Encounter Resources Limited
ABN 47 109 815 796

Financial Statements
For The Year Ended 30 June 2007

Contents Page

Encounter Resources Limited
ABN 47 109 815 796

Corporate Directory

Directors

Paul Chapman	Non-Executive Chairman
Will Robinson	Managing Director
Peter Bewick	Exploration Director
Jonathan Hronsky	Non-Executive Director

Company Secretary
Kevin R Hart

Principal Registered Office
Level 1, 46 Parliament Place
West Perth, Western Australia 6005
Telephone (08) 9486 9455
Facsimilie (08 6210 1578
Web www.enrl.com.au

Auditor
WHK Horwath Perth Audit Partnership
Level 6, 256 St Georges Terrace
Perth, Western Australia 6000

Share Registry
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross, Western Australia 6153
Telephone (08) 9315 2333
Facsimilie (08) 9315 2233

Stock Exchange Listing
The Company's shares are quoted on the Australian Stock Exchange. The home exchange is Perth, Western Australia.

ASX Code
ENR – Ordinary shares

Company Information
The Company was incorporated and registered under the Corporations Act 2001 in Western Australia on 30 June 2004 and became a public company on 26 May 2005.

The Company is domiciled in Australia.

The Directors present their report on Encounter Resources Limited for the year ended 30 June 2007.

Directors

The names and details of the Directors of Encounter Resources Limited during the financial year and until the date of this report are:

Paul Chapman – B.Comm, ACA, Grad. Dip. Tax, CFTP(Snr), MAICD, SA Fin

Non-Executive Chairman appointed 7 October 2005

Mr Chapman is a Chartered Accountant and has held various senior commercial roles within WMC over a seventeen year period. This includes experience in North America as CFO of WMC's Houston based oil and gas division as well as time in Pittsburgh working on the formation of the AWAC bauxite and Alumina business. Mr Chapman was appointed CFO of Anaconda Nickel Limited (now Minara Resources Limited) in 2001 and was responsible for its US$700 million debt restructuring process. Mr Chapman was a founding shareholder and Managing Director of Reliance Mining Limited (2003-2005) culminating in the recommended takeover by Consolidated Minerals Limited. Mr Chapman is a director of Albidon Limited, appointed 18 April 2007.

Will Robinson – B.Comm, MAusIMM

Managing Director (Executive) appointed 30 June 2004

Mr Robinson is a resources industry commercial and finance specialist with over thirteen years experience in commercial management, transaction structuring and negotiation, business strategy development and London Metals Exchange metals trading. Mr Robinson held various senior commercial positions with WMC in Australia and North America from 1994 to 2003. During his time with WMC he was instrumental in the success of the Kambalda nickel mine outsourcing strategy as the Commercial Manager of the Kambalda Nickel Operations. Mr Robinson has extensive experience in the sale and distribution of commodities and was Vice President – Marketing for WMC's nickel business from 2001 to 2003. After leaving WMC Mr Robinson formed a consulting company and advised numerous mining companies with interests in Australia, South America and Africa. Mr Robinson founded Encounter Resources Limited in 2004 and has overseen the development of the Company as its Managing Director.

Peter Bewick – B.Eng (Hons), MAusIMM

Exploration Director (Executive) appointed 7 October 2005

Mr Bewick is an experienced geologist and has held a number of senior mine and exploration geological roles during a fourteen year career with WMC. These roles include Exploration Manager and Geology Manager of the Kambalda Nickel Operations, Exploration Manager for St Ives Gold Operation and Exploration Manager for WMC's Nickel Business Unit. Most recently he held the position of Exploration Manager for North America based in Denver, Colorado. Whilst at WMC, Mr Bewick gained extensive experience in project generation for a range of commodities including nickel, gold and bauxite. Mr Bewick has been associated with a number of brownfields exploration successes at Kambalda and with the greenfield Collurabbie NI-CU-PGE discovery.

Jonathan Hronsky - BAppSci, PhD, MAusIMM, FSEG

Non-executive director appointed 10 May 2007

Dr. Jon Hronsky has more than twenty three years of experience in the mineral exploration industry, primarily focused on project generation, technical innovation and exploration strategy development. Dr. Hronsky has particular expertise in targeting for nickel sulfide deposits, but has worked across a diverse range of commodities. His work led to the discovery of the West Musgrave nickel sulfide province in Western Australia. Dr. Hronsky was most recently Manager-Strategy & Generative Services for BHP Billiton Mineral Exploration. Prior to that, he was Global Geoscience Leader for WMC Resources Ltd.

Company Secretary

Kevin Hart
Mr Hart is a Chartered Accountant and was appointed to the position of Company Secretary on 4 November 2005. He has over 20 years experience in accounting and the management and administration of public listed entities in the mining and exploration industry.

He is currently a partner in an advisory firm which specialises in the provision of company secretarial services to ASX listed entities.

Directors' Interests

As at the date of this report the Directors' interests in shares and unlisted options of the Company are as follows:

Director	*Directors' Interests in Ordinary Shares*	*Directors' Interests in Unlisted Options*
P Chapman	4,710,000	-
W Robinson	21,796,900	-
P Bewick	4,700,000	-
J Hronsky	-	-

Directors' Meetings

The number of meetings of the Company's Directors held during the year ended 30 June 2007 and the number of meetings attended by each Director were:

Director	*Board of Directors' Meetings*	
	Held	*Attended*
P Chapman	10	10
W Robinson	10	10
P Bewick	10	10
J Hronsky (appointed 10 May 2007)	2	2

Principal Activities

The principal activities of the Company during the financial year consisted of mineral exploration in Western Australia.

There were no significant changes in these activities during the financial year.

Results of Operations

The net loss after income tax for the financial year was $592,664 (2006: $346,270).

Included in the loss for the current year is a write-off of deferred exploration expenditure totalling $268,472 (2006: $ 132,409).

