



25 August 2006

Attention: Company Announcements Office
Australian Stock Exchange Limited

**ANNUAL FINANCIAL STATEMENTS, DIRECTORS' REPORT AND INDEPENDENT
AUDIT REPORT**

Included herewith are Bendigo Mining Limited's Annual Financial Statements, Directors' Report and Independent Audit Report for the year ended 30 June 2006.

H.L. DUSSELJEE
Company Secretary

BENDIGO MINING Limited

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BENDIGO MINING
ABN 61 005 674 073

Directors' Report, 2006 Financial
Statements and Independent Audit
Report

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All references to \$ are Australian dollars unless otherwise indicated.

BENDIGO MINING LIMITED
CORPORATE INFORMATION

ABN 61 005 674 073

Directors:

P.L. McCarthy (Chairman)
A.D Buerger (Managing Director)
R.H. Beevor
R.A. Guy OAM
R. Woodall AO

Registered Office & Principal Place of
Business:

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Secretary:

H.L. Dusseljee

Auditors:

Deloitte Touche Tohmatsu
Chartered Accountants
180 Lonsdale Street
Melbourne Vic 3000

Share Registry:

Computershare Investor Services Pty Ltd
Yarra Falls
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Abbotsford Vic 3067
Telephone +61 (0)3 9415 4000

Shareholders' Enquiries:

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Stock Exchange:

Australian Stock Exchange Limited
ASX Company Security Code: BDG

Web Page

<http://www.bendigomining.com.au>

CORPORATE GOVERNANCE STATEMENT

The Company is in transition from mine development to gold production. Throughout this process, the Corporate Governance charters and policies are reviewed and revised to ensure the Company complies as far as is practicable with the ASX Corporate Governance Council guidelines and has a corporate governance framework which is appropriate to the Company's change of focus to gold production.

The Company's Corporate Governance charters, codes and policies are available on the Company's website at www.bendigomining.com.au.

This Statement outlines the main Corporate Governance practices in place, based upon the Company's Corporate Governance framework.

Board of Directors

The Company is managed by a Board of Directors which is responsible for setting corporate direction, defining broad issues of policy and monitoring the business of the Company to ensure it is conducted appropriately and in the best interests of shareholders within the Company's Corporate Governance framework. With the approval of the Chairman the directors may seek independent professional advice, at the Company's expense, in relation to matters arising from the conduct of their duties.

Composition of the Board

The Board currently comprises a non-executive Chairman, three non-executive directors and an executive Managing Director, who provide an appropriate mix of business and specialist skills and qualifications. The composition of the Board is consistent with ASX Best Practice Recommendations except that the Chairman, Mr P L McCarthy is not considered an independent director pursuant to the ASX guidelines, because he is also Managing Director of AMC Consultants (Pty) Ltd. AMC Consultants was primarily responsible for the preparation of the Company's Feasibility Study in 2004 (before Mr McCarthy became a director), the Development Strategy Study in 2005 (before Mr McCarthy was appointed chairman) and provided minor engineering consultancy services during 2006. The ongoing work performed by AMC Consultants is approved at an operational level following the Company's established expenditure approval procedures. In appointing Mr McCarthy as Chairman after the resignation of the previous chairman at the end of January 2006, the Board recognised Mr McCarthy's particular skills and experience in the resources industry and believes that he is eminently suitable for the position of Chairman.

As a result of the Board Charter policy and the Company's evolution to gold production, the composition of the Board is continually in the process of being reviewed. That process will continue as the Company and its activities develop, but at all times the aim of the Board will be to continue to have the requisite set of skills and experience appropriate for the Company's needs.

Details of the directors are set out in the Directors' Report.

Responsibility for the day-to-day management of the Company is delegated to the Managing Director within the corporate direction and broad policies set by the Board. He is directly accountable to the Board for the performance of the management team.

CORPORATE GOVERNANCE STATEMENT *continued*

Board Charter

The Board has adopted a Board Charter providing for the composition of the Board to be determined using the following principles:

- The Board should comprise at least five directors (this number may be increased by the Board where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified) and in any event, the Board shall determine the number of directors from time to time;
- The chair of the Board should be a non-executive director;
- The Board should comprise a majority of non-executive directors; and
- The Board should have enough directors to serve on various committees of the Board without overburdening the directors or making it difficult for them to fully discharge their responsibilities.

Company policy defines an independent director as a non-executive director (i.e. not a member of management) who meets the following criteria:

- is not a substantial shareholder or an officer of, or otherwise associated directly with, a substantial shareholder;
- within the last three years has not been employed in an executive capacity or been a director after ceasing to hold such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or an employee materially associated with the service provided;
- is not a material supplier/customer or an officer of or otherwise associated directly or indirectly with a material supplier/customer;
- has no material contractual relationship with the Company other than as a director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The Board considers that Messrs R H Beevor, R A Guy, and R Woodall are independent directors.

A process for performance evaluation of the Board has been formulated. There has been a change to the Chairman of the Board during the year and as a result a performance evaluation of the Board was not carried out during the period under review.

Board Committees

The Board has appointed Committees to assist with the ongoing compliance with ASX Corporate Governance and Best Practice Recommendations.

These Committees have written Charters that are reviewed on a regular basis. The effectiveness of each Committee is also monitored. The decisions and recommendations of the Board Committees are communicated to the Board at the earliest opportunity, and where necessary decisions are submitted to the full Board for ratification.

CORPORATE GOVERNANCE STATEMENT *continued*

Audit and Risk Management Committee

The Audit and Risk Management Committee comprises three non-executive directors – Mr R H Beevor (Chairman), Mr R A Guy and Mr R Woodall. The Committee meets at least three times per year and as necessary and other directors are invited to attend meetings. The Managing Director, Chief Financial Officer and external auditor may, to the extent appropriate, also attend Committee meetings by invitation. The Chairman of the Board may not chair the Audit Committee.

The Committee's key responsibilities and functions are to:

- oversee the Company's relationship with the external auditor and the external audit function generally;
- oversee the preparation of financial statements and reports;
- oversee the Company's financial controls and systems; and
- manage the process of identification and management of business, financial and commercial risks.

The Committee meets and receives reports from the external auditors dealing with matters that arise in connection with their audits to fulfil these responsibilities. The external auditor has unrestricted access to the Committee Chairman.

The Committee is responsible for the review of performance and nomination of the external auditors. It is a policy of the Audit and Risk Management Committee that the audit partner must change every five years and that the Committee must approve any non-audit work performed by the auditors.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of Mr R A Guy (Chairman), Mr R H Beevor and Mr P L McCarthy and meets at least bi-annually and as necessary.

In relation to remuneration the Committee is responsible for the remuneration arrangements for senior executives including the Managing Director and reviewing and approving the general remuneration framework for other employees. To achieve this, the Committee has recourse to independent consultants and market surveys when fulfilling its primary role and determining the remuneration arrangements of senior executives.

The primary objective of the Company's remuneration policy is to ensure that the level and composition of remuneration enables the recruitment, retention and motivation of all senior management of the Company, in order to maximise the likelihood of achieving the Company's short, medium and long term business objectives. However, it is recognised that the structure and composition of remuneration varies for different senior managers, based largely on an individual's ability to have a direct impact on the performance of the organisation and comparability with an appropriate market.

In relation to the Managing Director and the senior management team, the policy objective is that the total remuneration package comprises elements of fixed and incentive remuneration. The incentive remuneration is designed to ensure an appropriate emphasis on long term growth and financial performance, whilst continuing to deliver short term goals. The individual components and guidelines taken into consideration by the Remuneration and Nomination Committee when structuring remuneration, covers fixed and performance based remuneration in addition to equities under an Employee Share Plan.

The Remuneration and Nomination Committee also makes recommendations to the Board for the remuneration of non-executive directors, which is based on advice received from independent consultants and market surveys and always at a level within the aggregate amount approved by shareholders in general meeting.

CORPORATE GOVERNANCE STATEMENT *continued*

In relation to its nomination responsibilities, the Remuneration and Nomination Committee establishes criteria for Board membership, reviews Board membership and identifies and nominates potential directors for consideration by the Board. External advisors may be used to assist in this process. Board membership is reviewed at least annually to ensure an appropriate mix of qualifications, skills and experience. Candidates are appointed by the Board and must stand for election at the next following general meeting of shareholders (other than the Managing Director).

Thereafter directors are subject to re-election at least once every three years. The tenure for executive directors is linked to their holding of executive office.

Health, Safety, Environment and Security Committee

The Health, Safety, Environment and Security Committee ('HSES Committee') consists of Mr P L McCarthy (Chairman), Mr R H Beevor and Mr A D Buerger. It is the objective of the Board that at least two members of this Committee have an operational understanding of the mining industry and that the chairman of the Audit Committee is a member of the HSES Committee. The Committee meets at least twice per year and as necessary. Other directors and members of the management team are invited to attend meetings.

The objective of the Committee is to monitor health, safety, environmental and security matters and to review the management of risks.

2005 Funding Sub Committee

The 2005 Funding Sub Committee was established to facilitate decisions regarding the funding exercise undertaken in October and November 2005. A written charter was not prepared for this committee because of its specific focus and the short period that it was required. The Committee consisted of Mr A D Buerger (Chairman), Mr R W Woodall and Mr R A Guy with two members forming a quorum. The Committee met on 5 occasions between 3 October 2005 and 7 November 2005 and has now been dissolved.

Conflicts of Interest

In accordance with the Corporations Act 2001 and the Company's Constitution, directors of the Company must keep the Board advised, on an ongoing basis, of any material personal interest in a matter that relates to the affairs of the Company. Where the Board believes that a director has a material personal interest in a matter, the director concerned will not receive the relevant Board papers and will not be present at the meeting of directors (and thereby does not cast a vote) whilst the item is considered. The Company has developed procedures to assist directors to disclose material personal interest.

Ethics and Conduct

The Board requires that the Company sets and maintains exemplary standards of corporate and employee practices and ethics. All directors, managers and employees are expected to act with the utmost integrity and objectivity and to endeavour at all times to enhance the reputation and performance of the Company. The Company has a Value Statement and Code of Conduct which is communicated to all employees and reviewed by the Board on a regular basis.

The Company's Share Trading Policy sets out the times and circumstances in which directors, employees and parties legally related to them, may trade in the shares of the Company. Trading is not permitted when directors or employees possess price sensitive information which has not yet been disclosed to the market.

Shareholder Communication

Shareholders are informed of the activities of the Company through annual and quarterly reports and are encouraged to attend the Annual General Meeting. The Company also maintains a comprehensive and up to date website at www.bendigomining.com.au.

DIRECTORS' REPORT

The directors present their report together with the financial report of the Company for the year ended 30 June 2006.

Directors

The names and relevant details of directors of the Company in office during or since the end of the financial year are as follows:

Current Directors

- **Peter L. McCarthy**
CPEng, BSc (Eng), MGeosc, FAusIMM, MIEAust, MAIME, MAICD
Non-Executive Chairman
Mr McCarthy has more than 35 years experience in the mining industry. He is the Managing Director of AMC Consultants, a prominent mining consultancy group in Australia, and a director of Castlemaine Goldfields Limited. His principal expertise is in underground mining and project evaluation. Mr McCarthy joined the Board in September 2004 and was appointed Chairman in January 2006.
- **A. Douglas Buerger**
BSc, MPhil, FAusIMM, MAICD
Managing Director and Chief Executive Officer
Mr Buerger has over 35 years experience in exploration and mining in Africa and Australia. He has been involved in evaluation, development and mine management and has served in senior management positions in a number of public companies. He has been with the Company since October 1994 and was appointed to the position of Managing Director in July 1995.
- **Ronald H. Beevor**
BA (Hons)
Non – Executive Director
Mr Beevor is a former investment banker and was Head of Investment Banking at N M Rothschild & Sons (Australia) Limited between 1997 and 2002. He has had extensive involvement with the natural resources industry, both in Australia and overseas. He is a director of Oxiana Limited, Eastern Mediterranean Resources Public Limited and QMAG Limited. He joined the Board in November 2002.
- **Richard A. Guy OAM**
BAppSc, MSc
Non – Executive Director
Mr Guy is chairman of Bendigo-based Crystal Industries Group, a director of Bendigo Bank and Girton Grammar School Limited and has served on national and international boards in the cold storage industry. He is an engineer by training and plays a prominent role in various community and charitable organisations in Bendigo. Prior to vacating the chair in March 2006, he chaired the Bendigo Bank through a period of rapid growth and development including the conversion to Bank status in 1995, a number of mergers, joint ventures and the introduction of the community banking concept. Mr Guy joined the Board in January 2005.
- **Roy Woodall AO**
BSc (Hons), MSc, Hon DSc, FAA, FTSE, FAusIMM
Non-Executive Director
Mr Woodall has 50 years experience in both mining geology and mineral exploration and has received many national and international honours and awards. He managed Western Mining Corporation's (WMC) successful exploration program for 28 years, including 17 years as a director of WMC. Mr Woodall is a non-executive director of Strike Oil Ltd. He joined the Board in September 2001.

