Encounter Resources Limited
ABN 47 109 815 796

Interim Financial Statements
For The Half-Year Ended 31 December 2006

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Directors' Report

The Directors present their interim report on Encounter Resources Limited for the half-year ended 31 December 2006.

Directors

The following persons were directors of Encounter Resources Limited during the whole of the half-year and up to the date of this report:

Paul Chapman (*Non-Executive Chairman)*
Will Robinson (*Managing Director)*
Peter Bewick (*Exploration Director)*

Company Secretary

Kevin Hart

Review of Operations

The net loss after income tax for the half-year was $354,137 (31 December 2005: $51,029).

Included in the loss for the current half-year is a write-off of deferred exploration expenditure totalling $77,391 (31 December 2005: $ nil).

At the end of the half-year the Company had $3,414,127 (30 June 2006: $4,209,233) in cash and at call deposits. Capitalised mineral exploration and evaluation expenditure is $809,089 (30 June 2006: $250,822). Mineral exploration and evaluation expenditure during the half-year for the Company was $635,658 (31 December 2005: $77,726).

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

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 4.

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

DATED at Perth this 19th day of February 2007.

W Robinson
Director

Grant Thornton

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 review of Encounter Resources Limited for the half-year ended 31 December 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 review; and

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

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP
Chartered Accountants

Sean McGurk

SEAN MCGURK
Partner

Dated 19th February 2007

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Encounter Resources Limited
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Income Statement
For the half-year ended 31 December 2006

	Note	31 December 2006 $	31 December 2005 $
Interest income		**116,517**	-
Employee expenses		**(289,349)**	(31,202)
Employee expenses recharged to exploration		**184,568**	30,900
Equity based remuneration expense		**(12,788)**	-
Non-executive Director's fees		**(10,000)**	-
Corporate advisory expenses		**(90,000)**	-
Operating lease expenses		**(21,993)**	(2,781)
Depreciation expense		**(18,775)**	-
Corporate expenses		**(72,011)**	-
Legal costs		**(358)**	(21,830)
Other expenses from ordinary activities		**(62,557)**	(26,116)
Exploration costs written off and expensed		**(77,391)**	-
Loss before income tax	3	**(354,137)**	(51,029)
Income tax expense		**-**	-
Loss attributable to members for the half-year		**(354,137)**	(51,029)
Basic loss per share (cents)		**(0.59)**	(0.45)
Diluted loss per share (cents)		**(0.59)**	(0.45)

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

Encounter Resources Limited
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Balance Sheet
As At 31 December 2006

	31 December 2006 $	30 June 2006 $
Current assets		
Cash and cash equivalents	**3,414,127**	4,209,233
Trade and other receivables	**74,544**	56,278
Other current assets	**218,865**	319,842
Total current assets	**3,707,536**	4,585,353
Non- current assets		
Property, plant and equipment	**97,579**	92,133
Capitalised mineral exploration and evaluation expenditure	**809,089**	250,822
Total non-current assets	**906,668**	342,955
Total assets	**4,614,204**	4,928,308
Current liabilities		
Trade and other payables	**118,134**	90,889
Total current liabilities	**118,134**	90,889
Total liabilities	**118,134**	90,889
Net assets	**4,496,070**	4,837,419
Equity		
Issued capital	**5,252,354**	5,252,354
Accumulated losses	**(771,697)**	(417,560)
Equity remuneration reserve	**15,413**	2,625
Total equity	**4,496,070**	4,837,419

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

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Statement of Changes in Equity
For the half-year ended 31 December 2006

	Issued Capital $	Accumulated losses $	Reserves $	Total $
Balance as at 1 July 2006	5,252,354	(417,560)	2,625	4,837,419
Loss for the period	-	(354,137)	-	(354,137)
Movement in equity remuneration reserve	-	-	12,788	12,788
Balance as at 31 December 2006	**5,252,354**	**(771,697)**	**15,413**	**4,496,070**
Balance as at 1 July 2005	1	(71,290)	-	(71,289)
Loss for the period	-	(51,029)	-	(51,029)
Transactions with equity holders in their capacity as equity holders: Contributions of equity	700,000	-	-	700,000
Balance as at 31 December 2005	**700,001**	**(122,319)**	**-**	**577,682**