Dividends

No dividend has been paid since the end of the previous financial year and no dividend is recommended for the current year.

Encounter Resources Limited
ABN 47 109 815 796

Directors' Report

Review of Activities

Exploration

Calcrete Uranium – Yilgarn/Gascoyne
Yeelirrie Channel
Drilling at Bellah Bore East defined an area of near surface uranium mineralisation approximately 500m by 150m and between 2m to 10m thick. Results include:

- 8m @ 215ppm U_3O_8 from surface including 2m @ 410ppm U_3O_8
- 10m @ 166ppm U_3O_8 from surface including 2m @ 410ppm U_3O_8
- 3m @ 781ppm U_3O_8 from 4m including 1m @ 2111ppm U_3O_8.

Lake Way South
The southern 1km of the 12km long uranium channel radiometric anomaly that crosses Lake Way was drill tested. The results have extended the area of known uranium mineralisation at Nova Energy's Centipede uranium at least 150m into the Lake Way JV tenement. Results include:

- 1m @ 312ppm U_3O_8 from 5m
- 1m @ 224ppm U_3O_8 from 3m
- 1m @ 147ppm U_3O_8 from 8m

An aircore drill program was completed to test series of subtle radiometric anomalies that are located off the north east margin of Lake Way. Results from the drilling were encouraging and have defined a 1.2km long zone of near surface uranium mineralisation.

Encounter completed the earn-in phase of the Lake Way South JV and now holds a 60% interest in the uranium rights with Avoca Resources Ltd holding 40%.

Regional Auger Geochemical Program
A regional reconnaissance auger drilling program was completed to test a series of airborne radiometric anomalies and provide information that will assist in the future prioritisation of field activities. The program successfully identified a 4km long uranium geochemical anomaly at McPhersons Bore.

McPherson's Bore
An aircore program identified near surface uranium mineralisation that extends over 1.2kms of strike. Intersections received to date include:

- 1m @ 448ppm U_3O_8 from surface
- 1m @ 283ppm U_3O_8 from surface
- 1m @ 271ppm U_3O_8 from surface

Hillview
An aircore drill program was completed at Hillview in July 2007 targeting an area of near surface uranium mineralisation outlined by previous explorers. Preliminary assessment of the holes drilled indicates a well developed calcrete profile and elevated radiometric anomalism.

Stone Tank
Surface sampling of the 7km long zone of outcropping calcrete body has returned elevated uranium oxide values. Samples from three separate locations returned assay between 67 and 105ppm U_3O_8 and visible uranium mineralisation has been identified at two of these locations.

Review of Activities (continued)

Exploration (continued)

Base Metals/Unconformity Uranium - Bangemall Basin

Pingandy Creek

A review of a airborne geophysical survey released in February 2007 by the GSWA has outlined a 7.5km long uranium channel radiometric anomaly at Pingandy Creek project.

Tchintaby Well

A review of the historical drilling and geophysics at Tchintaby has identified multiple large scale targets that are prospective for zinc mineralisation.

Diamonds - Yilgarn

Lakeview Project

A detailed ground gravity survey at the Lakeview Project successfully defined a high quality diamonds target over a bipolar magnetic anomaly.

Financial Position

At the end of the financial year the Company had $6,775,145 (2006: $4,209,233) in cash and at call deposits. Capitalised mineral exploration and evaluation expenditure is $1,420,229 (2006: $250,822). Mineral exploration and evaluation expenditure during the year for the Company was $1,437,879 (2006: $383,231).

Expenditure was principally focused on the exploration for uranium and base metals in Western Australia.

Significant Changes in the State of Affairs

Significant changes in the state of affairs of the Company during the end of the prior financial year were as follows:

Avoca Resources has held a 20% free carried interest in Encounter's exploration projects for the two year period which ended on 1st April 2007. In accordance with the Joint Venture and Exploration Agreement between Avoca and Encounter, Avoca has elected to contribute to the six month exploration expenditure program commencing 1st April 2007 to maintain their 20% interest in Encounter's project portfolio.

Encounter completed its joint venture expenditure obligations and has earned a 60% interest in the uranium rights at Lake Way South from Avoca Resources Ltd. The Lake Way South project is now subject to the separate Lake Way Joint Venture dated 31st July 2007.

On 5 April 2007 the company issued 8,600,000 ordinary shares under a private placement raising $4,300,000 before costs of the issue.

Options Over Unissued Capital

Unlisted Options

During the financial year the Company granted 250,000 unlisted options over unissued shares to employees of the Company. No ordinary shares were issued on the exercise of options.

Since the end of the financial year no unlisted options have been exercised.

Options Over Unissued Capital (continued)

Unlisted Options (continued)

As at the date of this report unissued ordinary shares of the Company under option are:

Number of Options Granted	*Exercise Price*	*Grant Date*	*Expiry Date*
100,000 (i)	20 cents	23 March 2006	23 March 2011
100,000 (ii)	45 cents	15 May 2006	15 May 2011
250,000 (iii)	52.5 cents	7 December 2006	7 December 2011
50,000 (iv)	57 cents	6 July 2007	6 July 2012
50,000 (v)	50 cents	9 August 2007	9 August 2012

(i) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 23 March 2007.
(ii) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 15 May 2007.
(iii) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 7 December 2007.
(iv) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 6 July 2008.
(v) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 9 August 2008.

These unlisted options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

The holders of unlisted options are not entitled to any voting rights until the options are exercised into ordinary shares.

Matters Subsequent to the End of the Financial Year

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Likely Developments and Expected Results of Operations

Disclosure of any further information has not been included in this report because, in the reasonable opinion of the Directors to do so would be likely to prejudice the business activities of the Company and is dependent upon the results of the future exploration and evaluation.

Environmental Regulation and Performance

The Company holds various exploration licences to regulate its exploration activities in Australia. These licences include conditions and regulations with respect to the rehabilitation of areas disturbed during the course of its exploration activities.

