

BENDIGO COMMUNITY TELCO LIMITED

A.B.N. 88 089 782 203

2005/06 FINANCIAL STATEMENTS

This is annexure A of 37 pages referred to in form 388 – copy of financial statements and reports signed by me and dated 28 September 2006.

A handwritten signature in blue ink, appearing to read 'B. Plach', is positioned below the explanatory text.

CORPORATE GOVERNANCE STATEMENT

Bendigo Community Telco Limited is committed to high standards of Corporate Governance. This commitment applies to the conduct of its business dealings with its customers and its dealings with its shareholders, employees, suppliers and the Community.

The Board of Bendigo Community Telco Limited have adopted the following principles of Corporate Governance. The policies may be viewed on the company website www.bendigotelco.com.au

1. A Board Charter – the responsibilities of the Board by formalising and disclosing functions reserved to the Board and those delegated to management.
2. Approval of an Audit Committee Charter and the appointment of the Audit Committee as a sub-committee of the Board. The members of the Audit Committee are Directors Andrew Cairns and Geoff Michell.
3. The Board have approved a Share Trading policy which outlines Directors and employees obligations in trading in its securities. The policy restricts Directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the Company's security price.
4. The Remuneration policy which sets out the terms and conditions for the Chief Executive Officer and other senior managers and the appointment of the following Board members to the Remuneration Committee. The members of the Remuneration Committee are Directors Don Erskine and Geoff Michell.
5. The Board have adopted a Continuous Disclosure policy which complies with the obligations imposed by Bendigo Stock Exchange (BSX) Listing Rules and the Corporations Act. This policy requires immediate notification to the BSX of any information concerning the company of which it is aware or becomes aware which is not generally available and which a reasonable person will expect material effect on the price or value of the company shares.

BOARD COMPOSITION

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

DIRECTORS' REPORT

Your directors present their report on the Company for the financial year ended 30 June 2006.

DIRECTORS

The names of directors in office at any time during or since the end of the year are:

Chairman	Mr R Hunt	
Directors	Mr G Bastian	Ms K Byrne (resigned 25 October 2005)
	Mr A Cairns	Mr D Erskine
	Dr L Kilmartin	Mr G Michell

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

No Directors have material interests in contracts or proposed contracts with the company, except as disclosed in Note 24 on page 36.

INFORMATION ON DIRECTORS

Mr Robert George Hunt – Chairman

Age	55
Occupation	Managing Director, Bendigo Bank Limited
Qualifications	Fellow of Australian Institute of Company Directors (FAICD) Doctor of LaTrobe University (honoris causa)
Experience	<p>In 1990 Rob Hunt was appointed Managing Director of Bendigo Building Society (which converted to bank status in July 1995). Rob has guided Bendigo Bank through many innovations to become a unique regional and community banking organisation.</p> <p>Architect of Bendigo Bank's community banking program, Rob is actively involved in many regional development strategies including Bendigo Stock Exchange, the recently launched Community Enterprise Foundation, Bendigo Community Telco, Lead On youth program and many other community development programs. Rob holds many directorships and committee positions.</p> <p>Based in Bendigo, Rob has led the Bank's development from a provincial building society to a nationally represented, uniquely positioned and diversified banking and financial services group which is in the top 150 companies listed on the Australian Stock Exchange.</p>
Interest in Shares	<p>Direct – 421,004 Shares</p> <p>Indirect – Bendigo Bank Limited 1,112,146 Shares</p> <p>Indirect – Annette Hunt 10,000 Shares</p>
Special Responsibilities	Nil
Other Directorships	<p>Bendigo Bank Limited</p> <p>Elders Rural Bank Limited</p> <p>Tasmanian Banking Services Ltd</p> <p>Lead On Australia Ltd</p> <p>St Luke's Anglicare (Patron / ex Director)</p> <p>Councillor of Australian Bankers Association</p> <p>Business Council of Australia (Member)</p> <p>LaTrobe University's Bendigo Regional Advisory Board (Member)</p> <p>Prime Minister's Community Business Partnership (Member)</p> <p>Community Telco Australia Pty Ltd</p> <p>Community Developments Australia Pty Ltd</p> <p>Community Sector Enterprises Pty Ltd and subsidiary Community Sector Banking Pty Ltd</p> <p>Community Enterprise Foundation (Patron-in-Chief)</p> <p>Victorian Government's Innovation Economy Advisory Board (Member)</p> <p>Tasmanian Perpetual Trustees Limited (resigned 21 March 2004)</p>

Mr Hunt is also a director of a number of Bendigo Bank subsidiary companies.

Mr Graham William Bastian - Director

Age	54
Occupation	Principal – Bendigo Senior Secondary College
Qualifications	Dip Engineering - Civil (Swinburne), Dip Ed (Hawthorn State College)
Experience	Graham worked as a civil engineer with a private firm of surveyors and engineers until entering teaching. Following a period as an educational consultant focused on assisting schools in the effective use of computers, Graham became the Principal of Charlton College. He then became the Regional Principal Consultant for Bendigo, the Principal of Golden Square Secondary College and now Principal of Bendigo Senior Secondary College.
Interest in Shares	Direct – 0 Shares Indirect – Bendigo Senior Secondary College 100,000 Shares Indirect – Jeanette Bastian 2,000 Shares
Special Responsibilities	Nil
Other Directorships	LaTrobe University Bendigo, Regional Advisory Board Discovery Science & Technology Centre

Ms Kathy Byrne – Director (resigned 25 October 2005)