DIRECTORS' REPORT *continued*

Director who resigned during the year

- R. Bryan Davis**

Non-Executive Chairman

Mr Davis is a mining engineer with more than 40 years experience in the industry. He is a former executive director of Pasminco Limited and currently a non-executive director of Newcrest Mining Limited, Coal & Allied Industries Limited and OneSteel Limited. He resigned as a director of Bendigo Mining with effect from 1 February 2006.

Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

Directors	Board of Directors		Remuneration And Nomination Committee		Audit and Risk Management Committee		HSE & Security Committee		2005 Funding Sub Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
P.L. McCarthy	8	8	2	2	-	-	3	3	-	-
R.H. Beevor	8	7	2	2	4	4	3	3	-	-
A.D. Buerger	8	8	-	-	-	-	3	3	5	5
R.A. Guy	8	7	2	2	4	4	-	-	5	3
R. Woodall	8	8	-	-	4	4	-	-	5	4
R.B. Davis	4	3	-	-	-	-	-	-	-	-

Review of Operations

The first gold bar from the Company's Kangaroo Flat Mine was poured on Thursday 13 July 2006. The pour marks the first gold production from the Bendigo Goldfield since 1954. The 250 oz (7.5 kg) doré bar was produced during commissioning of the Kangaroo Flat processing plant. Plant construction, under project management of Ausenco Limited, commenced in late May 2005 and at year end was 95% complete.

Underground development of 4,515 m was completed during the year. A smooth transition to owner-mining occurred on 2 April 2006 with all the key issues successfully addressed, including access to a skilled workforce and acquisition of a mining fleet, spare parts, maintenance and systems. Initial ore development into the Shywolup (D3), Greater Garrard (S3) and Upper S3 (S3) reefs had commenced.

The Adam street ventilation circuit was commissioned in June after equipment problems had caused delays. This circuit is now in operation. Construction of the North Deborah ventilation circuit is in progress and is expected to be completed by early 2007. Planning permission has been received for the New Chum ventilation rise and construction is planned for 2007.

DIRECTORS' REPORT *continued*

Exploration drilling of 40,225 m was completed during the year. The results allowed the strike length of the Alexandria and Greater Garrard reefs to be extended and also outlined new reef positions at Dale and Railway.

A more detailed review of the operations during the year and the results of those operations appear in the Managing Director's Report and the Review of Operations and Exploration sections of the 2006 Annual Report.

State of Affairs

In November 2005, the Company successfully completed a \$121.4 million equity raising by way of a pro-rata 3 for 5 entitlement issue at \$0.80 and an accompanying placement of \$18.7 million at \$0.91 per share. In total, \$133.6 million was raised after expenses.

During the 2006 financial year the Company expended funds on underground development, plant construction and exploration. The balance sheet reflects the drawdown on cash resources to leave a balance of \$96.9 million at 30 June 2006. Accounts payable amounted to \$23.7 million at the end of the year reflecting the high level of activity in constructing the processing plant and other capital projects. Investment in property, mine development and plant and equipment has increased from \$26.8 million last year to \$147.9 million at 30 June 2006. The net loss for the year after income tax was \$12.8 million, increasing the deferred tax asset to \$48.6 million from \$42.4 million last year. The state of the Company's affairs is disclosed in detail in the Financial Statements and the notes thereto.

Other than the above, no significant changes in the state of affairs of the Company occurred during or since the end of the financial year.

Future Developments

Commercial gold production from the Kangaroo Flat Mine is expected to commence after September 2006 and in the 2007 financial year is planned to occur within a range of 70,000 oz to 90,000 oz from the processing of 330,000 t of ore at a grade within the range of 7 g/t to 9 g/t gold. The gold head grade will determine the cash operating cost which could fluctuate between A\$400/oz to just over A\$500/oz. Volatility in grade and cash cost is expected to reduce as operations settle over the course of the year and as more stopes become available.

The Company expects to continue with the development underground of the Kangaroo Flat Mine and to commence development of the Eaglehawk Mine in the December 2006 quarter.

Subsequent Events

No matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the Company's operations, the result of those operations or the state of affairs in subsequent financial years.

DIRECTORS' REPORT *continued*

Share Options

During or since the end of the financial year the Company issued 6,817,000 options for the purchase of ordinary shares in the Company. A total of 690,000 options were issued to the Managing Director after approval was provided by shareholders at the Annual General Meeting held on 24 November 2005.

At the date of this report the Company had 6,483,002 options on issue. These options were issued to the Managing Director, Executive Officers and Employees, as detailed in the table below.

	Number of Options as at 1.7.05	Number of Options Granted during or since the end of the financial year	Number of Options Exercised during or since the end of the financial year	Number of Options Lapsed during or since the end of the financial year	Number of Options as at 24.8.06
Directors and Executive Officers					
Mr A.D. Buerger	-	690,000 (10)	-	-	690,000
Mr R. Woodall	40,000 (6)	-	-	40,000 (6)	-
Mr R.B. Davis	650,000 (8)	-	-	650,000 (8)	
Mr G.F. Johansen	6,667 (2) 11,667 (4)	520,000 (9)	11,667 (4)	6,667 (2)	520,000
Mr H.L. Dusseljee	11,667 (4)	520,000 (9)	11,667 (4)	-	520,000
Mr R.J. Hanson	-	520,000 (9)	-	-	520,000
Mr T.S. Churcher	-	520,000 (9)	-	-	520,000
Sub Total	720,001	2,770,000	23,334	696,667	2,770,000
Employees	35,504 (2) 8,335 (3) 72,683 (4) 8,001 (5)	2,628,000 (9) 1,419,000 (11)	21,669 (4)	35,504 (2) 8,335 (3) 51,014 (4) 3,999 (5) 338,000 (9)	3,713,002
Total	844,524	6,817,000	45,003	1,133,519	6,483,002

Notes (2) – (11) denote option series.

Refer to note 13 to the financial statements for full details of each option series.

DIRECTORS' REPORT *continued*

Directors' Shareholdings

Particulars of ordinary shares and options to purchase ordinary shares in the Company, in which directors have a relevant interest at the date of this report, are as follows:

Director	Ordinary Shares	Share Options
R.H. Beevor	280,686	-
A.D. Buerger	699,874	690,000
R.A. Guy	100,000	-
P.L. McCarthy	32,728	-
R. Woodall	65,923	-

Interest in Contracts

At the date of this report and since the date of the previous report, no director has declared any interest in any contract or proposed contract with the Company other than those disclosed within the related party details (see note 24 to the financial statements).

Principal Activities

The principal activities of the Company during the course of the financial year were mine development, process plant construction and exploration.

Indemnification

The Company has entered into a Deed of Access, Insurance and Indemnity with each of the directors. Pursuant to these deeds, Bendigo Mining has undertaken to:

- Indemnify each Director to the extent permitted by law against certain liabilities and legal costs incurred by the Director whilst acting in his or her capacity as a Director;
- Make available to each Director Bendigo Mining's Board documents for a period of seven years after the Director has ceased to be a director, to the extent that the Director did or was entitled to have access to or receive a copy of those documents during the Director's term of office; and
- Maintain and pay the premium on a directors' and officers' liability insurance policy in favour of each Director for seven years after the Director has ceased to be a director.

The deeds are subject to the provisions of the Corporations Act.

During the year the Company paid a premium under a contract insuring the directors and officers of the Company against liability incurred in that capacity. Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance.

The Company has not otherwise during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as an officer or auditor.

DIRECTORS' REPORT *continued*

Rounding Off of Amounts

The Company is a company of the kind referred to in Australian Securities and Investments Commission Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 24.

Company Secretary

H.L. Dusseljee – BCompt (Hons)

Chief Financial Officer – Mr Dusseljee has gained extensive financial management experience over more than 20 years in the gold and diamond mining industries. He started his career in mining with De Beers at its Jwaneng Mine in Botswana and has held senior positions in South Africa with Anglo American Corporation and De Beers. He joined Bendigo Mining as Chief Financial Officer in 1997 and also assumed the responsibilities of Company Secretary in April 2001.

Trading Results

The net loss after tax for the year amounted to \$12,987,000 (2005: \$4,035,000 A-IFRS (Superseded accounting policies \$8,099,000)).

Dividend

No dividend has been paid during the year and no recommendation is made as to dividends.

Non-audit Services

During the year Deloitte Touche Tohmatsu, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 18 to the financial statements.

DIRECTORS' REPORT *continued*

Directorships of Other Listed Companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of Directorship
R.H. Beevor	Oxiana Limited	2002 to date
	Kimberley Diamond Company N.L.	2003 to 2004
	Eastern Mediterranean Resources Public Limited	2004 to date
	Northern Gold NL	2005 to 2006
R.A. Guy	Bendigo Bank Limited	1982 to date
P.L. McCarthy	Castlemaine Goldfields Limited	2006 to date
R. Woodall	Strike Oil Limited	1996 to date
	Gympie Gold Limited	2000 to 2004

Environmental Governance

Environmental Performance

Bendigo Mining's Operations are managed in accordance with requirements set out in Work Plans and Licences approved by various regulatory authorities. These regulatory requirements include a comprehensive environmental monitoring program and associated suite of emissions limits which have been designed to protect the health and well being of the community and the environment. The Board HSES Committee reviews the Company's environmental performance.

An Environmental Review Committee has been established, consisting of representatives from regulatory authorities and the community, to review environmental performance on a quarterly basis.

A summary of the environmental monitoring program results are presented below:

	2004 – 2005		2005 – 2006	
	% Monitoring requirements to standard	% Compliance of results	% Monitoring requirements to standard	% Compliance of results
Acoustic	96.9	98.6	99.7	99.5
Air Quality	91.3	99.3	99.7	98.9
Blast Vibration	71.6 (1)	100	99.3	99.9
Odour	100	100	100	98.3
Water Treatment Plant	100	100	100	100

(1) Vibration limits were met for 239 blasts monitored throughout the year. However 95 blasts were not monitored in accordance with the Company's vibration monitoring plan (approved in 1998) which states that the company will monitor each blast at the nearest residence. The underground blasts are now deep enough not to register vibration above the compliance limits on surface except in the case of possible transmission along geological structures. Therefore monitoring at residences immediately above deep blasts is not always necessary and the level of monitoring was reduced. The Company is in discussions with the regulators to adjust the vibration monitoring plan.

DIRECTORS' REPORT *continued*

Environmental Governance *continued*

During 2005/06, limits prescribed as part of the environmental monitoring program were exceeded on 32 occasions. These limits related to noise, air quality, tank water quality, evaporation pond levels and blast vibration activities. In all cases, investigations were carried out and corrective actions identified to prevent recurrence.

Penalties

There were no incidents that resulted in penalties being imposed by regulatory authorities.

The EPA issued Bendigo Mining with a Pollution Abatement Notice in March 2006, relating to an exceedance of noise level at a residence adjacent to the Kangaroo Flat Mine, as a result of construction activities. The Notice was revoked in June 2006 on resolution of the issue.

Community Engagement

The Company employs two full time Community Affairs Coordinators and involves a number of employees in a wide range of community affairs activities on a regular basis. During the year over 13,800 community contacts were made through visits to site, contacts in relation to monitoring results, requests for information, public and community events and speaking engagements. Community newsletters were distributed each quarter to 2,500 residences close to Bendigo Mining operations.

The Company has a system for recording community enquiries and complaints. The aim is to respond to all complaints within 24-hours and to ensure that all potential impacts are minimised through appropriate management.

In total, 64 complaints were received during the year. These related to noise, dust, odour, blast vibration, trucking and other activities. The Company has established a 24-hour inquiry line, and encourages the community to phone at any time for information or register complaints. This strategy has allowed the Company to fully inform callers of what could have been perceived to have been an impact or risk due to Company activities.

The 2006 annual social impact survey is currently underway, predominantly focussing on residents near to Bendigo Mining operations. The Company will use the information collected to enhance its operating approach and to improve the effectiveness of communication with the local community.

An Open Day was held at the Kangaroo Flat Mine in November 2005 at which 450 people viewed displays, toured the processing plant site by mini bus and were able to speak directly with a wide range of Bendigo Mining personnel. Two information days were held in Eaglehawk in December 2005 and July 2006, where information was provided to about 250 people regarding the Eaglehawk Mine proposal. About 150 people also attended tours of the Catherine Reef United archaeological dig site at the Eaglehawk Mine in June 2006.