So far as the Directors are aware, all exploration activities have been undertaken in compliance with all relevant environmental regulations.

Remuneration Report

Remuneration Policy

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. Remuneration packages include fixed remuneration with bonuses or equity based remuneration entirely at the discretion of the Board based on the performance of the Company.

Total remuneration for all Non-Executive Directors was last voted on by shareholders on 4 November 2005, whereby it is not to exceed $80,000 per annum. Non-Executive Directors do not receive bonuses. Directors' fees cover all main Board activities.

At the date of this report the Company has not entered into any agreements with Directors or senior executives which include performance based components.

Refer also to the Corporate Governance Statement for more detail on the Boards policy in this area.

Details of Remuneration for Directors and Executive Officers

During the year there were no senior executives which were employed by the Company for whom disclosure is required.

Details of the remuneration of each Director of the Company are as follows:

2007 *Directors*	*Base Emolument* *$*	*Superannuation Contributions* *$*	*Other Benefits* *$*	*Value of Options* *$*	*Total* *$*
P. Chapman	20,000	1,800	-	-	21,800
W. Robinson	188,750	16,988	-	-	205,738
P. Bewick	170,833	15,375	-	-	186,208
J. Hronsky (appointed 10 May 2007)	5,591	503	-	-	6,094
Total	385,174	34,666	-	-	419,840

2006 *Directors*	*Base Emolument* *$*	*Superannuation Contributions* *$*	*Other Benefits* *$*	*Value of Options* *$*	*Total* *$*
P. Chapman	3,922	2,006	-	-	5,928
W. Robinson	74,559	6,710	-	-	81,269
P. Bewick	96,616	8,695	-	-	105,311
Total	175,097	17,411	-	-	192,508

Remuneration Report (Continued)

Executive Employment Agreements

Remuneration and other terms of employment for the Managing Director and Exploration Director are set out in their respective Executive Employment Agreements. Both employment contracts are for a three year term commencing 23 January 2006 and are subject to a three month notice of termination of contract.

The contractual arrangements contain certain provisions typically found in contracts of this nature.

Payment of termination benefit by the employer, other than amongst other things for gross misconduct is equal to the payment limit set by Sub-section 200G of the Corporations Act 2001.

Unlisted Options

No options over unissued shares have been issued to directors or key management personnel of the Company during or since the end of the financial year.

Officer's Indemnities and Insurance

During the year the Company paid an insurance premium to insure certain officers of the Company. The officers of the Company covered by the insurance policy include the Directors named in this report.

The Directors and Officers Liability insurance provides cover against all costs and expenses that may be incurred in defending civil or criminal proceedings that fall within the scope of the indemnity and that may be brought against the officers in their capacity as officers of the Company. The insurance policy does not contain details of the premium paid in respect of individual officers of the Company. Disclosure of the nature of the liability cover and the amount of the premium is subject to a confidentiality clause under the insurance policy.

The Company has not provided any insurance for an auditor of the Company.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to 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 part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the Annual Report.

Non-audit Services

During the year WHK Horwath, previously Grant Thornton, the Company's auditor, has performed certain other services in addition to their statutory duties.

Total remuneration paid to auditors during the financial year:	2007 $	2006 $
Audit and review of the Company's financial statements	17,460	8,700
Taxation services	4,250	3,500
Independent Accountants Report	-	11,300
Total	21,710	23,500

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

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act is set out on page 12.

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

DATED at Perth this 17th day of September 2007.

W Robinson
Director

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Encounter Resources Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP

SEAN MCGURK
Principal

Perth, WA

Dated this 17th day of September 2007

Total Financial Solutions

Member Horwath International
WHK Horwath Perth Audit Partnership ABN 96 844 819 235
Level 6, 256 St Georges Terrace Perth WA 6000 Australia
GPO Box P1213 Perth WA 6844 Australia
Telephone +61 8 9481 1448 Facsimile +61 8 9481 0152
Email perth@whkhorwath.com.au www.whkhorwath.com.au
A WHK Group firm

Encounter Resources Limited
ABN 47 109 815 796

Income Statement
For the financial year ended 30 June 2007

	Note	2007 $	2006 $
Revenue	5	275,313	90,131
Total revenue		275,313	90,131
Employee expenses		(584,551)	(244,339)
Employee expenses recharged to exploration		443,416	164,803
Equity based remuneration expense		(46,294)	(2,625)
Non-executive Director's fees		(25,591)	(5,928)
Corporate advisory expenses		(90,000)	(30,000)
Operating lease expenses		(25,827)	(20,464)
Depreciation expense	10	(7,529)	(1,335)
Corporate expenses		(81,757)	(59,328)
Legal costs		(377)	(23,653)
Other expenses from ordinary activities		(180,995)	(81,123)
Exploration costs written off and expensed		(268,472)	(132,409)
Loss before income tax	6	(592,664)	(346,270)
Income tax expense	7	-	-
Loss attributable to members for the year	16	(592,664)	(346,270)
Earnings per share for loss attributable to the ordinary equity holders of the Company			
		Cents	Cents
Basic earnings/(loss) per share	27	(1.0)	(1.1)
Diluted earnings/(loss) per share	27	(1.0)	(1.1)

The above income statement should be read in conjunction with the accompanying notes.

Encounter Resources Limited
ABN 47 109 815 796

Balance Sheet
As At 30 June 2007

	Note	2007 $	2006 $
Current assets			
Cash and cash equivalents	8	6,775,145	4,209,233
Trade and other receivables	9(a)	142,123	56,278
Other current assets	9(b)	149,226	319,842
Total current assets		7,066,494	4,585,353
Non-current assets			
Property, plant and equipment	10	92,318	92,133
Capitalised mineral exploration and evaluation expenditure	11	1,420,229	250,822
Total non-current assets		1,512,547	342,955
Total assets		8,579,041	4,928,308
Current liabilities			
Trade and other payables	13(a)	57,216	77,566
Employee benefits	13(b)	39,800	13,323
Total current liabilities		97,016	90,889
Total liabilities		97,016	90,889
Net assets		8,482,025	4,837,419
Equity			
Issued capital	14	9,443,330	5,252,354
Accumulated losses	16	(1,010,224)	(417,560)
Equity remuneration reserve	16	48,919	2,625
Total equity		8,482,025	4,837,419

The above balance sheet should be read in conjunction with the accompanying notes.

