



encounter

RESOURCES LIMITED

ABN 47 109 815 796

annual report 2007

...positioned for growth



Corporate Directory

Directors

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

Company Secretary

Kevin R Hart

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Stock Exchange Listing

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

ASX Code

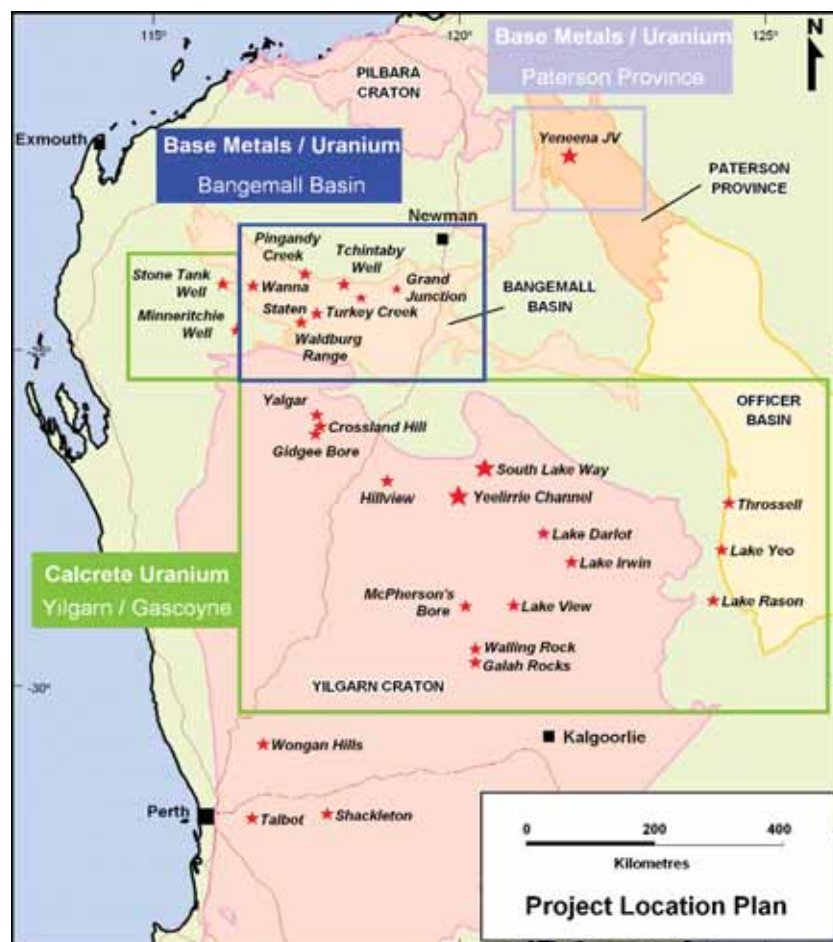
ENR – Ordinary shares

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.

Front and Back Cover: Eastern flank of Staten Hill.

Encounter Resources is an active and well funded explorer with a focus on uranium and base metals. Encounter controls an exciting portfolio of highly prospective exploration projects in Western Australia. With a focused, experienced and driven management team in place the company is *positioned for growth*.



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Highlights and Achievements

Drilling confirmed prospectivity of the Hillview project which has the potential to host a large tonnage near surface uranium deposit

Three satellite uranium discoveries made in the Yeelirrie/Lake Way province and the preparation of initial resource estimates has commenced

Near surface greenfields uranium discovery at the McPherson's Bore project

Outstanding ground position established in the world class Paterson uranium/base metals province through the Yeneena joint venture with Barrick

Successful \$4.3 million capital raising

Goals for 2008

Complete an initial inferred resource estimate for the Hillview uranium project

Prepare an inferred resource statement for the Yeelirrie/Lake Way satellite discoveries

Complete follow up aircore drilling and trenching at the McPherson's Bore uranium project

Complete the re-assay and interpretation of historical exploration drill holes, an EM survey and an initial drill program at the Yeneena project

Commence a drill program at the large scale Tchintaby zinc target in the Bangemall Basin

Identify further business development opportunities

An exceptional exploration ground position has been established in Western Australia. The highly accomplished Encounter management team is driven to unlocking its value



Letter from the Chairman & Managing Director

Dear Fellow Shareholder,

During the past year Encounter Resources has made excellent progress in achieving its business objectives.

On the uranium exploration front this includes progress on a number of key projects:

- **Yeelirrie/Lake Way:** Exploration to date has uncovered three new areas of uranium mineralisation including the high grade Bellah Bore East discovery. Initial resource estimates in respect of these discoveries will be announced later in 2007. These are valuable deposits given their proximity to existing resources and infrastructure.
- **Hillview:** The scale and consistency of the near surface, calcrete style mineralisation at Hillview suggest that this project has the potential to host a large uranium occurrence.
- **McPherson's Bore:** Drilling results have shown significant uranium concentrations within 1m of surface over an extensive area. It is interpreted that this mineralisation potentially represents a uranium leakage anomaly from a nearby buried source. In 2008 we hope to explain this highly anomalous near surface uranium occurrence.

Encounter has also diversified its exploration portfolio with the addition of high quality base metals targets at its Bangemall Basin projects. Historical data reviews have highlighted the large scale base metals potential of these projects in an under-explored region. The Tchintaby zinc project is one project that that will be seeing a much greater activity level in the upcoming year.

We continued to focus on business development opportunities culminating in an earn in transaction with Barrick Gold of Australia in relation to the Yeneena project. The Yeneena project is situated in the world class Paterson mineral province between the Nifty copper mine and Rio Tinto's Kintyre uranium project. This highly prospective area has not seen systematic modern exploration for uranium or base metals and Barrick's previous regional exploration work will provide a great springboard to launch our own exploration activities.

Our relationship with joint venture partner Avoca Resources Ltd has continued to the benefit of both parties. In April 2007, Avoca elected to contribute to exploration expenditure to maintain its equity interest in the joint venture projects. We welcome the ongoing contribution to these projects by Avoca.