DIRECTORS' REPORT *continued*

Remuneration Report - Audited

It is the Board's policy that remuneration packages are market related reflecting the duties and responsibilities of the positions, recognise and award performance and provide incentive and motivation to pursue the long term growth and success of the Company within an appropriate control framework.

Non-Executive Directors

Non-executive directors' fees reflect the responsibilities and demands made of the directors. Guidance is obtained from independent industry surveys to ensure that directors' fees are appropriate and in line with the market. The Chairman's fees reflect the increased responsibility of the role and are based on comparative positions in the industry.

Non-executive directors currently receive \$50,000 per year and the Chairman \$100,000. Statutory superannuation contributions are also paid but no committee fees are paid. The maximum total directors' fees approved by shareholders which may be paid by the Company to all the non-executive directors is \$500,000 per year.

Mr R B Davis resigned as Chairman on 20 January 2006 and as director with effect from 1 February 2006. The Board agreed to pay Mr Davis an amount of \$285,000 in recognition of the contribution he made to lead the Company from an exploration to a mine development phase and the successful fundraising completed in November 2005. The amount paid is within the payment limit calculated under Section 200G(2)(b) of the *Corporations Act 2001*. As a consequence of his resignation the options that Mr Davis held lapsed.

Company Executives

Executive remuneration comprises fixed and variable remuneration. Fixed remuneration includes base salary, superannuation and any applicable fringe benefits. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Remuneration Committee seeks external advice in connection with the structure of remuneration packages. The Remuneration Committee has reviewed the results of an industry remuneration survey for comparable positions and has given recognition to the scale of operations that the Company is developing and the challenges inherent to developing the Bendigo Project optimally in setting the executive remuneration levels.

No short term incentive ('STI') bonuses were awarded under the scheme in operation during the 2006 financial year. A new STI scheme is being introduced in the 2007 financial year. The STI is an 'at risk' cash bonus that may be awarded to all employees, including executives, at the end of December 2006 and June 2007. The STI is aimed at awarding employees and executives for the achievement of better than budget performance in the areas of safety, exploration, production and underground development. A matrix of Key Performance Areas measuring physical and financial targets has been selected. To the extent that performance is better (or worse) than budget, positive (or negative) performance points are recorded, with increasing performance points for increasing margins from budget. The number of performance points achieved in a six month period determines the size of the bonus pool to be shared between employees according to salary package levels. The scheme is self funding in that the bonus will only be paid if the Company records a better than budgeted 'STI cashflow' regardless of the number of performance points scored. STI cashflow is the total of revenue (calculated at budgeted gold price) less the total of operating expenditure, exploration and development capital expenditure. If the maximum performance points of 250 are scored then the bonus pool is limited to 30% of the better-than-budget STI cashflow. The KPIs and STI cashflow budget is reset after each six months to ensure that improved performances are locked-in and the budget and KPIs reflect current conditions.

DIRECTORS' REPORT *continued*

Remuneration Report *continued*

The Board believes that the STI will focus the entire workforce on the critical performance items to ensure that the Company achieves its short and longer term goals.

The amounts that the executive can earn under the STI scheme depends on the number of performance points scored and the extent to which actual STI cashflow is better than budget. The following table shows the bonus that could be earned by the executives for each \$1 million increase in the STI cashflow for each six months for a range of participation points:

Bonus per \$1 million increase in STI cashflow if following points are earned. Maximum number of points is 250.					
Executive	50 points \$	100 points \$	150 points \$	200 points \$	250 points \$
A D Buerger	1,500	2,500	4,000	5,000	6,500
T S Churcher	1,000	1,500	2,500	3,000	4,000
H L Dusseljee	1,000	2,000	2,500	3,500	4,000
G F Johansen	1,000	1,500	2,500	3,000	4,000
R J Hanson	1,000	2,000	3,000	4,000	5,000

Last year's remuneration report, as approved by shareholders, included details of the long term incentive ('LTI') options issued to executives (refer to detail of option series 9 given in the Share Options section below). The shareholders also approved the issue of options (refer to detail of option series 10 given in the Share Options section below) to the Managing Director at the Annual General Meeting held in November 2005. Shareholders accepted the explanations given at the time that the nature of the options, being dependent on a price hurdle only, was appropriate for the Company's circumstances at the time. The Board intends not to issue any further options of a similar nature to the executives and will consider different options terms aligned to current market practice for any option issues to executives in the future.

The options issued to executives in the 2006 financial year were aimed at aligning the executives' interests with those of shareholders and to encourage executives to build up a stake in the Company. The options vest in three equal tranches, one, two and three years after the grant date. The exercise price of the options was at a 30% premium to the prevailing share price at the time of issue and encourages executives to actively build the long term market value of the Company. Other than tenure, there are no performance conditions or hurdles to allow the options to vest.

The directors believe that the combination of STI and LTI will encourage team effort and focus executives on attaining production goals while promoting the long term strategic development of the Company. If the short term goals are not achieved, no bonus is paid, and if the long term development goals of the Company are not achieved the options will not gain in value.

During the 2006 financial year, the Company made a net loss of \$12.8 million which is attributable to the mine development activities undertaken during the year. The share price increased from \$1.04 on 1 July 2005 to \$1.72 on 30 June 2006. The Company made a net loss of \$8 million in the 2005 financial year. The loss is attributable to the exploration and mine development activities undertaken in that year. The share price increased from \$0.88 on 1 July 2004 to \$1.04 on 30 June 2005. In the 2004 and earlier financial years the Company was in an exploration phase and the decision to develop the goldfield for commercial production had not yet been made. The financial results of the 2004 and earlier years are irrelevant to current remuneration structures. No dividends were paid in the 2006 and 2005 financial years.

DIRECTORS' REPORT *continued*

Remuneration Report *continued*

Key Management Personnel Contracts

The following table discloses the details of executive contracts that are held with the Company:

Directors and Executives	Duration of Contract	Termination Notice by Company
Director Mr A.D. Buerger	Open ended	12 months
Executives Mr T.S. Churcher	Open ended	12 months
Mr. H.L. Dusseljee	Open ended	12 months
Mr. R.J. Hanson	Open ended	12 months
Mr. G.F. Johansen	Open ended	12 months

Termination payments equal to 12 months remuneration is required upon termination by the Company unless the termination occurs because the director or executive engages in conduct that warrants the summary termination of the contract or the director or executive commits a material breach of the contract that is not remedied within a specified time or cannot be remedied.

The key management personnel of Bendigo Mining Limited during the financial year were

Directors

Peter L. McCarthy (Appointed Non-executive Chairman on 20 January 2006)

Ronald H. Beevor (Non-executive)

A. Douglas Buerger (Managing Director and Chief Executive Officer)

Richard A. Guy (Non-executive)

Roy Woodall (Non-executive)

R. Bryan Davis (Non-executive Chairman, resigned effective 1 February 2006)

Company Executives

Timothy S. Churcher (General Manager Corporate Development)

Hilko L. Dusseljee (Chief Financial Officer)

Rodney J. Hanson (Chief Operating Officer)

Garry F. Johansen (General Manager Geology)

DIRECTORS' REPORT *continued*

Remuneration Report *continued*

The following tables disclose the compensation of the key management personnel of the Company.

	Year	Short-term employee benefits				Post Employment	Termination Benefits	Share-based payment	Total
		Salary & fees	Bonus* ¹	Leave* ²	Non-Monetary* ³				
		\$	\$	\$	\$	\$	\$	\$	
Directors									
R.H. Beevor	2006	54,500	-	-	-	-	-	54,500	
	2005	42,250	-	-	-	-	-	42,250	
A.D. Buerger	2006	344,384	-	53,552	31,209	30,995	-	179,876* ⁴	
	2005	351,092	300,000	95,256	26,063	31,599	-	804,010	
R.B. Davis* ⁵	2006	58,333	-	-	-	5,250	285,000	(82,506)* ⁶	
	2005	83,333	-	-	-	7,500	-	82,506* ⁶	
R.A. Guy* ⁷	2006	50,000	-	-	-	4,500	-	54,500	
	2005	22,312	-	-	-	2,008	-	24,320	
P.L. McCarthy* ⁸	2006	72,179	-	-	-	6,496	-	78,675	
	2005	35,000	-	-	-	2,250	-	37,250	
R. Woodall	2006	54,500	-	-	-	-	-	54,500	
	2005	40,000	-	-	-	-	-	40,000	
T.P. Philip* ⁹	2005	10,434	-	-	-	-	-	10,434	
T.J. Brown* ¹⁰	2005	15,000	-	-	-	-	-	15,000	
T.S.A. Grobicki* ¹¹ Mr Grobicki's fees were paid to Harmony Victoria Pty Ltd	2005	29,074	-	-	-	-	-	29,074	
TOTAL	2006	633,896	-	53,552	31,209	47,241	285,000	97,370	
	2005	628,495	300,000	95,256	26,063	43,357	-	82,506	
Company Executives									
T.S. Churcher* ¹²	2006	218,376	-	11,709	975	19,654	-	99,261* ¹⁴	
	2005	91,445	-	8,042	380	8,230	-	-	
H.L. Dusseljee	2006	260,831	-	36,055	21,576	23,475	-	99,261* ¹⁴	
	2005	264,967	190,000	71,751	23,433	23,847	-	-	
R.J. Hanson* ¹³	2006	236,584	-	13,912	71,930	21,293	-	99,261* ¹⁴	
	2005	127,847	-	12,513	35,979	11,752	-	-	
G.F. Johansen	2006	229,411	-	50,829	26,208	20,647	-	99,261* ¹⁴	
	2005	206,374	190,000	20,080	21,323	17,888	-	-	
TOTAL	2006	945,202	-	112,505	120,689	85,069	-	397,044	
	2005	690,633	380,000	112,386	81,115	61,717	-	1,325,851	

DIRECTORS' REPORT *continued*

Remuneration Report *continued*

- *1 The Company paid a one-time bonus in September 2004 to certain directors, executives and employees. The bonus was in recognition of services provided in the past to bring the Company from an exploration phase to a project development phase and to promote ongoing commitment to the project. The calculation of the bonus recognised tenure and the level of contribution made by individuals.
- *2 Leave Entitlements are increases in the total value of annual and long service leave not yet taken. The increase in certain executives long service leave entitlements are included in short-term benefits as they are deemed payable within twelve months of the end of the reporting period. No long-term employee benefits are shown as no long service leave entitlements are yet recorded for the remaining executives according to the Company's policy of recognising progressively eligibility for long service leave.
- *3 Non monetary benefits include the provision of motor cars, salary continuance insurance and fringe benefit taxation.
- *4 Option series No. 10 (refer to the Share Option section below for further details)
- *5 R.B. Davis (Non-executive Chairman) appointed 1 September 2004 and resigned effective 1 February 2006.
- *6 In November 2004 the shareholders approved the issue of 650,000 options to Mr. R.B. Davis. These options lapsed as a consequence of Mr. Davis's resignation with effect from 1 February 2006. (refer to Option series No. 8 in Share Options section below for further details)
- *7 R.A. Guy (Non-executive) appointed 18 January 2005.
- *8 P.L. McCarthy (Non-executive Chairman) appointed 1 September 2004 as a Non-executive Director and commenced as Chairman on 20 January 2006.
- *9 T.P. Philip (Non-executive Chairman) resigned 5 November 2004.
- *10 T.J. Brown (Non-executive) resigned 31 December 2004.
- *11 T.S.A. Grobicki (Non-executive) resigned 4 April 2005.
- *12 T.S. Churcher (General Manager Corporate Development), appointed 17 January 2005.
- *13 R.J. Hanson (Chief Operating Officer) appointed 4 January 2005.
- *14 Options series No. 9 (refer to the Share Option section below for further details).

Share Options

Options have been issued to Key Management Personnel and other employees pursuant to Bendigo Mining Share Option Plans and other specific issues as approved by shareholders.

Key Management Personnel participated in the following option series issued during the 2006 and 2005 financial years:

Option series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
8	650,000	5/11/04	8/11/10	\$0.77	\$0.58
9	4,708,000	10/10/05	25/7/11	\$1.26	\$0.32
10	690,000	24/11/05	25/7/11	\$1.26	\$0.48

Option Series (8): These options were to vest in full on 8 November 2007 and would have been exercisable during the three-year period following vesting. The options were exercisable at the price of 90 cents per share. The exercise price of the options were reduced by 13 cents to 77 cents as a result of the 3:5 Rights Issue in November 2005. At the grant date, 5 November 2004, the share price was \$1.15 and the value of the options at that date was estimated at 58 cents. The value of the options were increased by 6.5 cents as a result of the 3:5 Rights Issue in November 2005. These options lapsed as a result of the resignation of Mr R.B. Davis with effect from 1 February 2006.