Encounter Resources Limited
ABN 47 109 815 796

Statement of Changes in Equity
For the financial year ended 30 June 2007

	Note	2007 $	2006 $
Total equity at the beginning of the financial year		4,837,419	(71,289)
Loss for the year	16	(592,664)	(346,270)
Movement in equity remuneration reserve	16	46,294	2,625
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity	14	4,300,000	5,700,000
Transaction costs of equity issued	14	(109,024)	(447,647)
Total equity at the end of the financial year		8,482,025	4,837,419

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Encounter Resources Limited
ABN 47 109 815 796

Cash Flow Statement
For the financial year ended 30 June 2007

	Note	2007 $	2006 $
Cash flows from operating activities			
Interest received		282,521	64,921
Payments to suppliers and employees		(456,974)	(388,946)
Net cash used in operating activities	26	(174,453)	(324,025)
Cash flows from investing activities			
Payments for exploration and evaluation		(1,411,840)	(443,606)
Payments for plant and equipment		(38,771)	(93,468)
Net cash used in investing activities		(1,450,611)	(537,074)
Cash flows from financing activities			
Proceeds from borrowings		-	30,000
Repayment of borrowings		-	(34,336)
Proceeds from the issue of shares		4,300,000	5,500,000
Payments for transaction costs relating to share issues		(109,024)	(447,647)
Net cash provided by financing activities		4,190,976	5,048,017
Net increase in cash held		2,565,912	4,186,918
Cash at the beginning of the financial year		4,209,233	22,315
Cash at the end of the financial year	8(a)	6,775,145	4,209,233

The above cash flow statement should be read in conjunction with the accompanying notes.

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Encounter Resources Limited as an individual entity.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

The financial statements were approved by the board of Directors on 17th September 2007.

Compliance with IFRS
The financial report of Encounter Resources Limited complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AIFRS), in their entirety. Compliance with AIFRS ensures that the financial report also complies with International Financial Reporting Standards (IFRS) in their entirety.

Early adoption of standards
The Company has not elected to adopt any standards early as permitted under AASB1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards.

The following standards, amendments to standards and interpretations have been identified as those which may impact the group in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this report:

AASB 7	*Financial Instruments: Disclosures*
AASB 2005-10	*Amendments to Australian Accounting Standards (September 2005)*
AASB 8	*Operating Segments*
AASB 2007-3	*Amendments to Australian Accounting Standards arising from AASB 8.*
Interpretation 10	*Interim Financial Reporting and Impairment*
Interpretation 11 AASB 2	*Share Based Payment – Group and Treasury Share Transactions*
AASB 2007-1	*Amendments to Australian Accounting Standards arising from AASB Interpretation 11*
Interpretation 12	*Service Concession Arrangements*
AASB-2	*Amendments to Australian Accounting Standards arising from AASB Interpretation 12*

Reporting basis and conventions
These financial statements have been prepared under the historical cost convention, and on an accrual basis.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(c) Revenue recognition and receivables

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, allowances and amounts collectable on behalf of third parties.

Interest income
Interest income is recognised on a time proportion basis and is recognised as it accrues.

(d) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary timing differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to those timing differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(e) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 22). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(f) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(h) Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

(i) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight line and written down value methods to allocate their cost, net of residual values, over their estimated useful lives, as follows:

Field equipment	33.3%
Office equipment	33.3%

The asset's 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 (note 1(f)). Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(j) Mineral exploration and evaluation expenditure

Mineral exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- such costs are expected to be recouped through the successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in, or in relation to, the area of interest are continuing.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the year in which that assessment is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure.

(k) Joint ventures

Interests in joint ventures have been brought to account by including the appropriate share of the relevant assets, liabilities and costs of the joint ventures in their relevant categories in the financial statements. Details of these interests are shown in Note 12.

(l) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

(m) Employee benefits

Wages, salaries and annual leave.
Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave.
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future salaries, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share based payments.
Share based compensation payments are made available to Directors and employees.

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(n) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the earnings attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(p) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as a part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flow.

(q) Comparative figures

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

(r) Investments and other financial assets

Recognition
When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(r) Investments and other financial assets (continued)

(i) Financial assets are fair value through profit or loss
Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments included to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) 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 amortised cost using the effective interest rate method.

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

Note 2 Financial risk management

The Company's activities expose it to a variety of financial risks; market risk, credit risk, liquidity risk and cash flow interest risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

(a) Market risk
Currently the Company is not exposed to any significant market risk.

(b) Credit risk
The Company currently has no significant concentrations of credit risk.

(c) Liquidity risk
The Company manages its liquidity risk by monitoring its cash reserves and forecast spending. Management is cognisant of the future demands for liquid finance resources to finance the Company's current and future operations.

(d) Cash flow and fair value interest rate risk
As the Company has significant interest bearing assets, the Company's income and operating cash flows are materially exposed to changes in market interest rates. The assets are short term interest bearing deposits, and no financial instruments are employed to mitigate risk. (Note 17 – Financial Instruments).

Note 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances.

Accounting for capitalised exploration and evaluation expenditure
The Company's accounting policy is stated at 1(j). There is some subjectivity involved in the carrying forward as capitalised or writing off to the income statement exploration and evaluation expenditure, however management give due consideration to areas of interest on a regular basis and are confident that decisions to either write off or carry forward such expenditure reflect fairly the prevailing situation.

Note 4 Segment information

Business segments
The Company is involved in the mineral exploration sector.