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 half-year ended 31 December 2006

	31 December 2006 $	31 December 2005 $
Cash flows from operating activities		
Interest received	**123,959**	-
Interest paid	**(3)**	-
Payments to suppliers and employees	**(275,281)**	(59,616)
Net cash used in operating activities	**(151,325)**	(59,616)
Cash flows from investing activities		
Payments for exploration and evaluation	**(620,132)**	(129,418)
Payments for plant and equipment	**(23,649)**	(2,158)
Net cash used in investing activities	**(643,781)**	(131,576)
Cash flows from financing activities		
Proceeds from borrowings	-	30,000
Repayment of borrowings	-	(34,336)
Proceeds from the issue of shares	-	500,000
Payments for capital raising	-	(84,970)
Net cash provided by financing activities	-	410,694
Net increase/(decrease) in cash held	**(795,106)**	219,502
Cash at the beginning of the period	**4,209,233**	22,315
Cash at the end of the period	**3,414,127**	241,817

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

Notes to the Interim Financial Statements
For the half-year ended 31 December 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 financial periods 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 for the interim half-year reporting period ended 31 December 2006 has been prepared in accordance with Accounting Standard AASB134 Interim Financial Reporting, and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by Encounter Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(b) Segment reporting

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

(c) Revenue recognition and receivables

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

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

(d) Income tax

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.
Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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

(e) Leases

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

(f) Impairment of assets

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

(g) Cash and cash equivalents

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

(h) Fair value estimation

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

(i) Property, plant and equipment

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

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

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

Field equipment	15 – 33.3%
Office equipment	15 – 33.3%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(f)). Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(j) Mineral exploration and evaluation expenditure

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

- such costs are expected to be recouped through the successful development and exploitation of the area of interest, or alternatively by its sale; or

- exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in, or in relation to, the area of interest are continuing.

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

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

(k) Joint ventures

Interests in joint ventures have been brought to account by including the appropriate share of the relevant assets, liabilities and costs of the joint ventures in their relevant categories in the financial statements.

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

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

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

(n) Issued capital

Ordinary shares are classified as equity.

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

(o) Earnings per share

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

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

(p) Goods and 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 period.

(r) Investments and other financial assets

Recognition
When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The 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.

(i) 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.

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

Note 2 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 3 Loss for the period

Loss before income tax includes the following specific expenses:

	31 December 2006 $	31 December 2005 $
Depreciation		
Office equipment	**3,569**	-
Field equipment	**15,206**	-
Rental expenses on operating leases – minimum lease payments	**21,993**	2,781
Exploration expenditure written off and expensed	**77,391**	-

Note 4 Dividends

No dividends were paid or proposed during the period.

The Company has no franking credits available as at 31 December 2006.

Note 5 Contingencies

(i) Contingent liabilities
There were no material contingent liabilities not provided for in the financial statements of the Company as at the reporting dates, 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.

There has been no change in contingent liabilities since the last annual reporting date.

(ii) Contingent assets
There were no material contingent assets as at the reporting dates.

Note 6 Events occurring after the balance sheet date

There has not arisen in the interval between the end of the period 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.

Encounter Resources Limited
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Directors' Declaration

The Directors of Encounter Resources Limited ("the Company") declare that:

(a) the interim financial statements and notes set out on pages 5 to 15 are in accordance with the Corporations Act 2001, including:

(i) complying with Australian Accounting Standard AASB134 – *Interim Financial Reporting*, 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 31 December 2006 and of the performance for the half-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.

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

Signed at Perth this 19th day of February 2007.

W Robinson
Director

Grant Thornton

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

Independent Review Report

To the Members of Encounter Resources Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Encounter Resources Limited (the Company), which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement ASRE 2410: Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Encounter Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Encounter Resources Limited is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the Company's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

GRANT THORNTON WESTERN AUSTRALIAN PARTNERSHIP
Chartered Accountants

SEAN MCGURK
Partner

Perth

19 February 2007