DIRECTORS' REPORT *continued*

Remuneration Report *continued*

Option Series (9): These options vest in three equal portions on 26 July 2006, 26 July 2007 and 26 July 2008 and may be exercised during the three-year period following each vesting date at the price of \$1.39 per share. The exercise price of the options was set at the volume weighted average market price per share traded during the first ten trading days in July 2005, plus 30%. At the grant date, 10 October 2005, the share price was \$1.14 and the average value of the options at that date has been estimated at 32 cents. The exercise price of the options were reduced by 13 cents to \$1.26 as a result of the 3:5 Rights Issue in November 2005. The value of the options were increased by 4 cents to an average of 36 cents as a result of the 3:5 Rights Issue. (26 July 2006 vesting options being 31 cents, 26 July 2007 vesting options being 36 cents and 26 July 2008 options being 42 cents)

Option Series (10): These options vest on 26 July 2006, 26 July 2007 and 26 July 2008 and may be exercised during the three-year period following each vesting date at the price of \$1.26 per share. The exercise price of the options was set equal to the exercise price of option series number 9. At the grant date, 24 November 2005, the share price was \$1.31 and the average value of the options at that date has been estimated at 48 cents. (26 July 2006 vesting options being 42 cents, 26 July 2007 vesting options being 48 cents and 26 July 2008 options being 54 cents)

Fair value calculations

The weighted average fair value of the share options granted during the financial year is \$0.39 (2005: \$0.58). Options were priced using the Black Scholes option pricing model. The option life is the number of days from the grant date to the option expiry date. An estimate of the expected number of options to vest during the three year vesting period has been made and will be adjusted in future reporting periods to equal the number of options that ultimately vest. A volatility of 30% has been utilised in all fair value calculations. It was deemed inappropriate to use past share price volatility to establish future share price volatility because of the history of various exploration phases and fundraising impacts on the company's share price. It is expected that share price volatility will lessen as the company establishes a history of operational performance commencing in the 2007 financial year.

The Black Scholes model input details for the option series that Key Management Personnel had received during the 2005 and 2006 financial years are shown in the following table:

Option series	Grant date share price	Exercise price	Expected volatility	Average Option life	Dividend yield	Risk-free interest rate
8	\$1.15	\$0.77	30%	6 years	Nil	5.76%
9	\$1.14	\$1.26	30%	5 years	Nil	5.36%
10	\$1.31	\$1.26	30%	5 years	Nil	5.34%

Modification of terms of share-based payment transactions

Options (series no. 9) that were issued to T.S. Churcher, H.L. Dusseljee, R.J. Hanson and G.F. Johansen during the financial year increased in value as a result of the 3:5 Rights Issue on 8 November 2005. Each affected key management personnel member held 520,000 options before and after the 3:5 Rights Issue. The exercise price decreased from \$1.39 to \$1.26 as a result of the 3:5 Rights Issue. The first tranche of options had 1,284 days, second tranche 1,649 days and third tranche 2,014 days to their respective expiry dates at the time of the 3:5 Rights Issue and the share price was \$1.04 at the date of the 3:5 Rights Issue. The total fair value of options held by each increased from \$167,301 to \$187,061 as a result of the 3:5 Rights Issue.

DIRECTORS' REPORT *continued*

Remuneration Report *continued*

Options (series no. 8) that were issued to R.B. Davis during the 2005 financial year increased in value as a result of the 3:5 Rights Issue on 8 November 2005. Mr Davis held 650,000 options before and after the 3:5 Rights Issue. The exercise price decreased from \$0.90 to \$0.77 as a result of the 3:5 Rights Issue. The options had 1,822 days to expire at the time of the 3:5 Rights Issue and the share price was \$1.04 at the date of the 3:5 Rights Issue. The total fair value of the options held by Mr Davis increased from \$379,600 to \$421,850 as a result of the 3:5 Rights Issue. These options lapsed as a consequence of Mr. Davis's resignation on 1 February 2006.

The Black Scholes model input details for the incremental fair value calculations are shown in the following table:

Option series	3:5 Rights Issue date share price	Exercise price	Expected volatility	Average Option life remaining	Dividend yield	Risk-free interest rate	Fair value increment
8	\$1.04	\$0.77	30%	5 years	Nil	5.26%	6.5 cents
9	\$1.04	\$1.26	30%	4.7 years	Nil	5.26%	3.8 cents

Value of options issued to directors and executives

The following table discloses the value of options granted, exercised or lapsed during the year.

	Options Granted	Options Exercised	Options Lapsed	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options
	Value at grant date	Value at exercise date	Value at time of lapse			
	\$	\$	\$	\$	\$	%
Directors						
M P.L. McCarthy	-	-	-	-	-	-
Mr R.B. Davis	-	-	1,219,000	1,219,000	(82,506)	-
Mr A.D. Buerger	331,706	-	-	331,706	179,876	28.1
Mr. R.A. Guy	-	-	-	-	-	-
Mr R.H. Beevor	-	-	-	-	-	-
Mr. R. Woodall	-	-	Nil	Nil	-	-
Company Executives						
Mr T.S. Churcher	187,061	-	-	187,061	99,261	28.4
Mr. H.L. Dusseljee	187,061	8,027	-	195,088	99,261	22.5
Mr. R.J. Hanson	187,061	-	-	187,061	99,261	22.4
Mr. G.F. Johansen	187,061	8,027	Nil	195,088	99,261	23.3

The total value of options granted, exercised and lapsed is calculated based on the following:

- Fair value of the option at grant date multiplied by the number of options granted during the year; plus
- Fair value of the option at the time it its exercised multiplied by the number of options exercised during the year; plus
- Fair value of the option at the time of lapse multiplied by the number of options lapsed during the year. The options granted to Mr R. Woodall and Mr G.F. Johansen that lapsed during 2006 were exercisable at a higher price than the share price on the day that the shares lapsed. As a result a nil value is recorded at the time the options lapsed.

DIRECTORS' REPORT *continued*

Remuneration Report *continued*

The total value of options included in remuneration for the year is determined in accordance with Accounting Standard AASB 2 'Share Based Payments'. The Standard requires the value of the options to be determined at grant date and to be included in remuneration on a proportionate basis over the vesting period.

Signed in accordance with a resolution of directors made pursuant to Section 298(2) of the Corporations Act 2001.



P.L. McCarthy
Chairman



A.D. Buerger
Managing Director & Chief Executive
Officer

Bendigo, 24 August 2006.

AUDITOR'S INDEPENDENCE DECLARATION

24 August 2006

The Board of Directors
Bendigo Mining Limited
66 Ham Street
Kangaroo Flat
VIC 3555

Dear Board Members

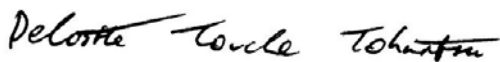
Bendigo Mining Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Bendigo Mining Limited.

As lead audit partner for the audit of the financial statements of Bendigo Mining Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Ian Sanders
Partner

BENDIGO MINING LIMITED

BALANCE SHEET

AS AT 30 JUNE 2006

	Note	2006 \$'000	2005 \$'000
CURRENT ASSETS			
Cash	2	96,880	89,599
Receivables	3	5,201	1,469
Other financial assets	4	71	-
Inventories	5	1,494	305
Other	6	228	113
TOTAL CURRENT ASSETS		103,874	91,486
NON CURRENT ASSETS			
Other financial assets	4	2,440	1,335
Property, mine development and plant & equipment	7	147,862	26,834
Deferred tax assets	20	48,630	42,421
TOTAL NON CURRENT ASSETS		198,932	70,590
TOTAL ASSETS		302,806	162,076
CURRENT LIABILITIES			
Payables	8	23,715	8,464
Provisions	9	1,344	653
TOTAL CURRENT LIABILITIES		25,059	9,117
NON CURRENT LIABILITIES			
Provisions	10	2,410	1,249
TOTAL NON CURRENT LIABILITIES		2,410	1,249
TOTAL LIABILITIES		27,469	10,366
NET ASSETS		275,337	151,710
EQUITY			
Issued capital	12	368,272	232,640
Share option reserve	14	1,064	82
Accumulated losses	15	(93,999)	(81,012)
TOTAL EQUITY		275,337	151,710

Notes to the financial statements are included on pages 29 to 60.

BENDIGO MINING LIMITED

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Note	2006 \$'000	2005 \$'000
Interest revenue		7,507	5,340
Other revenue from ordinary activities		570	91
Exploration expenses	17	(3,494)	(2,888)
Mining expenses	17	(16,610)	(7,303)
Corporate & administration expenses		(5,214)	(3,572)
Loss before income tax expense	16	(17,241)	(8,332)
Income tax benefit	20	4,254	4,297
Net loss for the period		(12,987)	(4,035)
Basic and Diluted Loss Per Share – (cents per share)	21	(3.5)	(1.7)

Notes to the financial statements are included on pages 29 to 60.

BENDIGO MINING LIMITED
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 \$'000	2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and other revenue received		7,844	5,139
Payments to suppliers and employees		(22,924)	(11,902)
Net cash used in operating activities	19	<u>(15,080)</u>	<u>(6,763)</u>
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment		(111,339)	(18,140)
Proceeds from sale of property, mine development and plant & equipment		23	89
Net cash used in investing activities		<u>(111,316)</u>	<u>(18,051)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		140,193	115,004
Capital raising expenses		(6,516)	(7,068)
Net cash provided by financing activities		<u>133,677</u>	<u>107,936</u>
Net increase in cash held		7,281	83,122
Cash at the beginning of the Financial Year		89,599	6,477
Cash at the end of the Financial Year	2	<u>96,880</u>	<u>89,599</u>

Notes to the financial statements are included on pages 29 to 60.

BENDIGO MINING LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Share Capital \$'000	Share Option Reserve \$'000	Accumulated Losses \$'000	Total \$'000
Balance At 30 June 2005 brought forward		232,640	82	(81,012)	151,710
<u>Changes in Equity</u>					
Transaction costs incurred on issuance of shares	12	(6,516)	-	-	(6,516)
Tax on items taken directly to or transferred from equity	20	1,955	-	-	1,955
Net income recognised directly in equity		(4,561)	-	-	(4,561)
Loss for the period	15	-	-	(12,987)	(12,987)
Total recognised income and expense for the period		(4,561)	-	(12,987)	(17,548)
Issue of share capital	12	140,193	-	-	140,193
Share option expense	14	-	982	-	982
Balance At 30 June 2006		368,272	1,064	(93,999)	275,337

	Note	Share Capital \$'000	Share Option Reserve \$'000	Accumulated Losses \$'000	Total \$'000
Balance At 30 June 2004 brought forward		123,077	-	(76,977)	46,100
<u>Changes in Equity</u>					
Transaction costs incurred on issuance of shares	12	(7,068)	-	-	(7,068)
Tax on items taken directly to or transferred from equity	20	1,627	-	-	1,627
Net income recognised directly in equity		(5,441)	-	-	(5,441)
Loss for the period	15	-	-	(4,035)	(4,035)
Total recognised income and expense for the period		(5,441)	-	(4,035)	(9,476)
Issue of share capital	12	115,004	-	-	115,004
Share option expense	14	-	82	-	82
Balance At 30 June 2005		232,640	82	(81,012)	151,710

Notes to the financial statements are included on pages 29 to 60.

BENDIGO MINING LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1 STATEMENT OF ACCOUNTING POLICIES

Statement of compliance

The financial report is a general purpose financial report of the Company which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 24 August 2006.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Company changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standards AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to A-IFRS has affected the Companies financial position, financial performance and cash flows is discussed in note 26.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in note 26), the Company's date of transition.

The directors have also elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 119 'Employee Benefits' (December 2004), even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

BENDIGO MINING LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1 STATEMENT OF ACCOUNTING POLICIES *continued*

Significant Accounting Policies

- (a) **Cash** - Cash includes cash on hand and in banks and investments in money market instruments. Money market instruments comprise short term bank deposits, semi promissory notes, bank bills, Commonwealth and State Government securities which have a maturity profile of less than 90 days after balance date. The money market instruments are recorded at cost and interest is brought to account on an accrual basis.
- (b) **Other financial assets** – The Company has financial investments in the form of Commonwealth and State Government instruments that are usually short dated and held to maturity in the normal course of business. The investments are recorded at amortised cost.
- (c) **Exploration and Evaluation Expenditure** - Costs arising from exploration and evaluation related to an area of interest outside the area containing the Company's Inferred Resource are written off as exploration expenditure when incurred pursuant to AASB 6.

