



Financial Statements
For The Year Ended 30 June 2006

Encounter Resources Limited
ABN 47 109 815 796

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Encounter Resources Limited
ABN 47 109 815 796

Corporate Directory

Directors

Paul Chapman
Will Robinson
Peter Bewick

Non-Executive Chairman
Managing Director
Exploration Director

Company Secretary

Kevin R Hart

Principal Registered Office

Level 1, 46 Parliament Place
West Perth, Western Australia 6005

Auditor

Grant Thornton Western Australia 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

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.

Encounter Resources Limited
ABN 47 109 815 796

Chairman's Letter to Shareholders

Dear Fellow Shareholders,

I am pleased to present this first Annual Report of Encounter Resources Limited (Encounter or the Company).

Encounter was listed on the Australian Stock Exchange on 24 March 2006 following a \$5 million initial public offering which received overwhelming support. Since listing, the Company has focussed on implementing its uranium exploration strategy.

Encounter is an exploration company focused on unlocking the uranium potential of its quality portfolio of assets in Western Australia (WA). To complement this quality portfolio, the Company has assembled a management team with proven corporate and exploration track records.

Uranium is the fuel of the future. Rising gas prices and greenhouse constraints on coal have combined to put nuclear power back on the agenda for projected new power capacity throughout the Western world. In addition, both China and India are expanding their domestic nuclear capacity to meet their rapidly expanding energy needs. In a world short of energy options, providing long term energy security is an imperative.

WA hosts a wide variety of geological environments that are highly prospective for the formation of uranium deposits. As a result of the implementation of the "three mines policy" by the federal government in the early 1980's, minimal uranium exploration has taken place in WA over the past two decades. In this time, there have been considerable advances in technologies and a series of significant data acquisition programs that can be applied to uranium exploration.

This presented a significant opportunity for uranium explorers and Encounter moved early, establishing an extensive, quality project portfolio targeting both surfical and unconformity style uranium deposits in WA. It is very rare that an opportunity arises to explore for energy resources in a virtually unexplored Western world country using modern exploration techniques.

Despite the current regulatory environment for uranium mining in WA, Encounter believes that uranium resources in WA will be premium assets as Australia advances its energy policies. The WA Labor government maintains its restrictive policy on uranium mining and processing. This position is consistent with current federal Labor party policy. The federal Labor Party conference in early 2007 will debate the issue of ending the ALP "no new mines" policy. We believe that this process, combined with the weight of scientific, environmental and economic factors, will ultimately result in uranium mining in WA.

Encounter commenced its maiden drill program in May 2006 which successfully identified a new zone of uranium mineralisation at the Bellah Bore East project 30km north west of BHP Billiton's world class Yeelirrie deposit. This early exploration success provides further confidence in the Company's exploration strategy and the potential of the project portfolio controlled by Encounter. I refer you to the Operations Report for further details of the exploration activities of the Company.

Activities during the second half of 2006 will include follow up drilling at the Yeelirrie Channel project and drill programs at the Company's Lake Way South and Throssel projects.

Encounter has an experienced management team that will take a disciplined commercial and technical approach to maximise the value of the current portfolio and to take advantage of future opportunities as they arise.

Finally, I would like to thank all those who have made this a successful year for Encounter. This includes our shareholders for their initial support with the listing and their ongoing support since. In addition, thanks to the operating team at Encounter for their efforts during the year. The successful maiden drill program following the listing in March 2006 provides a sound platform to build on with further exploration success in 2006/07.



Paul I Chapman
Chairman

Review of Exploration

1. Exploration Strategy

Western Australia hosts a wide variety of geological environments that are prospective for the formation of uranium deposits. Encounter has acquired a high quality brownfields and greenfields uranium exploration portfolio targeting both surficial and unconformity style uranium deposits in WA.

The implementation of the "three mines policy" by the federal government in the early 1980s resulted in an abrupt end to uranium exploration in WA. After a 20 year hiatus in uranium exploration activity, an opportunity exists in WA to apply new technologies and assess new data to successfully target and define new uranium resources.

Encounter, along with JV partner Avoca Resources, has now commenced a focussed and active exploration program throughout the extensive project portfolio and will be well placed to capitalise on a change in the regulatory environment for the mining of uranium in WA.

2. Projects

Yeelirrie Channel Project

(E53/1154-1158, ELA53/1251, E36/540-542 and 569) - Encounter 80%, Avoca 20%

Encounter's exploration tenement holding of over 1,000km² encompasses in excess of 40 strike kms of the defined drainage channel to the northwest and southeast of BHP Billiton's (BHPB) Yeelirrie uranium deposit.

Encounter commenced its maiden drilling program at the Yeelirrie project in May and then completed a follow up drilling program in early July.

Reconnaissance drilling at **Middle Bore** utilised existing station tracks and fence line roads to minimise environmental impact. The program centred on a station bore located 15kms south of the Yeelirrie homestead where a historical hydrogeochemical sample returned an anomalous result of 175ppb uranium. This sample indicated the potential for a southwest trending tributary to the Yeelirrie palaeochannel.

The drilling program successfully identified a broad southwest trending tributary containing anomalous uranium mineralisation of up to 2m @ 91ppm U₃O₈, intersected on the southernmost drill line. Additional drill sections have been planned to define vectors to mineralisation within the newly outlined channel.

At **Bellah Bore East** drilling identified a new near surface zone of high grade uranium mineralisation. The area was targeted on a discrete high amplitude uranium channel radiometric anomaly. A field visit identified a zone of outcropping silicified calcrete containing traces of carnotite mineralisation. The results are highly encouraging. The better intersections include:

EYN001 - 7m @ 100ppm U₃O₈ from 1m
EYN005 - 8m @ 123ppm U₃O₈ from surface
EYN064 - 3m @ 781ppm U₃O₈ from 4m including 1m @ 2,111ppm U₃O₈.

Mineralisation has a north to north-easterly trend. Follow up drilling plans to infill current drilling on a 200m by 100m drill grid and test for northern and southern extensions to the anomalous trends.

The initial drill campaign at Yeelirrie has confirmed Encounter's belief that there is significant potential for the discovery of high grade satellite uranium occurrences within the Yeelirrie catchment area. The next target to be drill tested for a similar satellite occurrence is at **Bellah Bore West** where an outcropping silcrete body sits coincidentally over a uranium channel radiometric anomaly.

Tenements covering the Geological Survey of Western Australia (GWSA) uranium geochemical anomaly at Yeelirrie South (**Anomaly 5**) were recently granted. The anomaly is located 50km directly down stream of the Yeelirrie Deposit in an area of minimal historical uranium exploration. Systematic traverse drilling has been planned to cover the southern extension of the Yeelirrie Channel. In addition, a number of specifically targeted drill sections have been planned to cover Anomaly 5.

Review of Exploration (Continued)

Lake Way South Project
(E53/1010) - Encounter 60%, Avoca 40%

Encounter has earned a 60% interest of the uranium rights on the Lake Way South tenement from Avoca.

The tenement covers 12kms of the Lake Way drainage system located between Nova Energy's Lake Way deposit to the north and the Centipede deposits to the south.