On the corporate front, Encounter successfully completed a \$4.3 million share placement in April 2007 to accelerate exploration activities. A strong cash position of \$6.8 million at 30 June 2007 means that Encounter is well funded to aggressively pursue its exploration targets.

Our success to date, combined with Encounter's potential, saw us attract Dr Jon Hronsky as a Non Executive Director. Dr Hronsky enjoyed a distinguished career spanning over 20 years with WMC Resources/BHP Billiton and was head of BHP Billiton's global project generation team.

We would also like to acknowledge the significant contribution of Peter Bewick and our exploration team during the past year. By setting high standards, we have been able to attract and retain highly skilled people at a time when there is a critical shortage in our industry.

Encounter's key business objectives for 2008 include:

- Establish an initial inferred resource statement for the Hillview uranium project and the Yeelirrie/Lake Way satellite discoveries
- Complete follow up drilling at the McPherson's Bore project to seek to identify the interpreted source of the highly anomalous near surface mineralisation discovered
- At the Yeneena project, complete the re-assay and interpretation of historical exploration drill holes, an EM survey and an initial drill program
- Commence a drill program at the large scale Tchintaby zinc target in the Bangemall Basin

Encounter is well positioned to achieve these goals with a focused management team in place and a strong cash position.

In summary, Encounter has the projects, the people and the funding to continue to grow the business towards its goal of becoming a substantial resources company.

Paul Chapman
Chairman

Will Robinson
Managing Director

Exploration Review

Encounter controls a portfolio comprising over 9,000 square kilometres of strategically located and highly prospective exploration projects in Western Australia. The portfolio includes:

- a suite of calcrete style uranium projects located in the Yilgarn and the Gascoyne;
- six projects targeting base metals and unconformity style uranium deposits in the Bangemall Basin and;
- an earn in agreement with Barrick Gold of Australia in the Paterson Province considered highly prospective for unconformity related uranium mineralisation, SEDEX lead-zinc mineralisation and Nifty/Isa style copper mineralisation.

The company has focused a large part its exploration effort since listing on the calcrete uranium projects in the northern Yilgarn. Why? Because calcrete uranium deposits are very near surface, have a low discovery cost and the projects are in proximity to infrastructure and quality existing resources. Moving early to acquire these targets also means Encounter has a competitive advantage in this exploration space.

In parallel, the company is advancing its large scale base metals and unconformity uranium projects in the Bangemall Basin and utilising its exceptional multi-commodity targeting skills to continue to expand and diversify its project portfolio.

Uranium

Since listing in March 2006 Encounter has completed initial drilling campaigns on eleven projects in the Yilgarn and Gascoyne regions that are prospective for near surface uranium mineralisation. This program of drilling has defined new areas of uranium mineralisation at Bellah Bore East, Hillview, Centipede Extension, Lake Way Satellite and McPherson's Bore. A number of these projects will see follow up drilling in the upcoming year.

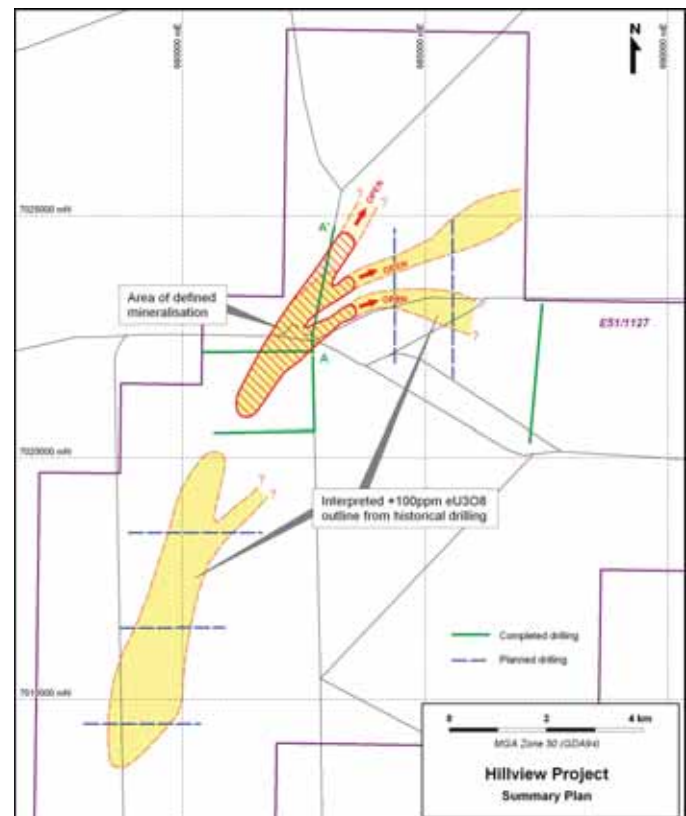
Hillview (E51/1127)

80% Encounter, 20% Avoca

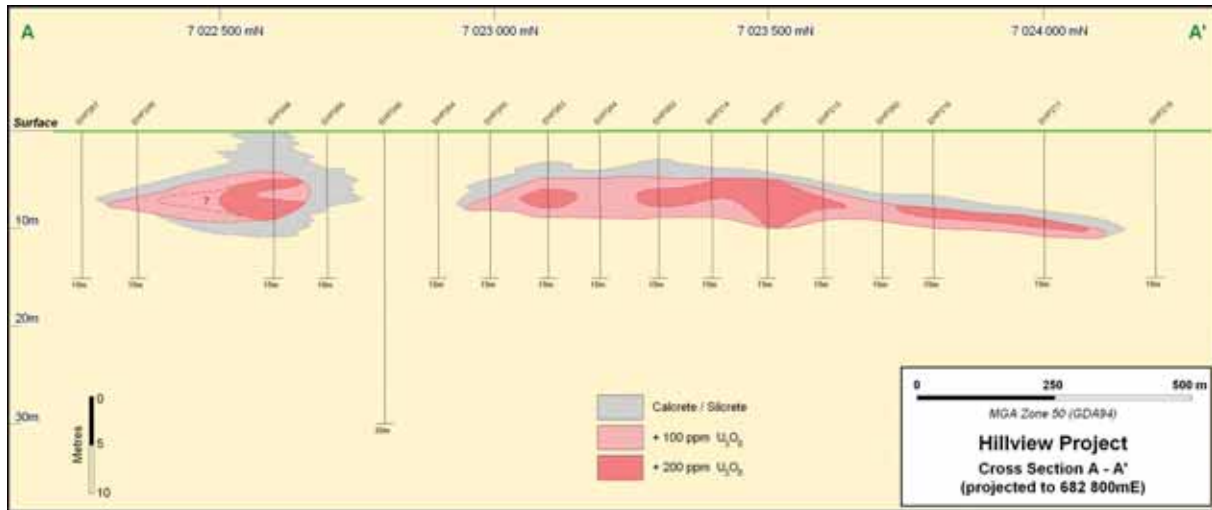
The Hillview project is located 50km south east of Meekatharra. Broad spaced reconnaissance drilling at Hillview, by Western Mining Corporation in the 1970s, identified a 15km long zone of near surface uranium mineralisation. Historical drill sections were between 1.6kms and 2kms apart with holes intersecting between 100-300ppm eU_3O_8 * on every traverse along the defined 15km trend.