The costs of successful ore delineation work within the area containing the Inferred Resource is classified as mine development (refer note 1d). The cost of unsuccessful ore delineation work within the area containing the Inferred Resource is written off as exploration expenditure.

- (d) **Mine development** - The costs of successful ore delineation and access and capital development are classified as mine development. Costs arising from mine development are capitalised as incurred and are depreciated according to the accounting policy. Any remaining value for drives that support areas of interest that have been mined out or are barren will be written off when the mined-out or barren status is confirmed. This policy was introduced during the 2004/05 financial year after the Company decided to commence construction and mine development activities.
- (e) **Property, Plant and equipment** – Property, plant and equipment are stated at cost less accumulated depreciation and impairment. The cost of the assets includes the net present value of expected future costs of decommissioning, restoration and rehabilitation.
- (f) **Life of operations** – The directors regularly review the estimated economic life of the operations considering both the physical and economic factors relating to the target material that is planned to be mined and make adjustments to the estimates as required. The life of the mine has been established on the basis of target material that is considered economical to recover and takes account of current mine development and production plans for the exploitation of the target material. A number of assumptions regarding the availability of target material for mining, capital and operating costs, gold prices, income tax rates and other production and economic factors underlie the production plans and changes in these factors may impact upon the life of operations. The maximum life of mine for accounting purposes is 25 years.

BENDIGO MINING LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1 STATEMENT OF ACCOUNTING POLICIES *continued*

- (g) **Depreciation** - Depreciation is provided on all property, mine development, plant and equipment, with the exception of freehold land, so as to write off the value of the assets over their estimated useful lives. Mine development costs will be written off in proportion to the ounces of gold recovered from the area of interest that the mine development supports, or in proportion to the ounces of gold recovered from the entire mine if the mine development is useful for the life of the mine. Items of plant and equipment that are considered to have a useful life that equates to the mine life will be written off on an ounce recovered basis if they are used in the mine, or a tonne produced basis if they are used in the processing plant. Other plant and equipment with estimated useful lives of between 1 and 15 years are written off using the straight-line method. Buildings are written off using the straight-line method over their estimated useful lives. The estimated useful lives, residual value and depreciation methods are reviewed at the end of each reporting period.
- (h) **Impairment of assets** – At the end of each reporting period the Company reviews assets with the objective to ensure that the assets are carried at no more than their recoverable amount. The recoverable amount of an asset or cash generating unit ('CGU') is defined as the higher of its fair value less costs to sell and its value in use. The directors have determined that the area of interest relating to the Bendigo Gold Project constitutes one CGU and consequently all the assets in that CGU are tested collectively for impairment. The Company assess the 'fair value less costs to sell' test by discounting expected future cash flows to arrive at a net present valuation for the project. If the recoverable amount of the CGU is estimated to be less than its carrying value, the carrying value of the CGU will be reduced to its recoverable amount. An impairment loss will be recognised in profit or loss immediately.
- (i) **Rehabilitation Provision** - The net present value of the expected future cost of restoration works is provided for at the time the Company performs activities that necessitate rehabilitation works. If the rehabilitation is associated with exploration and evaluation activities the expected costs are expensed and, if the works are associated with mine development activities, the expected costs are added to the asset value and depreciated.

The rehabilitation provision will be remeasured at each reporting period to take account of changes in the time value of money (recognised as an expense in the income statement and an increase in provision), and additional disturbances or changes in rehabilitation costs for mine development will be recognised as additions or changes to the corresponding asset and rehabilitation liability. Changes in rehabilitation costs for exploration and evaluation will be expensed.

Long dated Government fixed coupon rates are used to discount the projected expenditure back to a net present value.

- (j) **Payables** - Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

BENDIGO MINING LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1 STATEMENT OF ACCOUNTING POLICIES *continued*

(k) **Income Tax –**

Current tax – is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable)

Deferred tax – is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities, which effect neither the taxable income or accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period – is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

- (l) **Segment Accounting** - The Company operates within the gold mining industry in Australia.
- (m) **Share based payments** - Equity-settled share-based payments granted after 7 November 2002 are measured at fair value at the date of grant. Fair value is measured by use of the Black Scholes option pricing model taking into account the terms and conditions of the equity-settled share-based payments. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period.

BENDIGO MINING LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1 STATEMENT OF ACCOUNTING POLICIES *continued*

- (n) **Goods and Services Tax** - Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:
- i) Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
 - ii) For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from the taxation authority is included as part of receivables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

- (o) **Employee Benefits** - Provision is made for benefits accruing to employees in respect of annual and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to reporting date.

- (p) **Transaction Costs on the Issue of Equity Instruments** - Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.
- (q) **Receivables** - Receivables are recorded at amortised cost less impairment.
- (r) **Revenue Recognition –**
- i) Interest Revenue – Interest from investments is recognised on an accrual basis.
 - ii) Gold Sales – Revenue from the sale of gold is recognised when the control and title has passed from the Company and the amount of revenue can be measured reliably.
- (s) **Inventory –**
- i) Gold in ore stockpiles, in the process of being recovered, or in unsold doré bars are valued at the lower of cost and net realisable value, provided that the amount of gold can be physically measured or reliably estimated.
 - ii) Costs for consumables and spare parts are valued at the lower of cost and net realisable value on a first in first out basis.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

2 CASH

	2006 \$'000	2005 \$'000
Cash at bank	47	116
Bank term deposits	15,645	4,966
Commonwealth and State Government securities	81,188	84,517
	96,880	89,599

Semi promissory notes, bank bills and Commonwealth and State Government securities have been purchased to yield interest at rates ranging from 5.53% to 5.91% with a weighted average interest rate of 5.72% (2005: 5.50%). Because of the nature of the investments and the maturity profile, the Company's exposure to interest rate risk is considered to be low.

The investment profile provides access to funds to meet cash drawdown requirements and it is anticipated that each of the instruments will be held to maturity at which time their face value will be realised. The net fair value approximates the carrying value of these instruments.

3 CURRENT RECEIVABLES

Accounts receivable	4,649	1,149
Interest receivable	552	320
	5,201	1,469

4 OTHER FINANCIAL ASSETS

Bank Term Deposits – Current Asset	71	-
Bank Term Deposits – Non Current Asset	2,440	1,335
	2,511	1,335

Current Asset - a Bank Term Deposit to the value of \$71,000 (2005: \$0) has been lodged as security for the Company's obligations to meet retention payments to William Adams Pty Ltd for the purchase of underground equipment.

Non-Current Asset - Bank Term Deposits to the value of \$2,440,000 (2005: \$1,335,000) have been lodged as security for certain commitments of the Company to the Department of Primary Industries, Vic Roads and The Bendigo Trust (see notes 10 & 23).

5 CURRENT INVENTORIES

Stores of consumables and spare parts	1,494	305
	1,494	305

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

6 OTHER CURRENT ASSETS

	2006 \$'000	2005 \$'000
Prepayments	228	113
	228	113

7 PROPERTY, MINE DEVELOPMENT AND PLANT & EQUIPMENT (AT COST)

2006	Land & buildings \$'000	Plant & equipment \$'000	Mine development \$'000	Work in progress (1) \$'000	Total \$'000
Gross Carrying Amount					
Balance at 30 June 2005	2,480	8,711	10,908	9,104	31,203
Additions	-	-	-	124,937	124,937
Transfers	3,089	19,980	42,205	(65,274)	-
Disposals	(180)	(117)	-	-	(297)
Balance at 30 June 2006	5,389	28,574	53,113	68,767	155,843
Accumulated Depreciation					
Balance at 30 June 2005	(59)	(4,256)	(54)	-	(4,369)
Disposals	17	112	-	-	129
Depreciation expense	(134)	(1,535)	(2,071)	-	(3,740)
Balance at 30 June 2006	(176)	(5,680)	(2,125)	-	(7,981)
Net Book Value					
As at 30 June 2005	2,421	4,455	10,854	9,104	26,834
As at 30 June 2006	5,213	22,894	50,988	68,767	147,862

(1) Work in progress as at 30 June 2006 relates to the 600,000 t/y processing mill and various mine development items.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

7 PROPERTY, MINE DEVELOPMENT AND PLANT & EQUIPMENT (AT COST) *continued*

2005	Land & buildings \$'000	Plant & equipment \$'000	Mine development \$'000	Work in progress (1) \$'000	Total \$'000
Gross Carrying Amount					
Balance at 30 June 2004	2,226	6,651	-	-	8,877
Additions	-	-	-	22,564	22,564
Transfers	254	2,298	10,908	(13,460)	-
Disposals	-	(238)	-	-	(238)
Balance at 30 June 2005	2,480	8,711	10,908	9,104	31,203
Accumulated Depreciation					
Balance at 30 June 2004	(27)	(4,033)	-	-	(4,060)
Disposals	-	238	-	-	238
Depreciation expense	(32)	(461)	(54)	-	(547)
Balance at 30 June 2005	(59)	(4,256)	(54)	-	(4,369)
Net Book Value					
As at 30 June 2004	2,199	2,618	-	-	4,817
As at 30 June 2005	2,421	4,455	10,854	9,104	26,834

(1) Work in progress as at 30 June 2005 relates to Woodvale Evaporation Pond improvements, the 600,000 t/y processing mill and underground development.

	2006 \$'000	2005 \$'000
Aggregate depreciation allocated as an expense during the year:		
Land and Buildings	134	32
Plant and Equipment	1,535	461
Mine Development	2,071	54
	3,740	547

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

8 CURRENT PAYABLES

	2006 \$'000	2005 \$'000
Unsecured Trade Creditors	23,715	8,464

The Company's payment policy and system ensures that all creditors are paid within payment terms, and consequently no discounts or penalty payments arise.

9 CURRENT PROVISIONS

Employee Benefits – Annual Leave	1,074	565
- Long Service Leave	270	88
	1,344	653

10 NON CURRENT PROVISIONS

Employee Benefits – Long Service Leave	18	83
Provision for Rehabilitation	2,392	1,166
	2,410	1,249

During 2006 the Rehabilitation Provision increased as a result of surface earthwork activities associated with the Kangaroo Flat site and a re-assessment of current costs to undertake the required rehabilitation work.

Bank guarantees totalling \$2,415,000 have been lodged in favour of the Department of Primary Industries for the rehabilitation obligations that the Company has on the licences. The Company has lodged term deposits of \$2,415,000 as security for these bank guarantees.

11 PROVISIONS

	Employee benefits \$'000	Rehabilitation \$'000	Total \$'000
Balance at 30 June 2005	736	1,166	1,902
Additional provisions recognised	1,076	1,366	2,442
Unwinding of discount and effect of changes in the discount rate	-	(140)	(140)
Payments made	(450)	-	(450)
Balance at 30 June 2006	1,362	2,392	3,754
Current (note 9)	1,344	-	1,344
Non-current (note 10)	18	2,392	2,410
Balance at 30 June 2006	1,362	2,392	3,754

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

12 ISSUED CAPITAL

	2006 Shares	2005 Shares
Issued Shares – fully paid ordinary shares	425,290,255	252,925,477
	2006 \$'000	2005 \$'000
Issued Share Capital	368,272	232,640

During the financial year the Company issued the following fully paid Ordinary Shares:

	Number of ordinary shares	Issue price per ordinary share	Reason
i)	151,755,287	\$0.80	\$121.4M 3:5 retail entitlement issue
ii)	20,564,488	\$0.91	\$18.7M global institutional placement
iii)	45,003	\$1.67	Share issues as per 1998 share option plan
	172,364,778		

Movement for the year:	2006 Shares	2006 \$'000	2005 Shares	2005 \$'000
Balance at beginning of year	252,925,477	232,640	93,197,699	123,077
Ordinary Share Issues	172,364,778	135,632 (1)	159,727,778	109,563 (2)
Balance at end of year	425,290,255	368,272	252,925,477	232,640

(1) The funds raised from ordinary share issues during 2006 were reduced by capital raising expenses of \$6,516,000 (\$4,561,000 net of Deferred Tax adjustments).

(2) The funds raised from ordinary share issues during 2005 were reduced by capital raising expenses of \$7,068,000 (\$5,441,000 net of Deferred Tax adjustments).

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share Options

As at the end of the financial year the Company had 6,483,002 options on issue to directors, executive officers and employees for the purchase of ordinary shares. Further details of the employee share option plan are contained in note 13. All options carry no rights to dividends and no voting rights.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

13 EMPLOYEE SHARE OPTION PLANS

Options have been issued pursuant to Bendigo Mining Share Option Plans and other specific issues as approved by shareholders. The options have been used to provide an incentive to certain employees (including the Managing Director) to enhance the value of the shares in the Company. The plans assist in the reward, motivation and retention of those employees. Other than tenure, there are no performance conditions or hurdles to allow the options to vest.