Age	51
Occupation	Chief Executive, Bendigo Health Care Group
Qualifications	MBA (Melbourne), BHA (NSW), Assoc. Dip. MRA (Cumberland)
Experience	Kathy moved to Victoria in April 1998 when she joined the BHCG as Chief Executive. Having held senior management positions in the private, public and not-for-profit sectors all around Australia, Kathy has over 20 years experience in diverse organisations and environments. Kathy's experience is in leading and managing change through responsible and accountable management.
Interest in Shares	Direct – 0 Shares Indirect – Bendigo Health Care Group 60,000 Shares
Special Responsibilities	Nil
Other Directorships	Girton Grammar School Limited Loddon Mallee Health Alliance Network Ltd Board of Health Information Systems LaTrobe University Bendigo, Regional Advisory Board Victorian Quality Council

Mr Andrew Cairns - Director

Age	44
Occupation	Chief Executive Officer of Community Telco Australia Pty Ltd
Qualifications	Bachelor of Engineering – Electrical (Footscray Institute of Technology) Associate Fellow of the Australian Institute of Management Member of Australian Institute of Company Directors
Experience	<p>Andrew Cairns has extensive experience in a variety of industries from manufacturing to television and telecommunications, both in Australia and internationally. In the past few years he has applied that experience to steering start-up organisations to success, including initially Bendigo Community Telco as Chief Executive Officer.</p> <p>The success of the Community Telco model, led by Andrew as Chief Executive Officer of Community Telco Australia has now resulted in the project being rolled out to regional communities across Australia.</p>
Interest in Shares	Direct – 24,600 Shares Indirect – 0 Shares
Special Responsibilities	Andrew Cairns is a Member of the Audit Committee
Other Directorships	iTEL Community Telco (appointed 31 July 2006)

Mr Donald James Erskine - Director

Age	60
Occupation	Managing Director – Industrial Conveying (Aust.) Pty Ltd Managing Director – Bendigo Brick Pty Ltd
Experience	<p>Don is trained as a mechanical engineer. He is Managing Director of both Industrial Conveying (Aust.) Pty Limited and Bendigo Brick Pty Limited. Industrial Conveying (Aust.) Pty Ltd was formed by Don in 1979.</p> <p>Don is a non-executive Director of Bendigo Bank and a member of the Bank's Credit, IT Strategy and Property Committees. His previous appointments include Director of North West Country Credit Union Co-op Ltd, Director of Community Telco Australia and Director of Bendigo Economic Development Committee. Don is also chairman of the Australian Technical College and is actively involved in the Bendigo Community.</p>
Interest in Shares	Direct - 0 Shares Indirect – Erskine Investments Pty Ltd 844,000 Shares Indirect – Bendigo Bank Limited 1,112,146 Shares
Special Responsibilities	Don Erskine is a Member of the Remuneration Committee
Other Directorships	Bendigo Bank Limited Chairman – Australian Technical College Pty Ltd

Dr Leslie Alan Kilmartin - Director

Age	62
Occupation	Principal of The Insight Group
Qualifications	B.A. Queensland, M.A. Aust. National University, PhD La Trobe University
Experience	<p>Les Kilmartin is the former head of the Bendigo campus of La Trobe University and he held the position of Professor of Regional and Urban Studies. He is now the Principal of The Insight Group.</p> <p>Dr Kilmartin's academic interests include a long-standing involvement in regional development, and he served on the Premier's Northern Region Forum and prepared a regional strategy plan for La Trobe University. In addition he also established and was Founding Director of the University's Centre for Sustainable Regional Communities, which conducts applied regional research and community service programs through central and northern Victoria.</p>
Interest in Shares	<p>Direct – 5,000 Shares</p> <p>Indirect - 0 Shares</p>
Special Responsibilities	Nil
Other Directorships	Nil

Mr Geoffrey Ralph Michell - Director

Age	55
Occupation	Chief Executive – Coliban Water
Qualifications	Diploma of Civil Engineering, Masters of Business Administration (Deakin)
Experience	<p>After initially working in the construction industry, Geoff has spent the last 32 years in the water industry at various locations throughout Victoria. He has been involved in the construction and operation of water and wastewater infrastructure and management of water services.</p> <p>Geoff was appointed Chief Executive of Coliban Water in August 1998, after working with the utility since its creation in 1992. Geoff has been extensively involved in all aspects of Coliban Water's strategic use of the private sector to achieve its business objectives.</p>
Interest in Shares	<p>Direct – 20,002 Shares</p> <p>Indirect – Coliban Region Water Authority 40,000 Shares</p>
Special Responsibilities	Geoff Michell is a Member of the Audit Committee and the Remuneration Committee
Other Directorships	Discovery Science & Technology Centre (Chairman)

COMPANY SECRETARY

At the end of the financial year, Malcolm B. Campbell (Bachelor of Laws) held the position of Company Secretary. Mr Campbell is a Barrister and Solicitor of the Supreme Court of Victoria and has worked in government, private practice and in senior legal positions for the Bendigo Bank.

REMUNERATION REPORT

This report details the nature and amount of remuneration for the directors and executives of the Company.

Remuneration Policy

The Remuneration policy of the company is designed to remunerate fairly and responsibly by ensuring that the level and composition of remuneration is efficient and reasonable and that its relationship to corporate and individual performance is defined.