Geographical segments
The Company is organised on a national basis with exploration and development interests within Western Australia.

Note 5 Revenue

	2007 $	2006 $
Operating activities		
Interest receivable – other persons	275,313	90,131

Note 6 Loss for the year

Loss before income tax includes the following specific expenses:

	2007 $	2006 $
Depreciation		
Office equipment	7,529	1,335
Rental expenses on operating leases – minimum lease payments	25,827	20,464
Exploration expenditure written off and expensed	268,472	132,409

Note 7 Income tax

	2007 $	2006 $
a) Income tax expense		
Current income tax		
Current income tax charge (benefit)	(373,740)	(326,410)
Current income tax not recognised	373,740	326,410
Deferred income tax:		
Relating to origination and reversal of timing differences	(222,093)	(151,644)
Deferred income tax benefit not recognised	222,093	151,644
Income tax expense reported in the income statement	-	-
b) Reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(592,664)	(346,270)
Tax at the Australian rate of 30% (2006 – 30%)	(177,799)	(103,881)
Tax effect of permanent differences:		
Non-deductible share based payment	13,888	788
Non-deductible entertainment	625	381
Net deferred tax asset benefit not brought to account	163,286	102,712
Tax (benefit)/expense	-	-
c) Deferred tax – Balance Sheet		
Liabilities		
Accrued income	5,401	7,563
Prepaid expenses	44,768	95,953
Capitalised exploration expenditure	291,182	75,247
	341,351	178,763
Assets		
Revenue losses available to offset against future taxable income	700,149	326,410
Employee provisions	11,940	3,997
Accrued expenses	3,000	-
Deductible equity raising costs	106,742	107,435
	821,831	437,842
Net deferred tax asset/(liability)	480,480	259,079

Note 7 Income tax (continued)

	2007 $	2006 $
d) Deferred tax – Income Statement		
Liabilities		
Accrued income	2,162	(7,563)
Prepaid expenses	51,185	(95,953)
Capitalised exploration expenditure	(215,936)	(75,247)
Assets		
Accruals	3,000	-
Increase in tax losses carried forward	373,739	326,410
Employee provisions	7,943	3,997
Deferred tax benefit/(expense) not recognised	222,093	151,644

The deferred tax assets of tax losses not brought to account will only be obtained if:

(i) The Company derives future assessable income of a nature and an amount sufficient to enable the benefit from the tax losses to be realised;

(ii) The Company continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) No changes in tax legislation adversely affect the Company realising the benefit from the deduction of the losses.

All unused tax losses were incurred by Australian entities.

Note 8 Current assets - Cash and cash equivalents

	2007 $	2006 $
Cash at bank and on hand	8,721	87,255
Deposits at call	6,766,424	4,121,978
	6,775,145	4,209,233

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statement as follows:

Cash and cash equivalents	6,775,145	4,209,233

(b) Cash at bank and on hand

These attract interest at 2.35% (2006: 2.45%).

(c) Deposits at call

The deposits are bearing fixed interest rates of 6.34% (2006: 5.87% and 5.95%). These deposits have an average maturity of 30 days.

Note 9 Current assets - Receivables

	2007	2006
a) Trade and other receivables	$	$
Trade receivables	17,273	-
Accrued interest	18,002	25,210
Recoverable joint venture expenses	93,263	-
GST recoverable	13,586	31,068
	142,123	56,278
b) Other current assets		
Prepaid tenement costs	141,541	219,022
Prepaid insurance	7,685	10,820
Prepaid corporate advisory expenses	-	90,000
	149,226	319,842

Details of fair value and exposure to interest risk are included at note 17.

Note 10 Non-current assets – Property, plant and equipment

	2007	2006
Field equipment	$	$
At cost	104,491	69,702
Accumulated depreciation	(31,057)	-
	73,434	69,702
Office equipment		
At cost	27,748	23,766
Accumulated depreciation	(8,864)	(1,335)
	18,884	22,431
	92,318	92,133

Reconciliation

	2007	2006
Field equipment		
Net book value at start of the year	69,702	-
Additions	34,789	69,702
Depreciation	(31,057)	-
Net book value at end of the year	73,434	69,702
Office equipment		
Net book value at start of the year	22,431	-
Additions	3,982	23,766
Depreciation	(7,529)	(1,335)
Net book value at end of the year	18,884	22,431

No items of property, plant and equipment have been pledged as security by the Company.

Note 11 Non-current assets – Capitalised mineral exploration and evaluation expenditure

In the exploration and evaluation phase	2007 $	2006 $
Cost brought forward	250,822	-
Exploration and acquisition expenditure incurred during the year at cost on non joint venture assets	988,260	383,231
Share of exploration and acquisition expenditure incurred during the year at cost under joint venture agreements (note 12)	449,619	-
Exploration expenditure written off	(268,472)	(132,409)
Cost carried forward	1,420,229	250,822

The recoverability of the carrying amount of the exploration and evaluation assets is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Note 12 Interest in joint ventures

Included in the assets and liabilities of the Company were the following items which represented the Company's interest in the assets and liabilities employed in joint ventures.

The total amount of the company's capitalised exploration and evaluation expenditure employed under joint venture agreements is $449,619 (2006: Nil)

(i) Lake Way Joint Venture

The company has a 60% interest in the Lake Way Joint Venture.	2007 $	2006 $
Share of Joint Venture's assets and liabilities:		
Cash and cash equivalents	4,304	-
Trade and other receivables	1,033	-
Capitalised mineral exploration and evaluation expenditure	125,230	-
Total Assets	130,567	-
Trade and other payables	5,919	-
Total Liabilities	5,919	-
Net Assets	124,648	-
Share of Joint Venture's revenue, expenses and results:		
Revenue	-	-
Expenses	-	-
Result before tax	-	-

Note 12 Interest in joint ventures (continued)

(ii) Uranium Regional Joint Venture

The company has an 80% interest in a portfolio of projects and tenements. At the reporting date the company had incurred all of the expenditure totalling $405,486 in respect of the joint venture since its formation on 1 April 2007. The company's share of the net assets of the joint venture of $324,389 represents the 80% interest that the joint venture will make to the company after the joint venture has been charged the expenditure.

