3 (a): Expense recognized in the statement of comprehensive income

Period	2022
Interest cost	-
Past service cost	5,179,752
Current service cost	486,879
Interest on plan asset	-
Expenses to be recognized in P&L	5,666,631

3 (b): Other comprehensive income

Period	2022
Actuarial (gain)/loss - obligation	-
Actuarial (gain)/loss - plan assets	-
Immediate recognition of gains/losses- other long term employee benefits	-
Expense recognized as OCI	-

ACCOUNTING POLICIES & NOTES TO ACCOUNTS

4: The assumptions employed for the calculations are tabulated:

Discount rate	7.50 % per annum
Salary Growth Rate	7.00 % per annum
Mortality	100% of IALM (2012-14)
Withdrawal rate (Per Annum)	5.00% p.a.

5: Bifurcation of net Liability:

Period	2022
Current Liability (Short Term) *	1,174,618
Non-Current Liability (Long Term)	3,842,454
Total Liability	5,017,072

Note 37: Additional Disclosure

i. Liability for Frequent Flyer Programme

This has been determined by actuarial method at Nu.8.71 million (PY Nu.7.59 million). The following Actuarial estimates were used to determine the Actuarial Liability in 2021:

(a) Redemption Rate-	33%
(b) Loyalty Points accrued-	13,777,860
(c) Cost Per mile-	2.06

ii. Segment Information

For management purposes, the company has only one operating segment viz. transport of people and cargo by air, mainly from Bhutan to neighbouring countries. The company also transports people and cargo from India to third countries and also domestically within Bhutan, but these activities are part of the main activity. Therefore, the company's profit and loss account and balance sheet represent the results of this sole segment. During the year 2022, the company carried 9 number of revenue passengers and 547,888 kg of cargo (PY: 23,858 no. revenue passengers and 197,234 kg of cargo).

iii. Government grants

Grants from 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. During the year the Company recognised revenue grant of Nu.157,271,941 (Nu. 80,972,441 for subsidy on interest expense and Nu. 76,299,500 for RGoB subsidy for COVID 19). Rent waiver of Nu. 11,029,995, Nu. 47,734,461 against 50% waiver on NPPF interest till June 30, 2022, and wavier of Nu. 17,535,043 for landing & navigation charges treated as RGoB subsidy for COVID.

iv. Benefit of interest free loan

There is an interest free loan outstanding and due to the RGoB to the extent of Nu.110 million (PY Nu.110 million) as on December 31, 2022. The estimated interest expenses of this loan have not been accounted for in the books of the Company. If the interest is considered at 9% p.a., the expenses on account of this interest for the year 2021 would be Nu 9.88 million (PY Nu.9.88 million).

v. **Merger of Drukair Corporation Limited (DCL) and Royal Bhutan Helicopter Services Limited (RBHSL)**

The RBHSL was merged with Drukair Corporation Limited from September 1, 2022 as per the Scheme of Amalgamation issued in accordance to the Section 296 to 300 and Sections 305 to 311 of the Companies Act of Bhutan, 2016.

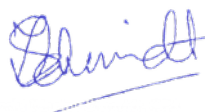
The amalgamation of RBHSL is registered as amalgamation by acquisition. The amalgamation is accounted for in the books of account of the Company according to the "Book Value Method." All assets, liabilities, and reserves, of the RBHSL, was recorded in the books of account of the Company at their carrying amounts as on August 31, 2022. The Company has credited to its share capital account, the aggregate face value of the New Equity Shares issued.

The accounting for business combinations is governed by BFRS-3, and these standards mandate business combinations by acquisition method. However, BFRS-3 Clause 2(C) states that BFRS-3 does not apply to combination of entities or business under common control. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. As business combination of entities under common control is excluded from the scope of BFRS-3, business combinations and the accounting of such business combination depends on the accounting policy. The Ministry of Finance directly control RBHSL and indirectly controls DCL through DHI. Since the ultimate shareholder is the same (MoF), the companies can be deemed to be under control, and therefore, BFRS -3 does not apply in the context of this amalgamation.

In accordance with the relevant laws, the book-value method of consolidation of accounts is proposed which is also the accepted practice when the amalgamation involves common single ownership. The book-value method is not only convenient but appropriate since the proposed amalgamation involves movement of economic resources under a common control and ownership.

Signatures for note "1 to 37" of the financial statements for and on behalf of the Board of Directors

For Rinzing Financial Private Limited:



Ms. Tashi Rinzing Schmidt, CPA
Audit Partner
CPA License No. 34762
Date: *Mar. 28, 2023*
Place: Thimphu, Bhutan



For Drukair Corporation Limited:



Ms. Pema Choden
Chairperson



Mr. Tandi Wangchuk
Chief Executive Officer



Ms. Dechen Peldon
Chief Finance Officer

RATIO ANALYSIS

Sl.no	Particulars	2022	2021
A. Ratios for assessing financial health (In numbers)			
I	Current Ratio	0.43	0.44
II	Debt equity Ratio	4.56	3.86
III	Liquid Ratio	0.33	0.53
IV	Fixed Assets to Equity	4.87	4.44
V	Fixed Assets Turnover	0.24	0.07
VI	Inventory Turnover for Engineering items	43.14	0.23
B. Ratios of assessing profitability (In percentage)			
I	Return on equity (%)	-57.09%	-28.70%
II	Return on Capital employed (%)	-13.25%	-17.73%
III	Operation and Maintenance expenses to Traffic Revenue	9.57%	26.23%
IV	Earning Per Share	22.71	30.72
C. Ratios for assessing cashflow efficiency (In numbers)			
I	Cash flow turnover	0.10	0.89
II	Operation Index	0.21	0.44



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Royal Bhutan Airlines

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