Historical exploration data from the Lake Way area corroborates that the calcrete channel extends under the current lake through the south-western boundary of E53/1010. Uranium mineralisation is well developed in holes adjacent to the lease boundary and the most northern hole assayed by previous explorers contains 0.45m @ 787ppm U_3O_8 . This hole is located approximately 80m east of the Nova Energy resource boundary and is within the Lake Way South tenement.

A detailed (200m by 200m) 50 hole drilling program is planned to test the interpreted extensions to the Centipede mineralisation to the north-northeast of Nova's current resource boundary. A further 70 holes plan to test a series of radiometric anomalies within and along the eastern shoreline of Lake Way .

Leonora Regional Projects
(E29/578, E29/587, E30/299 and E30/300) - Encounter 80%, Avoca 20%

A key feature in the targeting of calcrete uranium deposits is the identification of hydrological trap sites with the palaeochannel systems. Both the intersection of major palaeochannels and significant bends in these channels are considered potential trap sites for uranium mineralisation.

A review of the radiometrics and regional geochemical data to the west of Leonora identified a number of unexplained regional scale anomalies. These anomalies are coincident with interpreted trap sites along the mapped palaeochannel and are considered by Encounter as prospective for uranium mineralisation.

The **Lakeview** project is located 60km west of Leonora and adjacent to the historical uranium occurrences of Stakeyard Well and Peninsula, now held by Energy Metals. The target area is centred on a large scale uranium channel radiometric anomaly and an area of intense uranium anomalism in the GSWA regional sampling. A series of regional gravity sections was completed over the lake area in September 2006 to map the channel morphology and thereby assist with drill planning. Included as part of this program is a detailed gravity survey, that covers an area of 2km by 1.5km in the east of the tenement, to test a circular dipolar magnetic anomaly. This anomaly may represent a kimberlite and the detailed gravity survey is aimed at defining any preferential weathering associated with the magnetic anomaly.

The **McPherson's Bore** project is located within the Lake Raeside drainage system approximately 50km upstream of the Lakeview project. The project covers a coincident uranium channel radiometric anomaly and a GSWA uranium geochemical anomaly.

The **Galah Rocks** and **Walling Rock** projects are positioned within the western extension of the Lake Barlee drainage system. The targets were selected based on the coincident U, V and P_2O_5 anomalism, within the GSWA regional geochemical dataset. Historical radiometrics data was recently purchased and indicates uranium channel radiometric anomalism coincident with the surface geochemical anomalies. Regional auger drilling is planned to test these project areas and to direct follow up drilling.

Officer Basin Projects
(E38/1786, E38/1787, ELAs38/1790-1792) - Encounter 80%, Avoca 20%

A review of the multi-client regional radiometrics dataset for WA identified a series of large unexplained uranium channel anomalies within palaeochannels in the southwest of the Officer Basin. Encounter has three projects covering these untested radiometric anomalies.

The **Throssell** project is the northernmost of these projects located 280km by road northeast of Laverton. The project covers a 10km long radiometric anomaly associated with extensive near surface development of calcrete. A series of variably spaced (600m to 1800m) regional drill traverses, totalling 50 aircore holes, are planned to test the radiometric anomaly.

Review of Exploration (Continued)

The **Lake Yeo** tenement applications are wholly within the bounds of the Lake Yeo nature reserve. It is the policy of the current Labor state government not to grant exploration licences that are within designated nature reserves. The Lake Yeo radiometric anomaly stretches over 40km in strike and is most intense at the western margin of the lake.

The **Lake Rason** project is located 180km east of Laverton. The project covers the western side of Lake Rason where the uranium channel radiometric data defines two parallel trends that mirror the lake shoreline. Sand dunes at the lake margins mask any significant radiometric response onshore. A program of shallow geochemical auger sampling is proposed to determine the source of the radiometric response and test the onshore lake margin.

Melrose Projects
(E37/830 and E38/1784) - Encounter 80%, Avoca 20%

The **Irwin** and **Darlot** projects are located downstream of the drainage systems that host the Lake Maitland and Yeelirrie deposits. In both project areas, local parts of the lake surface appear highly anomalous in the regional radiometric data. A series of shallow auger holes are planned to determine the nature and source of the airborne radiometric anomalies.

Bangemall Basin Projects
(E52/1882, ELA52/1959, ELA52/1942, ELA09/1296) - Encounter 80%, Avoca 20%

Unconformity style deposits, such as those found in the Athabasca Basin in Canada and East Alligator River district in the Northern Territory, are located within Middle-Proterozoic sandstone-dominated sediments unconformably overlying metamorphosed Proterozoic basement.

Encounter targeted the northern and southern margins of the Bangemall Basin for unconformity style uranium mineralisation where the Mesoproterozoic Bangemall Basin sediments overlie the Palaeoproterozoic Capricorn Orogen to the south and Ashburton Basin to the north.

It is noted that unconformity style deposits are associated with anomalous concentrations of Co, As, Se, Ag, Ni and Mo. Principle Component Analysis on GSWA regional geochemical samples, located within 5km of the Proterozoic rocks of WA, generated a factor which highlighted anomalism in As, Mo, Sb and Uranium. Plotting this factor, along with individual scores for U, As, Co and Ni, highlighted several areas of coincident anomalism within the Mesoproterozoic rocks of the Edmund Group of the Bangemall Basin. Four targets selected by Encounter following the review of the GSWA data are the **Pingandy Creek, Tchintaby Well, Waldburg Range and Wanna** targets.

Tenement applications over these targets were extended outside the bounds of the specific unconformity targets to capture any significant adjacent areas of drainage that have GSWA mapped calcrete bodies. These calcrete bodies may contain secondary uranium mineralisation and will be explored in conjunction with the primary target zones.

A review of historical exploration within the area of the four Bangemall Basin projects identified an extensive area of low grade zinc and silver mineralisation within the Tchintaby Well project. Historical exploration has focussed on the base metals potential of the shale units within the Bangemall sediments where intersections of up to 12m @ 1.1% Zn and 16g/t Ag were returned at the Andes Prospect. Recently an exploration licence application was made to cover the interpreted plunge direction of the base metals mineralisation south of Tchintaby.

Gascoyne Projects
(E09/1197, ELA09/1297) - Encounter 80%, Avoca 20%

Extensive historical exploration conducted within the Gascoyne complex in the 1970s identified numerous surficial and basement uranium occurrences, but little focussed follow up work was completed.

Review of Exploration (Continued)

Regional exploration in the late 1970s identified high grade uranium mineralisation in surface samples at **Minneritchie Well**. Assay results of $>5\text{kg/t U}_3\text{O}_8$ were collected from an area of intense radiometric anomalism. Although recommended, the area was never drill tested. Several additional radiometric anomalies within the project area were not visited in the initial evaluation of the area but will be included in Encounter's regional assessment program. This work will initially consist of a program of surface geochemistry to determine the source of the radiometric anomalism and to define drill targets to test the extent of the uranium mineralisation.

In an area approximately 80kms northwest of Minneritchie Well, an extensive zone of surface calcrete development lies within a tributary of the Lyons River. The **Stone Tank Well** radiometric anomaly stretches over 7.5kms and has not been the focus of any previous uranium exploration. A series of reconnaissance drill traverses will be completed to test drainage system and associated calcrete development.

