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Annual Report 2007

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2007

2007

## COMPANY PROFILE

### Strategy

The Company's goal is to build a profitable mid-tier Australian-based gold mining company. A sustainable production base will be delivered through successful exploration and or acquisition.

The primary focus is on:

- 1) Discovering new resources beneath and along from the historically more productive parts of the Bendigo Goldfield.
- 2) Exploring regional targets in Bendigo, beyond the main zone of historic production, to test for shallow extensions of the goldfield within the Company's licence areas.
- 3) Assessing other opportunities outside Bendigo that have potential to deliver profitable production.

### Goldfield History

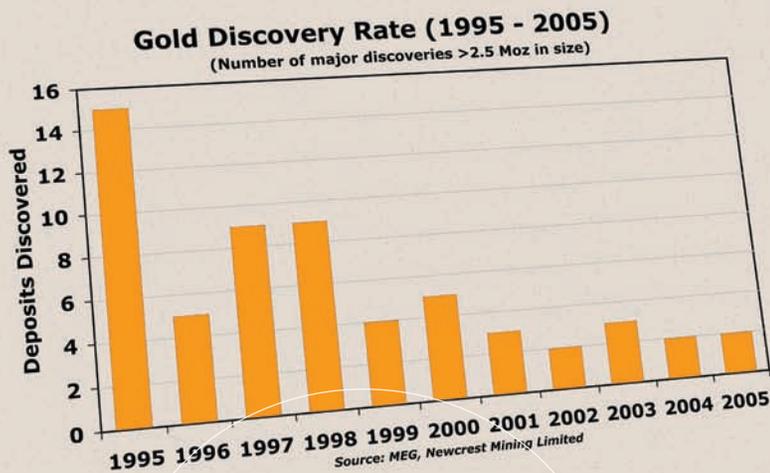
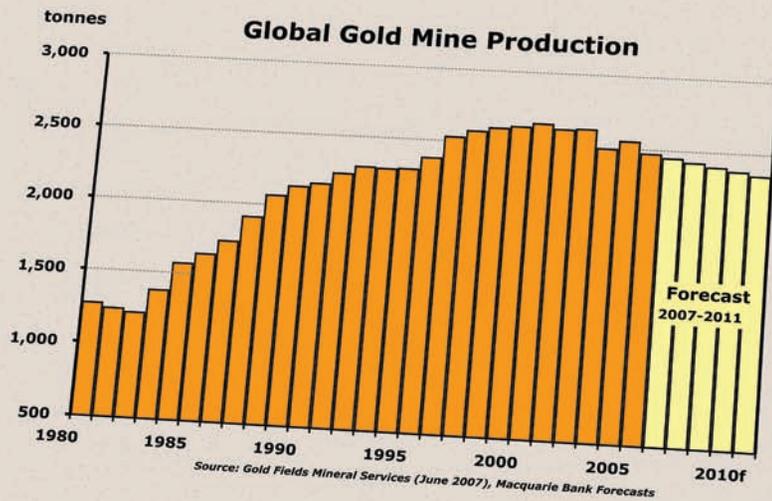
- 22 million ounces of hard rock and alluvial gold production from 1851 to 1954.
- Some 10% of all gold ever produced in Australia was sourced from Bendigo.
- Gold was discovered over a length of 10 km with mineralisation occurring on multiple anticlines (lines) over a width of 3 km and to an average depth of 750 metres.
- Production ceased for various reasons including the small size of individual leases, water inflows combined with outdated dewatering infrastructure, poor ventilation at depth, a relatively high geothermal gradient, labour shortages and prevailing economics.

### Key Assets

- 100% ownership of the entire Bendigo Goldfield.
- \$71.8 million in cash at 30 June 2007.
- Large underground mine, 900 metres deep and over 3 km in length.
- New 600,000 tonnes per year gold plant.
- Mining fleet and significant infrastructure.
- Skilled workforce.

### Recent History

- Bendigo Mining consolidated ownership of the entire goldfield in 1991.
- The 'ribbon repeat' geological model was developed in 1997 and explained the repetition of mineralisation at depth beneath the historic workings.
- Underground development to access areas beneath historic workings on the Sheepshead and Deborah lines commenced in 1998.
- Process plant construction commenced in 2005.
- Modern production commenced in October 2006 and ceased in May 2007.
- Production of almost one tonne of gold at an average grade of 5.4 g/t was achieved.
- In January 2007, a move back to exploration was made after disappointing results from the initial reserves on the Sheepshead and Deborah lines.



## CHAIRMAN'S REPORT

***“Global gold production is falling and new deposits are not being found..... assets that have size potential will become increasingly valuable”***

## CHAIRMAN'S REPORT

Dear Fellow Shareholder,

The past year started with much promise but was ultimately extremely disappointing. Despite significant attempts to reduce risk prior to production, major errors were made in the geological estimation of the size and quality of the initial reserves at Bendigo. This led to a short production period of only eight months, nevertheless almost one tonne of gold was produced. This experience was very valuable and highlighted that future production will require greater mining flexibility.

The estimation errors were quickly identified, with greater reliance now being placed on visual definition of ore and grade estimation. Visual estimation is well suited to mineralisation at Bendigo. This technique was employed successfully by the historic miners and also by our geologists and mine operators during recent production.

In January 2007 significant changes were made to the executive management of the Company, with the Board appointing a new Managing Director & CEO, a new Chief Financial Officer and a new Geology Manager. Our former Managing Director and ardent promoter of the Bendigo Goldfield, Doug Buerger, resigned after 12 years of service. Rod Hanson, formerly Chief Operating Officer, was appointed as Managing Director & CEO to drive the change in strategy - to explore and locate new resources beneath and along from the historically more productive parts of the goldfield.

Other significant changes undertaken were a rapid reduction of staff numbers and the implementation of tight cost control. This program has delivered real benefits, with cash of \$72 million at 30 June 2007 being some \$16 million higher than the forecast made at the start of 2007.

The change in strategy from production to exploration also forced a review of the carrying value of non-current assets. In complying with accounting standards under A-IFRS, asset impairments and other accounting losses of \$208 million, in addition to the expensing of mine operating costs, contributed to the full year loss of \$240 million.

The decision to direct exploration to the more historically productive Garden Gully and New Chum lines is showing rewards. Drilling undertaken in the six months to June 2007 on Garden Gully has discovered four new reefs. We remain confident that our persistent approach will be rewarded. Our geologists are also generating some promising targets to the west and north of the main zone of historic production, to test for shallow extensions of the goldfield within our leases.

Your Company has some significant advantages over other exploration companies. Firstly, we are exploring beneath one of Australia's most prolific historic goldfields. Secondly, we have over 15 years of experience in this goldfield, with a large investment of man-hours and dollars in research and underground development. Thirdly, we are asset rich with a new process plant, mining fleet and all the essential elements of infrastructure in place and ready to be utilised upon a return to production. Finally, and importantly, we have sufficient funds to support the new strategy.

The charts on the opposite page demonstrate declining global gold production combined with a lack of success in finding new deposits. In this environment, we expect large long-life gold assets to become increasingly valuable. Bendigo was historically a giant goldfield; we continue to further test the field to see whether it can be a giant again. The rewards will be large if we can show this through our new exploration program. The value of your Company will also be influenced by the prevailing gold price. It is encouraging to note that the strong gold price over the past two years could be further supported by the continued weakness of the US dollar and rising inflation.

***"Our new strategy is showing rewards with four new reefs discovered so far"***

I would like to thank the Board for their commitment in taking some tough decisions and placing the Company on a sustainable path. I would also thank the Management team and all employees, past and present, for their significant contributions in a particularly difficult year. I thank the people of Bendigo for their continued support and desire to see a stronger, brighter future for Bendigo Mining. Lastly and importantly, I thank shareholders for their support, patience and for sharing our vision of building a profitable gold mining business in Bendigo.



**Peter McCarthy**

A handwritten signature in black ink, appearing to read 'Peter McCarthy'. The signature is stylized and fluid, written over a white background.

**Chairman**

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**OPERATIONS REPORT**

***“Production of almost one tonne of gold was achieved in eight months of operation”***

## OPERATIONS REPORT

Production from the Kangaroo Flat processing plant commenced on 1 October 2006 and ceased due to limited reserves after eight months in May 2007. During this time 175,966 tonnes of ore were treated grading 5.4 g/t gold, and at an average recovery of 88%, produced 26,735 ounces of gold. A further 3,122 ounces of gold were produced during commissioning and decommissioning and hence total gold production during this phase of operation was 29,857 ounces or almost one tonne of gold.

Production was sourced predominantly from development drives within the Shywolup, Greater Garrard, Upper S3 and McDermott reefs. Limited cut and fill, and bench stoping was undertaken. This experience highlighted the need for stronger geological control and greater flexibility in mining methods and equipment.

The improvements in head grade during the eight months of operation confirmed that Bendigo reefs can be mined and processed economically using modern methods. Ore grade mineralisation could, after some experience, be visually determined by technical staff and mine operators.

The average head grade of 5.4 g/t gold during the period to June 2007 was considered positive considering the dilution introduced from mining the narrower than predicted mineralised shapes. A grade of 8.6 g/t was achieved in the month of March 2007, which was close to the original Probable Reserve estimate of 9 g/t gold.

The total operating unit cost of around A\$120/t was as forecast, despite below budget tonnes processed.

The performance of the 600,000 t/y gold process plant was satisfactory and continually improved with experience. The plant achieved high levels of gold recovery particularly when considering the lower than design head grades treated. The performance of the gravity gold circuit was excellent, achieving its design recovery rate of around 80%. The plant was placed on

care and maintenance in June 2007.

Underground development of 5,196 metres was completed in the year. Priority development was the 760 North drive and ore development drives. During the year the 760 North drive was converted from a level drive to a northerly dipping decline to place the development closer to prospective zones on the Garden Gully line.

The sale of surplus mining equipment (one truck, two loaders and two jumbos) and light vehicles was successfully concluded in May 2007 and raised \$6.5 million. The remaining mining fleet consists of three

trucks, two loaders and two jumbos, which provides flexibility to develop multiple headings when required.

Although a skills shortage has widely impacted the mining industry across Australia, this was not an issue at Bendigo where a highly skilled and motivated workforce of 250 personnel

was attracted and employed during the production phase. Due to the change in strategy the workforce has reduced to 83.

Key infrastructure projects during the year, in addition to the process plant and underground lateral development, were the North Deborah ventilation system, the underground water pumping system and the New Moon water treatment plant.

The North Deborah ventilation system consists of two rises, four metres in diameter, one 440 metres long and the other 180 metres long. Both were successfully completed to plan.

During the year approximately 300 million litres of treated mine water was supplied from the New Moon plant to the Bendigo community for use in public and private gardens, parks, lakes and golf courses. Mine dewatering is continuing, with all treated mine water supplied to the local water authority, Coliban Water.

**"A grade of 8.6 g/t was achieved in March 2007, which was close to the original reserve estimate"**

Bendigo Gold Project - Production Summary					
	Unit	Jun 2007 Quarter	Mar 2007 Quarter	Dec 2006 Quarter	9 mths ending 30 Jun 2007
Ore mined	t	9,481	58,460	73,558	141,499
Ore treated	t	32,755	65,709	77,502	175,966
Gold grade	g/t	4.9	6.8	4.4	5.4
Gravity recovery	%	88%	82%	73%	79%
Total recovery	%	91%	90%	85%	88%
<b>Gold produced</b>	oz	4,704	12,822	9,209	26,735*

\*Excludes 3,122 oz from commissioning and decommissioning.

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## EXPLORATION REPORT

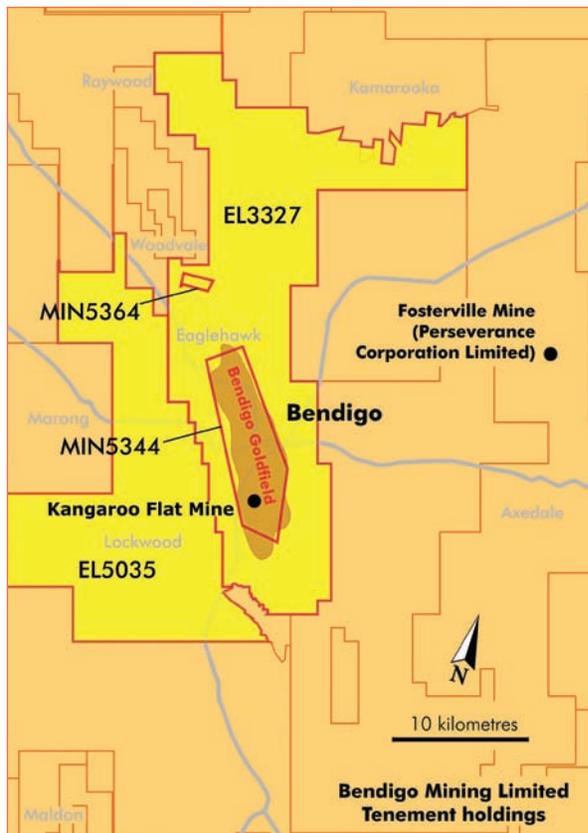
***“We are testing multiple targets beneath or along from major historic mines in the goldfield”***

# EXPLORATION REPORT

## BACKGROUND

Bendigo historically produced some 22 million ounces of gold, to an average depth of 750 metres. The Company is exploring for gold mineralisation beneath and along the trend of historic mines on two of the richest lines of mineralisation within the goldfield, Garden Gully and New Chum. These lines accounted for some 70% of historic production.