Three sections were drilled by Encounter across the main trend as part of the initial aircore program to test the large scale anomaly. These lines centred around the main homestead and utilised existing tracks and fence lines for drill rig access. The drilling successfully outlined a laterally continuous and coherent envelope of near surface mineralisation that is interpreted to be in excess of 3km long and up to 1km wide. This mineralisation is up to 10m thick with results typically within 10 metres of surface. Better results received include:

- 5m at 210ppm U_3O_8 including 1m at 341ppm U_3O_8
- 4m at 241ppm U_3O_8 including 2m at 306ppm U_3O_8
- 4m at 220ppm U_3O_8 including 2m at 294ppm U_3O_8
- 5m at 221ppm U_3O_8
- 10m at 209ppm U_3O_8 including 6m at 270ppm U_3O_8
- 4m at 287ppm U_3O_8 including 3m at 324ppm U_3O_8
- 7m at 170ppm U_3O_8 including 1m at 259ppm U_3O_8



Exploration Review (continued)



The drilling also validates the significance of the 15km long historical WMC anomaly of which Encounter has only drilled a small section. The mineralisation defined in the initial program remains open to the north and east.

An additional five aircore drill traverses are planned to test the southern and eastern extent of the mineralisation at the Hillview project. Once the regional sections are completed the next phase of drilling at Hillview will bring line spacing down to 500m spaced sections across the entire 15km mineralised trend.

The Hillview project has the size potential to host a large tonnage near surface uranium deposit. The assay results received so far have exceeded the results from regional exploration holes drilled by WMC in the 1970s in terms of uranium grade and thickness.

The Hillview mineralisation is over a large area, it is consistent, thick and very near surface which suggests that a deposit may be a future low cost mining opportunity.

** Historical uranium mineralisation grades are annotated with a sub-prefix 'e' because they have been reported as uranium equivalent grades derived from down-hole gamma ray logging results and should be regarded as approximations only. Gamma logging or "total count gamma logging" (the method used by Western Mining Corporation Limited at Hillview) is a common method used to estimate uranium grade where the radiation contribution from thorium and potassium is very small. Sandstone and calcrete hosted deposits are usually of this type. Gamma logging does not account for energy derived from thorium and potassium (as does spectral gamma logging) and thus the result is expressed as an equivalent value or eU308.*

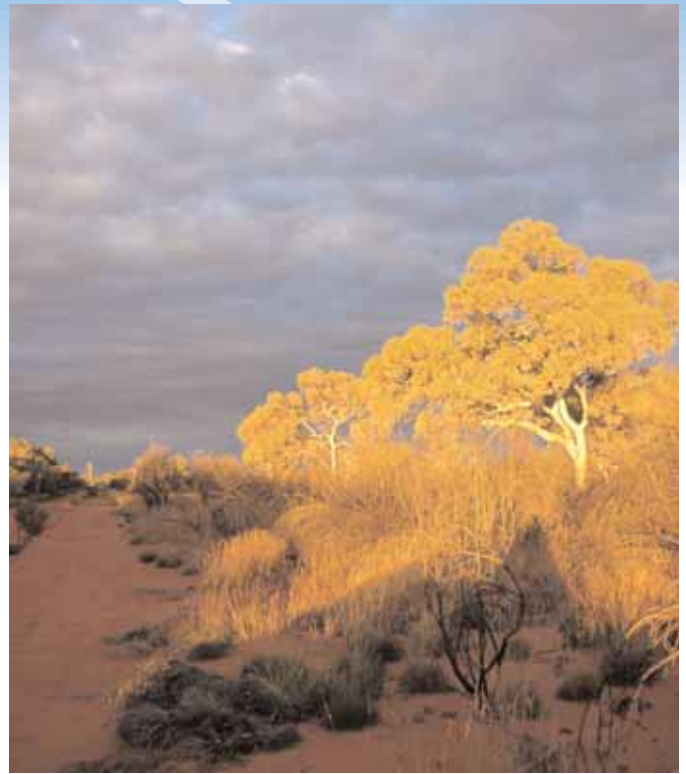
The gamma radiation from potassium, uranium and thorium is dominated by gamma rays at specific energy levels. These energy levels are sufficiently well separated such that they can be measured independently of each other. They are typically measured as narrow energy bands that contain the specific energy levels. Bands are used because the measuring systems do not have the resolution to target a specific energy wavelength. There is some scattering of higher energy gamma radiation, e.g. thorium, into lower energy radiation, e.g. uranium and potassium. This scattered radiation can be calculated from suitable calibration procedures and removed from the lower energy level measurements. This method is commonly termed spectral gamma logging.

The downhole gamma logging system used by Western Mining Corporation Limited on this project was the ELMAC 2000.