Southwest WA Projects

(ELAs70/2956 - 2958) - Encounter 80%, Avoca 20%

Encounter applied for three new exploration licences within the wheatbelt of WA following the release by the Cooperative Research Centre for Landscape Environments and Mineral Exploration (CRC LEME) of the south west Yilgarn laterite multi-element geochemical dataset. This regional laterite sampling was completed on a 9km spacing and has identified a series of anomalies that are considered prospective for uranium mineralisation. The areas pegged show coincident anomalism in uranium, vanadium, phosphorous oxide (P_2O_5) and arsenic. The tenement applications are currently progressing through the grant process and are likely to be granted in the first half of 2007.

Meekatharra Regional Projects

(E51/1096, E51/1097, ELA51/1127 and ELA51/1137) - Encounter 80%, Avoca 20%

Previous exploration at **Hillview** in the 1970s identified a 15km long, near surface zone of low grade uranium mineralisation. Typical holes within the low grade zone are between 0.5m and 2m thick at grades between 100ppm to 200ppm eU_3O_8^* . Historical drill traverse spacing was greater than 1km, allowing for potential higher grade mineralisation between traverses.

A review of historical data identified a series of higher grade uranium intersections over an isolated lobe of calcrete to the east of the main channel including:

4.88m @ 352ppm eU_3O_8^* including 0.46m @ 970ppm from 0.3m

4.42m @ 349ppm eU_3O_8^* including 0.45m @ 865ppm from 0.3m

4.87m @ 309ppm eU_3O_8^* including 0.3m @ 1,001ppm from surface.

** All quoted assays are estimated U_3O_8 values determined from down-hole gamma logging. This project will need to be re-drilled in order to confirm the grade of the uranium mineralisation.*

Upon granting of the tenement Encounter will conduct a drill program to test along strike of the eastern lobe mineralisation and to test for higher grade regions within the Main Channel.

Intense uranium channel radiometric responses at **Crossland Hill** and **Gidgie Bore** appear associated with highly altered granitoids, and are unexplained by previous explorers in the area. The projects are located within pastoral country to the northwest of Meekatharra. A program of field mapping and regional geochemistry is planned for these two targets.

The **Yalgar** project located 120km northwest of Meekatharra is located within the Yalgar River catchment, part of the upper reaches of the Murchison River drainage system. The radiometric response in the area is not coherent, which may be explained by significant recent cover in the area. Once this tenement has been granted a program of surface sampling and regional traverse drilling will be completed to assess the uranium prospectivity of the target area.

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Summary of Tenements

Projects	Tenements	Area (km2)	Registered Holder / Applicant	Encounter Interest
Yeelirrie North				
Main Channel	E53/1154	44	Encounter Resources Ltd	80%
	E53/1155	35	Encounter Resources Ltd	80%
Bellah Bore West	E53/1156	70	Encounter Resources Ltd	80%
	E53/1157	10	Encounter Resources Ltd	80%
Bellah Bore East	E53/1158	10	Encounter Resources Ltd	80%
	ELA53/1251	126	Encounter Resources Ltd	80%
Yeelirrie South				
Middle Bore	E36/541	176	Encounter Resources Ltd	80%
	E36/569	213	Encounter Resources Ltd	80%
Anomaly 5 (GSWA)	E36/540	201	Encounter Resources Ltd	80%
	E36/542	214	Encounter Resources Ltd	80%
Lake Way South				
	E53/1010	117	Avoca Resources Ltd	60% uranium rights
Leonora Regional				
Lake View	E29/577	126	Encounter Resources Ltd	80%
McPherson's Bore	E29/587	123	Encounter Resources Ltd	80%
Walling Rock	E30/299	63	Encounter Resources Ltd	80%
Galah Rocks	E30/300	66	Encounter Resources Ltd	80%
Officer Basin				
Throssell	E38/1786	63	Encounter Resources Ltd	80%
Lake Rason	E38/1787	124	Encounter Resources Ltd	80%
Lake Yeo	ELA38/1790	194	Encounter Resources Ltd	80%
	ELA38/1791	212	Encounter Resources Ltd	80%
	ELA38/1792	133	Encounter Resources Ltd	80%
Bangemall Basin				
Pingandy Creek	ELA08/1651	333	Encounter Resources Ltd	80%
Tchintaby Well	E52/1882	172	Encounter Resources Ltd	80%
	ELA52/1959	589	Encounter Resources Ltd	80%
Waldburg Range	ELA52/1942	219	Encounter Resources Ltd	80%
Wanna	ELA09/1297	354	Encounter Resources Ltd	80%
Gascoyne				
Minneritchie Well	E09/1197	52	Encounter Resources Ltd	80%
Stone Tank Well	ELA09/1296	100	Encounter Resources Ltd	80%
South West WA				
Talbot	ELA70/2956	408	Encounter Resources Ltd	80%
Shackleton	ELA70/2957	583	Encounter Resources Ltd	80%
Wongan Hills	ELA70/2958	590	Encounter Resources Ltd	80%
Meekatharra Regional				
Gidgee Bore	E51/1096	89	Encounter Resources Ltd	80%
Crossland Hill	E51/1097	31	Encounter Resources Ltd	80%
Hillview	ELA51/1127	202	Encounter Resources Ltd	80%
Yalgar	ELA51/1137	216	Encounter Resources Ltd	80%
Melrose				
Lake Darlot	E37/830	164	Encounter Resources Ltd	80%
Lake Irwin	E38/1784	109	Encounter Resources Ltd	80%

CORPORATE GOVERNANCE STATEMENT

Introduction

Since the introduction of the ASX Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Guidelines" or "the Recommendations"), Encounter Resources Limited ("Company") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this report. Commensurate with the spirit of the ASX Guidelines, the Company has followed each Recommendation where the Board has considered the Recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company and the Board, resources available, activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board of the Company is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

Further information about the Company's corporate governance practices is set out on the Company's website at www.encounterresources.com.au. In accordance with the recommendations of the ASX, information published on the Company's website includes:

- Board Charter
- Audit Committee Charter
- Nomination Committee Charter
- Remuneration Committee Charter
- Code of Conduct
- Policy and Procedure for Selection and Appointment of New Directors
- Summary of Policy for Trading in Company Securities
- Summary of Compliance Procedures
- Procedure for the Selection, Appointment and Rotation of External Auditor
- Shareholder Communication Strategy
- Summary of Company's Risk Management Policy

Explanation for Departures from Best Practice Recommendations

During the Company's 2005/2006 financial year the Company has complied with each of the Ten Essential Corporate Governance Principles and the corresponding Best Practice Recommendations as published by the ASX Corporate Governance Council ("ASX Principles and Recommendations")¹. Significant policies and details of any significant deviations from the principles are specified below.

Corporate Governance Council Recommendation 1

Role of the Board of Directors

The role of the Board is to increase shareholder value within an appropriate framework which safeguards the rights and interests of the Company's shareholders and ensure the Company is properly managed.

In order to fulfil this role, the Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, setting remuneration and monitoring the performance of Directors and executives. The Board relies on senior executives to assist it in approving and monitoring expenditure, ensuring the integrity of internal controls and management information systems and monitoring and approving financial and other reporting.

In broad terms, the Board Charter clarifies the respective roles of the Board and senior management and assists in decision making processes.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Explanation for Departures from Best Practice Recommendations (continued)

Corporate Governance Council Recommendation 1 (continued)

Board processes

An agenda for the meetings has been determined to ensure certain standing information is addressed and other items which are relevant to reporting deadlines and or regular review are scheduled when appropriate. The agenda is regularly reviewed by the Chairman, the Managing Director and the Company Secretary.