The better parts of each line are defined by the volume and grade of gold produced from each historic area. This technique has identified multiple targets across the goldfield. The targeting system will be further refined as the Company continues to understand the relative importance of the factors which contribute to gold endowment.



## Recent Experience

Bendigo has some unique challenges which affect the method of exploration and interpretation. One important characteristic is that the gold in the quartz reefs is mainly course-grained occurring as visible particles, typically larger than 2 mm in diameter. This means that the assay of a single drill intersection cannot accurately represent the grade of the reef, as drill holes are unlikely to intersect the erratic, infrequent, large particles of gold. Consequently, assays usually under-estimate the grade of the reef. Conversely, if a nugget, or large piece of gold, is intersected by drilling, the assay will over-estimate the grade of the reef.

The second feature at Bendigo is the complex nature of the structurally controlled mineralised reefs. Significant effort is being devoted to not only locating new reefs but also to defining their size, nature and grade.

The recent mining experience has provided additional valuable information. The interpretational method, which resulted in the over-estimate of initial reserves on the Sheepshead and Deborah lines, has changed.

One of the key lessons from production was the importance of recognising the separate mineralised domains which exist within each reef system. The identification of reef styles and geological domains is fundamental in making reliable estimates and in undertaking appropriate mine planning.

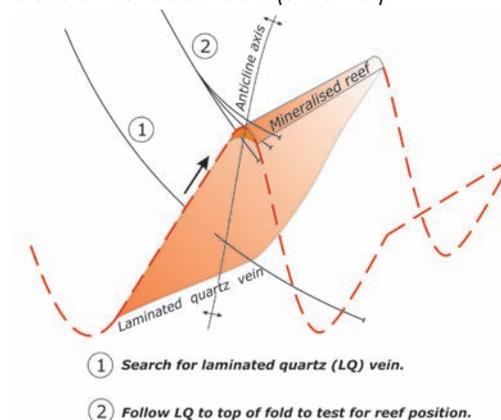
The second key lesson was that the transformation of assay data over-estimated the grade and hence tonnes in the lower grade parts of each reef. The transformation of assays is a valid approach in some circumstances, but was incorrectly applied in areas of lower grade.

These technical issues in estimating resources were compounded by the fact that mining was located within the historically less productive Sheepshead and Deborah Lines. Whilst it was known that the Sheepshead and Deborah Lines had historically been below average producers, they were chosen because they were the shallowest reefs available for early modern-day exploitation and the quickest lines to dewater.

The Company now uses an approach to exploration which is better suited and appropriate to local conditions. Company geologists use their accumulated knowledge to make assessments of size and quality of mineralisation based on a combination of the visual examination of core and conventional assay data. This geological assessment is backed by the knowledge gained from processing over 176,000 tonnes of mineralisation. This is a different approach for the Company but similar to the successful methods of the historic miners. The Company's approach will continue to be refined as experience is gained.

## Current Strategy

The focus of exploration is to test for new reefs within the folded package of rocks on the historically better endowed Garden Gully and New Chum lines of mineralisation. The primary technique used is to identify any significant laminated quartz veins within the prospective sequence of rocks. Exploration then targets the intersection of the laminated quartz veins and the crests of the folded rocks (anticlines).



Exploration Technique

Northern extension target area

Key targets

Conceptual targets



2 kilometres

Western anticlines target area

Historic production zone

Potential controlling structure

Decline position July 2007  
800 m below surface

Bendigo urban area

Portal  
**Kangaroo Flat Mine**

**Bendigo Goldfield  
Key target areas**

## EXPLORATION continued

The most prospective rock units are shale dominant sequences which can be traced for large distances along strike and tend to be folded across multiple anticlinal lines. On each line, these rock units tend to host a similar style of mineralised quartz reef, with the size and grade of the reef dependent on the degree to which the rocks have been structurally deformed.

Laminated quartz veins are important features identified within prospective rocks, as they are believed to have been the primary conduits for fluids which formed the gold-bearing quartz reefs.

The laminated quartz veins exist at regular intervals throughout the folded sequence of rocks. The width of the vein indicates the reef forming potential of the vein at the crest of the folded rocks.

Grade estimation at Bendigo remains a technical challenge. Historically, the miners relied heavily on the physical characteristics of the reef to estimate grade whilst mining. The significant historical production data from the field highlights the success of this approach. A similar technique is being employed by the Company's

geologists, where the grade of the reef is estimated by ranking the key geological characteristics in the drill core, such as quartz percent, quartz textures, presence of free gold and sulphide minerals. The use of this ranking, in combination with assays, provides an estimate of the likely gold grade range of the reef.

### Garden Gully Line

Exploration of the Garden Gully line began in January 2007, with around 1,700 metres of strike tested by drilling. A number of prospective rock units with significant laminated quartz veins have been identified and tested resulting in the discovery of four new mineralised reefs: Grenfell, Grenfell East, Gill and Grainger reefs. These reefs have all been formed in the one prospective sequence of rock (Railway Shale), with a number of other prospective horizons remaining to be tested (Big Blue Shale, Emily Shale and Owen Shale units).

# EXPLORATION continued

## 1) Grenfell reef

The Grenfell reef formed at the top of a folded sequence of rocks at the intersection of a significant laminated quartz vein and the anticlinal axis at the base of the Railway Shale unit. The reef was discovered by drilling on section 124,050 mN and although the reef is not present 250 metres to the north, it remains open to the south. The reef is interpreted to be a saddle reef with encouraging quartz textures, sulphides and visible gold intersected in drill core.

The geological grade range estimate, based on the physical characteristics of the core and assay, is outlined below.

Hole number	Length (m)	Est. true width (m)	Grade range estimate (g/t gold) <sup>1</sup>	Gold assay (g/t) <sup>2</sup>	Quartz %
<b>Grenfell reef: 124,050 mN</b>					
NBD158W1	6.8	5.5	10 - 15	47	80

1. The geological grade range estimate is based on a visual ranking of the key geological textures and minerals in the drill core, such as quartz percent, quartz textures, presence of free gold and sulphides. The use of this ranking, in combination with assays, provides an estimation of the likely gold grade range of the intercept. The visual characteristics have far greater influence on the grade range estimate than assay data.

2. Screen fire assay. The large gold particle size of mineralisation at Bendigo, termed the nugget effect, means that a single drill intersection cannot accurately represent the grade of the entire reef, as drill core will tend to miss the coarse pieces of gold. Consequently, assays will usually under-estimate the grade of the reef. However, if a nugget is intersected by drilling, the assay may over-estimate the grade of the reef.

## 2) Gill reef

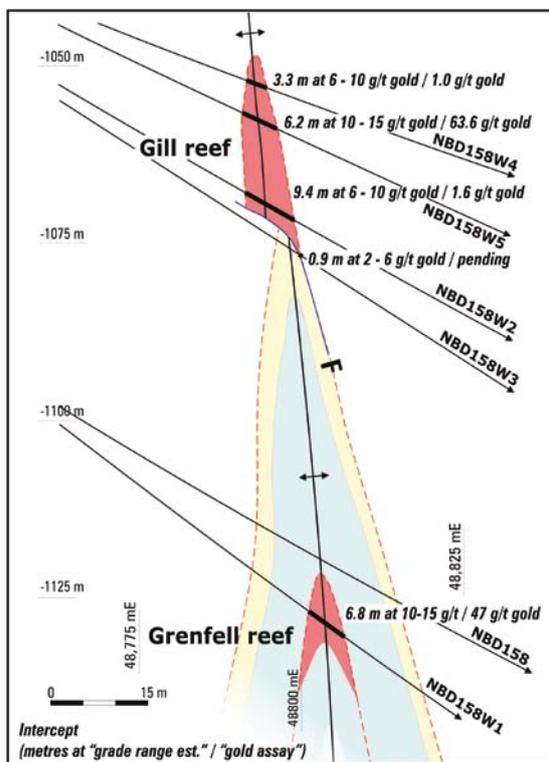
The Gill reef is interpreted to be a neck reef formed at the intersection between a laminated quartz vein and the anticlinal hinge in the Railway Shale unit, located approximately 60 – 80 metres above the Grenfell reef. The reef is 10 - 30 metres high from the base of the rollover to the top, three to nine metres wide and has been intersected on three drill sections over a length of 460 metres (124,050 mN, 124,250 mN and 124,510 mN). The reef remains open to the south.

Hole number	Length (m)	Est. true width (m)	Grade range estimate (g/t gold) <sup>1</sup>	Gold assay (g/t) <sup>2</sup>	Quartz %
<b>Gill reef: 124,050 mN</b>					
NBD158W2	9.4	8.5	6 - 10	1.6	85
NBD158W3	0.9	0.7	2 - 6	Pending	95
NBD158W4	3.3	3.0	6 - 10	1.0	80
NBD158W5	6.2	5.6	10 - 15	63.6	70
<b>Gill reef: 124,250 mN</b>					
NBD184W3	4.0	3.5	2 - 6	pending	90
NBD184W4	2.2	1.9	6 - 10	pending	90
NBD184W5	6.2	5.4	10 - 15	pending	80
NBD184W6	0.9	0.7	> 15	pending	95
NBD184W7	1.5	1.2	> 15	pending	95
NBD184W7	1.3	1.0	>15	pending	95
<b>Gill reef: 124,510 mN</b>					
NBD161W1	1.1	1.0	6 - 10	2.7	40
NBD161W2	4.1	3.9	6 - 10	0.8	100
NBD161W3	0.6	0.5	6 - 10	0.5	90
NBD161W3	1.5	0.6	6 - 10	4.0	90

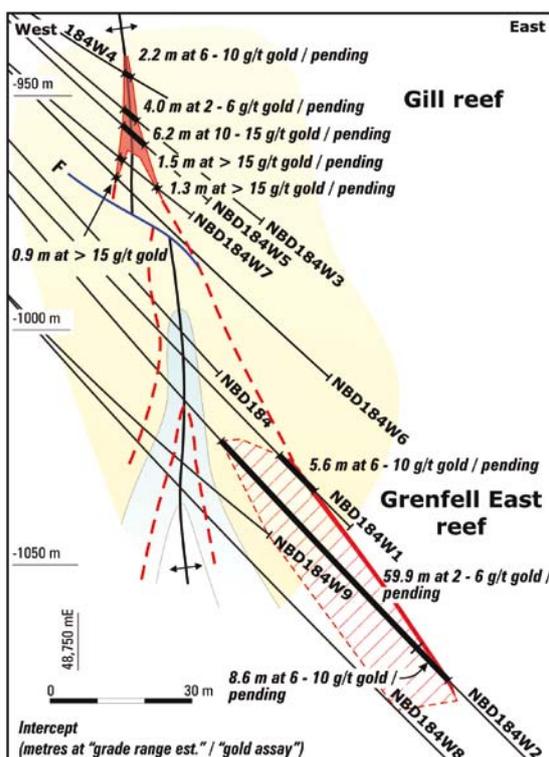
1. & 2. Refer to footnotes on previous table.

Drill-intersections of the reef indicate an expected grade range of between 6 – 10 g/t gold, with the more northern sections returning significantly more encouraging visual grades than were intersected to the south.

These results are preliminary only as screen fire assays are pending.