Note 13 Current liabilities – Trade and other payables

a) Trade and other payables	2007	2006
	$	$
Trade payables and accruals	41,252	46,568
Other payables	15,964	30,998
	57,216	77,566

b) Employee benefits	2007	2006
	$	$
Liability for annual leave	39,800	13,323

Liabilities are not secured over the assets of the company. Details of fair value and exposure to interest risk are included at note 17.

Note 14 Issued capital

a) Ordinary shares
The Company is a public company limited by shares. The Company was incorporated in Perth, Western Australia.

The Company's shares are limited whereby the liability of its members is limited to the amount (if any) unpaid on the shares respectively held by them.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value. There is no limit to the authorised share capital of the Company.

Note 14 Issued capital (continued)

b) Share capital		2007 No.	2006 No.	2007 $	2006 $
Issued share capital		68,596,900	59,996,900	9,443,330	5,252,354

c) Share movements during the year	*Issue price*	2007 No.	2006 No.	2007 $	2006 $
At the beginning of the year		59,996,900	1	5,252,354	1
Share split (33,000:1) 7 October 2005	-	-	33,299	-	-
Share issue 17 October 2005	$1.00	-	300,000	-	300,000
Share split (93:1) 26 October 2005	-	-	30,663,600	-	-
Share issue 4 November 2005	$0.10	-	4,000,000	-	400,000
Shares issued on IPO 20 March 2006	$0.20	-	25,000,000	-	5,000,000
Shares issued 5 April 2007	$0.50	8,600,000	-	4,300,000	-
Less: costs related to shares issued		-	-	(109,024)	(447,647)
At the end of the year		68,596,900	59,996,900	9,443,330	5,252,354

d) Option plan
Information relating to the Encounter Resources Limited Directors, Officers and Employees Option Plan is set out in note 15

Note 15 Option Plan

The establishment of the Encounter Resources Limited Directors, Officers and Employees Option Plan ('the Plan") was adopted at a Meeting of Directors on 8 February 2006, subject to approval by a special resolution at the next General Meeting of shareholders of the Company. All eligible Directors, executive officers and employees of Encounter Resources Limited who have been continuously employed by the Company are eligible to participate in the Plan.

The Plan allows the Company to issue free options to eligible persons. The options can be granted free of charge and are exercisable at a fixed price in accordance with the Plan.

Options issued under the Plan have a 12 month vesting period prior to exercise, except under certain circumstances whereby options may be capable of exercise prior to the expiry of the vesting period.

a) Options issued during the year
During the financial year the Company granted the following unlisted options over unissued shares:

Number of options granted	*Exercise price*	*Expiry date*
250,000	$0.525	7 December 2011

During the year no options were exercised.

Note 15 Option Plan (continued)

b) Options on issue at the balance date

The number of options outstanding over unissued ordinary shares at 30 June 2007 is 450,000 (2006: 200,000). The terms of these options are as follows:

Number of options outstanding	*Exercise price*	*Expiry date*
100,000	$0.20	23 March 2011
100,000	$0.45	15 May 2011
250,000	$0.525	7 December 2011
450,000		

c) Subsequent to the balance date

The following options have been granted subsequent to the balance date to the date of signing this report.

50,000 (iv)	57 cents	6 July 2007	6 July 2012
50,000 (v)	50 cents	9 August 2007	9 August 2012

No options have been exercised subsequent to the balance date to the date of signing this report.

Reconciliation of movement of options over unissued shares during the period including weighted average exercise price (WAEP)

	2007		2006	
	No.	WAEP (cents)	No.	WAEP (cents)
Options outstanding at the start of the year	200,000	32.5	-	-
Options granted during the year	250,000	53.5	200,000	32.5
Options exercised during the year	-	-	-	-
Options expiring unexercised during the year	-	-	-	-
Options outstanding at the end of the year	450,000	38.7	200,000	32.5

Basis and assumptions used in the valuation of options.

The options were valued using the Black-Scholes option valuation methodology. All options are subject to a 12 month vesting period.

Date granted	Number of options granted	Exercise price (cents)	Expiry date	Risk free interest rate used	Volatility applied	Option valuation (cents)
7 December 2006	250,000	52.5	7 December 2011	5.87%	50%	22.41

Historical volatility has been used as the basis for determining expected share price volatility, as it is assumed that this is an indicator of future tender, which may not eventuate.

Note 16 Reserves and accumulated losses

	2007		2006	
	Accumulated losses	Equity remuneration reserve (i)	Accumulated losses	Equity remuneration reserve (i)
	$	$	$	$
Balance at the beginning of the year	(417,560)	2,625	(71,290)	-
Loss for the period	(592,664)	-	(346,270)	-
Transfer to equity remuneration reserve in respect of options issued	-	46,294	-	2,625
Balance at the end of the year	(1,010,224)	48,919	(417,560)	2,625

Note 16 Reserves and accumulated losses (continued)

(i) Equity remuneration reserve
The equity remuneration reserve is used to recognise the fair value of options issued but not exercised.