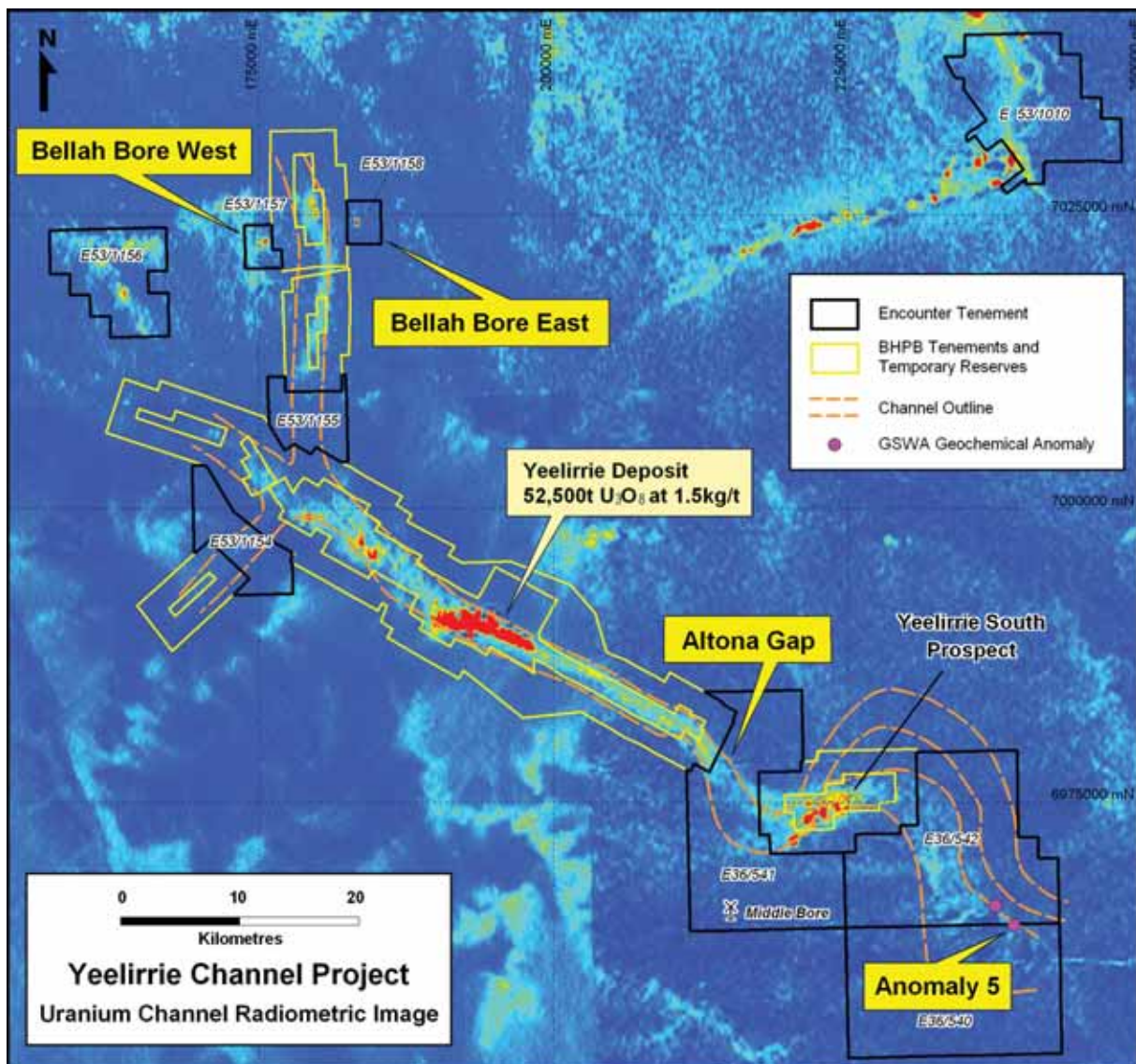
Yeelirrie Channel (E53/1154-58, E36/540-542)

80% Encounter, 20% Avoca

Encounter controls an exploration tenement holding of over 750km² encompassing in excess of 40 strike kms of the defined drainage channel that hosts BHP Billiton's Yeelirrie uranium deposit. The Yeelirrie uranium deposit is located approximately 60kms south west of Wiluna and is the world's largest calcrete associated uranium deposit with a published resource of 52,500 tonnes of U₃O₈.



Drill traverse at Yeelirrie South



Exploration Review (continued)

Bellah Bore East (E53/1158)

In June 2006, five reconnaissance aircore holes (EYN001-5) were drilled at Bellah Bore East. Drill holes EYN001 and EYN005 intersected a highly anomalous, near surface zone of uraniferous silicified calcrete that remained open along strike and to the west.

- 7m @ 100ppm U₃O₈ from 1m, including 2m @ 165ppm U₃O₈ from 5m
- 8m @ 123ppm U₃O₈ from 0m, including 3m @ 204ppm U₃O₈ from 0m

In July 2006 an 18 hole aircore drilling program was completed to test the immediate area to the north, south

and west of the uranium mineralisation intersected in EYN001 and EYN005. Drill hole EYN064, located roughly in the centre of this calcareous zone, intersected 3m @ 781ppm U₃O₈ from 4m including 1m @ 2,111ppm U₃O₈.

A 32 hole follow up program in December 2006 at Bellah Bore East confirmed the continuity of near surface uranium mineralisation at Bellah Bore East. Results included:

- 8m @ 215ppm U₃O₈ from 0m, including 2m @ 410ppm U₃O₈ from 1m
- 10m @ 166ppm U₃O₈ from 0m, including 2m @ 410ppm U₃O₈ from 1m

The drilling at Bellah Bore East defined an area of near surface uranium mineralisation approximately 500m by 150m and between 2m to 10m thick (see Table 1).

Information is currently being compiled in order to complete an Inferred Resource calculation at Bellah Bore East.

Encounter was encouraged by the results at Bellah Bore East as they confirmed the initial hypothesis that satellite uranium occurrences are still to be found within the Yeelirrie Channel.