Prior to 8 February 2006 the functions of the board and management were not formalised or documented.

Corporate Governance Council Recommendation 2

Board composition

The Constitution of the Company provides that the number of Directors shall not be less than three. There is no requirement for any share holding qualification.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include the quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the scope of activities of the Company, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the Board and are subject to re election by shareholders at the next general meeting. In any event one third of the Directors are subject to re election by shareholders at each general meeting.

The Board is presently comprised of three members, one non-executive and two executive.

The Board has assessed the independence of its non executive directors according to the definition contained within the ASX Corporate Governance Guidelines and has concluded that the current non executive director does not meet the recommended independence criteria, by virtue of his substantial shareholding in the Company.

The Non- Executive Director is Mr Paul Chapman (Chairman). The Board believes that Mr Chapman is the most appropriate person for the position as Chairman because of his industry experience and proven track record as a public company director. The skills, experience and expertise of all Directors is set out in the Directors' Report on page 15.

The Board does not have a separate Nomination Committee as the selection and appointment process for Directors is carried out by the full Board. The Company is not of a sufficient size to warrant a separate committee. However, the Company adopted the Nomination Committee Charter on 8 February 2006.

None of the three Directors' are considered to satisfy the test of independence as set out in the best practice recommendations. However, the Board considers that both its structure and composition are appropriate given the size of the Company and that the interests of the Company and its shareholders are well met.

Corporate Governance Council Recommendation 3

Ethical and responsible decision making

The Board actively promotes ethical and responsible decision making.

Code of Conduct

The Board has adopted a Code of Conduct that applies to all employees, executives and Directors of the Company on 8 February 2006. This Code addresses expectations for conduct in the following areas:

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Explanation for Departures from Best Practice Recommendations (continued)

Corporate Governance Council Recommendation 3
Ethical and responsible decision making

- Responsibility to shareholders;
- Integrity and honesty;
- Respect for laws;
- Conflicts of interests;
- Protection of assets;
- Confidential information;
- Employment practices;
- Respect for the community;
- Respect for individuals;
- Fair trading and dealing;
- Compliance with Code of Conduct: and
- Periodic review of Code.

Security Trading Policy

The security trading policy was adopted on 8 February 2006. The Board has adopted a policy and procedure on dealing in the Company's securities by directors, officers and employees which prohibits dealing in the Company's securities when those persons possess inside information. It also provides that the written acknowledgement of the Chairman should be obtained prior to trading.

Corporate Governance Council Recommendation 4
Integrity in financial reporting

Managing Director and Chief Financial Officer Written Statement

The Board requires the Managing Director and the Company Secretary provide a written statement that the financial statements of company present a true and fair view, in all material aspects, of the financial position and operational results. In addition, confirmation is provided that all relevant accounting standards have been appropriately applied.

Audit Committee

The full Board fills the role of an Audit Committee. The relevant experience of Board members is detailed in the Directors' section of the Directors' Report.

The Board reviews the performance of the external auditors on an annual basis and meets with them during the year to review findings and assist with Board recommendations.

The Board does not have a separate Audit Committee with a composition as suggested in the best practice recommendations. The full Board carries out the function of an audit committee. The Board believes that the Company is not of a sufficient size to warrant a separate committee and that the full Board is able to meet objectives of the best practice recommendations and discharge its duties in this area.

Financial reporting

The Board relies on senior executives to monitor the internal controls within the Company. Financial performance is monitored on a regular basis by the Managing Director who reports to the Board at the scheduled Board meetings.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Explanation for Departures from Best Practice Recommendations (continued)

Corporate Governance Council Recommendation 5
Timely and balanced disclosure

The Board is committed to the promotion of investor confidence by providing full and timely information to all security holders and market participants about the Company's activities and to comply with the continuous disclosure requirements contained in the Corporations Act 2001 and the Australian Stock Exchange Listing Rules. The Company established written policies and procedures designed to ensure compliance with the ASX Listing Rule Requirements.

Continuous disclosure is discussed at all regular Board meetings and on an ongoing basis the Board ensures that all activities are reviewed with a view to the necessity for disclosure to security holders.

In accordance with ASX Listing Rules the Company Secretary is appointed as the Company's disclosure officer.

Corporate Governance Council Recommendation 6
Rights of security holders

Communications

The Board fully supports security holder participation at general meetings as well as ensuring that communications with security holders are effective and clear. This has been incorporated into a formal shareholder communication strategy, as adopted 8 February 2006.

In addition to electronic communication via the ASX web site, the Company publishes all significant announcements together with all quarterly reports. These documents are available in both hardcopy form on request and on the Company web site at www.encounterresources.com.au

Corporate Governance Council Recommendation 7
Recognise and manage risk

Risk management

The Board adopted a formal risk management policy on 8 February 2006. The risk management policy sets out a framework for a system of risk management and internal compliance and control, whereby the Board delegates day-to-day management of risk to the managing director. The managing director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the Board on risk management.

Corporate Governance Council Recommendation 8
Encourage enhanced performance

Performance review

The Board has not undertaken a formal review of its performance for the year ended 30 June 2006. The Chairman assesses the performance of the Board, individual directors and key executives on an informal basis. Due to the early stage of development of the Company, it is difficult for quantitative measures of performance to be established. As the Company progresses its current projects, the Board intends to establish appropriate evaluation procedures.

Education

All executives and Directors are encouraged to attend professional education courses relevant to their roles.

Independent professional advice and access to information

Each Director has the right to access all relevant information in respect to the Company and to make appropriate enquiries of senior management.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Explanation for Departures from Best Practice Recommendations (continued)

Corporate Governance Council Recommendation 9

Remunerate Fairly and Responsibly

The executive Directors and senior executives receive salary packages which may include performance based components designed to reward and motivate. Non executive Directors receive fees agreed on an annual basis by the Board.

Current remuneration of Directors is disclosed in the Remuneration Report included in the Directors' Report. Shareholders will be invited to consider and approve the Remuneration Report at the Annual General Meeting.

Remuneration Committee

The Board determines all compensation arrangements for Directors. It is also responsible for setting performance criteria, performance monitors, share option schemes, incentive performance schemes, superannuation entitlements, retirement and termination entitlements and professional indemnity and liability insurance cover.

The Board has not created a separate Remuneration Committee. Due to the early stage of development and small size of the Company, a separate remuneration committee was not considered to add any efficiency to the process of determining the levels of remuneration for the Directors and key executives. The Board considers that it is more appropriate to set aside time at two Board meetings each year to specifically address matters that would ordinarily fall to a remuneration committee.

Remuneration is currently in accordance with the general principals recommended by the ASX, that is, non-executive Directors receive a fixed fee for their services and do not receive performance based remuneration.

The Board ensures that, all matters of remuneration will continue to be in accordance with Corporations Act requirements, by ensuring that none of the Directors participate in any deliberations regarding their own remuneration or related issues. To the extent that additional executives are appointed in the future and the scope of the Company's activities expands the Company will reconsider whether a change in the structure of executive remuneration is appropriate.