Note 17 Financial instruments

The Company's exposure to interest rate risk (note 2(d)) is as follows:

2007	Weighted average effective interest %	Funds available at fixed interest rates within one year $	Funds available at floating interest rate $	Assets / (liabilities) non interest bearing $	Total $
Financial assets					
Cash and cash equivalents	6.34%	6,766,424	8,721	-	6,775,145
Trade and other receivables	0.81%	18,002	-	124,122	142,124
Total financial assets		6,784,426	8,721	124,122	6,917,269
Financial liabilities					
Trade and other payables	-	-	-	(97,016)	(97,016)
Total financial liabilities		-	-	(97,016)	(97,016)
Net financial assets/(liabilities)		6,784,426	8,721	27,106	6,820,253

2006	Weighted average effective interest %	Funds available at fixed interest rates within one year $	Funds available at floating interest rate $	Assets / (liabilities) non interest bearing $	Total $
Financial assets					
Cash and cash equivalents	5.89%	-	4,209,233	-	4,209,233
Trade and other receivables	2.64%	-	25,210	31,068	56,278
Total financial assets		-	4,234,443	31,068	4,265,511
Financial liabilities					
Trade and other payables	-	-		(90,889)	(90,889)
Total financial liabilities		-	-	(90,889)	(90,889)
Net financial assets/(liabilities)		-	4,234,443	(59,821)	4,174,622

Carrying value equates to fair value for the assets and liabilities of the company.

Note 18 Dividends

No dividends were paid or proposed during the financial year.

The Company has no franking credits available as at 30 June 2007.

Note 19 Key management personnel disclosures

(a) Directors

The following persons were directors of Encounter Resources Limited during the financial year:

(i) Chairman – non-executive
Paul Chapman

(ii) Executive directors
Will Robinson, Managing Director
Peter Bewick, Exploration Director

(iii) *Non-executive directors*
Jonathan Hronsky, Director (appointed 10 May 2007)

(b) Other key management personnel

There were no other persons employed by or contracted to the Company during the financial year, having responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

(c) Key management personnel compensation

Remuneration Policy

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. Remuneration packages include fixed remuneration with bonuses or equity based remuneration entirely at the discretion of the Board based on the performance of the Company.

Total remuneration for all Non-Executive Directors was last voted on by shareholders on 4 November 2005, whereby it is not to exceed $80,000 per annum. Non-Executive Directors do not receive bonuses. Directors' fees cover all main Board activities.

At the date of this report the Company has not entered into any agreements with Directors or Senior Executives which include performance based components.

Details of Remuneration for Key Management Personnel

During the year there were no Senior Executives which were employed by the Company for whom disclosure is required.

Note 19 Key management personnel disclosures (continued)

Details of the remuneration of each Director of the Company are as follows:

2007

	Short Term	*Post Employment*			
Directors	*Base Emolument $*	*Superannuation Contributions $*	*Other Benefits $*	*Value of Options $*	*Total $*
P Chapman	20,000	1,800	-	-	21,800
W Robinson	188,750	16,988	-	-	205,738
P Bewick	170,833	15,375	-	-	186,208
J Hronsky	5,591	503	-	-	6,094
Total	385,174	34,666	-	-	419,840

2006

	Short term	*Post Employment*			
Directors	*Base Emolument $*	*Superannuation Contributions $*	*Other Benefits $*	*Value of Options $*	*Total $*
P Chapman	3,922	2,006	-	-	5,928
W Robinson	74,559	6,710	-	-	81,269
P Bewick	96,616	8,695	-	-	105,311
Total	175,097	17,411	-	-	192,508

Executive Employment Agreements
Remuneration and other terms of employment for the Managing Director and Exploration Director are set out in their respective Executive Employment Agreements. Both employment contracts are for a three year term commencing 23 January 2006 and are subject to a three month notice of termination of contract.

The contractual arrangements contain certain provisions typically found in contracts of this nature.

Payment of termination benefit by the employer, other than amongst other things for gross misconduct is equal to the payment limit set by Sub-section 200G of the Corporations Act 2001.

Note 19 Key management personnel disclosures (continued)

d) Equity instrument disclosures relating to key management personnel

Unlisted Options provided as remuneration and shares issued on exercise of such options

No options over unissued shares have been issued to key management personnel of the Company during or since then end of the financial year.

Option holdings

Key Management Personnel have held no options over the ordinary shares of the Company.

Share holdings

The number of shares in the Company held during the financial year by key management personnel of the Company, including their personally related parties are set out below. There were no shares granted during the reporting period as compensation.

2007 Name *Directors*	Balance at start of the year	Received during the year on exercise of options	Other changes during the year	Balance at the end of the year
P. Chapman	4,710,000	-	-	4,710,000
W. Robinson	21,796,899	-	-	21,796,900
P. Bewick	4,700,000	-	-	4,700,000
J. Hronsky	-	-	-	-

2006 Name *Directors*	Balance at start of the year	Received during the year on exercise of options	Other changes during the year	Balance at the end of the year
P. Chapman	-	-	4,710,000	4,710,000
W. Robinson	1	-	21,796,899	21,796,900
P. Bewick	-	-	4,700,000	4,700,000

Other changes to the share holdings are in respect of shares purchased or as a result of share splits prior to the Initial Public Offering.

e) Loans made to key management personnel
No loans were made to key personnel, including personally related entities during the reporting period.

f) Other transactions with key management personnel
There were no other transactions with key management personnel.

Note 20 Remuneration of auditors

	2007 $	2006 $
Audit and review of the Company's financial statements	17,460	8,700
Taxation services	4,250	3,500
Independent Accountants Report	-	11,300
	21,710	23,500

Note 21 Contingencies

(i) Contingent liabilities

There were no material contingent liabilities not provided for in the financial statements of the Company as at 30 June 2007 or 30 June 2006 other than:

Native Title and Aboriginal Heritage

Native title claims have been made with respect to areas which include tenements in which the Company has an interest. The Company is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the Company or its projects. Agreement is being or has been reached with various native title claimants in relation to Aboriginal Heritage issues regarding certain areas in which the Company has an interest.

(ii) Contingent assets

There were no material contingent assets as at 30 June 2007 or 30 June 2006.

Note 22 Commitments

(a) Exploration

The Company has certain obligations to perform minimum exploration work on mineral leases held. These obligations may vary over time, depending on the Company's exploration programmes and priorities. As at balance date, total exploration expenditure commitments on tenements held by the Company have not been provided for in the financial statements and which cover the following twelve month period amount to $1,083,800 (2006: $470,800). These obligations are also subject to variations by farm-out arrangements or sale of the relevant tenements. This commitment does not include the expenditure commitments which are the responsibility of the joint venture partners.