The following share-based payment arrangements were in existence during the period:

Option series	Number	Grant date	Expiry date	Exercise price	Average Fair value at grant date
2	42,171	30/7/99	29/7/05	\$1.10	\$0.05
3	8,335	1/3/00	28/2/06	\$1.92	\$0.11
4	96,017	29/6/00	28/6/06	\$1.67	\$0.10
5	8,001	5/9/00	4/9/06	\$2.22	\$0.10
6	40,000	19/12/01	19/12/05	\$2.37	\$0.07
8	650,000	5/11/04	8/11/10	\$0.77	\$0.58
9	4,708,000	10/10/05	25/7/11	\$1.26	\$0.32
10	690,000	24/11/05	25/7/11	\$1.26	\$0.48
11	1,419,000	28/5/06	27/4/12	\$2.81	\$0.47

Option Series Notes

Option Series (1): These options lapsed during the 2004 financial year.

Option Series (2): These options vested in three equal portions on 30 July 2000, 30 July 2001 and 30 July 2002 and were exercisable during each three-year period following vesting. The options were exercisable at the price of 11 cents per share but became exercisable at \$1.10 per share as a result of the 1:10 share consolidation on 6 May 2004. At the grant date, 30 July 1999, the share price was 9.0 cents and the value of the options at that date was estimated at 5.1 cents.

Option Series (3): These options vested in three equal portions on 1 March 2001, 1 March 2002 and 1 March 2003, and were exercisable during each three-year period following vesting. The options were exercisable at the price of 20.5 cents per share but the exercise price was adjusted to \$2.05 per share as a result of the 1:10 share consolidation on 6 May 2004. The exercise price of the options was reduced by 13 cents to \$1.92 as a result of the 3:5 Rights Issue in November 2005. At the grant date, 1 March 2000, the share price was 16.6 cents and the average value of the options at that date was estimated at 11.2 cents.

Option Series (4): These options vested in three equal portions on 29 June 2001, 29 June 2002 and 29 June 2003, and were exercisable during each three-year period following vesting. The options were exercisable at the price of 18 cents per share but the exercise price was adjusted to \$1.80 per share as a result of the 1:10 share consolidation on 6 May 2004. The exercise price of the options was reduced by 13 cents to \$1.67 as a result of the 3:5 Rights Issue in November 2005. At the grant date, 29 June 2000, the share price was 14.5 cents and the average value of the options at that date was estimated at 10.2 cents.

13 EMPLOYEE SHARE OPTION PLANS *continued*

Option Series (5): These options vested in three equal portions on 5 September 2001, 5 September 2002 and 5 September 2003, and may be exercised during each three-year period following vesting. The options were exercisable at the price of 23.5 cents per share but the exercise price was adjusted to \$2.35 per share as a result of the 1:10 share consolidation on 6 May 2004. The exercise price of the options was reduced by 13 cents to \$2.22 as a result of the 3:5 Rights Issue in November 2005. At the grant date, 5 September 2000, the share price was 18 cents and the average value of the options at that date was estimated at 9.5 cents.

Option Series (6): These options vested in full on 19 December 2002 and were exercisable during the three-year period following vesting. The options were exercisable at the price of 25 cents per share but the exercise price was adjusted to \$2.50 per share as a result of the 1:10 share consolidation on 6 May 2004. The exercise price of the options was reduced by 13 cents to \$2.37 as a result of the 3:5 Rights Issue in November 2005. At the grant date, 19 December 2001, the share price was 16.5 cents and the average value of the options at that date was estimated at 7.1 cents.

Option Series (7): These options lapsed during the 2004 financial year.

Option Series (8): These options were to vest in full on 8 November 2007 and would have been exercisable during the three-year period following vesting. The options were exercisable at the price of 90 cents per share. The exercise price of the options were reduced by 13 cents to 77 cents as a result of the 3:5 Rights Issue in November 2005. At the grant date, 5 November 2004, the share price was \$1.15 and the value of the options at that date was estimated at 58 cents. The value of the options were increased by 6.5 cents as a result of the 3:5 Rights Issue in November 2005. These options lapsed on 31 January 2006 as a result of the resignation of Mr R.B. Davis.

Option Series (9): These options vest in three equal portions on 26 July 2006, 26 July 2007 and 26 July 2008 and may be exercised during the three-year period following each vesting date at the price of \$1.39 per share. The exercise price of the options was set at the volume weighted average market price per share traded during the first ten trading days in July 2005, plus 30%. At the grant date, 10 October 2005, the share price was \$1.14 and the average value of the options at that date has been estimated at 32 cents. The exercise price of the options were reduced by 13 cents to \$1.26 as a result of the 3:5 Rights Issue in November 2005. The value of the options were increased by 4 cents to an average of 36 cents as a result of the 3:5 Rights Issue. (26 July 2006 vesting options being 31 cents, 26 July 2007 vesting options being 36 cents and 26 July 2008 options being 42 cents)

Option Series (10): These options vest on 26 July 2006, 26 July 2007 and 26 July 2008 and may be exercised during the three-year period following each vesting date at the price of \$1.26 per share. The exercise price of the options was set equal to the exercise price of option series number 9. At the grant date, 24 November 2005, the share price was \$1.31 and the average value of the options at that date has been estimated at 48 cents. (26 July 2006 vesting options being 42 cents, 26 July 2007 vesting options being 48 cents and 26 July 2008 options being 54 cents)

Option Series (11): These options vest on 28 April 2007, 28 April 2008 and 28 April 2009 and may be exercised during the three-year period following each vesting date at the price of \$2.81 per share. The exercise price of these options was set at the volume weighted average market price per share traded during the last ten trading days in March 2006, plus 30%. At the grant date, 24 May 2006, the share price was \$2.16 and the average value of the options at that date has been estimated at 47 cents. (28 April 2007 vesting options being 38 cents, 28 April 2008 vesting options being 47 cents and 28 April 2009 options being 56 cents)

BENDIGO MINING LIMITED
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13 EMPLOYEE SHARE OPTION PLANS *continued*

Fair value calculations

The weighted average fair value of the share options granted during the financial year is \$0.39 (2005: \$0.58). Options were priced using the Black Scholes option pricing model. The option life is the number of days from the grant date to the option expiry date. An estimate of the expected number of options to vest during the three year vesting period has been made and will be adjusted in future reporting periods to equal the number of options that ultimately vest. A volatility of 30% has been utilised in all fair value calculations. It was deemed inappropriate to use past share price volatility to establish future share price volatility because of the history of various exploration phases and fundraising impacts on the company's share price. It is expected that share price volatility will lessen as the company establishes a history of operational performance commencing in the 2007 financial year.

The Black Scholes model input details for the option series that were included in the option expense during the 2005 and 2006 financial years are shown in the following table:

Option series	Grant date share price	Exercise price	Expected volatility	Average Option life	Dividend yield	Risk-free interest rate
8	\$1.15	\$0.77	30%	6 years	Nil	5.76%
9	\$1.14	\$1.26	30%	5 years	Nil	5.36%
10	\$1.31	\$1.26	30%	5 years	Nil	5.34%
11	\$2.16	\$2.81	30%	5 years	Nil	5.86%

Information on how incremental fair value granted was calculated

The exercise price of options that were included in the option expense during the 2005 and 2006 financial years were reduced by 13 cents, as a result of the 3:5 Rights Issue on 8 November 2005. The incremental fair value as a result of the 3:5 Rights Issue was increased for option series number 8 by 6.5 cents and 3.8 cents for options series number 9. The Black Scholes model input details for the incremental fair value calculations are shown in the following table:

Option series	3:5 Rights Issue date share price	Exercise price	Expected volatility	Average Option life remaining	Dividend yield	Risk-free interest rate	Fair value increment
8	\$1.04	\$0.77	30%	5 years	Nil	5.26%	6.5 cents
9	\$1.04	\$1.26	30%	4.7 years	Nil	5.26%	3.8 cents

Recognition of share option expense

The total value of options included in remuneration for the year is calculated in accordance with Accounting Standard AASB 2 'Share-based Payment'. The Standard requires the value of the options to be determined at grant date and to be recognised as an expense in the income statement over the vesting period, consequently a share option expense of \$982,000 was incurred during the 2006 financial year, (\$2005: \$82,000)

BENDIGO MINING LIMITED
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13 EMPLOYEE SHARE OPTION PLANS *continued*

Reconciliation of outstanding share options

The following reconciles the outstanding share options granted under the Bendigo Mining Share Option Plans at the beginning and end of the financial year:

Employee Share Options	2006	2006	2005	2005
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of the financial year	844,524	\$0.93	404,177	\$1.66
Granted during the financial year	6,817,000	\$1.58	650,000	\$0.90
Exercised during the financial year (a)	(45,003)	\$1.67	-	-
Lapsed during the financial year	(1,133,519)	\$1.05	(209,653)	\$1.50
Balance at the end of the financial year (b)	6,483,002	\$1.60	844,524	\$0.93
Exercisable at the end of the financial year	4,002	\$2.22	194,524	\$1.83

(a) **Exercised During the Financial Year**

Option series	No. of options exercised	Exercise date	Share price at exercise date
2006			
4	25,334	24/4/06	\$2.36
4	14,501	28/4/06	\$2.34
4	3,334	1/6/06	\$2.08
4	1,834	28/6/06	\$1.80
	45,003		
2005			
	Nil		

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

13 EMPLOYEE SHARE OPTION PLANS *continued*

(b) Balance at End of Financial Year

Option series	Exercise price	Remaining Weighted average exercise period
5	\$2.22	66 days
9	\$1.26	1,486 days
10	\$1.26	1,486 days
11	\$2.81	1,762 days

Share options carry no rights to dividends and no voting rights.

14 SHARE OPTION RESERVE

	2006 \$'000	2005 \$'000
Balance at beginning of financial year	82	-
Share option expense	982	82
Balance at end of financial year	1,064	82

The share option expense incurred during the 2005 and 2006 financial years relates to the fair value of share options as determined at grant date and expensed over the vesting period (refer to note 13).

15 ACCUMULATED LOSSES

	2006 \$'000	2005 \$'000
Balance at beginning of financial year	81,012	76,977
Net loss	12,987	4,035
Balance at end of financial year	93,999	81,012

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

16 LOSS FROM ORDINARY ACTIVITIES

Loss from Ordinary Activities before Income Tax Expense includes the following items of Revenue and Expense:

	2006 \$'000	2005 \$'000
(a) Operating Revenue		
Interest received	7,507	5,340
Gold sales	-	38
Other	570	53
Revenue sub total	8,077	5,431
Gold sales resulted from the bulk sampling and trial ore processing that occurred during the 2004 financial year.		
(b) Sale of Assets		
Sale of assets in the ordinary course of business has given rise to the following profit/(loss):		
Profit/(loss) on sale of property, plant & equipment	(142)	89
(c) Expenses		
Depreciation expense	3,740	547
Employee Benefits		
Post employment employee benefits:		
Superannuation contributions	549	526
Transfer to provision for employee entitlements:		
Annual leave	453	309
Long service leave	117	81
Salary and wages and other employee benefits	4,283	3,773
Total Employee Benefits	5,402	4,689

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

17 EXPENSES

Exploration expenses:

	2006 \$'000	2005 \$'000
Until the end of the 2004 financial year the Company was in an exploration phase and pursuant to the Company's accounting policy all costs arising from exploration and evaluation of the target area were expensed (refer to note 1c). Any costs arising from exploration and evaluation related to an area of interest outside the area containing the Company's Inferred Resource are written off as incurred pursuant to AASB 6.	Nil	Nil
Work that successfully defines the location and dimensions of the mineralisation within the area of the Company's Inferred Resource is treated as mine development and capitalised (refer note 1d). The cost of unsuccessful ore delineation work within the area containing the Company's Inferred Resource is written off as exploration expenditure.	3,494	2,888
Total	3,494	2,888

Mining expenses:

Mining expenses include pre-production expenses and costs of operating the underground mine which includes the operating costs of activities such as dewatering, ventilation, mining services, power consumption, supervision and associated services.

18 REMUNERATION OF AUDITORS

	2006 \$	2005 \$
Audit or review of the financial reports	90,300	57,000
Other non-audit services – Investigating Accountants Report for prospectus	47,071	-
	137,371	57,000

The auditor of Bendigo Mining Limited is Deloitte Touche Tohmatsu.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

19 NOTES TO THE STATEMENT OF CASH FLOWS

	2006 \$'000	2005 \$'000
(a) Reconciliation of Loss after Income tax to Net Cash provided for Operating Activities		
Loss after income tax	(12,987)	(4,035)
Depreciation	3,740	547
Option expense	982	82
(Profit)/loss on sale of non current assets	142	(89)
(Increase)/decrease in asset:		
Receivables	(3,732)	(1,063)
Other Financial Assets	(1,176)	(385)
Inventories	(1,189)	(305)
Deferred Tax Asset	(4,254)	(4,297)
Other	(115)	23
Increase/(decrease) in liabilities:		
Trade creditors	1,657	2,049
Provisions	1,852	710
Net cash used in operating activities	(15,080)	(6,763)

(b) Non – cash financing and investing activities

No non-cash financing and investing transactions occurred during the 2006 or 2005 financial years.