Key Management Personnel

John Warmbrunn	Chief executive officer
Bryan Pedersen	Technical manager
Mandy Cooper	Financial controller
Stephen Culpitt	Customer operations manager
Peter Kellett	Business continuity centre manager
Dean Stewart	Key account and marketing manager (resigned 14 July 2005)
Wayne Williams	Sales and marketing manager

Details of remuneration for year ended 30 June 2006

The remuneration for each of the five executive officers of the entity receiving the highest remuneration during the year was as follows:

	Salaries	Superannuation	Non-Cash Benefits	TOTAL
	\$	\$	\$	\$
John Warmbrunn	138,156	13,815	15,000	166,971
Peter Kellett	95,385	8,585	15,000	118,970
Wayne Williams	92,461	8,322	15,000	115,783
Stephen Culpitt	84,642	7,618	15,000	107,260
Mandy Cooper	87,609	9,093		96,702
	<u>498,254</u>	<u>47,433</u>	<u>60,000</u>	<u>605,687</u>

PRINCIPAL ACTIVITIES

The principal activities of the Company during the course of the financial year were telecommunications services. There were no significant changes in the principal activities of the Company in the course of the year.

OPERATING RESULTS

Operations have continued to perform in line with expectations. The operating profit of the company for the financial year after providing for income tax was \$553,402 (before tax profit \$858,935). The 2005 operating profit was \$552,325 (before tax profit \$767,827).

DIVIDENDS PAID OR RECOMMENDED

	Year Ended 30 June 2006	
	Cents	\$
Dividends paid in the year:		
Interim	4.5	251,325
Total	4.5	251,325

FINANCIAL POSITION

The net assets of Bendigo Community Telco Limited have increased to \$3,686,820 at 30 June 2006 (30 June 2005: \$1,972,370). This increase has largely resulted from the following factors:

1. Capital raising via an Initial Public Offering and listing on the Bendigo Stock Exchange that raised \$1.675M which is currently invested whilst plans for its expenditure are finalised;
2. Growth in revenue and cash or cash equivalents; and
3. Reduction in debt levels, particularly the bank loan which was paid out during the financial year.

The Company's strong financial position has enabled the company to reduce its borrowings by \$117,045 while maintaining a healthy working capital ratio. The Company's working capital, being current assets less current liabilities, has improved from \$1,222,259 in 2005 to \$3,116,628 in 2006.

The directors believe the Company is in a strong and stable financial position to expand and grow its current operations.

REVIEW OF OPERATIONS

Bendigo Community Telco Limited is now in its sixth year of operations and has continued to consolidate its position within the Bendigo and district market, providing a full range of products and services to its customers including full service (line rental, local calls, etc), broadband and dial up internet access, mobiles, data services and business continuity services.

Bendigo Community Telco has continued in its Franchise Agreement with Community Developments Australia. Bendigo Community Telco Limited has also maintained wholesale agreements with Camtech, Optus Singtel, PowerTel Broadband, Intercall Australia, Info-In.com, Soul, Newsnet and AAPT Limited and has also negotiated contracts with RedCoal.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND MATTERS SUBSEQUENT TO BALANCE DATE

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial report.

There has not been any significant changes in the state of affairs of the Company during the financial year. Since the end of the financial year a final dividend in the amount of four cents per share was declared by the Board of Directors on 24 August 2006 which will be distributed to shareholders on 15 September 2006.

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

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 3 to this report.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Disclosure of information relating to major development in the operations of the Company and the expected results of those operations in future financial years, which, in the opinion of the Directors, will not unreasonably prejudice the interests of the Company, is contained in the Report by the Chairman and Chief Executive Officer on pages 1 to 2 of the Concise Annual Report.

ENVIRONMENTAL REGULATION

The company is not subject to any significant environmental regulation.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The company has indemnified all Directors and the Managers in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as Directors or Managers of the company except where the liability arises out of conduct involving the lack of good faith.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The company has not provided any insurance for an auditor of the company or a related body corporate.

DIRECTORS BENEFITS AND INTEREST IN CONTRACTS

No director has received or become entitled to receive during or since the financial year, a benefit because of a contract made by the company with the director, a firm of which the director is a member or an entity in which the director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors shown in the company's accounts, prepared in accordance with the

Corporate Regulations, or the fixed salary of full-time employees of the company, controlled entity or related body corporate other than interests and benefits disclosed at Notes 21, 23 and 24 to the Financial Report.

SHARE OPTIONS

The Company has not issued any share options.

PROCEEDINGS

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

DIRECTORS' MEETINGS

During the financial year 2005/06 meetings of directors were held. Attendances were:-

Directors' Meetings		
Directors	No. eligible to attend	No. attended
Rob Hunt	10	10
Graham Bastian	10	9
Kathy Byrne	4	3
Andrew Cairns	10	8
Don Erskine	10	8
Les Kilmartin	10	8
Geoff Michell	10	10

Kathy Byrne was eligible to attend meetings to 25 October 2005.

NON AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the Company are important. Details of the amounts paid or payable to the Auditor (Andrew Frewin & Stewart) for audit and non audit services provided during the year are set out in the notes to the accounts.

The board of directors has considered the position, and is satisfied that the provision of the non audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the provision of non audit services by the auditor, as set out in the notes, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

All non audit services have been reviewed to ensure they do not impact on the impartiality and objectivity of the auditor.

None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work,

acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 12.

Signed in accordance with a resolution of the Board of Directors at Bendigo on 7 September 2006.



Rob Hunt
Director



Andrew Cairns
Director



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Auditor's Independence Declaration

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 Community Telco Limited.