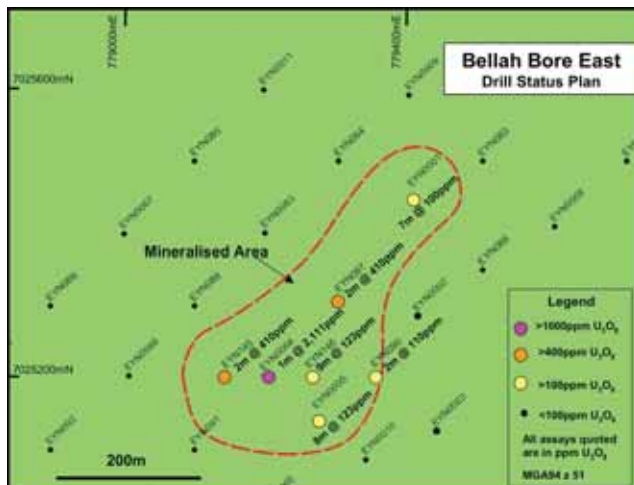


TABLE 1: BELLAH BORE EAST MINERALISED INTERSECTIONS

| Hole # | Northing | Easting | Dip | Azi | From (m) | To (m) | Width (m) | U ₃ O ₈ (ppm) | V (ppm) |
|---------|-----------|---------|-----|-------|----------|--------|-----------|-------------------------------------|---------|
| EYN 1 | 7,025,450 | 779,400 | -90 | 360 | 1 | 8 | 7 | 100 | 17 |
| | | | | incl. | 5 | 7 | 2 | 165 | 12 |
| EYN 5 | 7,025,140 | 779,220 | -90 | 360 | 0 | 8 | 8 | 123 | 49 |
| | | | | incl. | 0 | 3 | 3 | 204 | 66 |
| EYN 64 | 7,025,200 | 779,140 | -90 | 360 | 4 | 7 | 3 | 781 | 130 |
| | | | | incl. | 5 | 6 | 1 | 2111 | 320 |
| EYN 87 | 7,025,300 | 779,300 | -90 | 360 | 0 | 10 | 10 | 166 | 38 |
| | | | | incl. | 1 | 3 | 2 | 410 | 89 |
| EYN 90 | 7,025,200 | 779,350 | -90 | 360 | 4 | 6 | 2 | 110 | 19 |
| EYN 145 | 7,025,200 | 779,140 | -60 | 090 | 0 | 8 | 8 | 215 | 34 |
| | | | | incl. | 1 | 3 | 2 | 410 | 89 |
| EYN 146 | 7,025,200 | 779,260 | -60 | 270 | 0 | 9 | 9 | 123 | 17 |

Altona Gap (E36/541)

Encounter Resources controls the 4km gap between BHPB's mineral claims at Yeelirrie and their South Yeelirrie prospect. A single line of aircore holes was drilled in the area between BHPB tenure that is referred as the Altona Gap prospect. The line of holes was drilled to a depth of 10m and it appears that the drilling failed to test the entire calcrete profile. Uranium assays from this drilling indicated an increase in grade at the bottom of hole which supports the need to extend the holes. The Altona Gap project will be drill tested to a greater depth in the upcoming year.

Anomaly 5 (E36/540 & E36/542)

Drilling over the Geological Survey of Western Australia (GWSA) uranium geochemical anomaly at Yeelirrie South (Anomaly 5) was completed in January 2007. The program included a series of traverses across the southern extension of the Yeelirrie Channel and a number of specifically targeted drill sections over Anomaly 5. Results from this drilling defined an area of low level anomalism (<50ppm U_3O_8) within a broad zone of elevated vanadium and uranium in the regolith. Additional work in the area will focus on the anomalous trends defined in the broad drilling to determine the potential for satellite occurrences. Additional drilling will also target the base of the Yeelirrie palaeochannel for 'roll-front' style uranium mineralisation.

Middle Bore (E36/541)

Follow up drilling at Middle Bore to assess anomalous results identified within a broad southwest trending tributary returned similar low level uranium anomalism. Results

included 2m @ 93ppm U_3O_8 and 2m @ 88ppm U_3O_8 . Although these results are of interest, the potential of the area to host a substantial uranium resource has been downgraded. The spacing between drill lines of approximately 3km leaves the potential for small, higher grade pods of mineralisation to be found.

Youno Downs (E53/1156)

A series of shallow reconnaissance drill traverses were completed over the Youno Downs radiometric anomalies. The areas of radiometric anomalism appeared to be coincident with zones of hydrothermal alteration of the granitic basement.

Re-sampling of a number of anomalous 5m composite samples at Youno Downs identified a narrow zone of 2m @ 112ppm uranium within the altered granitic bedrock. A review of the magnetics and radiometrics indicated a potential bedrock target to the west and south of the drilling.

Results confirm the near surface radiometric anomalism within these areas is related to weak metasomatic alteration of the subcropping granitic bodies. Coincident low level, rare earth element and uranium anomalism was found within the most altered portions of the granites with broad zones anomalism of up to 25ppm uranium within the bedrock. These results indicate the uranium source rocks in the north of the Yeelirrie Channel are significantly enriched in respect to the regional signature of between 5-10ppm uranium.

Additional drilling is planned in the coming year to test the bedrock target at Youno Downs.

Air core drilling on Lake Way



Exploration Review (continued)

Lake Way South (E53/1010 and E53/1232)

60% Encounter, 40% Avoca of uranium rights

The Lake Way South project is located approximately 10kms south of the township of Wiluna and covers an area of 117.5km². The tenement covers approximately 12kms of the Lake Way drainage system and is located between Nova Energy's Lake Way uranium deposit to the north and its Centipede deposit to the south.