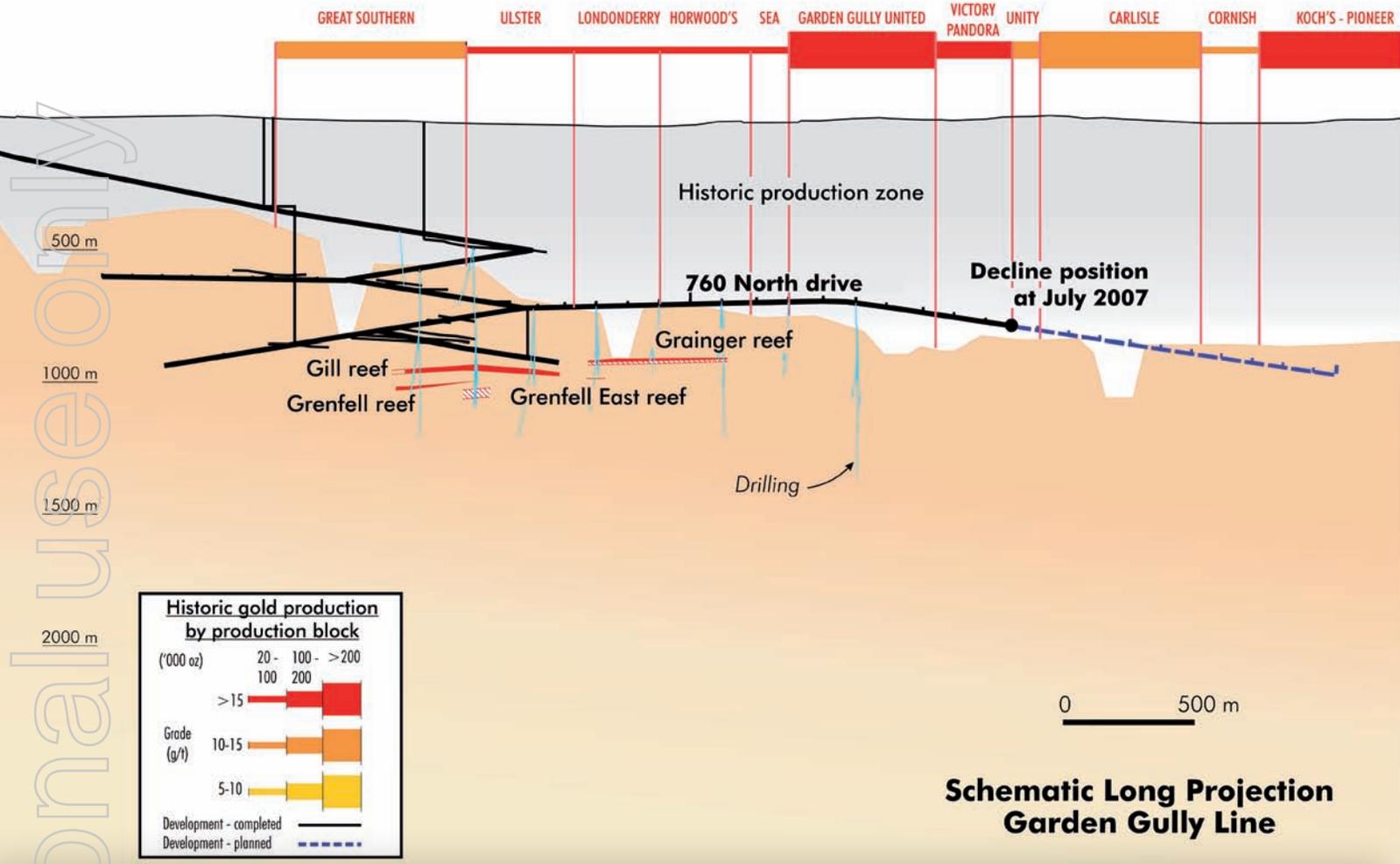


**Garden Gully Cross Section 124,050 mN**



**Garden Gully Cross Section 124,250 mN**

123,000 mN      124,000 mN      125,000 mN      126,000 mN      127,000 mN



**Schematic Long Projection Garden Gully Line**

## EXPLORATION continued

### 3) Grenfell East reef

Drilling to the east of Gill reef has intersected a large, low grade spur system (swarm of quartz veins) formed adjacent to a moderate grade, one to two metre wide east-dipping laminated quartz vein. This swarm of quartz veins is estimated to be some 10 -15 metres wide and between 40 - 50 metres high, with a high degree of internal structural complexity. The mineralisation is hosted within the Railway Shale unit.

This is a large zone of quartz with potential to host economic mineralisation. Further work is planned.

### 4) Grainger reef

The Grainger reef was discovered to the north of the Gill and Grenfell reefs at a similar depth. It is a large mineralised system with a length of 480 metres (from 124,730 mN to 125,210 mN), ranging from five to 30 metres high and five to 25 metres wide.

The reef consists of a quartz-rich zone controlled by a west-dipping fault, as it breaks through the anticline axis, overlying a spur zone.

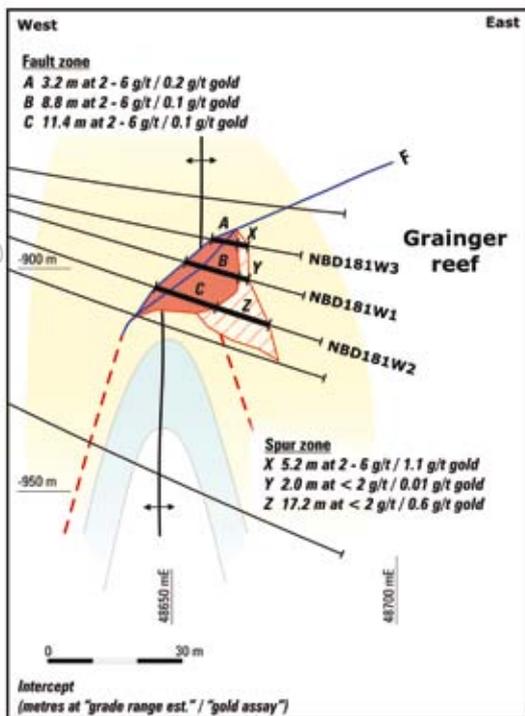
The mineralisation is formed on the eastern side of the Garden Gully anticline and is hosted within the lower part of the Alexandria Sands unit, with the spur veining developing in a coarse-grained, brittle sandstone sequence. The reef has significant tonnage potential of visually low-grade mineralisation. Assays are pending.

Infill drilling will be required at a later stage to further assess the potential of this reef.

Hole number	Length (m)	Est. true width (m)	Grade range estimate (g/t gold) <sup>1</sup>	Gold assay (g/t) <sup>2</sup>	Quartz %
Grenfell East: 124,250 mN					
NBD184W1	5.6	1.0	6 - 10	pending	65
NBD184W2	59.9	15.0	2 - 6	pending	55
NBD184W2	8.6	1.5	6 - 10	pending	95
NBD184W10	16.7	8.0	< 2	pending	30

1. & 2. Refer to footnotes on previous table.

## EXPLORATION continued



**Garden Gully**  
Cross Section 124,960 mN

### New Chum Line

The first drill section into New Chum commenced at the southern end of the line in May 2007. Exploration is targeting the southern extension of reefs mined in the historic workings.

The rock units identified in the drilling were as expected and highlighted a number of targets. Importantly, the drilling identified a relatively wide laminated quartz vein in the Big Blue Shale unit. The laminated vein defines a strong target some 400 metres south of the historically mined and prolific Shenandoah Consolidated reef. This reef was one of the largest orebodies mined in the field and remains untested by exploration to the south of historic workings.

### Regional exploration

A large exploration licence abutting the western margin of the Company's tenements was applied for and granted in the year.

Regional target generation is in progress. The most promising rock units will be correlated across to adjacent anticlines and along strike to provide targets outside the zone of major historic production.

### Mineral Resources – change in reporting

The reporting of an Inferred Mineral Resource has been discontinued as the estimate did not adhere to the updated guidance (ASX Companies Update 03/07, 3 May 2007) on interpretation of the 2004 JORC Code.

ASX released the update to guide the manner in which the existing 2004 JORC Code and Guidelines should be interpreted and applied in specific areas. Included in the update was clarification on Reporting of Mineral Resources, Extrapolation and Sampling. Specifically, it requires that the estimation of Mineral Resources is supported by sampling within the resource for all classifications, including Inferred Mineral Resources.

At Bendigo, the Inferred Resource estimate was based on the extrapolation of a geological "ribbon repeat" model into zones beneath areas of historical mining. An estimate of the gold endowment for the extrapolated ribbons was derived from historical production in the mined zones above. Whilst the geological model remains valid, this method of estimation does not comply with the new guidance on how to interpret the 2004 JORC Code and Guidelines.

This re-classification does not change the Company's exploration strategy or its chances of success.

Prospectivity remains excellent and the program will continue to target extensions beneath and along the trend of some of Australia's richest historic gold mines.

The estimation of Inferred Mineral Resources will now use data generated by drilling on appropriate centres. It is considered that Inferred Resources can be estimated utilising 120 metre spaced sections, depending on reef style. A new statement of Inferred Mineral Resources will be released when supported by sufficient drill data.

### Competent Persons Statement

*The information in this public report that relates to Exploration Results and/or Mineral Resources and/or Ore Reserves is based on, and accurately reflects, information compiled by Richard Buerger. Richard Buerger is a Member of The Australasian Institute of Mining and Metallurgy and a full time employee of the Company and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Buerger consents to the release of this report and verifies that the Report is based on and fairly and accurately reflects in the form and context in which it appears, the information in supporting documentation relating to Exploration Results, Mineral Resources and/or Ore Reserves.*



**LICENCE TO OPERATE**

***“There are some  
unique challenges and  
opportunities operating  
in the City of Greater  
Bendigo”***

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## LICENCE TO OPERATE

### Health and Safety

Bendigo Mining works in a safe and responsible manner, which respects the health of employees, the environment and the communities in which the Company operates.

Safety performance significantly improved during the year with a 35% reduction in the Medically Referred Injury Frequency Rate (MRIFR) from 37 to 24, and a 33% reduction in the Lost Time Injury Frequency Rate (LTIFR) from 15 to 10.

The key safety effort was on workplace risk assessment. This was done by developing skills in 'stepping back' and assessing risks before conducting tasks, with the use of job safety analysis.

The Company has comprehensive risk management systems for major mining hazards such as water inrush, ground stability, underground fires, mobile equipment, handling of explosives and hazardous atmospheres.

The Mine Rescue Team training program was developed, with the basic training of a number of new team members completed. Particular emphasis was placed on search and rescue techniques and the use of both open and closed circuit breathing apparatus. Equipment, including an underground ambulance, an emergency egress crane and a fire rescue vehicle, has been purchased to provide emergency response capability for the Company's activities.

### Environment

Bendigo Mining operates within regrowth box-ironbark forest, agricultural farmland and the urban fringe of the City of Greater Bendigo. The Company is committed to minimising impact on the surrounding environment and communities.

A comprehensive environmental monitoring program is in place which measures data associated with noise, air quality, vibration, odour, soil, groundwater, surface water and rehabilitation. This data determines and monitors Company performance.

All results from our environmental monitoring program are independently audited and are reviewed by the regulatory authorities and community representatives through an Environmental Review Committee.

An improved environmental performance was achieved during the year with a reduction in the number of environmental incidents. Regrettably, a leak of groundwater did occur from the Company's buried pipeline adjacent to the Woodvale evaporation ponds. The incident did not result in any discernable environmental harm. The Company received a Penalty Infringement Notice and fine from the EPA.

Bendigo Mining is a signatory to Enduring Value – the Australian Minerals Industry Framework for Sustainable Development, and the Greenhouse Challenge Program.

The Company also produces an annual Community and Environment Report, detailing environmental performance and key health, safety, environment and community initiatives. This report is available on the website at [www.bendigomining.com.au](http://www.bendigomining.com.au) under "Our Environment/Environment/Annual Report".

### Community

The City of Greater Bendigo is a thriving rural city of around 90,000 people, some 2 hours by road from Melbourne, the capital of Victoria. The Company employs 83 people, mostly from within the region.

The Company engages openly and honestly with people affected by its operations and takes their views and concerns into account in decision making. As operations are located close to a highly urbanised area, significant effort is made in securing community support for ongoing activities.

The Company conducts regular attitude surveys to understand the key concerns of neighbours and the community and to assess the effectiveness of community affairs activities. The Company also conducts education programs with local schools which focus on geology, gold mining history, modern mining and environmental management.

Bendigo Mining has established a Community Advisory Board, which meets quarterly and consists of members of the community who provide the Company with feedback on views and concerns in the broader community.

The Company also runs two sponsorship programs for community based initiatives, namely the Environment Fund and the Sponsorship Fund. Each of these funds is run by a separate committee which is managed by community members and Company representatives who assess applications.

Mining and mine development under the southern part of the City of Bendigo have occurred for about nine years. No significant issues have arisen. Some residents can occasionally hear sound associated with underground mining, but at depths of 750 metres beneath the City, the Company's activities tend to proceed largely unnoticed.



## **CORPORATE GOVERNANCE**

**This section summarises the Company's Corporate Governance practices. The Corporate Governance charters and policies, as listed on the Company website [www.bendigominig.com.au](http://www.bendigominig.com.au) in "About Us - Corporate Governance", have been designed to comply as far as is practicable with ASX Corporate Governance Council's Principles and Recommendations.**

# CORPORATE GOVERNANCE STATEMENT

## Role of the Board and Management

The Board Charter is a key Corporate Governance document which defines the framework of rules, systems and processes by which authority is exercised and controlled within the Company. The Board of Directors is responsible for setting corporate direction, governance, defining broad issues of policy and governing the business of the Company to ensure it is conducted appropriately and in the best interests of all stakeholders.

Responsibility for the day-to-day management of the Company and its operations is delegated to senior executive management as defined in the Board Charter. A review of the performance of senior executives is completed annually by way of a formal performance appraisal.

## Composition of the Board

The majority of the Board are independent directors who provide an appropriate mix of business and specialist skills and qualifications. Details of the directors are set out in the Directors' Report.

The Corporate Governance Council defines independent directors as non-executives who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment. In accordance with this definition, the Board has four (P L McCarthy, R H Beevor, R A Guy, and R Woodall) out of a total of five directors being independent directors. The Chair, P L McCarthy, is an independent non-executive director whose role is separate from the role of Chief Executive Officer.

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. There are procedures in place, agreed by the Chairman, for directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each director at the date of this report is as follows: P L McCarthy two years eleven months, R H Beevor four years nine months, R A Guy two years seven months, R Woodall five years eleven months and R J Hanson eight months.

The Board has formed three Committees of the Board to assist in the efficient management of the Company: Audit and Risk Management Committee, Remuneration and Nomination Committee, and Health, Safety, Environment and Security Committee.

## Audit and Risk Management Committee

The Audit and Risk Management Committee comprises three independent non-executive directors: R H Beevor (Chairman), R A Guy and R Woodall. The qualifications of the directors and the number of meetings held are detailed in the Directors' Report.