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

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'David Hutchings', is written over a light blue horizontal line.

DAVID HUTCHINGS
Auditor

ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, VIC 3550
Dated this 9th day of September 2006

DIRECTORS' DECLARATION

In the Directors opinion:

1. the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - a. comply with Accounting Standards and the Corporations Act 2001 and other mandatory professional reporting requirements; and
 - b. give a true and fair view of the company's financial position as at 30 June 2006 and of its performance as presented by the results of its operations and its cash flows for the financial year ended on that date; and
2. the Chief Executive Officer and Financial Controller have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view;
3. in the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the directors



Rob Hunt
Chairman



Andrew Cairns
Director

Signed on 7 September 2006



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INDEPENDENT AUDIT REPORT

To the members of Bendigo Community Telco Limited

Scope

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes and the directors' declaration for Bendigo Community Telco Limited for the financial year ended 30 June 2006.

The company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by Accounting Standard AASB 124 Related Party Disclosures ("AASB 124") under the heading "remuneration report" in the directors' report as permitted by the ASIC class order 06/50. These compensation disclosures are identified in the directors' report as being subject to audit. The remuneration report also contains information not subject to audit.

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

Audit Approach

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

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

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

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

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

Audit Opinion

In our opinion:

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



DAVID HUTCHINGS

ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, VIC 3550
Dated this 9th day of September 2006

INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2006

	Notes	2006 \$	2005 \$
Revenue from ordinary activities	1(h), 4	18,246,030	15,372,488
Cost of products sold		(13,632,491)	(11,152,011)
Other revenue	4	125,403	51,925
Salaries and employee benefit costs		(1,756,770)	(1,544,934)
Occupancy and associated costs		(212,535)	(139,827)
General administration costs	6	(680,271)	(591,618)
Depreciation and amortisation costs	5	(191,710)	(204,320)
Advertising and promotion costs		(195,731)	(314,013)
Systems costs		(817,390)	(673,558)
Borrowing costs	5	(25,601)	(36,304)
Profit before income tax expense		<u>858,935</u>	<u>767,827</u>
Income tax expense	7	(305,533)	(215,502)
Profit for the period	16	<u>553,402</u>	<u>552,325</u>
Profit attributable to members of the entity	16	<u><u>553,402</u></u>	<u><u>552,325</u></u>
Overall Operations		cents	cents
Basic earnings per share	20	10.25	13.37
Diluted earnings per share	20	10.25	13.37

The accompanying notes form an integral part of this Income Statement

**BALANCE SHEET
AS AT 30 JUNE 2006**

	Notes	2006 \$	2005 \$
Current Assets			
Cash and cash equivalents	1(c), 17	2,900,622	925,770
Trade and other receivables	1(h), (i), (j), (o), 8	2,795,574	2,527,790
Prepayments	1(j)	408,555	326,709
Other financial assets		50,402	263,046
Total Current Assets		6,155,153	4,043,315
Non Current Assets			
Property, plant and equipment	1(d), (e), 10	670,838	684,408
Investments	1(n), 11	-	250,000
Total Non Current Assets		670,838	934,408
TOTAL ASSETS		6,825,992	4,977,723
Current Liabilities			
Trade and other payables	1(o), 12	2,673,952	2,540,522
Borrowings	1(l), (m), 13, 18, 19	139,222	161,788
Provisions	1(f), (p), 14	80,495	80,164
Taxation	1(b), 7	144,856	38,581
Total Current Liabilities		3,038,525	2,821,055
Non Current Liabilities			
Borrowings	1(l), (m), 13, 18, 19	89,818	184,297
Provisions	1(f), (p), 14	10,829	-
Total Non Current Liabilities		100,647	184,297
TOTAL LIABILITIES		3,139,172	3,005,352
NET ASSETS		3,686,820	1,972,370
EQUITY			
Issued capital	1(q), 15	3,350,678	1,938,305
Retained earnings	16	336,142	34,065
TOTAL EQUITY		3,686,820	1,972,370

The accompanying notes form an integral part of this Balance Sheet

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2006

	Notes	2006 \$	2005 \$
Total equity at the beginning of the financial year		1,972,370	1,888,819
Adjustment on adoption of A-IFRS	3	-	(55,957)
Restated total equity at the beginning of the financial year		<u>1,972,370</u>	<u>1,832,862</u>

Equity

Total equity at the beginning of the financial year		1,972,370	1,832,862
Net profit/(loss) for the year		553,402	552,325
Dividends provided for or paid		(251,325)	(412,817)
Shares issued during period	15	1,412,373	-
Total equity at the end of the financial year		<u>3,686,820</u>	<u>1,972,370</u>

Retained earnings

	16		
Retained earnings at the beginning of the period		34,065	(105,443)
Net profit attributable to members		553,402	552,325
Dividends paid to members		(251,325)	(412,817)
Retained earnings at the end of the period		<u>336,142</u>	<u>34,065</u>

The accompanying notes form an integral part of this Statement of Changes in Equity

STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2006

	Notes	2006 \$	2005 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received in course of operations		17,978,246	14,440,246
Interest paid		(25,601)	(36,304)
Cash paid in course of operations		(17,219,059)	(14,118,884)
Interest received		125,403	51,925
Net cash used in operating activities	17(b)	<u>858,990</u>	<u>336,983</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(178,140)	(243,560)
Proceeds from sale of property, plant and equipment		250,000	56,155
Net cash used in investing activities		<u>71,860</u>	<u>(187,405)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,676,000	-
Net proceeds of borrowings		(117,046)	(84,369)
Dividends paid		(251,325)	(412,817)
Cost of Shares Issued		(263,627)	-
Net cash provided by financing activities		<u>1,044,002</u>	<u>(497,186)</u>
Net increase in cash held during the financial year		1,974,852	(347,608)
Cash at beginning of financial year		925,770	1,273,378
Cash at the end of the financial year	17(a)	<u><u>2,900,622</u></u>	<u><u>925,770</u></u>

The accompanying notes form an integral part of this Statement of Cash Flows

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

1. Statement of Accounting Policies

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards including all Australia equivalents to International Financial Reporting Standards (AIFRS) in their entirety. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of Preparation

First-time Adoption of Australian Equivalent to International Financial Reporting Standards.