A 70 hole aircore drill program was completed along the north eastern margin of Lake Way in September 2006. The program was designed to test a series of subtle radiometric anomalies that are located to the east of the primary radiometric target. The results from this drilling defined a 1.2km long zone of near surface anomalism within lake sediments known at the Lake Way Satellite. Assays from within this zone included:

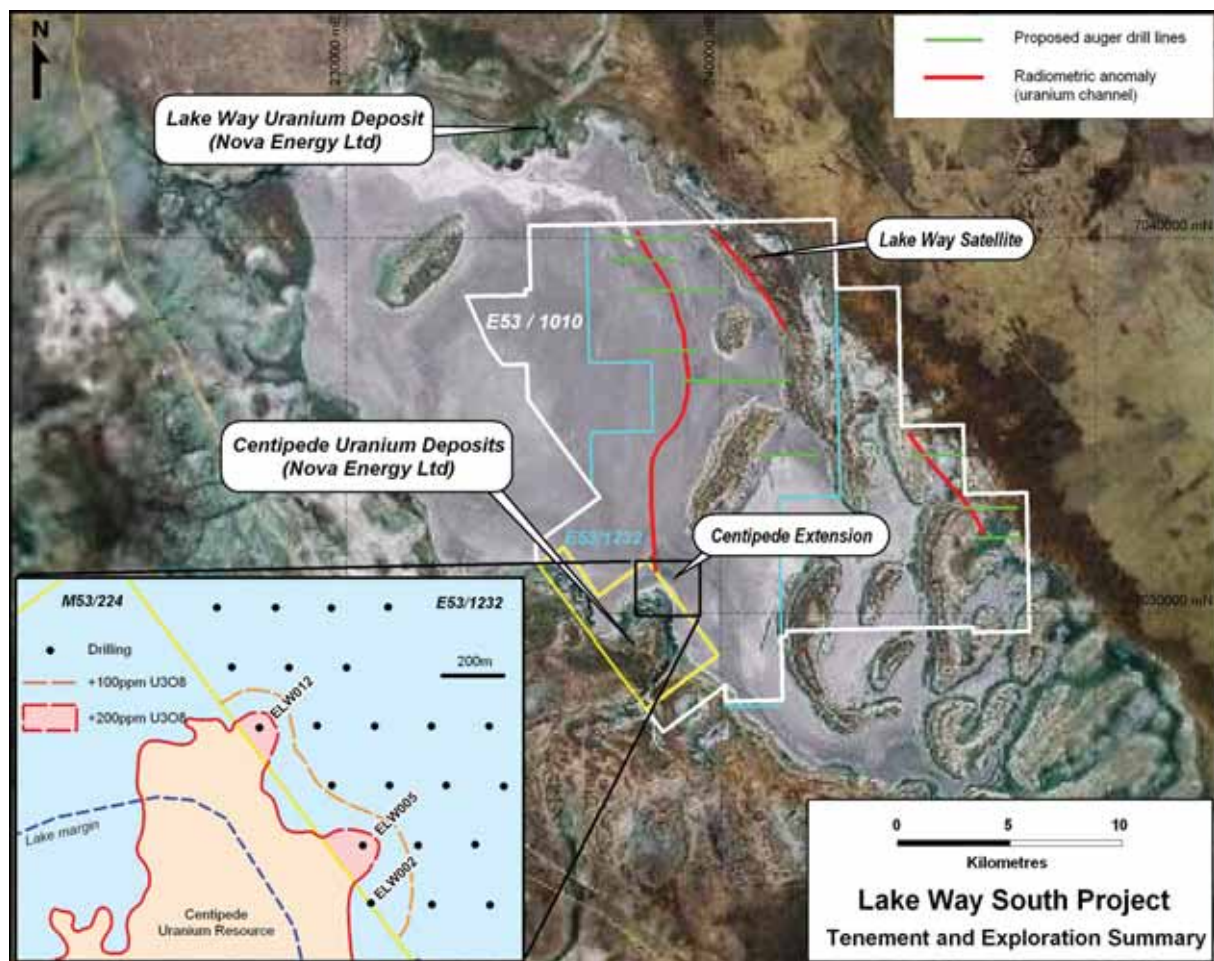
- ELW 146 2m @ 210ppm U₃O₈ from 7m
- ELW 143 1m @ 118ppm U₃O₈ from 1m
- ELW 134 1m @ 159ppm U₃O₈ from 6m

- ELW 136 2m @ 103ppm U₃O₈ from 0m
- ELW 193 2m @ 127ppm U₃O₈ from 0m
- ELW 192 1m @ 147ppm U₃O₈ from 5m

The southern 1km of the 12km long uranium channel radiometric anomaly that crosses Lake Way was aircore drilled in February 2007. The results have extended the area of known uranium mineralisation at Nova Energy's Centipede uranium at least 150m into the Lake Way JV tenement. Assay results at the Centipede Extension include:

- ELW005 1m @ 312ppm U₃O₈ from 5m
- ELW012 1m @ 224ppm U₃O₈ from 3m
- ELW002 1m @ 147ppm U₃O₈ from 8m

The lake based aircore program was suspended following heavy rain associated with Cyclone George. The drill program will re-commence in the upcoming year and it will systematically test the remainder of the uranium channel radiometric anomaly that extends across Lake Way within the area of the JV tenement.



McPherson's Bore (E29/587)

80% Encounter, 20% Avoca

The McPherson's Bore Project is located 120km west of Leonora and is located within the Lake Raeside drainage system. The project covers a coincident uranium channel radiometric anomaly and a GSWA uranium stream sediment anomaly.

Four broad spaced auger drill traverses were completed at McPherson's Bore to test the coincident geochemical and geophysical anomaly. The drilling identified a 4km long uranium geochemical anomaly associated with a near surface zone of calcrete and calcareous sediments.

A follow up aircore program was designed to test the area of the uranium geochemical anomaly identified.

Near surface uranium mineralisation discovered is hosted in lake clays and extends over 1.7 kms of strike, with results including:

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

The mineralisation remains open to the north. It is interpreted that this mineralisation potentially represents a