The Committee's key responsibility is to supervise the audit function and the preparation of financial statements, in addition to overseeing financial controls and systems. Another key element is to manage the process of identification and management of business, financial and commercial risks. The Board has received statements relating to the integrity of internal controls and financial reporting from the Chief Executive Officer and the Chief Financial Officer.

## Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of three independent non-executive directors: R A Guy (Chairman), R H Beevor and P L McCarthy. The qualifications of the directors and the number of meetings held are detailed in the Directors' Report.

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. Details can be found in the Directors' Report.

In relation to its nomination responsibilities, the Committee establishes criteria for Board membership, reviews Board membership and identifies and nominates potential directors for consideration by the Board. Board membership is reviewed at least annually to ensure an appropriate mix of qualifications, skills and experience. The Remuneration and Nomination Committee also establishes and oversees processes for the review of the performance of individual directors and the Board as a whole.

## Health, Safety, Environment and Security (HSES) Committee

The objective of the Committee is to monitor health, safety, environment and security matters. The HSES Committee consists of P L McCarthy (Chairman), R H Beevor and R A Guy. The qualifications of the directors and the number of meetings held are detailed in the Directors' Report.

The Committee reviewed the Company's performance against a range of safety and environment targets. Particular attention was applied to assessing key risks, including ground water inrush, geotechnical conditions, site security and licence to operate. Audits were conducted of the Company's compliance with key Health, Safety and Environment legislation.

## Code of Conduct

The Board requires that all directors, executives and employees of the Company maintain high standards of integrity and accountability as defined in the Company's Value Statement and Code of Conduct.

A Share Trading Policy is also in place which restricts trading in Company securities by directors, employees, contractors and advisors.

## DIRECTORS' REPORT

The Directors present their report together with the financial report of the Company for the year ended 30 June 2007.

### 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 McCarthy**

CPEng, BSc (Eng), MGeosc, FAusIMM, MIEAust, MAIME, MAICD

Non - Executive Chairman

Mr McCarthy has more than 37 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. He is currently President of the AusIMM. 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.

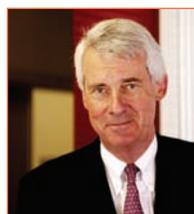


#### **Rod Hanson**

BE (Min) (Hons), MBA, FAusIMM, MAICD

Managing Director and Chief Executive Officer

Mr Hanson has 35 years experience in mine development, operations, project evaluation and corporate management roles, principally in gold and base metals. He held the position of General Manager - Operations with Plutonic Resources for seven years. He has also managed mines for Delta Gold in the Solomon Islands and for Sino Gold in China. He joined Bendigo Mining in January 2005 as the Chief Operating Officer and was appointed as the Managing Director and Chief Executive Officer in January 2007.



#### **Ronnie 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 and QMAG Limited and Chairman of EMED Mining Public Limited. He joined the Board in November 2002.



#### **Richard Guy OAM**

BAppSc, MSc

Non - Executive Director

Mr Guy is chairman of Bendigo-based Crystal Industries Group, a director of Girton Grammar School Limited until April 2006 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. 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. He vacated the chair of Bendigo Bank in March 2006 and resigned from the Bendigo Bank Limited Board in August 2006. 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. He joined the Board in September 2001.

#### Director Who Resigned During the Year

#### **Doug 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 resigned as a director of Bendigo Mining on 8 January 2007.

# DIRECTORS' REPORT continued

## Company Secretary

### Tim Churcher

BSc, MSc, DIC, MBA (Cranfield, UK), MAusIMM

Mr Churcher has 20 years experience in the resource and finance sectors, working initially for North Limited and Gold Mines of Kalgoorlie Limited. For the past 15 years he has operated in the finance sector, working as a financial analyst in London (Mining Journal Limited), in Australia for JB Were & Son Limited and in private equity investment with Renaissance Capital Limited. He joined the Company in January 2005 as General Manager Corporate Development, was appointed Chief Financial Officer in January 2007 and Company Secretary in July 2007.

## 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	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
P L McCarthy	14	14	3	3	-	-	3	3
R H Beevor	14	13	3	3	6	6	3	3
R A Guy	14	13	3	3	6	6	-	-
R J Hanson	4	4	-	-	-	-	2	2
R Woodall	14	13	-	-	6	6	-	-
A D Buerger	10	8	-	-	-	-	1	1

## Principal Activities

The principal activities of the Company during the course of the financial year were mining, production and exploration.

## Review of Operations

The Kangaroo Flat processing plant was commissioned on the 1 October 2006 and ceased operations due to limited reserves in May 2007. During this time 175,966 tonnes of ore were treated grading 5.4 g/t gold, and at an average gold recovery of 88%, produced 26,735 ounces of gold. A further 3,122 ounces of gold was produced during commissioning and decommissioning and hence total gold production during this phase of operation was 29,857 ounces or almost one tonne of gold.

Underground mine development of 5,196 metres and exploration drilling of 49,300 metres were completed during the year.

## State of Affairs

The Company raised \$56.1 million of equity (\$54.0 million after expenses) by way of an institutional placement of \$49.8 million at \$0.80 per share in November 2006 and a share purchase plan of \$6.3 million at \$0.80 per share in December 2006.

During the 2007 financial year the Company expended funds on underground development, plant construction, mining, production and exploration. The Company announced a change in strategy in January 2007 due to poor results received from mining in the Deborah and Sheepshead lines of mineralisation. As a result, the following expenses were recognised in the half year accounts in December 2006 and contributed significantly to the \$239.8 million net loss for the year:

Impairment of non current assets	\$160.8 million
Deferred tax asset de-recognition	\$45.8 million
Depreciation and amortisation	\$7.3 million
	<hr/>
	\$213.9 million

A further \$950,000 impairment charge was made during the six month period ending 30 June 2007.

## DIRECTORS' REPORT continued

Mining and ore processing activities ceased in May 2007. 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

The Company is now focused on exploring the more highly endowed lines of mineralisation. From January 2007, drilling has focused on depth extensions of the Garden Gully and New Chum lines of mineralisation. This exploration has discovered four new reefs on Garden Gully. The Company has committed to a fundamentally different approach in exploration, and is making assessments of size and quality of mineralisation based on a combination of visual estimates, assays and accumulated knowledge. The Company has a permitted operation and a large underground mine developed to 900 metres depth and over 3 km in length. A new process plant rated at 600,000 t/y, along with mining equipment and necessary infrastructure (ventilation, dewatering pumps, water treatment plant and pipelines), is in place to capitalise on future exploration success.

### 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' 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	286,936	-
R A Guy	106,250	-
R J Hanson <sup>(1)</sup>	204,250	520,000
P L McCarthy	65,728	-
R Woodall	72,173	-

<sup>(1)</sup> R J Hanson has been granted 472,855 performance rights subject to shareholder approval at the 2007 General Meeting to be held in November. Refer to the remuneration report contained within the Directors' Report for full details of the performance rights.

### 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 were for R H Beevor, Oxiana Limited from 2002 to date, Kimberley Diamond Company N.L., from 2003 to 2004, EMED Mining Public Limited from 2004 to date and Northern Gold N.L. from 2005 to 2006, for R A Guy, Bendigo Bank Limited from 1982 to 2006, for R J Hanson, nil, for P L McCarthy, Castlemaine Goldfields Limited, 2006 to date and for R Woodall, Strike Oil Limited 1996 to 2006.

### Performance Rights

Under the Company's long term incentive plan, R J Hanson will be granted a maximum of 1,182,137 conditional Performance Rights and T S Churcher will be granted a maximum of 919,440 conditional Performance Rights. The Performance Rights will be issued in three tranches from 2007 to 2009. The Performance Rights provide the opportunity to receive fully paid ordinary shares for nil cost, contingent on achieving a performance hurdle over a three-year performance period.

Refer to the remuneration report contained within the Directors' Report for full details of the performance rights.

### Share Options

No options were issued to Company executives pursuant to the Bendigo Mining Share Option Plans during the 2007 financial year.

Refer to the remuneration report contained within the Directors' Report and to note 14 to the financial statements for full details on share options issued in prior financial years.

## DIRECTORS' REPORT continued

### Indemnification

The Company has entered into a Deed of Access, Insurance and Indemnity with each of the Directors and Officers to indemnify each Director and Officer to the extent permitted by law against certain liabilities and legal costs incurred whilst acting in his or her capacity as a Director or Officer.

### Auditor's Independence Declaration

The auditor's independence declaration is included on page 26.

### Dividend

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

### Non-audit Services

No non-audit services were provided by the external auditors during the financial year.

### Environmental Governance

#### Environmental Performance

The Company conducts its operations in strict accordance with regulatory requirements, standards and codes of practice particularly those relating to noise, air quality, blast vibration, odour and water treatment, and in line with current community expectations for responsible and sustainable practice.

During the financial year, limits prescribed as part of the environmental monitoring program were exceeded on 27 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 taken to prevent recurrence.

A minor water discharge incident occurred in the year which resulted in a penalty infringement notice being served on the Company by the EPA.

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# DIRECTORS' REPORT continued

## Remuneration Report – Audited

It is the Board's policy that remuneration packages reflect market conditions and the duties and responsibilities of the positions. The remuneration packages also recognise and reward performance, and provide an incentive to pursue the long term growth objectives 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 per year. 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.

### Company Executives

Executive remuneration comprises fixed and variable remuneration. Fixed remuneration includes base salary, superannuation and any applicable fringe benefits. Variable remuneration includes short term and long term incentive payments which are typically share-based and contingent on achieving price and or performance hurdles. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Remuneration and Nomination Committee seeks external advice in connection with the structure of remuneration packages. The Committee has reviewed the results of an industry remuneration survey for comparable positions and has given recognition to the challenges inherent in developing the Bendigo Project optimally when setting the executive remuneration levels.

No short term incentive ('STI') bonuses were awarded under the scheme in operation during the 2007 financial year.

A new long term incentive plan ('LTIP') was introduced during the 2007 financial year for the Chief Executive Officer and Chief Financial Officer. No short term incentive plan is currently in operation for executive management. It is considered that a more appropriate mechanism to motivate and retain executives to implement the Company's medium to long term strategy can be met through the LTIP.

Under the LTIP the Company will make an annual grant to eligible employees of conditional Performance Rights to receive ordinary fully paid shares in the Company by way of issue for nil cost. The vesting of Performance Rights is contingent on the Company achieving a performance hurdle over a three year performance period.

To create a retention mechanism under the LTIP, a three year plan was adopted in which eligible employees will receive an annual grant of Performance Rights drawn from a Performance Rights Pool ('Pool'). The size of the Pool for each eligible employee is the chosen level of equity-based remuneration multiplied by the eligible employee's Total Fixed Remuneration (TFR) multiplied by the number of years of the plan, which is three. This dollar value is converted to a number of Performance Rights using the one-month Volume Weighted Average Price ('VWAP') of the Company's shares prior to the initial grant date. The total number of Performance Rights constitutes the total Pool from which future annual grants are made. The value of the Pool for each eligible employee is set at the time of the initial grant of Performance Rights and will not change over the three year period irrespective of any change in the TFR of the eligible employee.

The annual grant of Performance Rights from the Pool is 40% on 2 April 2007, 30% on 2 April 2008 and 30% on 2 April 2009. The allocation to the Chief Executive Officer is subject to shareholder approval being obtained at the General Meeting to be held in November 2007. The Chief Financial Officer's Performance Rights will be allocated in November 2007 in accordance with the ASX listing rules. To ensure the benefits of the LTIP are maintained up to the date when the Performance Rights can be allocated, the Board has entered into agreements with the executives that provide for the value of any benefits that may accrue under the LTIP to be paid in cash rather than shares. The cash equivalent will no longer apply once the Performance Rights are allocated.

The size of the Pool using a VWAP on 2 April 2007 of \$0.34, is 1.2 million Performance Rights for the Chief Executive Officer and 0.9 million Performance Rights for the Chief Financial Officer.

The annual grant of Performance Rights from the Pool is as follows:

Title	Initial Grant 2 April 2007 40% of pool	Year 2 Grant 2 April 2008 30% of pool	Year 3 Grant 2 April 2009 30% of pool	Total Performance Rights
CEO	472,855	354,641	354,641	1,182,137
CFO	367,776	275,832	275,832	919,440
<b>Total</b>	<b>840,631</b>	<b>630,473</b>	<b>630,473</b>	<b>2,101,577</b>

Once granted, the Performance Rights will not vest until the Performance Date and Performance Hurdle have been achieved. The Performance Date is set at three years from the date of each grant.

# DIRECTORS' REPORT continued

## Remuneration Report – Audited *continued*

In addition to the performance period of three years, the vesting of Performance Rights is subject to strict performance hurdles which if not satisfied at the Performance Date, will cause the entitlements to lapse. There is no ability to re-test whether or not the Performance Right has satisfied the performance hurdle or hurdles after the performance period has ended.

The number of Performance Rights which vest is determined by assessing the performance of the Company, as measured by Total Shareholder Return (TSR) at the Performance Date relative to a comparator group of Companies (the "Performance Hurdle"). The VWAP of the Company in the one-month preceding the Performance Date compared to VWAP of the Company in the one-month preceding the initial grant date, will be used in calculating TSR over the three-year period. The TSR incorporates capital returns as well as dividends notionally reinvested and is considered the most appropriate means of measuring Company performance.