Corporate Governance Council Recommendation 10

Recognise the legitimate interests of stakeholders

The Board acknowledges the rights of stakeholders and has adopted a Code of Conduct (refer Principle 3) in-line with the recommendations of this Principle 10.

Encounter Resources Limited
ABN 47 109 815 796

Directors' Report

The Directors present their report on Encounter Resources Limited for the year ended 30 June 2006.

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. Paul is now Managing Director of OM Holdings Limited's Australian operations.

Will Robinson – B.Comm

Managing Director (Executive) appointed 30 June 2004

Mr Robinson is a resources industry commercial and finance specialist with over twelve 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 Collurabie NI-CU-PGE discovery.

Stephen Abbott

Non-executive director resigned 17 October 2005

Edward Robinson

Non-executive director resigned 17 October 2005

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.

Encounter Resources Limited
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Directors' Report

Directors' Interests

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

<i>Director</i>	<i>Directors' Interests in Ordinary Shares</i>	<i>Directors' Interests in Unlisted Options</i>
P Chapman	4,710,000	-
W Robinson	21,796,900	-
P Bewick	4,700,000	-

Directors' Meetings

The number of meetings of the Company's Directors held during the year ended 30 June 2006 and the number of meetings attended by each Director were:

<i>Director</i>	<i>Board of Directors' Meetings</i>	
	<i>Held</i>	<i>Attended</i>
P Chapman	3	3
W Robinson	4	4
P Bewick	3	3
S Abbott	1	1
E Robinson	1	1

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 \$346,270 (2005: \$71,290).

Included in the loss for the current year is a write-off of deferred exploration expenditure totalling \$132,409 (2005: \$ 34,360).

Dividends

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

Review of Activities

Exploration

A detailed review of the Company's activities during the financial year is set out in the section titled "Review of Exploration" in this Annual Report.

Encounter Resources Limited
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Directors' Report

Review of Activities (Continued)

Financial Position

At the end of the financial year the Company had \$4,209,233 (2005: \$22,315) in cash and at call deposits. Capitalised mineral exploration and evaluation expenditure is \$250,822 (2005: \$Nil). Mineral exploration and evaluation expenditure during the year for the Company was \$383,231 (2005: \$34,360).

Expenditure was principally focused on the Yeelirrie Channel and Lake Way Projects.

Impact of Legislation and other External Requirements

Since 1 July 2005 the Company has been required to comply with Australian equivalents to International Financial Reporting Standards (AIFRS) issued by the Australian Accounting Standards Board. The impact of the resulting changes in accounting policies is disclosed in Note 28 of the Financial Report.

Significant Changes in the State of Affairs

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

Conversion of one ordinary share held by Mr Will Robinson at 30 June 2005 into 33,000 ordinary shares. During September 2005, 100,000 ordinary shares were issued to directors to raise \$100,000. During September 2005, 200,000 ordinary shares were issued to Mr Will Robinson in satisfaction of \$200,000 loans made to the Company. During October 2005 there was a share split on the basis 93 for 1 ordinary share applying to each ordinary share on issue at the time. During November 2005, seed capital investors were issued with 4,000,000 ordinary shares at 10c each, to raise \$400,000. In accordance with the Company's prospectus, 25,000,000 ordinary shares were issued in March 2006 raising \$5,000,000. The Company was listed on the Australian Stock Exchange on 24 March 2006.

Options Over Unissued Capital

Unlisted Options

During the financial year the Company granted 200,000 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.

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

<i>Number of Options Granted</i>	<i>Exercise Price</i>	<i>Grant Date</i>	<i>Expiry Date</i>
100,000 (i)	20 cents	23 March 2006	23 March 2011
100,000 (ii)	45 cents	15 May 2006	15 May 2011

- (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.

Directors' Report

Unlisted Options (continued)

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

Likely developments in the operations of the Company are included elsewhere in this Annual Report. 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.

Encounter Resources Limited
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Directors' Report

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

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

<i>2005</i> <i>Directors</i>	<i>Base</i> <i>Emolument</i> \$	<i>Superannuation</i> <i>Contributions</i> \$	<i>Other</i> <i>Benefits</i> \$	<i>Value of</i> <i>Options</i> \$	<i>Total</i> \$
W. Robinson	-	-	-	-	-
S. Abbott	-	-	-	-	-
E. Robinson	-	-	-	-	-
Total	-	-	-	-	-

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.

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Directors' Report

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 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:	2006	2005
	\$	\$
Audit and review of the Company's financial statements	8,700	4,750
Taxation services	3,500	-
Independent Accountants Report	11,300	-
Total	23,500	4,750

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 21.

Auditor

Grant Thornton Western Australian Partnership continues in office in accordance with section 327 of the Corporations Act 2001.

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

DATED at Perth this 19th day of September 2006.



W Robinson
Director

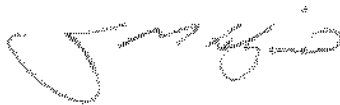
Grant Thornton Western Australian Partnership
ABN 21 965 022 882
Chartered Accountants, Business Advisers and Consultants

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit Encounter Resources Limited for the year ended 30 June 2006, 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.

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP



GREG LEGUIER
Partner

Dated 19th September 2006

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Encounter Resources Limited
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Income Statement
For the financial year ended 30 June 2006

	Note	2006 \$	2005 \$
Revenue	5	<u>90,131</u>	-
Total revenue		90,131	-
Employee expenses		(244,339)	-
Employee expenses recharged to exploration		164,803	-
Equity based remuneration expense		(2,625)	-
Non-executive Director's fees		(5,928)	-
Consultants fees		-	(27,526)
Corporate advisory expenses		(30,000)	-
Operating lease expenses		(20,464)	-
Depreciation expense	10	(1,335)	-
Corporate expenses		(59,328)	-
Legal costs		(23,653)	-
Other expenses from ordinary activities		(81,123)	(9,404)
Exploration costs written off and expensed		<u>(132,409)</u>	<u>(34,360)</u>
Loss before income tax	6	(346,270)	(71,290)
Income tax expense	7	<u>-</u>	<u>-</u>
Loss attributable to members for the year	16	<u>(346,270)</u>	<u>(71,290)</u>
Earnings per share for loss attributable to the ordinary equity holders of the Company			
		Cents	Cents
Basic earnings/(loss) per share	27	<u>(1.1)</u>	-
Diluted earnings/(loss) per share	27	<u>(1.1)</u>	-

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

Encounter Resources Limited
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Balance Sheet
As At 30 June 2006

	Note	2006 \$	2005 \$
Current assets			
Cash and cash equivalents	8	4,209,233	22,315
Trade and other receivables	9(a)	56,278	1,876
Other current assets	9(b)	319,842	116,820
Total current assets		4,585,353	141,011
Non- current assets			
Property, plant and equipment	10	92,133	-
Capitalised mineral exploration and evaluation expenditure	11	250,822	-
Total non-current assets		342,955	-
Total assets		4,928,308	141,011
Current liabilities			
Trade and other payables	12	90,889	7,964
Short term borrowings	13	-	204,336
Total current liabilities		90,889	212,300
Total liabilities		90,889	212,300
Net/(deficiency of) assets		4,837,419	(71,289)
Equity			
Issued capital	14	5,252,354	1
Accumulated losses	16	(417,560)	(71,290)
Equity remuneration reserve	16	2,625	-
Total equity		4,837,419	(71,289)