(b) Operating Lease Commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are as follows:

	2007	2006
	$	$
Within one year	-	26,870
Later than one year but not later than five years	-	-
Later than five years	-	-
	-	26,870

Note 22 Commitments (continued)

(b) Operating Lease Commitments (continued)

The operating lease commitment relates to the lease of the Company's Perth office. The initial lease period was 12 months, thereafter becoming a monthly lease. There are no provisions in the terms of the lease for rental increases. At the reporting date there are no operating lease commitments.

(c) Contractual Commitment

There are no material contractual commitments as at 30 June 2007 other than those disclosed above and not otherwise disclosed in the Financial Statements.

Note 23 Related party transactions

There were no related party transactions during the year, other than disclosed at note 19.

Note 24 Interests in joint ventures

Joint venture agreements have been entered into with third parties. Details of joint venture agreements are disclosed below .

Assets employed by these joint ventures and the Company's expenditure in respect of them is brought to account initially as capitalised exploration and evaluation expenditure (Refer Note 11) until a formal joint venture agreement is entered into. Thereafter, investment in joint ventures is recorded distinctly from capitalised exploration costs incurred on the company's 100% owned projects.

See note 12 for disclosures of interests in the assets and liabilities employed under formal joint venture agreements.

Joint Venture and Exploration Agreement

Under a Joint Venture and Exploration Agreement dated 1 April 2005 the Company and Avoca Resources Limited ("Avoca") have agreed to establish an unincorporated joint venture for the purposes of identifying, acquiring, evaluating and developing or selling mining tenements with potential uranium deposits within Western Australia. Encounter is the manager of the joint venture.

Avoca Resources held a 20% free carried interest in Encounter's exploration projects for the two year period which ended on 1st April 2007. In accordance with the Agreement, Avoca has elected to contribute to the six month exploration expenditure program commencing 1st April 2007 to maintain their 20% interest the projects. Either party may elect to dilute their interest to a 1% net smelter royalty.

Lake Way Uranium Joint Venture

Under the Lake Way Uranium Joint Venture dated 1 July 2007 between Avoca Resources Limited and the Company, the Company has a 60% joint venture interest in the Uranium at the Lake Way South tenement. The parties are contributing to expenditure in accordance with their equity interest. Encounter is the manager of the joint venture. The company's interest in the joint venture may increase to 75% if Avoca elects to dilute its interest in the tenement and be free carried though to decision to mine.

Note 25 Events occurring after the balance sheet date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Note 26 Reconciliation of loss after tax to net cash inflow from operating activities

	2007 $	2006 $
Loss from ordinary activities after income tax	(592,664)	(346,270)
Depreciation	7,529	1,335
Exploration cost written off	268,472	132,409
Share based payments expense	46,294	2,625
(Increase)/decrease in prepaid expenses	93,135	(100,820)
(Increase)/decrease in receivables	596	(32,508)
Increase/(decrease) in payables	(24,292)	5,037
Increase/(decrease) in provisions	26,477	14,167
Net cash outflow from operating activities	(174,453)	(324,025)

Note 27 Earnings per share

	2007 Cents	2006 Cents
a) Basic earnings per share		
Loss attributable to ordinary equity holders of the Company	(1.0)	(1.1)
b) Diluted earnings per share		
Loss attributable to ordinary equity holders of the Company	(1.0)	(1.1)

	2007	2006
c) Loss used in calculation of basic and diluted loss per share	$	$
Loss after tax from continuing operations	(592,664)	(342,270)
d) Weighted average number of shares used as the denominator	No.	No.
Weighted average number of shares used as the denominator in calculating basic and dilutive loss per share	62,046,763	30,648,129

At 30 June 2007 the Company has on issue 450,000 unlisted options (2006: 200,000) over ordinary shares that are not

considered to be dilutive.

Note 28 Subsidiary Information

During the year Encounter Resources Limited acquired two subsidiary companies. These subsidiary companies are dormant and have no assets or liabilities at the reporting date or any revenue or expenses for the reporting period. Consolidated financial statements have not been prepared as the directors consider to do so would be immaterial to the reporting entity's net assets at the reporting date and its result and cash flows for the reporting period.

Subsidiary Company	Country of Incorporation	Ownership Interest	
		2007	2006
Encounter Operations Pty Ltd	Australia	100%	-
Encounter Resources USA LLC	USA	100%	-

Encounter Operations Pty Ltd was incorporated in Western Australia on 27 November 2006.

Encounter Resources USA LLC was incorporated in the USA on 9 April 2007.

The ultimate controlling party of the group is Encounter Resources Limited.

Encounter Resources Limited
ABN 47 109 815 796

Directors' Declaration

In the opinion of the Directors of Encounter Resources Limited ("the Company")

(a) the financial statements and notes set out on pages 13 to 38 are in accordance with the Corporations Act 2001, including:

   (i) complying with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   (ii) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the Company.

(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.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2007.

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

Signed at Perth this 17th day of September 2007.

W Robinson
Director

WHK Horwath

INDEPENDENT AUDIT REPORT TO MEMBERS OF ENCOUNTER RESOURCES LIMITED

We have audited the accompanying financial report of Encounter Resources Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial 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. In Note1, 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 (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial 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 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.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Encounter Resources Limited on 17 September 2007, would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion, the financial report of Encounter Resources Limited is in accordance with the Corporations Act 2001 including:

a) 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 Australian Accounting Interpretations) and the Corporations Regulations 2001.

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

WHK HORWATH PERTH AUDIT PARTNERSHIP

Sean McGurk

SEAN MCGURK
Principal

Perth, WA

Dated this 17th day of September 2007

Total Financial Solutions