The broad comparator group chosen on which to compare Company performance is the S&P/ASX All Ords Gold sub-industry index. The average index level in the one-month preceding the Performance Date compared to the average index level in the one-month preceding the grant date will be used in calculating the comparator group performance over the three-year period.

Performance Rights will only convert to shares subject to the Performance Period being met and subject to the Company's TSR being 10% above the comparator group performance. The entire annual allocation will convert if Company TSR is 20% or higher than the comparator group performance. The detailed breakdown of the relationship between Company performance and the conversion of Performance Rights is:

- Zero percent converting if the Company TSR performance is below the threshold 10 percent out-performance of the comparator group.
- 50 percent converting if the Company TSR performance is at the threshold 10 percent out performance of the comparator group.
- 100 per cent converting when 20 percent out performance is achieved.
- Straight line pro-rata conversion between 10 percent and 20 percent out performance.

In addition to the performance period and performance hurdle, the vesting of Performance Rights is subject to the continuing employment of the executive. Performance Rights will generally lapse on an eligible employee's resignation or dismissal.

The value of the shares that the executives will receive if the performance hurdles are met depends on the share price at the Performance Date. For example, in the case of the Chief Executive Officer, assuming all Performance Rights are converted to shares at a price of \$0.20 per share, the value would be \$236,427 or at a share price of \$0.60 per share the value would be \$709,282. Using the same example share prices for the Chief Financial Officer, the value would be \$183,888 and \$551,664.

The Total Shareholder Return (TSR) of Bendigo Mining Shares has been volatile over the past three years reflecting the various stages of the Company's evolving strategy. The TSR in 2005 and 2006, was positive 18% and 87% respectively, as the financial risk of the Company was reduced through successful equity raisings in 2005 and 2006, an improved gold price and the successful start of construction of the Bendigo Gold project. The 2007 year has been particularly poor with a TSR of -81% reflecting the operational difficulties which necessitated a shift in strategy from producer back to explorer, as announced on 8 January 2007. Poor performance in 2007 has meant that no STI payments were made to executives or LTI incentives exercised by executives. Significant changes were made to the executive team with a reduction in number from five to two. A new long term incentive plan has been introduced for the restructured executive team and new strategy as detailed above.

### Company Executive Contracts

Termination payments equal to 12 months remuneration is required upon termination by the Company for the Chief Executive Officer and Chief Financial Officer unless the termination occurs because the executive engages in conduct that warrants the summary termination of the contract or the executive commits a material breach of the contract that is not remedied within a specified time or cannot be remedied. Three months notification is required by the Chief Executive Officer and the Chief Financial Officer to terminate their contracts.

### Director and Executive Details

The Directors and Company Executives of Bendigo Mining Limited during the financial year were:

#### Directors

- Peter McCarthy (Non-executive Chairman)
- Ronnie Beevor (Non-executive)
- Richard Guy (Non-executive)
- Rod Hanson (Appointed Managing Director and Chief Executive Officer on 8 January 2007, formerly Chief Operating Officer)
- Roy Woodall (Non-executive)
- Doug Buerger (Managing Director and Chief Executive Officer, resigned on 8 January 2007)

# DIRECTORS' REPORT continued

## Remuneration Report – Audited continued

### Company Executives

- Tim Churcher (Appointed Chief Financial Officer on 8 January 2007, formerly General Manager Corporate Development)
- Hilko Dusseljee (Chief Financial Officer, ceased employment on 19 January 2007)
- Garry Johansen (General Manager Geology, ceased employment on 12 January 2007)

### Director and Executive Remuneration

The following tables disclose the compensation of the Directors and Executive Officers of the Company.

	Year	Short-term employee benefits			Post Employment	Termination Benefits	Share-based payment	Total
		Salary & fees	Leave <sup>(1)</sup>	Non-Monetary <sup>(2)</sup>	Super-annuation		Amortised value of equity securities	
		\$	\$	\$	\$	\$	\$	
<b>Current Directors</b>								
R H Beevor	2007	54,500	-	-	-	-	-	54,500
	2006	54,500	-	-	-	-	-	54,500
R A Guy	2007	50,000	-	-	4,500	-	-	54,500
	2006	50,000	-	-	4,500	-	-	54,500
R J Hanson <sup>(3)</sup>	2007	344,635	41,191	48,245	31,017	-	74,608 <sup>(4)</sup>	539,696
	2006	236,584	13,912	71,930	21,293	-	99,261 <sup>(5)</sup>	442,980
P L McCarthy <sup>(6)</sup>	2007	100,000	-	-	9,000	-	-	109,000
	2006	72,179	-	-	6,496	-	-	78,675
R Woodall	2007	54,500	-	-	-	-	-	54,500
	2006	54,500	-	-	-	-	-	54,500
<b>Current Executives</b>								
T S Churcher <sup>(7)</sup>	2007	276,037	31,727	23,513	24,843	-	71,286 <sup>(4)</sup>	427,406
	2006	218,376	11,709	975	19,654	-	99,261 <sup>(5)</sup>	349,975
<b>TOTAL</b>	<b>2007</b>	<b>879,672</b>	<b>72,918</b>	<b>71,758</b>	<b>69,360</b>	<b>-</b>	<b>145,894</b>	<b>1,239,602</b>
	<b>2006</b>	<b>686,139</b>	<b>25,621</b>	<b>72,905</b>	<b>51,943</b>	<b>-</b>	<b>198,522</b>	<b>1,035,130</b>

<b>Former Directors</b>								
A D Buerger <sup>(8)</sup>	2007	231,637	7,834	13,782	20,847	153,732 <sup>(9)</sup>	(83,000) <sup>(10)</sup>	344,832
	2006	344,384	53,552	31,209	30,995	-	179,876 <sup>(10)</sup>	640,016
R B Davis <sup>(11)</sup>	2006	58,333	-	-	5,250	285,000	(82,506) <sup>(12)</sup>	266,077
<b>Former Executives</b>								
H L Dusseljee <sup>(13)</sup>	2007	155,763	16,711	13,298	14,019	320,000 <sup>(14)</sup>	(49,898) <sup>(15)</sup>	469,893
	2006	260,831	36,055	21,576	23,475	-	99,261 <sup>(5)</sup>	441,198
G F Johansen <sup>(16)</sup>	2007	138,585	13,251	15,918	12,473	300,000 <sup>(14)</sup>	(49,898) <sup>(17)</sup>	430,329
	2006	229,411	50,829	26,208	20,647	-	99,261 <sup>(5)</sup>	426,356
<b>TOTAL</b>	<b>2007</b>	<b>525,985</b>	<b>37,796</b>	<b>42,998</b>	<b>47,339</b>	<b>773,732</b>	<b>(182,796)</b>	<b>1,245,054</b>
	<b>2006</b>	<b>892,959</b>	<b>140,436</b>	<b>78,993</b>	<b>80,367</b>	<b>285,000</b>	<b>295,892</b>	<b>1,773,647</b>

# DIRECTORS' REPORT continued

## Remuneration Report – Audited continued

- (1) Leave entitlements represent the increase in value of annual and long service leave. The increase in certain executives' long service leave entitlements is included in short-term benefits as they are deemed payable within twelve months. No long-term employee benefits are shown for the current executives as no long service leave entitlement has been recognised.
- (2) Non monetary benefits include the provision of motor cars, salary continuance insurance and fringe benefit taxation.
- (3) R J Hanson (Managing Director and Chief Executive Officer), appointed 8 January 2007, formerly Chief Operating Officer.
- (4) Performance Rights series No. 1 and Option series No. 9 (refer to Performance Rights and Share Options section below for further details)
- (5) Option series No. 9 (refer to the Share Options section below for further details).
- (6) P L McCarthy (Non-executive Chairman), appointed as Chairman on 20 January 2006.
- (7) T S Churcher (Chief Financial Officer), appointed 8 January 2007, formerly General Manager Corporate Development.
- (8) A D Buerger (Managing Director and Chief Executive Officer), resigned on 8 January 2007.
- (9) The Board agreed to pay a three month notice period provided by Mr Buerger plus motor vehicle and minor benefits as a termination benefit in recognition of 12 years of service.
- (10) These options lapsed on 8 March 2007 as a consequence of Mr Buerger's resignation on 8 January 2007. (Refer to Option series No. 10 in the Share Options section below for further details)
- (11) R B Davis (Non-executive Chairman), resigned effective 1 February 2006.
- (12) These options lapsed as a consequence of Mr Davis' resignation with effect from 1 February 2006. (Refer to Option series No. 8 in the Share Option note 14 to the financial statements for further details)
- (13) H L Dusseljee (Chief Financial Officer), ceased employment on 19 January 2007.
- (14) Termination benefits represent the contractual entitlements paid to the executive officers in accordance with the provisions contained in the executive contracts.
- (15) These options lapsed on 19 March 2007 as a consequence of Mr Dusseljee ceasing employment on 19 January 2007. (Refer to Option series No. 9 in the Share Options section below for further details)
- (16) G F Johansen (General Manager Geology), ceased employment on 12 January 2007.
- (17) These options lapsed on 12 March 2007 as a consequence of Mr Johansen ceasing employment on 12 January 2007. (Refer to Option series No. 9 in the Share Options section below for further details)

### Performance Rights

Company executives participated in the following Performance Rights series that were deemed to be issued during the 2007 financial year:

Performance Right series	Number	Deemed <sup>(1)</sup> grant date	Expiry date	Exercise price	Grant date share price	Fair value at grant date
1	840,631	2/4/07	1/4/10	Nil	\$0.38	\$0.38

**Performance Rights Series 1:** These Performance Rights will vest in full on 1 April 2010 if performance hurdles are met. The Performance Rights convert to shares for nil cost. At the deemed grant date, 2 April 2007, the share price was \$0.38 and the value of the Performance Rights at that date was estimated at \$0.38.

(1) The allocation to the Chief Executive Officer is subject to shareholder approval being obtained at the General Meeting to be held in November 2007. The Chief Financial Officer's Performance Rights will be allocated in November 2007 in accordance with ASX listing rules. To ensure the benefits of the LTIP are maintained up to the date when the Performance Rights can be granted, the Board has entered into agreements with the executives that provide for the value of any benefits that may accrue under the LTIP to be paid in cash rather than shares. The cash equivalent will no longer apply once the Performance Rights are allocated.

### Fair Value Calculations – Performance Rights

The fair value of Performance Rights, comprising the rights over unissued shares, is equal to the share price at the time of granting the Performance Rights irrespective of the estimated volatility, risk-free interest rate and life of the Performance Rights, as the Performance Rights are exercisable at nil cost if the performance hurdles are met. No discount in the value of the Performance Rights has been undertaken to account for the performance hurdles.

The fair value of the Performance Rights deemed to be granted during the 2007 financial year is \$0.38 being the share price on the deemed grant date of 2 April 2007, (2006: nil issued).

# DIRECTORS' REPORT continued

## Remuneration Report – Audited *continued*

### Share Options

No options were issued to Company executives or other employees pursuant to the Bendigo Mining Share Option Plans during the 2007 financial year.

Company executives participated in the following option series issued during the 2006 financial year:

Option series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
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 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 \$1.26 per share. The exercise price of the options was set at the VWAP of 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 \$0.32. The value of the options was increased by \$0.04 to an average of \$0.36 as a result of the 3:5 Rights Issue in November 2005, (26 July 2006 vesting options being \$0.31, 26 July 2007 vesting options being \$0.36 and 26 July 2008 options being \$0.42).

**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 \$0.48. (26 July 2006 vesting options being \$0.42, 26 July 2007 vesting options being \$0.48 and 26 July 2008 options being \$0.54) These options lapsed on 8 March 2007 as a result of the resignation of Mr Buerger on 8 January 2007.

### Fair Value Calculations - Options

Options were valued using the Black-Scholes option pricing model. An estimate of the expected number of options to vest in the 2008 or later financial years has been made and will be adjusted in the future reporting periods to equal the number of options that ultimately vest. An adjustment was made to the previously estimated number of options to vest in the 2007 financial year for the actual number of options that ultimately vested. Refer to note 14 of the financial statements for full details on option series 9 and 10.

The key inputs into the Black-Scholes model for the option series that Company executives had received during the 2006 financial year were a 30% volatility, 5 year term, 5.3% risk-free interest rate, nil dividends, \$1.26 exercise price and grant date share price of \$1.14 for option series number 9 and \$1.31 for options series number 10.

### Modification of Terms of Option Transactions

Options (series no. 9) that were issued to T S Churcher, H L Dusseljee, R J Hanson and G F Johansen during the 2006 financial year increased in value as a result of the 3:5 Rights Issue on 8 November 2005. The exercise price of the 520,000 options held by each of the Company executives decreased from \$1.39 to \$1.26 per share as a result of the rights issue. The total fair value of options held by each increased from \$167,301 to \$187,061 as a result of the Rights Issue. The fair value increment for each option was \$0.04.

The key inputs into the Black-Scholes model for the incremental fair value calculations were 30% volatility, 4.7 year remaining term, 5.3% risk-free interest rate, nil dividends, \$1.26 exercise price and the share price at the date of the 3:5 Rights Issue of \$1.04.

# DIRECTORS' REPORT continued

## Remuneration Report – Audited continued

### Value of Performance Rights and Options Issued to Directors and Company Executives

The following table discloses the value of performance rights and options granted, exercised and lapsed during the year.