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

Encounter Resources Limited
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Statement of Changes in Equity
For the financial year ended 30 June 2006

	Note	2006 \$	2005 \$
Total equity at the beginning of the financial year		(71,289)	-
Loss for the year	16	(346,270)	(71,290)
Movement in equity remuneration reserve	16	2,625	-
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity	14	5,700,000	1
Transaction costs of equity issued	14	(447,647)	-
Total equity at the end of the financial year		4,837,419	(71,289)

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

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Cash Flow Statement
For the financial year ended 30 June 2006

	Note	2006 \$	2005 \$
Cash flows from operating activities			
Receipts from operations		-	15,882
Interest received		64,921	-
Payments to suppliers and employees		<u>(388,946)</u>	<u>(193,637)</u>
Net cash used in operating activities	26	<u>(324,025)</u>	<u>(177,755)</u>
Cash flows from investing activities			
Payments for exploration and evaluation		(443,606)	-
Payments for plant and equipment		<u>(93,468)</u>	<u>-</u>
Net cash used in investing activities		<u>(537,074)</u>	<u>-</u>
Cash flows from financing activities			
Proceeds from borrowings		30,000	200,070
Repayment of borrowings		(34,336)	-
Proceeds from the issue of shares		5,500,000	-
Payments for transaction costs relating to share issues		<u>(447,647)</u>	<u>-</u>
Net cash provided by financing activities		<u>5,048,017</u>	<u>200,070</u>
Net increase in cash held		4,186,918	22,315
Cash at the beginning of the financial year		<u>22,315</u>	<u>-</u>
Cash at the end of the financial year	8(a)	<u>4,209,233</u>	<u>22,315</u>

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

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Notes to the Financial Statements
For the financial year ended 30 June 2006

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.

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.

Application of AASB1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Encounter Resources Limited financial statements to be prepared in accordance with AIFRS. AASB1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Encounter Resources Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain aspects from AIFRS. When preparing the Encounter Resources Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. The comparative figures in respect of 2005 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Company's equity and its net income are given in note 28.

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.

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.

Encounter Resources Limited
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Notes to the Financial Statements
For the financial year ended 30 June 2006

(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.

Encounter Resources Limited
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Notes to the Financial Statements
For the financial year ended 30 June 2006

(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	3 years
Office equipment	3 years

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.

Encounter Resources Limited
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Notes to the Financial Statements
For the financial year ended 30 June 2006

(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 24.

(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.

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Notes to the Financial Statements
For the financial year ended 30 June 2006

(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 service 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

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below is the relevant accounting policy for investments and other financial assets applicable from 1 July 2005. For the applicable policy for the year ending 30 June 2005, refer to the annual financial report at 30 June 2005.

Accounting policies applicable from 1 July 2005.

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate.

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 Group 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 Group 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.

Notes to the Financial Statements
For the financial year ended 30 June 2006

(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).

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Notes to the Financial Statements
For the financial year ended 30 June 2006

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

	2006 \$	2005 \$
<i>Operating activities</i>		
Interest receivable – other persons	90,131	-

Note 6 Loss for the year

Loss before income tax includes the following specific expenses:

	2006 \$	2005 \$
Depreciation		
Office equipment	1,335	-
Rental expenses on operating leases – minimum lease payments	20,464	-
Exploration expenditure written off and expensed	132,409	34,360

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Notes to the Financial Statements
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Note 7 Income tax expense

	2006 \$	2005 \$
<i>a) Reconciliation of income tax expense to prima facie tax payable</i>		
Loss from continuing operations before income tax expense	(346,270)	(71,290)
Tax at the Australian rate of 30% (2005 – 30%)	(103,881)	(21,387)
Deferred tax benefit not brought to account	103,500	20,136
Non-deductible expenditure	381	1,251
	<u>-</u>	<u>-</u>

b) Deferred tax assets not brought to account and carried forward in relation to:

Tax losses	258,492	20,136
Temporary differences	(160,795)	35,046
	<u>97,697</u>	<u>55,182</u>

c) 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

	2006 \$	2005 \$
Cash at bank and on hand	87,255	22,315
Deposits at call	4,121,978	-
	<u>4,209,233</u>	<u>22,315</u>

(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:

Balances as per above and per cash flow statement	<u>4,209,233</u>	<u>22,315</u>
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Notes to the Financial Statements
For the financial year ended 30 June 2006

Note 8 Current assets – Cash and cash equivalents (continued)

(b) Cash at bank and on hand

These attract interest at 2.45% (2005: nil%).

(c) Deposits at call

The deposits are bearing fixed interest rates between 5.87% and 5.95% (2005: nil%). These deposits have an average maturity of 82 days.

Note 9 Current assets - Receivables

	2006 \$	2005 \$
<i>a) Trade and other receivables</i>		
Accrued interest	25,210	-
GST recoverable	31,068	1,876
	<u>56,278</u>	<u>1,876</u>
<i>b) Other current assets</i>		
Prepaid tenement costs	219,022	116,820
Prepaid insurance	10,820	-
Prepaid corporate advisory expenses	90,000	-
	<u>319,842</u>	<u>116,820</u>

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

	2006 \$	2005 \$
<i>Field equipment</i>		
At cost	69,702	-
Accumulated depreciation	-	-
	<u>69,702</u>	<u>-</u>
<i>Office equipment</i>		
At cost	23,766	-
Accumulated depreciation	(1,335)	-
	<u>22,431</u>	<u>-</u>
	<u>92,133</u>	<u>-</u>
Reconciliation		
<i>Field equipment</i>		
Net book value at start of the year	-	-
Additions	69,702	-
Depreciation	-	-
	<u>69,702</u>	<u>-</u>
Net book value at end of the year	<u>69,702</u>	<u>-</u>
<i>Office equipment</i>		
Net book value at start of the year	-	-
Additions	23,766	-
Depreciation	(1,335)	-
	<u>22,431</u>	<u>-</u>
Net book value at end of the year	<u>22,431</u>	<u>-</u>

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

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Notes to the Financial Statements
For the financial year ended 30 June 2006

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

<i>In the exploration and evaluation phase</i>	2006	2005
	\$	\$
Cost brought forward	-	-
Exploration and acquisition expenditure incurred during the year at cost	383,231	-
Exploration expenditure written off	(132,409)	-
Cost carried forward	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 Current liabilities – Trade and other payables

	2006	2005
	\$	\$
Trade payables and accruals	46,568	7,964
Other payables	30,998	-
Employee benefits payable	13,323	-
	90,889	7,964

Note 13 Current liabilities – Short term borrowings

	2006	2005
	\$	\$
Loan from director	-	204,336

a) Interest rate risk exposure

Details of the Company's exposure to interest rate changes on borrowings are set out in note 17.

b) Fair value disclosures

Details of the fair value of borrowings for the Company are set out in note 17.

c) Security

There are no secured liabilities.

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.

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Note 14 Issued capital (continued)

b) Share capital

	2006 No.	2005 No.	2006 \$	2005 \$
Issued share capital	59,996,900	1	5,252,354	1

<i>c) Share movements during the year</i>	<i>Issue price</i>				
At the beginning of the year		1	-	1	-
Share issued on formation 30 June 2004	\$1.00	-	1	-	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	-
Less: costs related to shares issued		-	-	(447,647)	-
At the end of the year		59,996,900	1	5,252,354	1

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

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:

<i>Number of options granted</i>	<i>Exercise price</i>	<i>Expiry date</i>
100,000	\$0.20	23 March 2011
100,000	\$0.45	15 May 2011

During the year no options were exercised.