The financial report has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirement of AASB1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the entity accounts resulting from the introduction of AIFRS have been applied retrospectively to comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These accounts are the first financial statements of Bendigo Community Telco Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 3 to this report.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except

where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated on either a straight line or diminishing value basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:-

Asset Class	Depreciation Rate (%)
Office Furniture & Equipment	
Advertising Collateral	7.5
Furniture & Fittings	4.5 - 37.5
Office Equipment	7.5 - 40
Computer Equipment	37.5 - 40
Satellite Equipment	50
Software	33 - 40
Business Continuity Centre	2.5 - 33
Motor Vehicles	18.75 - 22.5
Leasehold	4.5 - 11.25

Telecommunications & Infrastructure	
Infrastructure	7.59
Connectivity Links	20 - 50

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Impairment of Assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement, unless assets are carried at fair value in which case it is treated as a revaluation decrement.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(f) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made to employee Superannuation Funds and are charged as expenses when incurred. The company has no legal obligations to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

(g) Comparative Information

Where required by Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(h) Revenue

Revenue from the sale of goods and services is recognised upon delivery of service to customers. Interest revenue is recognised as it accrues. All revenue is stated net of the amount of Goods and Services Tax (GST).

(i) Payment Terms

Receivables and payables are non interest bearing and generally have payment terms of between 14 and 30 days.

(j) Receivables and Payables

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, if billed to the company.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value.

(l) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the company are classified as finance leases.

Finance leases are capitalised, recording an asset and a liability at the lower of the amount equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(m) Financial Instruments

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at the principal amount. Interest is recognised as an expense as it accrues.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(n) Investments

Non-current investments are measured on the cost basis. The carrying amount of investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for shares in listed companies or the underlying net assets for other non-listed corporations. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australia Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Balance Sheet are shown inclusive of GST.

Cash flows are included in the statement of cash flows on a gross basis, except for the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO which are disclosed as operating cash flows.

(p) Provisions

Provisions are recognised when the company has a legal or constructive obligation as a result of past transactions or other past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

(q) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Key Estimates – Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Key Judgments – Bad Debt Provision

Included in the accounts receivable at 30 June 2006 is are amounts that equate to approximately \$65,000 which are currently progressing through our debt collection process and are therefore classified as doubtful debt. A provision has been made in the Balance Sheet at 30 June 2006.

2. FINANCIAL RISK MANAGEMENT

The company's activities expose it to a limited variety of financial risks; market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management programme focuses on the unpredictability of telecommunications market and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out by the Board of Directors and senior management.

- (i) Market Risk – The company has no exposure to any transactions denominated in a currency other than Australian dollars.
- (ii) Price Risk – The company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The company is not exposed to commodity price risk.
- (iii) Credit Risk – the company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history and credit rating.
- (iv) Liquidity Risk – the company maintains prudent liquidity management by maintaining sufficient cash and the availability of funding from credit facilities.
- (v) Cash flow and fair value interest rate risk – interest-bearing assets are held with Bendigo Bank Limited and subject to movements in market interest. The company has mitigated risk on long-term interest-bearing liabilities by negotiating fixed rate contracts.

3. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENT TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Impairment of assets

The entity has elected to restate the carrying value of an asset due to impairment prior to the date of transition to A-IFRS, and accordingly, the carrying amount of property, plant and equipment at the date of transition has changed. This is shown in the retained earnings, property, plant and equipment and depreciation reconciliations below.

Retained earnings

The effect of the above adjustment on retained earnings is as follows:

	Notes	1 July 2004 \$	30 June 2005 \$
Asset Impairment	1(e)	55,957	55,957
Total adjustments to retained earnings		55,957	55,957

Income statement

The effect of the above adjustment on the income statement for the financial year ending 30 June 2005 is as follows:

	Notes	30 June 2005 \$	Effects of Transition to A-IFRS \$	A-IFRS 30 June 2005 \$
Revenue from ordinary activities	1(h), 4	15,372,488	-	15,372,488
Cost of products sold		(11,152,011)	-	(11,152,011)
Other revenue		51,925	-	51,925
Salaries and employee benefit costs		(1,544,934)	-	(1,544,934)
Occupancy and associated costs		(139,827)	-	(139,827)
General administration costs	5, 6	(591,618)	-	(591,618)
Depreciation and amortisation costs	5	(209,254)	4,934	(204,320)
Advertising and promotion costs		(314,013)	-	(314,013)
Systems costs		(673,558)	-	(673,558)
Borrowing costs	5	(36,304)	-	(36,304)
Profit before income tax expense/credit		762,893	4,934	767,827
Income tax expense	7	(214,022)	(1,480)	(215,502)
Profit attributable to members of the entity	16	548,871	3,454	552,325