	Performance Rights and Options Granted	Performance Rights and Options Exercised	Performance Rights and Options Lapsed	Total value of performance rights and options granted, exercised and lapsed	Amortised value of equity securities in remuneration for the year	Percentage of total remuneration for the year that consists of performance rights and options
	Value at grant date	Value at exercise date	Value at time of lapse			
	\$	\$	\$			
<b>Directors</b>						
R H Beevor	-	-	-	-	-	-
R A Guy	-	-	-	-	-	-
R J Hanson	14,949	-	-	-	74,608	13.8
P L McCarthy	-	-	-	-	-	-
R Woodall	-	-	-	-	-	-
A D Buerger	-	-	1,265	1,265	(83,000)	-
<b>Company Executives</b>						
T S Churcher	11,627	-	-	-	71,286	16.7
H L Dusseljee	-	-	832	832	(49,898)	-
G F Johansen	-	-	884	884	(49,898)	-

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

- Fair value of the performance rights and options at grant date multiplied by the number of performance rights and options granted during the year; plus
- Fair value of the performance rights and options at the time it its exercised multiplied by the number of performance rights and options exercised during the year; plus
- Fair value of the performance rights and options at the time of lapse multiplied by the number of performance rights and options lapsed during the year.

The value of the performance rights and options included in remuneration for the year is based on the fair value determined at grant date and is recognised 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.



**Peter McCarthy**  
Chairman

Bendigo, 27 August 2007.



**Rod Hanson**  
Managing Director & CEO

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27 August 2007

The Board of Directors  
Bendigo Mining Limited  
66 Ham Street  
KANGAROO FLAT VIC 3555

Dear Board Members

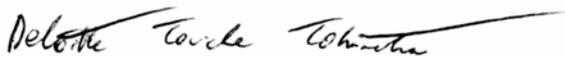
### **Bendigo Mining Limited**

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 2007, 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  
Chartered Accountants

# BENDIGO MINING LIMITED

## BALANCE SHEET

AS AT 30 JUNE 2007

	Note	2007 \$'000	2006 \$'000
<b>CURRENT ASSETS</b>			
Cash	3	71,778	96,880
Receivables	4	1,353	5,201
Other financial assets	5	-	71
Inventories	6	1,881	1,494
Other	7	246	228
<b>TOTAL CURRENT ASSETS</b>		<b>75,258</b>	<b>103,874</b>
<b>NON CURRENT ASSETS</b>			
Other financial assets	5	2,440	2,440
Property, plant & equipment and mine development	8	21,658	147,862
Deferred tax assets	20	-	48,630
<b>TOTAL NON CURRENT ASSETS</b>		<b>24,098</b>	<b>198,932</b>
<b>TOTAL ASSETS</b>		<b>99,356</b>	<b>302,806</b>
<b>CURRENT LIABILITIES</b>			
Payables	9	7,425	23,715
Provisions	10	903	1,344
<b>TOTAL CURRENT LIABILITIES</b>		<b>8,328</b>	<b>25,059</b>
<b>NON CURRENT LIABILITIES</b>			
Provisions	11	3,974	2,410
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>3,974</b>	<b>2,410</b>
<b>TOTAL LIABILITIES</b>		<b>12,302</b>	<b>27,469</b>
<b>NET ASSETS</b>		<b>87,054</b>	<b>275,337</b>
<b>EQUITY</b>			
Issued capital	13	419,472	368,272
Reserves	15	1,355	1,064
Accumulated losses	16	(333,773)	(93,999)
<b>TOTAL EQUITY</b>		<b>87,054</b>	<b>275,337</b>

Notes to the financial statements are included on pages 31 to 48.

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# BENDIGO MINING LIMITED

## INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	2007 \$'000	2006 \$'000
<b>SALES REVENUE</b>		<b>22,019</b>	-
<b>COST OF SALES</b>			
Mining, processing and administration costs		(26,459)	-
Depreciation and amortisation		(8,452)	-
<b>TOTAL COST OF SALES</b>		<b>(34,911)</b>	-
<b>GROSS (LOSS) / PROFIT</b>		<b>(12,892)</b>	-
Interest and other Revenue	17	6,140	8,077
Exploration expenses		(5,500)	(3,494)
Mining expenses		(14,976)	(16,610)
Corporate expenses		(5,048)	(5,214)
Impairment of non current assets	8	(161,704)	-
<b>LOSS BEFORE TAX</b>		<b>(193,980)</b>	<b>(17,241)</b>
Income tax (expense) / benefit	20	(45,794)	4,254
<b>LOSS FOR THE PERIOD</b>		<b>(239,774)</b>	<b>(12,987)</b>
<b>EARNINGS PER SHARE:</b>			
Basic and Diluted Loss Per Share - (cents per share)		(51.1)	(3.5)

Notes to the financial statements are included on pages 31 to 48.

# BENDIGO MINING LIMITED

## STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	2007 \$'000	2006 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		24,093	-
Interest and other revenue received		5,078	7,844
Payments to suppliers and employees		(45,390)	(22,924)
Net cash used in operating activities	19	<u>(16,219)</u>	<u>(15,080)</u>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
Payments for property, plant & equipment and mine development		(69,445)	(111,339)
Proceeds from sale of property, plant & equipment and mine development		6,526	23
Net cash used in investing activities		<u>(62,919)</u>	<u>(111,316)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		56,115	140,193
Capital raising expenses		(2,079)	(6,516)
Net cash provided by financing activities		<u>54,036</u>	<u>133,677</u>
Net (decrease) / increase in cash held		(25,102)	7,281
Cash at the beginning of the Financial Year		96,880	89,599
<b>CASH AT YEAR END</b>	3	<b><u>71,778</u></b>	<b><u>96,880</u></b>

Notes to the financial statements are included on pages 31 to 48.

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# BENDIGO MINING LIMITED

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	Note	Share Capital \$'000	Reserves \$'000	Accumulated Losses \$'000	Total \$'000
<b>Balance at 30 June 2006 Brought Forward</b>		<b>368,272</b>	<b>1,064</b>	<b>(93,999)</b>	<b>275,337</b>
<b>Changes in Equity</b>					
Transaction costs incurred on issuance of shares	13	(2,079)	-	-	(2,079)
Items taken directly to or transferred from equity – de-recognition of deferred tax asset	20	(2,836)	-	-	(2,836)
Net income recognised directly in equity		(4,915)	-	-	(4,915)
Loss for the period	16	-	-	(239,774)	(239,774)
Total recognised income and expense for the period		(4,915)	-	(239,774)	(244,689)
Issue of share capital	13	56,115	-	-	56,115
Recognition of share based payments	15	-	291	-	291
<b>Balance at 30 June 2007</b>		<b>419,472</b>	<b>1,355</b>	<b>(333,773)</b>	<b>87,054</b>

	Note	Share Capital \$'000	Reserves \$'000	Accumulated Losses \$'000	Total \$'000
<b>Balance at 30 June 2005 Brought Forward</b>		<b>232,640</b>	<b>82</b>	<b>(81,012)</b>	<b>151,710</b>
<b>Changes in Equity</b>					
Transaction costs incurred on issuance of shares	13	(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	16	-	-	(12,987)	(12,987)
Total recognised income and expense for the period		(4,561)	-	(12,987)	(17,548)
Issue of share capital	13	140,193	-	-	140,193
Recognition of share based payments	15	-	982	-	982
<b>Balance at 30 June 2006</b>		<b>368,272</b>	<b>1,064</b>	<b>(93,999)</b>	<b>275,337</b>

Notes to the financial statements are included on pages 31 to 48.

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# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 1 ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Company has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period.

At the date of authorisation of the financial report, the AASB 7 "Financial Instruments: Disclosures" standard, AASB 101 "Presentation of Financial Statements" standard and Interpretation 10 "Interim Financial Reporting and Impairment" were in issue but not yet effective.

The Directors anticipate that the adoption of these Standards and Interpretation in future periods will have no material financial impact on the financial statements of the Company, but may change the current disclosures in relation to cash holdings.

These Standards and Interpretations will be applied in the Company's annual reporting period beginning on 1 July 2007.

### 2 SIGNIFICANT 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 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 27 August 2007.

#### 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.

The Company is a Company of the kind referred to in ASIC Class Order 98/0110, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

#### 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, bank bills, Commonwealth and State Government securities which have a maturity profile of less than 90 days after balance date.
- (b) **Other Financial Assets** - The Company has financial investments in the form of short term bank deposits 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 are expensed as incurred, except when an area reaches the stage of evaluation that such expenditure is considered to be capable of being recouped through successful development, or at the reporting date the exploration and evaluation activities in the area of interest have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable resources. Costs that are not expensed as incurred are capitalised as Mine Development.
- (d) **Mine Development** - The costs of mine development is capitalised to the extent that these costs are expected to be recouped through commercially viable extraction of resources. Costs arising from mine development are depreciated according to the depreciation accounting policy.
- (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.

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 2 SIGNIFICANT ACCOUNTING POLICIES *continued*

- (f) **Depreciation** - Depreciation is provided on all mine development, property, 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 are written off on a units of production basis for the units recovered from an area of interest or from the expected units from the entire mine life. Property, plant and equipment costs are written off on a unit of production basis from the expected units from the entire mine life or between 2 and 25 years on a straight line basis.
- (g) **Impairment of Assets** - At the end of each reporting period the Company reviews assets with the objective of ensuring 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. 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 the income statement.
- (h) **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 reviewed 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 (recognised as additions or changes to the corresponding asset and rehabilitation liability). Rehabilitation costs arising from Exploration and Evaluation expenditure will be expensed. Long dated Government fixed coupon rates are used to discount the projected expenditure back to a net present value.

- (i) **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.
- (j) **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. Cost represents the weighted average cost and includes direct costs and an appropriate proportion of fixed and variable direct costs and an appropriate proportion of fixed and variable direct overhead expenditure, including depreciation and amortisation.
  - 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.
- (k) **Income Tax** -

**Current Tax** - is calculated by reference to the amount of income tax payable or recoverable at the applicable tax rates in respect of the taxable profit or tax loss for the period. 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 either 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.

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 2 SIGNIFICANT ACCOUNTING POLICIES *continued*

- (l) **Segment Accounting** - The Company operates within the gold mining industry in Australia.
- (m) **Share Based Payments** - Equity-settled share-based payments granted after November 2002 that vested after 1 January 2005, are measured at fair value at the date of grant by use of the Black-Scholes option pricing model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will ultimately vest. Further details on how the fair value has been determined can be found in note 14.
- (n) **Goods and Services Tax** - Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority, it is then recognised as part of the cost of acquisition of an asset or as part of an item of expense, or for receivables and payables which are recognised inclusive of GST. The net amount of GST recoverable from the taxation authority is included in 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** -
- Interest revenue - Interest from investments is recognised on an accrual basis.
  - 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.

### 3 CASH

	2007 \$'000	2006 \$'000
Cash at bank	212	47
Bank term deposits	7,471	15,645
Bank bills, Commonwealth and State Government securities	64,095	81,188
	<b>71,778</b>	<b>96,880</b>

Bank bills, Commonwealth and State Government securities have been purchased to yield interest at rates ranging from 6.20% to 6.43% with a weighted average interest rate of 6.32% (2006: 5.72%). 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 all 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.

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 4 CURRENT RECEIVABLES

	2007 \$'000	2006 \$'000
Accounts receivable	1,066	4,649
Interest receivable	287	552
	<b>1,353</b>	<b>5,201</b>

The average credit period on accounts receivable is less than 60 days, and consequently no interest charges are applied. The Company has a history of 100% collection of accounts receivable amounts, and therefore no provision for doubtful debts is provided. Interest receivable is always received on the maturity of the investment security.

### 5 OTHER FINANCIAL ASSETS

Bank term deposits – current asset	-	71
Bank term deposits – non current asset	2,440	2,440
	<b>2,440</b>	<b>2,511</b>

Current Asset - a Bank Term Deposit to the value of \$71,000 on 30 June 2006 was lodged as security for the Company's obligations to meet retention payments to William Adams Pty Ltd for the purchase of underground equipment. The retention payments were made during the current financial year.

Non-Current Asset - Bank Term Deposits to the value of \$2,440,000 (2006: \$2,440,000) 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 11 & 23).

### 6 CURRENT INVENTORIES

Stores of consumables and spare parts	1,881	1,494
	<b>1,881</b>	<b>1,494</b>

### 7 OTHER CURRENT ASSETS

Prepayments	246	228
	<b>246</b>	<b>228</b>

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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

2007	Property \$'000	Plant & equipment \$'000	Mine development \$'000	Work in progress \$'000	Total \$'000
<b>Gross Carrying Amount</b>					
Balance at 30 June 2006	5,389	28,574	53,113	68,767	155,843
Additions	-	-	-	52,348	52,348
Transfers	2,174	77,678	40,936	(120,788)	-
Disposals	(70)	(5,683)	-	-	(5,753)
Balance at 30 June 2007	<u>7,493</u>	<u>100,569</u>	<u>94,049</u>	<u>327</u>	<u>202,438</u>
<b>Accumulated Depreciation/Amortisation and Impairment</b>					
Balance at 30 June 2006	(176)	(5,680)	(2,125)	-	(7,981)
Disposals	2	564	-	-	566
Impairment <sup>(1)</sup>	(1,251)	(76,284)	(84,169)	-	(161,704)
Depreciation expense	(151)	(4,255)	(7,255)	-	(11,661)
Balance at 30 June 2007	<u>(1,576)</u>	<u>(85,655)</u>	<u>(93,549)</u>	<u>-</u>	<u>(180,780)</u>
<b>Net Book Value</b>					
As at 30 June 2006	5,213	22,894	50,988	68,767	147,862
<b>As at 30 June 2007</b>	<b><u>5,917</u></b>	<b><u>14,914</u></b>	<b><u>500</u></b>	<b><u>327</u></b>	<b><u>21,658</u></b>

<sup>(1)</sup> Impairment of Non Current Assets

Due to the change in strategy to return to exploration, an impairment amount of \$160,754,000 was made to non current assets at 31 December 2006. A further \$950,000 impairment charge was made during the six month period ending 30 June 2007. The impairment is driven by the current uncertainty on the timing, grade and quantity of recoverable reserves which makes it difficult to determine for accounting purposes the recoverability of non-current assets until further successful exploration is completed. Upon successful exploration being completed which supports the resumption of production, the impairment of certain assets will be reversed.