BENDIGO MINING LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

20 INCOME TAX

a) The prima facie income tax expense on pre-tax accounting losses is reconciled to the income tax expense in the financial statements as follows:

	2006 \$'000	2005 \$'000
Income tax recognised in loss		
Loss from Ordinary Activities	(17,241)	(8,332)
Income tax benefit calculated at 30% of loss from Ordinary Activities	(5,172)	(2,500)
Non deductible items	777	51
Unused tax losses not recognised as deferred tax assets	87	-
Research and development allowance	(216)	(124)
Over / (Under) provision in previous year	270	(1,724)
Income tax benefit recognised in loss	<u>(4,254)</u>	<u>(4,297)</u>
Income tax benefit for the year comprises:		
Current tax benefit	8,093	4,897
Deferred tax expense (see note 20 b)	(3,839)	(600)
	<u>4,254</u>	<u>4,297</u>
Income tax recognised directly in equity		
Tax on transaction costs incurred on issuance of shares	(1,955)	(1,627)
	<u>(1,955)</u>	<u>(1,627)</u>
Deferred tax balance		
Tax losses – revenue	49,856	40,878
Temporary differences	(1,225)	1,543
	<u>48,630</u>	<u>42,421</u>

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

20 INCOME TAX *continued*

b) Taxable and deductible temporary differences arise from the following:

2006	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance \$'000
Gross deferred tax liabilities:				
Property, plant & equipment	(1,500)	(3,309)	-	(4,809)
Inventories	-	(448)	-	(448)
Interest	-	(166)	-	(166)
	(1,500)	(3,923)		(5,423)
Gross deferred tax assets:				
Fundraising indirect costs	708	(473)	-	235
Provisions	570	557	-	1,127
Fundraising direct costs	1,765	-	1,071	2,836
	3,043	84	1,071	4,198
Net deferred tax asset /(liability)	1,543	(3,839)	1,071	(1,225)
2005				
	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance \$'000
Gross deferred tax liabilities:				
Property, plant & equipment	(468)	(1,032)	-	(1,500)
	(468)	(1,032)	-	(1,500)
Gross deferred tax assets:				
Fundraising indirect costs	488	220	-	708
Provisions	358	212	-	570
Fundraising direct costs	139	-	1,626	1,765
	985	432	1,626	3,043
Net deferred tax asset	517	(600)	1,626	1,543

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

21 EARNINGS PER SHARE

	2006	2005
Basic and Diluted loss per share	(3.5 cents)	(1.7 cents)

As a loss occurred in both financial years, any potential dilutive shares cannot further dilute loss per share.

Basic and Diluted Loss per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:

	2006 \$'000	2005 \$'000
Net Loss	(12,987)	(4,035)

	2006 No.	2005 No.
Weighted average number of ordinary shares	373,170,822	243,460,743

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted loss per share:

Options	7,274,522	404,177
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No options were exercised after the end of the financial year.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

22 COMMITMENTS FOR EXPENDITURE

	2006 \$'000	2005 \$'000
(a) Operating expenditure		
Not later than 1 year	510	483
Later than 1 year but not later than 5 years	-	-
Later than 5 years	-	-
	510	483
(b) Capital expenditure		
Not later than 1 year	14,806	11,113
Later than 1 year but not later than 5 years	-	-
Later than 5 years	-	-
	14,806	11,113

(c) Royalty

Bendigo Mining Limited has an agreement with Western Mining Corporation Limited (now incorporated into BHP Billiton Limited) for the payment of a royalty of no more than \$8,000,000 based on 1.75% of future gold recoveries from certain areas of the Company's mining tenements.

23 CONTINGENT LIABILITIES

Bank Guarantees

Bank guarantees totalling \$25,000 have been lodged in favour of Vic Roads and The Bendigo Trust. These guarantees are in regard to the Company's obligations on a Vic Roads pipeline agreement and use of facilities controlled by The Bendigo Trust. The Company has lodged term deposits of \$25,000 as security for these bank guarantees.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

24 RELATED PARTY DISCLOSURES

(a) Key management personnel compensation

The aggregate compensation of the key management personnel of the company is set out below:

	2006 \$	2005 \$
Short-term employee benefits	1,897,053	2,313,948
Post-employee benefits	132,310	105,074
Other long-term benefits	-	-
Termination benefits	285,000	-
Share-based payments	494,414	82,506
	2,808,777	2,501,528

The company has applied the exemption under Corporations Amendments Regulation 2006 (No.4) which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports pursuant to Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in the remuneration report section of the Directors' Report designated as audited.

(b) Ordinary shares issued by Bendigo Mining

The following tables provide details of the share holdings of related parties.

	Balance 1/7/05	Granted as compensation	Received on exercise of options	Net other change	Balance 30/6/06
2006	No.	No.	No.	No.	No.
Directors					
R.H. Beevor	175,428	-	-	105,258	280,686
A.D. Buerger	437,421	-	-	262,453	699,874
R.B. Davis	30,000	-	-	(30,000) ⁽¹⁾	-
R.A. Guy	20,000	-	-	80,000	100,000
P.L. McCarthy	20,455	-	-	12,273	32,728
R. Woodall	41,201	-	-	24,722	65,923
Executive Officers					
T.S. Churcher	20,000	-	-	(8,000)	12,000
H.L. Dusseljee	100,354	-	11,667	213	112,234
R.J. Hanson	30,000	-	-	18,000	48,000
G.F. Johansen	169,720	-	11,667	33,269	214,656
Total	1,044,579	-	23,334	558,188	1,566,101

(1) R.B. Davis resigned with effect from 1 February 2006 and is no longer a related party.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

24 RELATED PARTY DISCLOSURES *continued*

(b) Ordinary shares issued by Bendigo Mining

The following tables provide details of the share holdings of related parties.

	Balance 1/7/04	Granted as compensation	Received on exercise of options	Net other change	Balance 30/6/05
2005	No.	No.	No.	No.	No.
Directors					
R.H. Beevor	68,484	-	-	106,944	175,428
A.D. Buerger	423,533	-	-	13,888	437,421
R. B. Davis		-	-	30,000	30,000
R.A. Guy	-	-	-	20,000	20,000
P.L. McCarthy	20,455	-	-	-	20,455
R. Woodall	34,257	-	-	6,944	41,201
Executive Officers					
T.S. Churcher	-	-	-	20,000	20,000
H.L. Dusseljee	354	-	-	100,000	100,354
R.J. Hanson	30,000	-	-	-	30,000
G.F. Johansen	91,944	-	-	77,776	169,720
Total	640,416	-	-	375,552	1,044,579

(c) Share options issued by Bendigo Mining

The following tables provide details of the option holdings of related parties.

	Balance 1/7/05 No.	Granted as compensation No.	Exercised No.	Lapsed No.	Balance 30/6/06 No.	Balance vested 30/6/06 (1) No.	Vested but not exercisable No.	Vested and exercisable No.
2006								
Directors								
R.B. Davis	650,000	-	-	650,000	-	-	-	-
R.H. Beevor	-	-	-	-	-	-	-	-
A.D. Buerger	-	690,000(2)	-	-	690,000	-	-	-
R.A. Guy	-	-	-	-	-	-	-	-
P.L. McCarthy	-	-	-	-	-	-	-	-
R. Woodall	40,000	-	-	40,000	-	-	-	-
Executive Officers								
T.S. Churcher		520,000(3)	-	-	520,000	-	-	-
H.L. Dusseljee	11,667	520,000(3)	11,667(4)	-	520,000	-	-	-
R.J. Hanson	-	520,000(3)	-	-	520,000	-	-	-
G.F. Johansen	18,334	520,000(3)	11,667(4)	6,667	520,000	-	-	-
Total	720,001	2,770,000	23,334	696,667	2,770,000	-	-	-

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

24 RELATED PARTY DISCLOSURES *continued*

(c) **Share options issued by Bendigo Mining** *continued*

- (1) No options vested during the financial year for any key management personnel.
- (2) The options were issued at no cost to the recipient. Refer to note 13 Options series (10) for the details of the terms and conditions of these options that were granted during the financial year.
- (3) The options were issued at no cost to the recipient. Refer to note 13 Option series (9) for details of the terms and conditions of these options that were granted during the financial year.
- (4) During the financial year, 23,334 options (2005: nil) were exercised by key management personnel at a fully paid exercise price of \$1.67 per option for 23,334 ordinary shares in Bendigo Mining Limited.

Further details of options are provided in the Directors Report and note 13 to the financial statements.

2005	Balance 1/7/04 No.	Granted as compensation No.	Exercised No.	Lapsed No.	Balance 30/6/05 No.	Balance vested 30/6/05 No.	Vested but not exercisable No.	Vested and exercisable No.
Directors								
R.B. Davis	-	650,000	-	-	650,000	-	-	-
R.H. Beevor	-	-	-	-	-	-	-	-
A.D. Buerger	50,000	-	-	50,000	-	-	-	-
R.A. Guy	-	-	-	-	-	-	-	-
P.L. McCarthy	-	-	-	-	-	-	-	-
R. Woodall	40,000	-	-	-	40,000	40,000	-	40,000
Executives Officers								
T.S. Churcher	-	-	-	-	-	-	-	-
H.L. Dusseljee	23,334	-	-	11,667	11,667	11,667	-	11,667
R.J. Hanson	-	-	-	-	-	-	-	-
G.F. Johansen	45,000	-	-	26,666	18,334	18,334	-	18,334
Total	158,334	650,000	-	88,333	720,001	70,001	-	70,001

(d) **Other transactions with related parties**

During the financial year consultancy fees of \$22,500 (2005: \$30,000) was paid to an entity in which Mr R. Woodall has an interest. Consultancy fees are paid based on a commercial rate commensurate with the services provided.

During the financial year \$179,079 (2005: \$1,211,524) was incurred and \$17,186 (2005: \$21,445) is outstanding at the end of the financial year to AMC Consultants Pty Ltd for consultancy work. Consultancy fees are paid based on a commercial rate commensurate with the services provided. Mr P.L. McCarthy is the managing director of AMC Consultants Pty Ltd.

BENDIGO MINING LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

25 SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the Company's operations, the result of those operations or the state of affairs in subsequent financial years.

26 IMPACTS OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS)

The company changed its accounting policies on 1 July 2005 to comply with Australian Equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standards AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

An explanation of how the transition from superseded policies to A-IFRS has affected the Companies financial position, financial performance and cash flows is set out in the following tables and notes.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

26 IMPACTS OF ADOPTING A-IFRS *continued*

Balance sheet as at 1 July 2004

	Note	Superseded policies* \$'000	Effect of transition to A-IFRS \$'000	A-IFRS \$'000
CURRENT ASSETS				
Cash assets		6477	-	6,477
Receivables		406	-	406
Inventory		-	-	-
Other		136	-	136
TOTAL CURRENT ASSETS		7,019	-	7,019
NON CURRENT ASSETS				
Deferred tax asset	ii	-	36,497	36,497
Other financial assets		950	-	950
Property, mine development, plant and equipment		4,817	-	4,817
TOTAL NON CURRENT ASSETS		5,767	36,497	42,264
TOTAL ASSETS		12,786	36,497	49,283
CURRENT LIABILITIES				
Payables		1,991	-	1,991
Provisions	iv	407	(46)	361
TOTAL CURRENT LIABILITIES		2,398	(46)	2,352
NON CURRENT LIABILITES				
Provisions	v	1,690	(859)	831
TOTAL NON CURRENT LIABILITIES		1,690	(859)	831
TOTAL LIABILITIES		4,088	(905)	3,183
NET ASSETS		8,698	37,402	46,100
EQUITY				
Issued capital	ii & iii	122,938	139	123,077
Accumulated losses	vi & vii	(114,240)	37,263	(76,977)
TOTAL EQUITY		8,698	37,402	46,100

* Reported financial position for the financial Year ended 30 June 2004.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