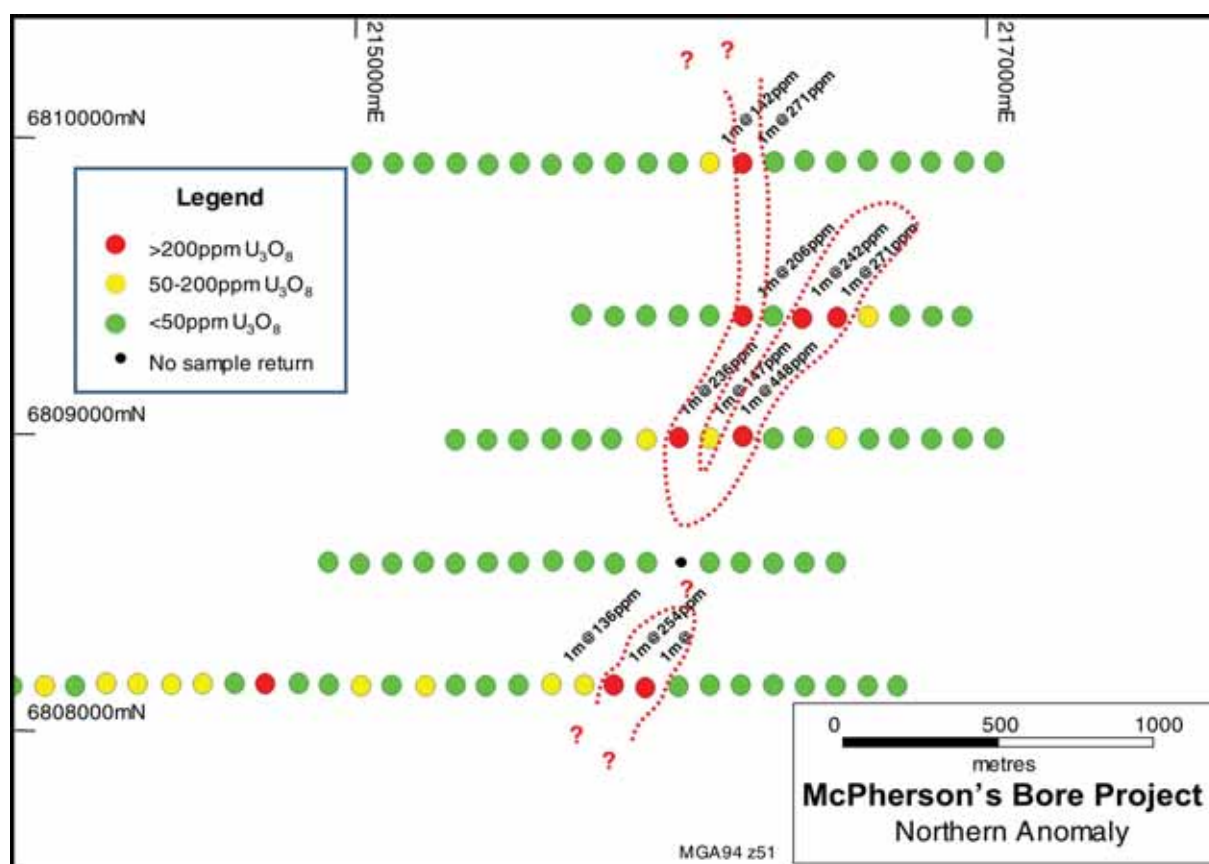
significant uranium leakage anomaly from a nearby buried source area.

Based on these results, the following activities are now planned:

- complete a series of sample pits to confirm the continuity of the mineralisation and to allow in-situ sampling of the mineralised horizon;
- drilling to determine the extent of mineralisation to the north; and
- drilling to locate the potential source of the surface mineralisation.

A second mineralised horizon has also been defined along the western margin of the drilling that is not associated with the primary airborne radiometric anomaly. This mineralisation occurs at around 3m depth with assays typically between 50-100ppm U_3O_8 over 2-3m and remains open to the north, south and west.

Additional ground has been acquired to the north and south of the McPherson's Bore Project to cover the possibility of additional buried mineralisation within the defined trend.



Exploration Review (continued)

Walling Rock (E30/299)

80% Encounter, 20% Avoca

A single line of auger drilling at Walling Rock, 70kms south of McPherson's Bore, has intersected uranium mineralisation within lake sediments of up to 1.6m @ 136ppm U_3O_8 . Of the 19 holes drilled, 7 contained intersections in excess of 50ppm U_3O_8 . The line drilled was designed to test an airborne radiometric anomaly located 1km south of a series of historical drillholes drilled by Esso in the 1970s. Re-interpretation of the historic drilling, along with the new data from the recent auger drilling, has outlined a zone of uranium anomalism within lake sediments that extends over 5kms along the eastern margin of a salt lake. A follow up program of auger drilling at 1km section spacing is planned.

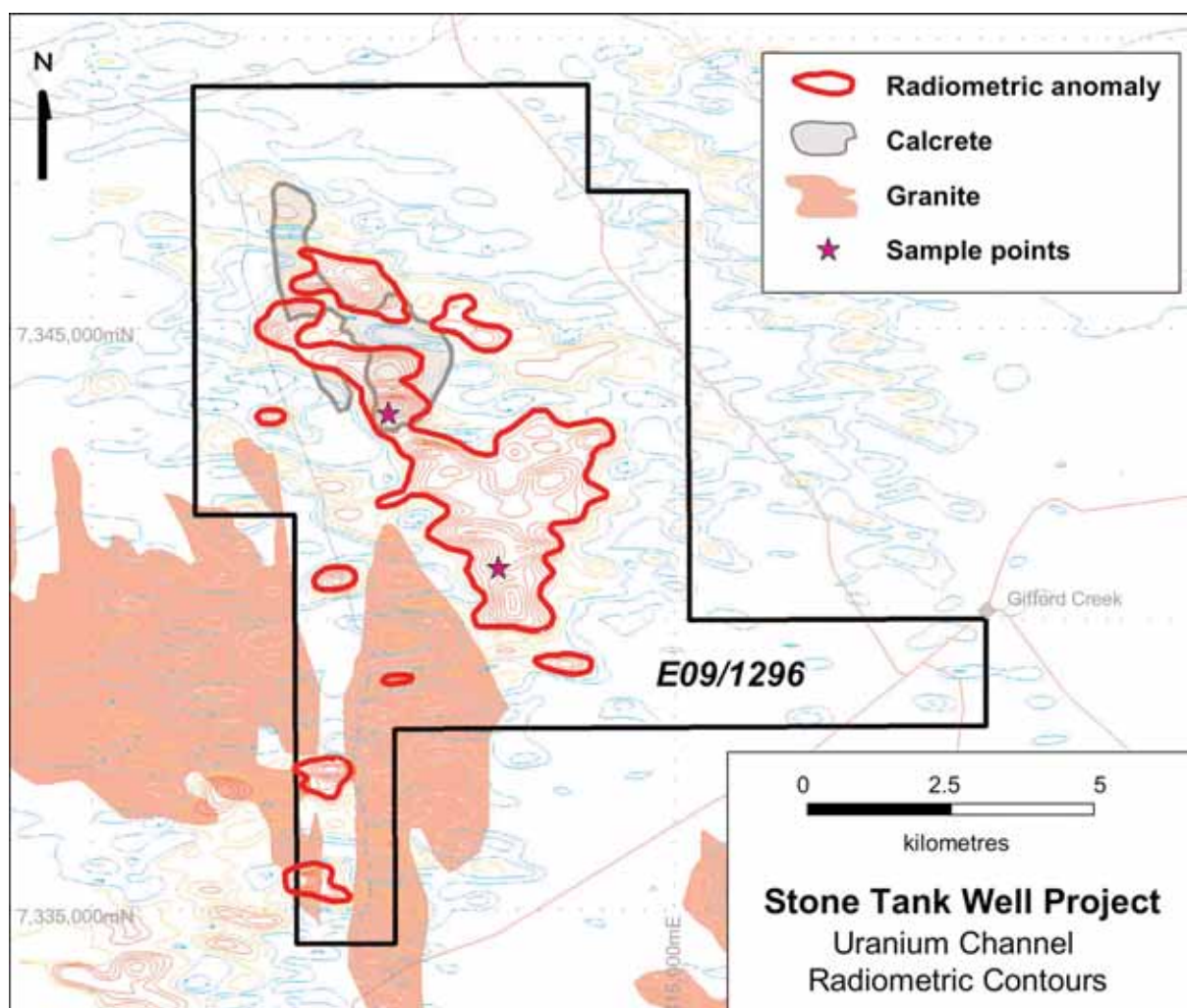
Stone Tank (E09/1296)