The impairment asset type and amounts are as follows:

	2007 \$'000	2006 \$'000

#### Mine Development - Current Accessed Mineralisation:

The access development and exploration drilling that was previously capitalised for current accessed mineralisation was reviewed for impairment and written down to a nil value, due to the anticipated future benefits from these reefs not exceeding the operational expenditure to be incurred in obtaining those future benefits.

	<u>7,773</u>	<u>-</u>
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#### Mine Development - Unaccessed Mineralisation:

As a result of the shift in strategy, the mine development (including ventilation and lateral development) and exploration drilling that was previously capitalised has been written down to a nil value. Upon successful exploration being completed and the resumption of production, the impairment on some of these assets that will be utilised to support the production activities will be reversed to the extent that they would not have been depreciated had they been in use.

	<u>54,761</u>	<u>-</u>
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#### Process Plant:

Due to the cessation of production in the first half of 2007, the process plant was reviewed for impairment, and written down to a recoverable value. Upon successful exploration being completed and the resumption of production, the impairment on these assets will be reversed to the extent that they would not have been depreciated had they been in use.

	<u>61,797</u>	<u>-</u>
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# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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

The impairment asset type and amounts *continued*:

	2007 \$'000	2006 \$'000
<b>Infrastructure and Plant &amp; Equipment:</b>		
As a result of the shift in strategy, the infrastructure and plant and equipment that was previously capitalised (including water treatment plants, underground pump stations and rock storage facilities) were reviewed for impairment, and written down to a nil value. Upon successful exploration being completed and the resumption of production, the impairment on some these assets will be reversed to the extent that they would not have been depreciated had they been in use.	35,658	-
<b>Underground Mobile Equipment:</b>		
Due to the cessation of mining activities in the first half of 2007 a number of underground mobile equipment items were disposed off at an auction on 31 May 2007. These asset carrying values at 31 December 2006 were reviewed and impaired to a recoverable amount.	1,715	-
<b>Total</b>	<b>161,704</b>	<b>-</b>

2006	Property \$'000	Plant & equipment \$'000	Mine development \$'000	Work in progress <sup>(1)</sup> \$'000	Total \$'000
<b>Gross Carrying Amount</b>					
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	<u>5,389</u>	<u>28,574</u>	<u>53,113</u>	<u>68,767</u>	<u>155,843</u>
<b>Accumulated Depreciation</b>					
Balance at 30 June 2005	(59)	(4,256)	(54)	-	(4,369)
Disposals	17	111	-	-	128
Depreciation expense	(134)	(1,535)	(2,071)	-	(3,740)
Balance at 30 June 2006	<u>(176)</u>	<u>(5,680)</u>	<u>(2,125)</u>	<u>-</u>	<u>(7,981)</u>
<b>Net Book Value</b>					
As at 30 June 2005	2,421	4,455	10,854	9,104	26,834
<b>As at 30 June 2006</b>	<b><u>5,213</u></b>	<b><u>22,894</u></b>	<b><u>50,988</u></b>	<b><u>68,767</u></b>	<b><u>147,862</u></b>

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

	2007 \$'000	2006 \$'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:		
Land and buildings	151	134
Plant and equipment	4,255	1,535
Mine development	7,255	2,071
	<u><b>11,661</b></u>	<u><b>3,740</b></u>

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

	2007 \$'000	2006 \$'000
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### 9 CURRENT PAYABLES

Unsecured trade creditors	<b>7,425</b>	<b>23,715</b>
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The Company's payment policy and system ensures that all creditors are paid within payment terms, and consequently no discounts or penalty payments arise.

### 10 CURRENT PROVISIONS

Employee benefits – annual leave	848	1,074
– long service leave	55	270
	<b>903</b>	<b>1,344</b>

### 11 NON CURRENT PROVISIONS

Employee benefits – long service leave	22	18
Provision for rehabilitation	3,952	2,392
	<b>3,974</b>	<b>2,410</b>

During 2007 the Rehabilitation Provision increased as a result of a more conservative estimate being applied to the life of mine period than was applied in previous reporting periods. 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.

### 12 PROVISIONS

	Employee benefits \$'000	Rehabilitation \$'000	Total \$'000
Balance at 30 June 2006	1,362	2,392	3,754
Additional provisions recognised	1,619	1,624	3,243
Unwinding of discount and effect of changes in the discount rate	-	(64)	(64)
Payments made	(2,056)	-	(2,056)
<b>Balance at 30 June 2007</b>	<b>925</b>	<b>3,952</b>	<b>4,877</b>
Current (note 10)	903	-	903
Non-current (note 11)	22	3,952	3,974
<b>Balance at 30 June 2007</b>	<b>925</b>	<b>3,952</b>	<b>4,877</b>

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# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 13 ISSUED CAPITAL

	2007 Shares	2006 Shares
Issued shares – fully paid ordinary shares	495,433,780	425,290,255

	2007 \$'000	2006 \$'000
Issued share capital	<b>419,472</b>	<b>368,272</b>

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

	Number of ordinary shares	Issue price per ordinary share	Reason
i)	62,300,000	\$0.80	\$49.8M global institutional placement
ii)	7,843,525	\$0.80	\$6.3M share purchase plan
	<b>70,143,525</b>		

Movement for the year:	2007 Shares	2007 \$'000	2006 Shares	2006 \$'000
Balance at beginning of year	425,290,255	368,272	252,925,477	232,640
Ordinary share issues	70,143,525	54,036 <sup>(1)</sup>	172,364,778	135,632 <sup>(2)</sup>
De-recognition of deferred tax asset for items taken directly to equity		(2,836) <sup>(3)</sup>		-
<b>Balance at End of Year</b>	<b>495,433,780</b>	<b>419,472</b>	<b>425,290,255</b>	<b>368,272</b>

<sup>(1)</sup> The funds raised from ordinary share issues during 2007 were reduced by capital raising expenses of \$2,079,000.

<sup>(2)</sup> 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)

<sup>(3)</sup> Refer to note 20 for full details on the de-recognition of the deferred tax asset.

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 3,881,331 options on issue to Company Executives (including the Managing Director) and employees for the purchase of ordinary shares. Further details of the employee share option plans are contained in note 14. 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 2007

### 14 EMPLOYEE PERFORMANCE RIGHTS AND SHARE OPTION PLANS

No options were issued during the 2007 financial year. Options that were issued in previous periods had been issued pursuant to Bendigo Mining Share Option Plans and other specific issues as approved by shareholders. The options were provided to certain employees (including the Managing Director) to 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
5	4,002	5/9/00	4/9/06	\$2.22	\$0.10
9	4,370,000	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 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 \$0.23 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 \$0.13 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 \$0.18 and the average value of the options at that date was estimated at \$0.09.

**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 VWAP 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 \$0.32. The exercise price of the options was reduced by \$0.13 to \$1.26 and the value of the options was increased by \$0.04 to an average of \$0.36 as a result of the 3:5 Rights Issue in November 2005, (26 July 2006 vesting options being \$0.31, 26 July 2007 vesting options being \$0.36 and 26 July 2008 vesting options being \$0.42).

**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 \$0.48. (26 July 2006 vesting options being \$0.42, 26 July 2007 vesting options being \$0.48 and 26 July 2008 vesting options being \$0.54) These options lapsed on 8 March 2007 as a result of the resignation of A D Buerger on 8 January 2007.

**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 VWAP of 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 \$0.47. (28 April 2007 vesting options being \$0.38, 2 April 2008 vesting options being \$0.47 and 28 April 2009 options being \$0.56)

#### Fair Value Calculations

The weighted average fair value of the share options granted during the 2006 financial year was \$0.39 using the Black-Scholes option pricing model. 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, the mine development and construction phase and fundraising impacts on the Company's share price.

The Black-Scholes model input details for the option series that were included in the option expense during the 2007 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
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%

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 14 EMPLOYEE PERFORMANCE RIGHTS AND SHARE OPTION PLANS *continued*

#### Information on How Incremental Fair Value Granted was Calculated

The exercise price of options (series no. 9) that were included in the option expense during the 2007 and 2006 financial years were reduced by \$0.13, 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 9 by \$0.04. The key inputs into the Black-Scholes model for the incremental fair value calculation were a 30% volatility, 4.7 year term, 5.3% risk-free interest rate, nil dividends, \$1.26 exercise price and 3:5 Rights Issue date share price of \$1.04.

#### Recognition of Share Based Payments Expense

The total value of performance rights and 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 performance rights and options to be determined at grant date and to be recognised as an expense in the income statement over the vesting period, consequently a performance rights and share option expense of \$291,000 was incurred during the 2007 financial year (2006: \$982,000).

An amount of \$27,000 has been included in the above \$291,000 for performance rights that were agreed to be granted to the Chief Executive Officer and Chief Financial Officer on 2 April 2007. The allocation to the Chief Executive Officer is subject to shareholder approval being obtained at the General Meeting to be held in November 2007. The Chief Financial Officer's Performance Rights will be allocated in November 2007 in accordance with ASX listing rules. To ensure the benefits of the LTIP are maintained up to the date when the Performance Rights can be granted, the Board has entered into agreements with the executives that provide for the value of any benefits that may accrue under the LTIP to be paid in cash rather than shares. The cash equivalent will no longer apply once the Performance Rights are allocated.

#### 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	2007 Number of options	2007 Weighted average exercise price	2006 Number of options	2006 Weighted average exercise price
Balance at beginning of the financial year	6,483,002	\$1.60	844,524	\$0.93
Granted during the financial year	-	-	6,817,000	\$1.58
Exercised during the financial year (a)	-	-	(45,003)	\$1.67
Lapsed during the financial year	(2,601,671)	\$1.55	(1,133,519)	\$1.05
<b>Balance at the End of the Financial Year (b)</b>	<b>3,881,331</b>	<b>\$1.63</b>	<b>6,483,002</b>	<b>\$1.60</b>
<b>Exercisable at the End of the Financial Year</b>	<b>2,104,628</b>	<b>\$1.70</b>	<b>4,002</b>	<b>\$2.22</b>

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

Option series	No. of options exercised	Exercise date	Share price at exercise date
<b>2007</b>	Nil		
<b>2006</b>			
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
	<b>45,003</b>		

#### (b) Balance at End of Financial Year

Option series	Exercise price	Remaining weighted average exercise period
9	\$1.26	1,111 days
11	\$2.81	1,394 days

Share options carry no rights to dividends or voting.

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 15 RESERVES

	2007 \$'000	2006 \$'000
<b>Equity Compensation Reserve</b>		
Balance at beginning of financial year	1,064	82
Share-based payment expense	291	982
Transfer to share capital	-	-
<b>Balance at End of Financial Year</b>	<b><u>1,355</u></b>	<b><u>1,064</u></b>

The performance rights and share option expense incurred during the 2007 and 2006 financial years relates to the fair value of performance rights and share options as determined at grant date and expensed over the vesting period (refer to note 14). Amounts are transferred out of the reserve and into issued capital when the options are exercised.

### 16 ACCUMULATED LOSSES

Balance at beginning of financial year	93,999	81,012
Net loss	239,774	12,987
<b>Balance at End of Financial Year</b>	<b><u>333,773</u></b>	<b><u>93,999</u></b>

### 17 LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax expense includes the following items of revenue and expense:

#### (a) Operating Revenue

Gold sales	22,019	-
	<u>22,109</u>	<u>-</u>

#### (b) Interest and Other Revenue

Profit/(loss) on sale of property, plant & equipment	1,338	(142)
Interest received	4,673	7,507
Other	129	712
	<u>6,140</u>	<u>8,077</u>

#### (c) Expenses

Cost of sales	34,911	-
Impairment of non-current assets	161,704	-
Depreciation expense	1,932	3,740
Employee benefits		
Post employment employee benefits:		
Superannuation contributions	689	549
Equity-settled share-based payments	291	982
Transfer to provision for employee entitlements:		
Annual leave	746	453
Long service leave	9	117
Salary and wages and other employee benefits	9,004	4,283
Total employee benefits	<u>10,739</u>	<u>6,384</u>

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 18 REMUNERATION OF AUDITORS

	2007 \$	2006 \$
Audit or review of the financial reports	115,000	90,300
Other non-audit services – Investigating accountants' report for prospectus	-	47,071
	<b>115,000</b>	<b>137,371</b>

The auditor of Bendigo Mining Limited is Deloitte Touche Tohmatsu.