26 IMPACTS OF ADOPTING A-IFRS *continued*

Balance sheet as at 30 June 2005

	Note	Superseded policies* \$'000	Effect of transition to A-IFRS \$'000	A-IFRS \$'000
CURRENT ASSETS				
Cash Assets		89,599	-	89,599
Receivables		1,469	-	1,469
Inventories		305	-	305
Other		113	-	113
TOTAL CURRENT ASSETS		91,486	-	91,486
NON CURRENT ASSETS				
Deferred tax asset	ii	-	42,421	42,421
Other financial assets		1,335	-	1,335
Property, mine development, plant and equipment	i	27,025	(191)	26,834
TOTAL NON CURRENT ASSETS		28,360	42,230	70,590
TOTAL ASSETS		119,846	42,230	162,076
CURRENT LIABILITIES				
Payables		8,464	-	8,464
Provisions	iv	631	22	653
TOTAL CURRENT LIABILITIES		9,095	22	9,117
NON CURRENT LIABILITIES				
Provisions	v	2,216	(967)	1,249
TOTAL NON CURRENT LIABILITIES		2,216	(967)	1,249
TOTAL LIABILITIES		11,311	(945)	10,366
NET ASSETS		108,535	43,175	151,710
EQUITY				
Contributed equity	ii & iii	230,874	1,766	232,640
Share option reserve	iii	-	82	82
Accumulated losses	vi & vii	(122,339)	41,327	(81,012)
TOTAL EQUITY		108,535	43,175	151,710

* Reported financial position for the financial Year ended 30 June 2005.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

26 IMPACTS OF ADOPTING A-IFRS *continued*

Income Statement for the year ended 30 June 2005

	Note	Superseded policies* \$'000	Effect of transition to A-IFRS \$'000	A-IFRS \$'000
Revenue from funds investment activities		5,340	-	5,340
Other revenue from ordinary activities		180	(89)	91
Exploration expenses	iv & v	(2,857)	(31)	(2,888)
Mining expenses	iv & v	(7,223)	(80)	(7,303)
Corporate & administration expenses	iii & v	(3,539)	(33)	(3,572)
Loss before income tax expense		(8,099)	(233)	(8,332)
Income tax benefit	ii	-	4,297	4,297
Net loss		(8,099)	4,064	(4,035)

* Reported financial results for the year ended 30 June 2005.

BENDIGO MINING LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

26 IMPACTS OF ADOPTING A-IFRS *continued*

Effect of A-IFRS on the cash flow statement for the year ended 30 June 2005.

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

Notes to the reconciliations of income and equity

- i) **Property, plant and equipment** – The directors have elected to use the true A-IFRS historical cost of plant and equipment, as permitted by the first-time adoption provisions of AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'. Under this election, no adjustment was required to property, plant and equipment values upon adoption of A-IFRS.

When an asset is initially recognised, A-IFRS requires the cost of dismantling and removing the asset and restoring the site on which the asset was created to be capitalised. A provision is made for the rehabilitation works and the rehabilitation costs are capitalised. The rehabilitation costs asset value is reassessed annually and adjusted accordingly. Under the superseded policy, the Company provided for the cost of restoration works at the time activities requiring future restoration works were performed. A provision of \$1,600,000 was made for rehabilitation works prior to 1 July 2004 and all exploration and evaluation expenditure was expensed as incurred, not capitalised. As a result of the superseded policy, there is no pre July 2004 rehabilitation asset and reassessment of rehabilitation works incurred prior to 1 July 2004 will be expensed.

During 2005 an amount of \$445,000 was capitalised for the estimated current cost of future restoration works that resulted from disturbances that occurred during the 2005 financial year. Under A-IFRS the effect of the time value of money is taken into account when estimating the value of the future restoration works and consequently the present value of the estimated future cost of the restoration works is capitalised at \$254,000, giving rise to an adjustment of \$191,000.

BENDIGO MINING LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

26 IMPACTS OF ADOPTING A-IFRS *continued*

- ii) **Income Taxes** – Under A-IFRS, the criteria for the recognition of carried forward tax losses and deferred tax balances is ‘probable’ as compared to the ‘virtually certain’ test for tax losses and ‘beyond reasonable doubt’ test for deferred tax assets arising from timing differences under the superseded policy. Tax balances are determined under A-IFRS using a ‘balance sheet’ approach which significantly differs from the superseded methodology. On adoption of A-IFRS, deferred tax assets increased by \$35,980,000 as a result of the recognition of previously unrecognised tax losses and a further \$517,000 deferred tax asset (net of deferred tax liabilities of \$468,000) relating to temporary differences. Accordingly, accumulated losses are reduced by \$35,980,000 for previously unrecognised tax losses and \$378,000 for temporary differences. Issued capital is increased by \$139,000 for temporary differences due to fundraising expenditure incurred in 2002.

The impact on the profit and loss, under A-IFRS, for the financial year ended 30 June 2005 is an increase in tax benefit of \$4,297,000 resulting from an increase in deferred tax assets. Issued capital is increased by \$1,627,000 for temporary differences due to fundraising expenditure incurred in 2002 and 2005.

The cumulative impact on the financial position at 30 June 2005 of the different criteria to be applied is an increase in deferred tax assets of \$40,878,000 for previously unrecognised tax losses and \$1,543,000 (net of deferred tax liabilities of \$1,500,000) relating to temporary differences. Issued capital is increased by \$1,766,000 for temporary differences due to fundraising expenditure incurred in 2002 and 2005.

- iii) **Share-based payments** – Under the superseded policy, the Company did not recognise an expense for share-based compensation. Under A-IFRS, the fair value of share options is determined at grant date and expensed over the expected vesting period of the options. As permitted under A-IFRS first time adoption, the Company has not retrospectively recognized share-based payments that have vested before 1 January 2005.

For the financial year ended 30 June 2005, under A-IFRS, share option reserve increased by \$82,000 and an additional employee benefit expense of the same amount was recognised in profit and loss in relation to the options issued during the year.

- iv) **Annual leave provision** – Under the superseded policy, the provision for leave that is expected to be taken beyond the current reporting period is not discounted to present value. Under A-IFRS, the effect of the time value of money is taken into account, resulting in a decrease in the provision (and accumulated losses) at 1 July 2004 of \$46,000 and a decrease in the provision (and leave provision expense) at 30 June 2005 of \$21,000.

BENDIGO MINING LIMITED
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2006

26 IMPACTS OF ADOPTING A-IFRS *continued*

- v) **Rehabilitation provision** – Under the superseded policy, the rehabilitation provision is valued at the current cost of expected restoration works. Under A-IFRS the estimated future costs are discounted to their present value, reducing the rehabilitation provision at 1 July 2004 from \$1,600,000 under the superseded policy to \$741,000 under A-IFRS.

Under A-IFRS, the rehabilitation provision is reassessed at each reporting period to take account of changes in both the time value of money (recognised as an expense and an increase in provision) and additional disturbances or changes in the rehabilitation costs (recognised as additions or changes to the corresponding asset and rehabilitation liability).

For the 2005 financial year, the rehabilitation provision was reassessed, resulting in the following A-IFRS adjustments:

- An adjustment relating to the time value of money (discount rate) of \$44,000 was recognised in the profit and loss.
- Disturbances incurred prior to 1 July 2004 were reassessed, resulting in a reduction of rehabilitation costs of \$27,000 and a change in coupon rates increased the provision by \$155,000. The net result of \$128,000 being recognised in the profit and loss at 30 June 2004.
- New disturbances incurred during the 2005 financial year were assessed and the amount of \$254,000 was recognised as an asset and as an increase to the rehabilitation liability, representing the time value of future restoration works for those disturbances.

At 30 June 2005, the above entries result in the rehabilitation provision being recorded at \$1,166,000 under A-IFRS, compared to \$2,045,000 under the superseded policy.

- vi) **Accumulated losses** – Adjustments required on first-time adoption of A-IFRS are recognised directly in accumulated losses at the date of transition to A-IFRS. The effect of these adjustments for the Company was to decrease accumulated losses by \$37,263,000 as at 1 July 2004. Details are as follows:

	\$'000
1. Deferred tax asset – carried forward tax losses	35,980
2. Deferred tax asset – temporary differences	378
3. Annual leave provision – reduction	46
4. Rehabilitation provision – reduction	<u>859</u>
	37,263

- vii) **2005 Operating loss** – The combined effect of A-IFRS adjustments reduced the AGAAP reported 2005 financial year operating loss by \$4,064,000. Details are as follows:

	\$'000
1. Income tax benefit	4,297
2. Option expense	(82)
3. Annual leave expense	21
4. Rehabilitation expense	(128)
5. Time value of money expense	<u>(44)</u>
Total adjusted to accumulated losses	4,064

BENDIGO MINING LIMITED
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2006

The directors declare that:

- 1) a) The financial report of the company and the additional disclosures included in the directors' report designated as audited are in accordance with the Corporations Act 2001, including:
 - i) giving a true and fair view of the Company's financial position as at 30 June 2006 and of the Company's performance for the year ended on that date; and
 - ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2) This declaration has been made after receiving the declarations required to be made to directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

Signed in accordance with a resolution of directors made pursuant to Section 295(5) of the Corporations Act 2001.



P.L. McCarthy
Chairman



A.D. Buerger
Managing Director & Chief Executive
Officer

Bendigo, 24 August 2006.

INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF BENDIGO MINING LIMITED

Scope

The financial report, compensation disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for Bendigo Mining Limited, for the financial year ended 30 June 2006 as set out on pages 25 to 61.

The company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 16 to 23 of the directors' report and not in the financial report, as permitted by the Corporations Regulations 2001.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the compensation disclosures contained in the directors' report.

Audit approach

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on them to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

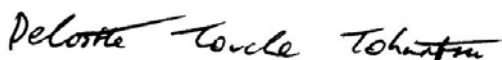
INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF BENDIGO MINING LIMITED

Audit Opinion

In our opinion:

- (1) the financial report of Bendigo Mining Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (2) the compensation disclosures that are contained under the heading "remuneration report" on pages 20 to 26 of the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.



DELOITTE TOUCHE TOHMATSU



Ian Sanders
Partner
Chartered Accountants

Melbourne, 24 August 2006

SHAREHOLDER INFORMATION

Shareholdings

At 24 August 2006 the issued share capital of the Company was held as follows:

a) Distribution Holders	Holders
1 – 1,000	4,324
1,001 – 5,000	6,228
5,001 – 10,000	2,395
10,001 – 100,000	2,549
100,001 and over	147
Total number of shareholders	15,643

b) Number of shareholders with holdings of less than a marketable Parcel - \$500. (307 shares)	1,004
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c) **As at 24 August 2006 the register of substantial shareholders disclosed the following information:**

 Holders Giving Notice	Date of Notice	Ordinary Shares As at Date of Notice	% Holding As At Date of Notice
Merrill Lynch Investment Managers Group Limited	1.4.05	29,998,449	11.86
APS Asset Management Pty Ltd	15.6.06	42,367,027	9.96
JF Capital Partners Limited	21.6.06	47,240,672	11.11

d) **Of the issued ordinary capital 67.78% was held by or on behalf of the 20 largest shareholders.**

e) **All shares carry voting rights of one vote per share.**

f) **As at 24 August 2006, 195 option holders hold 6,483,002 unquoted options. Options do not carry a right to vote.**

LIST OF MINING TENEMENTS

		Interest
MIN 5344	Bendigo	100%
MIN 4878	Bendigo	100%
EL 3327	Bendigo	100%
MIN 5364	Outer Bendigo	100%

SHAREHOLDER INFORMATION *continued*

Top 20 Holders at 24 August 2006:	Ordinary Shares	%
Westpac Custodian Nominees Limited	81,842,334	19.24
National Nominees Limited	79,799,369	18.76
ANZ Nominess Limited	31,028,355	7.30
HSBC Custody Nominees (Australia) Limited	16,787,254	3.95
CS Fourth Nominees Pty Ltd	16,150,522	3.80
AMP Life Limited	14,139,797	3.32
Citicorp Nominees Pty Ltd	10,269,444	2.41
JP Morgan Nominees Australia Limited	9,603,447	2.26
Victorian Workcover Authority	4,076,170	0.96
Ceramic Oxide Fabrications Pty Ltd	3,526,623	0.83
Queensland Investment Corporation	3,501,329	0.82
Cogent Nominees Pty Ltd	3,167,139	0.74
Transport Accident Commission	2,957,754	0.70
CS Third Nominees Pty Ltd	2,399,069	0.56
The University of Melbourne	1,982,959	0.47
H Prettejohn	1,920,000	0.45
HSBC Custody Nominees (Australia) Limited	1,627,615	0.38
Cogent Nominees Pty Ltd	1,538,641	0.36
Merrill Lynch (Australia) Nominees Pty Ltd	1,050,000	0.25
Neweconomy Com Au Nominees Pty Ltd	935,895	0.22
Total	288,303,716	67.78