Balance sheet

The effect of the above adjustment on the balance sheet for the financial year ending 30 June 2005 is as follows:

	Notes	30 June 2005 \$	Effects of Transition to A-IFRS \$	A-IFRS 30 June 2005 \$
Current Assets				
Cash and cash equivalents	1(c), 17	925,770	-	925,770
Trade and other receivables	1(h), (i), (j), (o), 8	2,527,790	-	2,527,790
Prepayments	1(j)	326,709	-	326,709
Other financial assets		263,045	-	263,045
Total Current Assets		4,043,314	-	4,043,314
Non Current Assets				
Property, plant and equipment	1(d), (e), 10	735,431	(51,023)	684,408
Investments	1(n), 11	250,000	-	250,000
Total Non Current Assets		985,431	(51,023)	934,408
TOTAL ASSETS		5,028,745	(51,023)	4,977,722
Current Liabilities				
Trade and other payables	1(o), 12	2,540,522	-	2,540,522
Borrowings	1(l), (m), 13, 18, 19	161,788	-	161,788
Provisions	1(f), (p), 14	80,164	-	80,164
Taxation	1(b), 7	37,101	1,480	38,581
Total Current Liabilities		2,819,575	1,480	2,821,055
Non Current Liabilities				
Borrowings	1(l), (m), 13, 18, 19	184,297	-	184,297
Total Non Current Liabilities		184,297	-	184,297
TOTAL LIABILITIES		3,003,872	1,480	3,005,352
NET ASSETS		2,024,873	(52,503)	1,972,370
EQUITY				
Issued capital	1(q), 15	1,938,305	-	1,938,305
Retained earnings	16	86,568	(52,503)	34,065
TOTAL EQUITY		2,024,873	(52,503)	1,972,370

4. REVENUE FROM ORDINARY ACTIVITIES

	2006 \$	2005 \$
Operating activities:		
Sales revenue	18,204,179	15,353,309
Other revenue	41,852	19,179
Total revenue from operating activities	<u>18,246,030</u>	<u>15,372,488</u>
Non-operating activities:		
Interest received	125,403	51,925
Total revenue from non-operating activities	<u>125,403</u>	<u>51,925</u>
Total revenue from ordinary activities	<u><u>18,371,433</u></u>	<u><u>15,424,412</u></u>

5. SIGNIFICANT EXPENSES

	\$	\$
Depreciation of non current assets:		
Office furniture & equipment	123,225	134,468
Motor vehicles	55,522	53,808
Leasehold	1,170	1,257
Telecommunications & infrastructure	11,793	19,721
	<u>191,710</u>	<u>209,254</u>
Borrowing expenses:		
Interest paid	3,046	7,208
Bad debts	7,507	10,143
Doubtful debts	-	13,872
	<u>7,507</u>	<u>24,015</u>
Loss of sale of assets	70,928	1,891

6. AUDITORS' REMUNERATION

	\$	\$
Amounts received, or due and receivable by the auditors for		
Auditing the financial statements	15,372	14,961
Other services	9,209	23,817
	<u><u>24,581</u></u>	<u><u>38,778</u></u>

7. INCOME TAX EXPENSE

	2006 \$	2005 \$
a. The components of tax expense comprise:		
Current tax	261,330	215,502
Under provision in respect of prior years	44,203	-
	<u>305,533</u>	<u>215,502</u>

b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

Operating profit	858,935	767,827
Prima facie tax on profit from ordinary activities @ 30%	257,680	230,348
Income tax attributable to operating profit		
Tax effect of:		
Provision movement	3,650	-
Benefit of tax losses not recognised	-	(14,846)
Income tax on operating profit	<u>261,330</u>	<u>215,502</u>

8. TRADE AND OTHER RECEIVABLES

	\$	\$
Trade debtors	2,860,574	2,592,790
Provision for doubtful debts	(65,000)	(65,000)
	<u>2,795,574</u>	<u>2,527,790</u>

9. OTHER FINANCIAL ASSETS

	\$	\$
Equity raising costs capitalised	-	173,344
	<u>-</u>	<u>173,344</u>

The company raised and issued additional shares in the 2005/06 financial year. Costs totalling \$173,344 directly relating to this issue have been capitalised during the financial year and are included in the equity raising costs as shown in the Balance Sheet. These costs have been recognised directly against the shares issued in accordance with Urgent Issues Group Abstract UIG23.

10. PROPERTY PLANT AND EQUIPMENT

Reconciliation of the carrying amounts of each class of asset at the beginning and end of the current financial year are set out below.

2006	Office, Furniture & Equipment	Motor Vehicles	Leasehold	Telecommunications & Infrastructure	TOTAL
Carrying amount at the start of the year	366,868	263,643	17,467	36,430	684,408
Additions	171,378	37,288	2,160	44,263	255,089
Disposals	(76,177)	-	(772)	-	(76,949)
Depreciation	(123,225)	(55,522)	(1,170)	(11,793)	(191,710)
Carrying amount at the end of the year	338,844	245,409	17,685	68,900	670,838

11. INVESTMENTS

	2006 \$	2005 \$
Shares in Community Telco Australia Limited	-	250,000
	-	250,000

12. TRADE AND OTHER PAYABLES

	\$	\$
Unsecured liabilities:		
Trade payables	1,958,869	1,868,080
Sundry payables and accrued expenses	715,083	672,442
	2,673,952	2,540,522