### 19 NOTES TO THE STATEMENT OF CASH FLOWS

	2007 \$'000	2006 \$'000
<b>(a) Reconciliation of Loss After Income Tax to Net Cash Provided for Operating Activities</b>		
Loss after income tax	(239,774)	(12,987)
Impairment	161,704	-
Depreciation	10,384	3,740
Option expense	291	982
(Profit)/loss on sale of non current assets	(1,338)	142
<b>(Increase)/Decrease in Asset:</b>		
Receivables	3,848	(3,732)
Other Financial Assets	71	(1,176)
Inventories	(387)	(1,189)
Deferred Tax Asset	45,794	(4,254)
Other	(18)	(115)
<b>Increase/(Decrease) in Liabilities:</b>		
Trade creditors	2,083	1,657
Provisions	1,123	1,852
<b>Net Cash Used in Operating Activities</b>	<b>(16,219)</b>	<b>(15,080)</b>

#### (b) Non-Cash Financing and Investing Activities

No non-cash financing and investing transactions occurred during the 2007 or 2006 financial years.

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# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 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:

	2007 \$'000	2006 \$'000
<b>Income Tax Recognised in Loss</b>		
Loss from ordinary activities	(193,980)	(17,241)
Income tax benefit calculated at 30% of loss from ordinary activities	(58,194)	(5,172)
Add tax effect of permanent differences:		
Non deductible items	122	777
Unused tax losses not recognised as Deferred Tax Assets (DTA)	-	87
Research and development allowance	(337)	(216)
Capital raising expenses	(935)	-
Income tax benefit attributable to operating loss	(59,344)	(4,524)
Over / (under) provision in previous year	81	270
Effect of expenses that are not deductible in determining taxable profit	47,516	-
Reversal of previously recognised DTA	45,794	-
Current year tax losses not brought to account as a DTA	11,747	-
<b>Income Tax Expense/(Benefit) Recognised in Loss</b>	<b>45,794</b>	<b>(4,254)</b>
Future income tax benefits attributable to tax losses not brought to account as a deferred tax asset. <sup>(1)</sup>	<b>61,602</b>	-
<b>Income Tax (Expense) / Benefit for the Year Comprises: <sup>(1)</sup></b>		
Current tax (expense) / benefit	(49,855)	8,093
Deferred tax benefit / (expense) (see note 20 b)	4,061	(3,839)
	<b>(45,794)</b>	<b>4,254</b>
<b>Income Tax Recognised Directly in Equity</b>		
Tax on transaction costs incurred on issuance of shares	2,836	(1,955)
	<b>2,836</b>	<b>(1,955)</b>
<b>Deferred Tax Balance</b>		
Tax losses – revenue	-	49,855
Temporary differences	-	(1,225)
	-	<b>48,630</b>

<sup>(1)</sup> The previously recognised deferred tax asset was de-recognised at 31 December 2006 due to the uncertainty of timing in relation to when taxable profits will be derived. As the level of confidence in deriving taxable profits increases, the deferred tax asset will be re-recognised.

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 20 INCOME TAX *continued*

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

2007	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance \$'000
<b>Gross Deferred Tax Liabilities:</b>				
Property, mine development and plant & equipment	(4,809)	4,809	-	-
Inventories	(448)	448	-	-
Interest	(166)	166	-	-
	<b>(5,423)</b>	<b>5,423</b>	-	-
<b>Gross Deferred Tax Assets:</b>				
Fundraising indirect costs	235	(235)	-	-
Provisions	1,127	(1,127)	-	-
Fundraising direct costs	2,836	-	(2,836)	-
	<b>4,198</b>	<b>(1,362)</b>	<b>(2,836)</b>	-
<b>Net Deferred Tax / (Liability)</b>	<b>(1,225)</b>	<b>4,061</b>	<b>(2,836)</b>	-
2006	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Closing balance \$'000
<b>Gross Deferred Tax Liabilities:</b>				
Property, mine development and plant & equipment	(1,500)	(3,309)	-	(4,809)
Inventories	-	(448)	-	(448)
Interest	-	(166)	-	(166)
	<b>(1,500)</b>	<b>(3,923)</b>	-	<b>(5,423)</b>
<b>Gross Deferred Tax Assets:</b>				
Fundraising indirect costs	708	(473)	-	235
Provisions	570	557	-	1,127
Fundraising direct costs	1,765	-	1,071	2,836
	<b>3,043</b>	<b>84</b>	<b>1,071</b>	<b>4,198</b>
<b>Net Deferred Tax Asset / (Liability)</b>	<b>1,543</b>	<b>(3,839)</b>	<b>1,071</b>	<b>(1,225)</b>

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 21 EARNINGS PER SHARE

	2007	2006
<b>Basic and Diluted Loss Per Share</b>	(51.1 cents)	(3.5 cents)

As a loss occurred in both financial years, any potential dilutive shares cannot further dilute the 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:

	2007 \$'000	2006 \$'000
Net loss	(239,774)	(12,987)

	2007 No.	2006 No.
Weighted average number of ordinary shares	469,506,845	373,170,822

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	6,483,002	7,274,522
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No performance rights or options were exercised after the end of the financial year.

### 22 COMMITMENTS FOR EXPENDITURE

	2007 \$'000	2006 \$'000
<b>(a) Operating Expenditure</b>		
Not later than 1 year	1,924	510
Later than 1 year but not later than 5 years	-	-
Later than 5 years	-	-
	<b>1,924</b>	<b>510</b>
<b>(b) Capital Expenditure</b>		
Not later than 1 year	-	14,806
Later than 1 year but not later than 5 years	-	-
Later than 5 years	-	-
	-	<b>14,806</b>

### 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 2007

### 24 RELATED PARTY DISCLOSURES

#### (a) Key Management Personnel Compensation

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

	2007 \$	2006 \$
Short-term employee benefits	1,631,127	1,897,053
Post-employee benefits	116,699	132,310
Other long-term benefits	-	-
Termination benefits	773,732	285,000
Share-based payments	(36,902)	494,414
<b>Total</b>	<b>2,484,656</b>	<b>2,808,777</b>

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 shareholdings of related parties.

2007	Balance 1/7/06 No.	Granted as compensation No.	Received on exercise of options No.	Net other change No.	Balance 30/6/07 No.
<b>Directors</b>					
R H Beevor	280,686	-	-	6,250	286,936
R A Guy	100,000	-	-	6,250	106,250
R J Hanson	48,000	-	-	156,250	204,250
P L McCarthy	32,728	-	-	33,000	65,728
R Woodall	65,923	-	-	6,250	72,173
A D Buerger	699,874	-	-		Note (1)
<b>Executive Officers</b>					
T S Churcher	12,000	-	-	61,250	73,250
H L Dusseljee	112,234	-	-		Note (2)
G F Johansen	214,656	-	-		Note (3)
<b>Total</b>	<b>1,566,101</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>808,587</b>

(1) A D Buerger resigned on 8 January 2007 and is no longer a related party.

(2) H L Dusseljee ceased employment on 19 January 2007 and is no longer a related party.

(3) G F Johansen ceased employment on 12 January 2007 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 2007

### 24 RELATED PARTY DISCLOSURES *continued*

#### (b) Ordinary Shares Issued by Bendigo Mining *continued*

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

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

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

#### (c) Share Options Issued by Bendigo Mining

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

2007	Balance 1/7/06 No.	Granted as compensation No.	Exercised No.	Lapsed No.	Balance 30/6/07 No.	Balance vested 30/6/07 No.	Vested but not exercisable No.	Vested and exercisable No.
<b>Directors</b>								
R H Beevor	-	-	-	-	-	-	-	-
R A Guy	-	-	-	-	-	-	-	-
R J Hanson	520,000	-	-	-	520,000	173,333	-	173,333
P L McCarthy	-	-	-	-	-	-	-	-
R Woodall	-	-	-	-	-	-	-	-
A D Buerger <sup>(1)</sup>	690,000	-	-	(690,000)	-	-	-	-
<b>Executive Officers</b>								
T S Churcher	520,000	-	-	-	520,000	173,333	-	173,333
H L Dusseljee <sup>(2)</sup>	520,000	-	-	(520,000)	-	-	-	-
G F Johansen <sup>(3)</sup>	520,000	-	-	(520,000)	-	-	-	-
<b>Total</b>	<b>2,770,000</b>	<b>-</b>	<b>-</b>	<b>(1,730,000)</b>	<b>1,040,000</b>	<b>346,666</b>	<b>-</b>	<b>346,666</b>

<sup>(1)</sup> A D Buerger resigned on 8 January and is no longer a related party. These options lapsed on 8 March 2007.

<sup>(2)</sup> H L Dusseljee ceased employment on 19 January 2007 and is no longer a related party. These options lapsed on 19 March 2007.

<sup>(3)</sup> G F Johansen ceased employment on 12 January 2007 and is no longer a related party. These options lapsed on 12 March 2007.

# BENDIGO MINING LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

### 24 RELATED PARTY DISCLOSURES *continued*

#### (c) Share Options Issued by Bendigo Mining *continued*

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

<sup>(1)</sup> No options vested during the 2006 financial year for any key management personnel.

<sup>(2)</sup> The options were issued at no cost to the recipient. Refer to note 14 Options series (10) for the details of the terms and conditions of these options that were granted during the financial year.

<sup>(3)</sup> The options were issued at no cost to the recipient. Refer to note 14 Option series (9) for details of the terms and conditions of these options that were granted during the financial year.

<sup>(4)</sup> During the 2006 financial year, 23,334 options 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 14 to the financial statements.

#### (d) Other Transactions with Related Parties

During the financial year consultancy fees of \$49,500 (2006: \$22,500) was paid to an entity in which Roy Woodall has an interest. Consultancy fees are paid based on a commercial rate commensurate with the services provided.

During the financial year \$230,431 (2006: \$179,079) was incurred and no amount (2006: \$17,186) 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. Peter McCarthy is the Managing Director of AMC Consultants Pty Ltd.

### 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.

# BENDIGO MINING LIMITED

## DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2007

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 2007 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 2007.

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



**Peter McCarthy**  
Chairman

Bendigo, 27 August 2007.



**Rod Hanson**  
Managing Director & CEO

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## Independent Auditor's Report to the members of Bendigo Mining Limited

### Report on the Financial Report and AASB 124 Compensation Disclosures in the Directors' Report

We have audited the accompanying financial report of Bendigo Mining Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration as set out on pages 27 to 49.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, 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 - Audited" on pages 20 to 25 of the directors' report, and not in the financial report.

#### *Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the compensation disclosures contained in the directors' report.

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

#### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

#### *Auditor's Opinion on the Financial Report*

In our opinion:

- (a) 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 2007 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

#### *Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report*

In our opinion, the compensation disclosures that are contained on pages 20 to 25 under the heading "Remuneration Report - Audited" 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, 27 August 2007

# SHAREHOLDER INFORMATION

## Shareholdings

At 27 August 2007 the issued share capital of the Company was held as follows:

a) Size of Shareholding	Number of Ordinary Shareholders
1 – 1,000	3,845
1,001 – 5,000	5,439
5,001 – 10,000	2,474
10,001 – 100,000	3,678
100,001 and over	347
Total number of shareholders	15,783

b) Number of shareholders with holdings of less than a marketable parcel - \$500. (1,786 shares) 5,230

c) As at 27 August 2007 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
St. Barbara Limited	10.1.07	49,534,000	10.00
JF Capital Partners Limited	18.7.07	35,979,900	7.26
State Teachers Retirement System of Ohio	29.5.07	26,750,000	5.40

d) Of the issued ordinary capital 53.87% 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 27 August 2007, 129 option holders hold 3,859,664 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%
EL 5035	Outer Bendigo	100%
MIN 5364	Outer Bendigo	100%

## Shareholder Information

### Top 20 Holders as at 27 August 2007:

	Ordinary Shares	%
ANZ Nominees Limited	51,274,570	10.35
St Barbara Limited	49,534,000	10.00
National Nominees Limited	45,874,562	9.26
HSBC Custody Nominees (Australia) Limited	37,816,627	7.63
HSBC Custody Nominees (Australia) Limited – GSCO ECSA	19,407,519	3.92
KAP Investments Pty Ltd	11,392,431	2.30
JP Morgan Nominees Australia Limited	10,122,351	2.04
HSBC Custody Nominees (Australia) Limited – A/C 3	8,718,372	1.76
HSBC Custody Nominees (Australia) Limited – A/C 2	6,734,501	1.36
Berne No. 132 Nominees Pty Ltd – A/C 376804	4,642,540	0.94
Citicorp Nominees Pty Ltd	4,142,121	0.84
Cogent Nominees Pty Ltd	2,695,693	0.54
Nefco Nominees Pty Ltd	2,267,297	0.46
Ceramic Oxide Fabricators Pty Ltd	2,226,623	0.45
Napla Pty Ltd	1,959,500	0.40
CS Fourth Nominees Pty Ltd	1,899,935	0.38
Berne No. 132 Nominees Pty Ltd – A/C 115180	1,690,116	0.34
Comsec Nominees Pty Ltd	1,522,859	0.31
The University of Melbourne	1,462,537	0.30
Left Investments Pty Ltd	1,450,000	0.29
<b>Total</b>	<b>266,834,154</b>	<b>53.87</b>

Total issued ordinary share capital 495,433,780

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