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Notes to the Financial Statements
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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 2006 is 200,000 (2005: Nil). The terms of these options are as follows:

<i>Number of options outstanding</i>	<i>Exercise price</i>	<i>Expiry date</i>
100,000	\$0.20	23 March 2011
100,000	\$0.45	15 May 2011
200,000		

c) Subsequent to the balance date

No options have been granted or 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)

	2006		2005	
	No.	WAEP (cents)	No.	WAEP (cents)
Options outstanding at the start of the year	-	-	-	-
Options granted during the year	200,000	32.5	-	-
Options exercised during the year	-	-	-	-
Options expiring unexercised during the year	-	-	-	-
Options outstanding at the end of the year	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)
23 March 2006	100,000	20.00	23 March 2011	5.28%	50%	10.5
15 May 2006	100,000	45.00	15 May 2011	5.28%	50%	5.0

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

Note	Accumulated losses	Equity remuneration reserve (i)
	\$	\$
Balance brought forward at 1 July 2005	(71,290)	-
Loss for the period	(346,270)	-
Transfer to equity remuneration reserve in respect of options issued	-	2,625
Balance carried forward at 30 June 2006	(417,560)	2,625

(i) Equity remuneration reserve

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

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Notes to the Financial Statements
For the financial year ended 30 June 2006

Note 17 Financial instruments

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

	Note	Weighted average effective interest %	Funds available at floating interest rate \$	Assets / (liabilities) non interest bearing \$	Total \$
2006					
<i>Financial assets</i>					
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
<i>Financial liabilities</i>					
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
2005					
<i>Financial assets</i>					
Cash and cash equivalents		-	-	22,315	22,315
Total financial assets			-	22,315	22,315
<i>Financial liabilities</i>					
Short term borrowings		-	-	(204,336)	(204,336)
Trade and other payables		-	-	(7,964)	(7,964)
Total financial liabilities			-	(212,300)	(212,300)
Net financial assets/(liabilities)			-	(189,985)	(189,985)

Note 18 Dividends

No dividends were paid or proposed during the financial year.

The Company has no franking credits available as at 30 June 2006.

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 (appointed 7 October 2005)

(ii) Executive directors
Will Robinson, Managing Director
Peter Bewick, Exploration Director (appointed 7 October 2005)

(iii) Non-executive directors
Steve Abbott, Director (resigned 17 October 2005)
Edward Robinson, Director (resigned 17 October 2005)

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Note 19 Key management personnel disclosures (continued)

(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.

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

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.

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

2006					
<i>Directors</i>	<i>Short Term</i>	<i>Post Employment</i>			<i>Total</i>
	<i>Base</i>	<i>Superannuation</i>	<i>Other</i>	<i>Value of</i>	
	<i>Emolument</i>	<i>Contributions</i>	<i>Benefits</i>	<i>Options</i>	
	\$	\$	\$	\$	\$
P Chapman	3,922	2,006	-	-	5,928
W Robinson	74,559	6,710	-	-	81,269
P Bewick	96,616	8,695	-	-	105,311
S Abbott	-	-	-	-	-
E Robinson	-	-	-	-	-
Total	175,097	17,411	-	-	192,508

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Notes to the Financial Statements
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Note 19 Key management personnel disclosures (continued)

2005					
Directors	Short term	Post Employment			
	Base Emolument	Superannuation Contributions	Other Benefits	Value of Options	Total
	\$	\$	\$	\$	\$
W Robinson	-	-	-	-	-
S Abbott	-	-	-	-	-
E Robinson	-	-	-	-	-
Total	-	-	-	-	-

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.

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

The numbers of options over ordinary shares in the Company held during the financial year by key management personnel of the Company, are set out below:

2006	Balance at start of the year	Granted during the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Name						
Directors						
P. Chapman	-	-	-	-	-	-
W. Robinson	-	-	-	-	-	-
P. Bewick	-	-	-	-	-	-
S. Abbott	-	-	-	-	-	-
E. Robinson	-	-	-	-	-	-

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Notes to the Financial Statements
For the financial year ended 30 June 2006

Note 19 Key management personnel disclosures (continued)

2005	Balance at start of the year	Granted during the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Name						
Directors						
W. Robinson	-	-	-	-	-	-
S. Abbott	-	-	-	-	-	-
E. Robinson	-	-	-	-	-	-

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.

2006	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
Name				
Directors				
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
S. Abbott	-	-	-	-
E. Robinson	-	-	-	-

2005	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
Name				
Directors				
W. Robinson	1	-	-	1
S. Abbott	-	-	-	-
E. Robinson	-	-	-	-

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. Also included in other changes in share holdings are 200,000 ordinary shares issued to Mr Will Robinson in settlement of a \$200,000 loan previously made to the company.

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.

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Notes to the Financial Statements
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Note 20 Remuneration of auditors

	2006 \$	2005 \$
Audit and review of the Company's financial statements	8,700	4,750
Taxation services	3,500	-
Independent Accountants Report	11,300	-
	<u>23,500</u>	<u>4,750</u>

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 2006 or 30 June 2005 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 2006 or 30 June 2005.

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 \$470,800 (2005: \$Nil). 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:

	2006 \$	2005 \$
Within one year	26,870	-
Later than one year but not later than five years	-	-
Later than five years	-	-
	<u>26,870</u>	<u>-</u>

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

(c) *Contractual Commitment*

There are no contractual commitments as at 30 June 2006.

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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, whereby the third parties can earn an interest in exploration areas by expending specified amounts in the exploration areas.

There are no 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).

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

	2006 \$	2005 \$
Loss from ordinary activities after income tax	(346,270)	(71,290)
Depreciation	1,335	-
Exploration cost written off	132,409	-
Non cash flows in loss from operating activities	-	4,267
Share based payments expense	2,625	-
(Increase)/decrease in prepaid expenses	(100,820)	(116,820)
(Increase)/decrease in receivables	(32,508)	(1,876)
Increase/(decrease) in payables	5,037	7,964
Increase/(decrease) in provisions	14,167	-
Net cash outflow from operating activities	<u>(324,025)</u>	<u>(177,755)</u>

Note 27 Earnings per share

	2006 Cents	2005 Cents
<i>a) Basic earnings per share</i>		
Loss attributable to ordinary equity holders of the Company	<u>(1.1)</u>	-
<i>b) Diluted earnings per share</i>		
Loss attributable to ordinary equity holders of the Company	<u>(1.1)</u>	-

Encounter Resources Limited
ABN 47 109 815 796

Notes to the Financial Statements
For the financial year ended 30 June 2006

Note 27 Earnings per share (continued)

	2006 \$	2005 \$
<i>c) Loss used in calculation of basic and diluted loss per share</i>		
Loss after tax from continuing operations	<u>(346,270)</u>	<u>(71,290)</u>
<i>d) Weighted average number of shares used as the denominator</i>	No.	No.
Weighted average number of shares used as the denominator in calculating basic and dilutive loss per share	<u>30,648,129</u>	<u>1</u>

At 30 June 2006 the Company has on issue 200,000 unlisted options (2005: nil) over ordinary shares that are not considered to be dilutive.