13. BORROWINGS

	\$	\$
<i>Current Interest-Bearing Liabilities</i>		
Secured by fixed and floating registered mortgage debenture		
Lease liabilities	139,222	108,062
Bank loans	-	53,726
Total current Interest-Bearing Liabilities	139,222	161,788
<i>Non Current Interest-Bearing Liabilities</i>		
Secured by fixed and floating registered mortgage debenture		
Lease liabilities	89,818	184,297
Total non current Interest-Bearing Liabilities	89,818	184,297

14. PROVISIONS

	2006 \$	2005 \$
Current		
Employee Benefits	80,495	80,164
Non Current		
Employee Benefits	10,829	-
	<u>91,324</u>	<u>80,164</u>

15. ISSUED CAPITAL

	No. of Shares	\$	\$
Issued and paid up capital ordinary shares of \$1 each	1,955,005	1,955,005	1,955,005
Bonus ordinary shares (issued 16 November 2004)	1,955,005	-	-
Shares issued on 10 August 2005	1,675,000	1,675,000	-
Shares issued on 10 April 2006	1,000	1,000	-
Less cost of equity raised		(280,327)	(16,700)
TOTAL	<u>5,586,010</u>	<u>3,350,678</u>	<u>1,938,305</u>

16. RETAINED EARNINGS

	\$	\$
Balance at the beginning of the financial year	34,065	(105,443)
Net profit from ordinary activities after income tax	553,402	552,325
Dividends Paid	(251,325)	(412,817)
Balance at the end of the financial year	<u>336,142</u>	<u>34,065</u>

17. NOTES TO THE STATEMENT OF CASH FLOWS

	\$	\$
a. Reconciliation of Cash		
Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the profit and loss accounts as follows:		
Cast at bank and in hand	1,160,994	925,770
Short-term bank deposits	1,739,628	-
	<u>2,900,622</u>	<u>925,770</u>

b. Reconciliation of operating profit to net cashflows from operating activities	2006	2005
	\$	\$
Profit from ordinary activities	553,402	552,325
Depreciation and amortisation of non current assets	191,710	204,320
Change in assets and liabilities		
<i>(Increase)/decrease in assets</i>		
Receivables and prepayments	(349,630)	(1,093,072)
Inventory	39,299	(18,196)
Intangible assets	173,344	(152,824)
Loss on sale of property, plant and equipment	-	1,891
<i>Increase/(decrease) in liabilities</i>		
Accounts payable and provisions	250,864	842,539
Net cash flow from operating activities	858,990	336,983

18. LEASES

(a) Finance Leases

Leasing arrangements

Finance leases relate to Computer Equipment and Motor Vehicles, all with lease terms of three years. The economic entity has options to purchase the equipment for a nominal amount at the conclusion of the lease arrangements.

	\$	\$
Finance lease liabilities		
No later than 1 year	139,222	108,062
Later than 1 year and not later than 5 years	106,254	210,057
Minimum finance lease payments	245,477	318,119
Less future finance charges	(16,437)	(25,760)
Finance lease liabilities	229,040	292,359

(b) Operating Leases

Leasing arrangements

The operating leases relate to the rental of the business premises at 5 View Point, Bendigo, with a lease term of three years, beginning 1 February 2004 and Business Continuity Centre, Edwards Road, Flora Hill with a lease term of five years, beginning 1 September 2003. The company does not have an option to purchase the leased asset at the expiry of either lease period.

	2006 \$	2005 \$
Non-cancellable operating leases		
No later than 1 year	91,905	116,846
Later than 1 year and not later than 5 years	63,636	154,523
	155,541	271,369

19. FINANCIAL INSTRUMENTS

19 (a) Terms, conditions and accounting policies

The accounting policies including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:-

Recognised	Accounting Policies	Terms and Conditions
<i>Financial assets</i>		
Notes, coin and cash at bank	Notes, coin and cash at bank are stated at cost and any interest is taken up as income on an accrual basis	These items are cash or are readily convertible to cash.
Accounts Receivable – Debtors	Debtors are carried at the nominal amounts due less any provision for doubtful debts. A doubtful debts provision is made for any amounts which are considered unlikely to be collected.	Credit is allowed for a 30 day term.
<i>Financial liabilities</i>		
Creditors and Accruals	Liabilities are recognised for amounts to be paid in the future for goods and services.	Trade creditors are normally settled on 30 day terms, or in accordance with agreement with individual creditors.

19 (b)(i) Interest Rate Risk

17 (b)(1) Interest Rate Risk					Total Carrying Amount per Balance Sheet		Weighted Average Effective Interest Rate	
	Floating Interest Rate	Fixed Interest maturing in:						
		1 year or less	Over 1 to 5 years	Non Interest Bearing	2006	2005	2006	2005
Financial Instrument	\$	\$	\$	\$	\$	\$	%	%
<i>Financial Assets</i>								
Cash or Cash Equivalents	1,160,994				1,160,994	925,770	n/a	n/a
Short-term deposits	1,739,628				1,739,628	-	5.67	-
Accounts Receivable - Debtors				2,795,574	2,795,574	2,527,790	n/a	n/a
<i>Financial Liabilities</i>								
Creditors & Accruals				2,673,952	2,673,952	2,540,522	n/a	n/a
Loans		-			-	53,726	6.75	6.75
Finance Leases		139,222	106,254		229,040	292,359	7.7	7.8

19 (b)(ii) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of Bendigo Community Telco which have been recognised on the balance sheet is the carrying amount net of any provisions for doubtful debts.

Bendigo Community Telco has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history and credit rating.

19 (c) Fair Values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

	Total Carrying Amount per Balance Sheet		Aggregate Net Fair Values	
	2006 \$	2005 \$	2006 \$	2005 \$
Financial Instruments				
Financial assets				
Cash or cash equivalents	1,160,994	925,770	1,160,994	925,770
Short-term bank deposits	1,739,628	-	1,739,628	-
Accounts receivable - debtors	2,795,574	2,527,790	2,795,574	2,527,790
Total financial assets	5,696,197	3,453,561	5,696,197	3,453,561

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	Total Carrying Amount per Balance Sheet		Aggregate Net Fair Values	
	2006	2005	2006	2005
	\$	\$	\$	\$
<i>Financial liabilities</i>				
Creditors and accruals	2,673,952	2,540,522	2,673,952	2,540,522
Loans	-	53,726	-	53,726
Finance leases	229,040	292,359	229,040	292,359
<i>Total financial liabilities</i>	2,902,992	2,886,607	2,902,992	2,886,607

The following methods and assumptions are used to determine the net fair values of Financial Assets and Financial Liabilities:

Recognised Financial Instruments

Cash and Short Term Investments These financial instruments have a short term to maturity. Accordingly it is considered that carrying amounts reflect fair values.

Receivable and Creditors and Accruals Carrying amounts reflect fair values.

Long Term Investments Carrying amounts reflect fair values.

20. EARNINGS PER SHARE

	2006 cents	2005 cents
Earnings per share for the financial year were:	10.25	13.37
Diluted earnings per share for the financial year were:	10.25	13.37

21. DIRECTORS' REMUNERATION

	\$	\$
Total remuneration received or due and receivable by the Directors of the Company for the year ended 30 June	Nil	Nil

22. EXECUTIVE REMUNERATION

	\$	\$
Amounts received or due and receivable from the Company by executive officers (including executive directors) whose remuneration is \$100,000 per annum or greater	356,724	351,544

Number of executive officers whose remuneration was within the following bands:

Range	2006 No.	2005 No.
\$100,000 to \$109,999	2	1
\$110,000 to \$119,999	-	1
\$120,000 to \$129,999	-	-
\$130,000 to \$139,999	-	-
\$140,000 to \$149,999	-	1
\$150,000 to \$159,999	1	-

23. RETIREMENT BENEFITS AND SUPERANNUATION PAYMENTS

	\$	\$
Amounts of a prescribed benefit given during the year by the Company or a related party to a director or prescribed superannuation fund in connection with the retirement from a prescribed office.	Nil	Nil

24. DIRECTORS RELATED PARTY DISCLOSURES

The names of directors who have held office during the financial year are:

Robert Hunt	Graham Bastian
Kathleen Byrne (resigned 25 October 2005)	Andrew Cairns
Don Erskine	Les Kilmartin
Geoff Michell	

No director or related entity has entered in to a material contract with the company. No director's fees have been paid as the positions are held on a voluntary basis.

	2006 No.	2005 No.
Directors Shareholdings		
Robert Hunt	421,004	421,004
Graham Bastian	-	-
Kathleen Byrne	-	-
Andrew Cairns	24,600	-
Don Erskine	844,000	844,000
Les Kilmartin	5,000	-
Geoff Michell	20,002	20,002

The director shareholding movements for the year included purchase of shares via the IPO and capital raising by Director Andrew Cairns and Director Les Kilmartin.

Bendigo Community Telco has entered into an agreement with D.J. Erskine Nominees Pty Ltd to lease the property of 5 View Point for three (3) year period terminating on 31 January 2007. The organisation is majority owned by Director – Mr D.J. Erskine. This contract was approved by the Board with Mr Erskine noting a pecuniary interest and excluding himself from the

discussions and approval process undertaken by the Board. Under this agreement an annual lease payment of \$63,027 (2005 \$63,168) was made to D.J. Erskine Nominees Pty Ltd.

Mr Hunt is a Director and Chairman of CTA and Community Developments Australia (CDA), and Mr Cairns is the Chief Executive Officer of CTA. Bendigo Community Telco has been engaged with Community Telco Australia (CTA) throughout the financial year assisting with the development of the Community Telco Project. The Community Telco Project involves granting to entities majority owned or controlled by communities the right to use certain intellectual property and shared services to enable the establishment and operation of a business of providing telecommunications services to customer. CTA is a company established by Bendigo Bank Limited which it jointly owns as a joint venture with AAPT Limited. Bendigo Community Telco previously owned a 5.6% holding in CTA which it sold back to Bendigo Bank Limited during the current financial year at the amount recorded in the Balance Sheet. Bendigo Community Telco has entered into a binding licence with CTA in relation to the use of the Community Telco Project.

Bendigo Community Telco is provided banking overdraft and lending facilities by Bendigo Bank Ltd. The banking services are provided in accordance with Bendigo Bank's prevailing product terms and conditions.

25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent assets or contingent liabilities at the date of this report to affect the financial statements.

26. EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year a final dividend in the amount of four cents per share was declared by the Board of Directors on 24 August 2006 which will be distributed to shareholders on 15 September 2006.

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

27. REGISTERED OFFICE/PRINCIPAL PLACE OF BUSINESS

Registered Office

Level 2,
Fountain Court,
Bendigo, Victoria.

Principal Place of Business

Head Office	Business Continuity Centre
5 View Point	121 Edwards Road
Bendigo, Victoria.	Bendigo, Victoria.