Note 28 Explanation of transition to Australian equivalents to IFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

	Previous AGAAP \$	Effect of transition \$	AIFRS \$
Cash and cash equivalents	1	-	1
<i>Total current assets</i>	<u>1</u>	<u>-</u>	<u>1</u>
<i>Total non-current assets</i>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total current liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS	<u>-</u>	<u>-</u>	<u>-</u>
Equity			
Issued capital	1	-	1
TOTAL EQUITY	<u>1</u>	<u>-</u>	<u>1</u>

Encounter Resources Limited
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Notes to the Financial Statements
For the financial year ended 30 June 2006

Note 28 Explanation of transition to Australian equivalents to IFRS (continued)

(b) At the last reporting date under AGAAP : 30 June 2005

	Previous AGAAP \$	Effect of transition \$	AIFRS \$
<i>Current assets</i>			
Cash and cash equivalents	22,315	-	22,315
Trade and other receivables	1,876	-	1,876
Other current assets	116,820	-	116,820
<i>Total current assets</i>	<u>141,011</u>	<u>-</u>	<u>141,011</u>
<i>Non-current assets</i>			
Property, plant and equipment	-	-	-
Capitalised mineral exploration and evaluation expenditure	-	-	-
<i>Total non-current assets</i>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>141,011</u>	<u>-</u>	<u>141,011</u>
<i>Current liabilities</i>			
Short term borrowings	204,336	-	204,336
Trade and other payables	7,964	-	7,964
<i>Total current liabilities</i>	<u>212,300</u>	<u>-</u>	<u>212,300</u>
Total liabilities	<u>212,300</u>	<u>-</u>	<u>212,300</u>
NET ASSETS	<u>(71,289)</u>	<u>-</u>	<u>(71,289)</u>
<i>Equity</i>			
Issued capital	1	-	1
Accumulated losses	(71,290)	-	(71,290)
Equity remuneration reserve	-	-	-
TOTAL EQUITY	<u>(71,289)</u>	<u>-</u>	<u>(71,289)</u>

(2) Reconciliation of loss for the year ended 30 June 2005 reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to loss under Australian equivalents to IFRS (AIFRS)

	Previous AGAAP \$	Effect of transition \$	AIFRS \$
Revenue	-	-	-
Consultant fees	(27,526)	-	(27,526)
Exploration costs written off and expensed	(34,360)	-	(34,360)
Other expenses	(9,404)	-	(9,404)
<i>Loss from continuing operations before income tax</i>	<u>(71,290)</u>	<u>-</u>	<u>(71,290)</u>
Income tax	-	-	-
<i>Loss for the year attributable to members</i>	<u>(71,290)</u>	<u>-</u>	<u>(71,290)</u>

(3) Reconciliation of cash flow statement for the year ended 30 June 2005 reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to cash flow statement under Australian equivalents to IFRS (AIFRS)

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the AGAAP to AIFRS reconciliations

There were no reconciling items on transition from AGAAP to AIFRS.

Encounter Resources Limited
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Notes to the Financial Statements
For the financial year ended 30 June 2006

Note 28 Explanation of transition to Australian equivalents to IFRS (continued)

Issued standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the Company in these financial statements:

- AASB 7 Financial Instruments: Disclosure (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosures and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The Company plans to adopt AASB 7, and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company as the standard and amendment are only concerned with disclosures.

Encounter Resources Limited
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Directors' Declaration

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

- (a) the financial statements and notes set out on pages 22 to 46 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 2006 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 2006.

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

Signed at Perth this 19th day of September 2006.



W Robinson
Director

Grant Thornton Western Australian Partnership
ABN 21 965 022 882
Chartered Accountants, Business Advisers and Consultants

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ENCOUNTER RESOURCES LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the year ended 30 June 2006.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting 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.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, 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 assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ENCOUNTER RESOURCES LIMITED (cont)

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.

Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

We have read the other information in the annual report to determine whether it contained any material inconsistencies with the financial report.

Independence

In conducting our audit, we followed the applicable independence requirements of Australian professional and ethical pronouncements and the Corporations Act 2001.

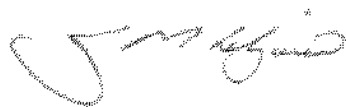
In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration has not changed as at the date of providing our audit opinion.

Audit opinion

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

- a) the Corporations Act 2001, including:
 - i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP



GREG LEGUIER
Partner

Perth, WA

Dated this 19th day of September 2006

Encounter Resources Limited
ABN 47 109 815 796

ASX Additional Information

Pursuant to the Listing Requirements of the Australian Stock Exchange Limited, the shareholder information set out below was applicable as at 14 September 2006.

A. Distribution of Equity Securities

Analysis of numbers of shareholders by size of holding:

Distribution	Number of shareholders
1 – 1,000	107
1,001 – 5,000	530
5,001 – 10,000	374
10,001- 100,000	482
More than 100,000	36
Totals	1529

There were 130 shareholders holding less than a marketable parcel of ordinary shares.

B. Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders (who hold 5% or more of the issued capital) is set out below:

Shareholder Name	Issued Ordinary Shares	
	Number of shares	Percentage of shares
William Michael Robinson	16,216,900	27.03%
Jacmew Pty Ltd	5,580,000	9.30%
Stone Poneys Nominees Pty Ltd	4,650,000	7.75%
Solvista Pty Ltd	4,650,000	7.75%

C. Restricted Securities

There are 29,496,900 restricted ordinary shares that are held in escrow until 24 March 2008, and 2,000,000 restricted ordinary shares that are held in escrow until 4 November 2006.

D. Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are listed below:

Shareholder Name	Listed Ordinary Shares	
	Number	Percentage Quoted
William Michael Robinson	16,216,900	27.03%
Jacmew Pty Ltd	5,580,000	9.30%
Stone Poneys Nominees Pty Ltd	4,650,000	7.75%
Solvista Pty Ltd	4,650,000	7.75%
Jorge Bernhard	1,567,100	2.61%
Perpetual Trustees Nominees Ltd	1,000,000	1.67%
ANZ Nominees Ltd	883,283	1.47%
Charles Arthur Bennett	825,000	1.38%
Domain Investment Holdings Pty Ltd	650,000	1.08%
National Nominees Ltd	615,000	1.03%
Forty Traders Ltd	550,000	0.92%
Pieter Los	500,000	0.83%
Fangrove Pty Ltd	390,000	0.65%
Eric Roles	350,000	0.58%
Bruce Birnie Pty Ltd	300,000	0.50%
French Consulting Pty Ltd	300,000	0.50%
Wei Zhang Min	250,000	0.42%
Dominion Pty Ltd	250,000	0.42%
Andrew Ralph Bewick	250,000	0.42%
K & S De Bruin	200,000	0.33%

E. Voting Rights

In accordance with the Company's Constitution, voting rights in respect of ordinary shares are on a show of hands whereby each member present in person or by proxy shall have one vote and upon a poll, each share will have one vote.

F. Use of Capital

Pursuant to the requirements of ASX Listing Rule 4.10.19 the Company has used all funds raised from its Initial Public Offering (IPO) in a manner that is consistent with the projections and objectives outlined in the IPO document.