80% Encounter, 20% Avoca

The Stone Tank Project was granted in February 2007. It is located on the northern margin of the Gascoyne Province approximately 265km east of Carnarvon. The project tenement was pegged to cover a 7km long uranium channel airborne radiometric anomaly with coincident mapped calcrete.

During the initial field reconnaissance visit to the project, surface uranium mineralisation, in the form of carnotite, was identified at two sample locations 4kms apart. This work confirmed uranium enrichment within the calcrete at surface. A program of aircore drilling is now planned to test the primary target zone at the water table.

Heritage clearance has been received for the initial drill program. The first drill test at the project was completed in October 2007 with assays pending.



Yalgar (E51/1137)

80% Encounter, 20% Avoca

The Yalgar Project is located 120kms north west of Meekatharra within the upper reaches of the Murchinson River drainage system. The project was pegged over an extensive but subtle airborne radiometric in an area of extensive sheetwash sediments. Minor calcrete occurrences have been noted in shallow pits throughout the project. A program of regional traverse drilling to assess the uranium prospectivity of the target area was completed in October 2007. Assay results are pending.

Lakeview (E29/577)

80% Encounter, 20% Avoca

A series of five 1km spaced aircore traverses were drilled to test for near surface uranium mineralisation associated with an interpreted palaeochannel position to the south of Lake Raeside. In addition, two holes were drilled to test the base of the palaeochannel for 'roll-front' style uranium mineralisation. The results from this drilling did not identify any significant uranium mineralisation. The focus of the program will now move to the main radiometric anomaly on the lake where previous explorers reported the discovery of uranium mineralisation within lake sediments.

Lake Darlot (E37/830)

80% Encounter, 20% Avoca

The Lake Darlot Project is located downstream of the drainage systems that host the Lake Maitland and Yeelirrie deposits. Local parts of the lake surface appear highly anomalous in the regional radiometric data.

A series of shallow auger holes were drilled to determine the nature and source of the airborne radiometric anomalies. Modest levels of uranium anomalism associated with the radiometric highs returned up to 87ppm U_3O_8 over 0.8 metres, within 2 metres of surface. Highly anomalous levels of strontium (up to 2.88% Sr) were noted and appear to be associated with the higher uranium grades. The significance of the uranium and strontium anomalism will be assessed through an aircore drilling program in the upcoming year.

Minneritchie (E09/1197)

80% Encounter, 20% Avoca

A program of rock chip sampling was completed during a reconnaissance field trip to the Minneritchie Well project. Sampling was focused in two areas of radiometric anomalism located in the southern half of the tenement.



Drilling at Yalgar

Eleven samples were taken of various outcropping lithologies. At both locations the most intense radiometric area corresponded with narrow zones of outcropping haematite altered metasediment. Sampling of the metasediment returned assays of up to 165ppm uranium within a broad zone of shearing and alteration. A regional geochemical program at the project has recently been completed with assays pending.

Talbot (E70/2956), Shackleton (ELA70/2957), & Wongan Hills (ELA70/2958)

80% Encounter, 20% Avoca

Encounter applied for three 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 9km spacing and has identified a series of anomalies that are considered prospective for uranium mineralisation. The Wongan Hills, Shackleton and Talbot targets show coincident anomalism in uranium, vanadium, phosphorous and arsenic. It is anticipated that the tenements will be granted in late 2007.

Exploration Review (continued)

Base Metals

The geological setting targeted for unconformity uranium mineralisation in the Proterozoic is also prospective for base metals mineralisation. Several projects in the Bangemall province have been the focus of historical Zn-Cu-Ag exploration by companies such as CRA, BHP, WMC and Pasminco. The compilation of the historical information has identified a number of opportunities for large scale base metal deposits within the Tchintaby Well, Pingandy Creek and Staten projects located in the Bangemall Basin.

Within the Yilgarn, a regional auger drilling geochemical program completed during the year has highlighted anomalous zinc and copper assay results requiring follow up at the Lake Irwin project and a rock chip program at the Gidgie Bore and Crossland Hill projects has also indicated interesting base metal potential that will be advanced in the upcoming year.

Tchintaby Well (E52/1882 and ELA52/1959)

80% Encounter, 20% Avoca

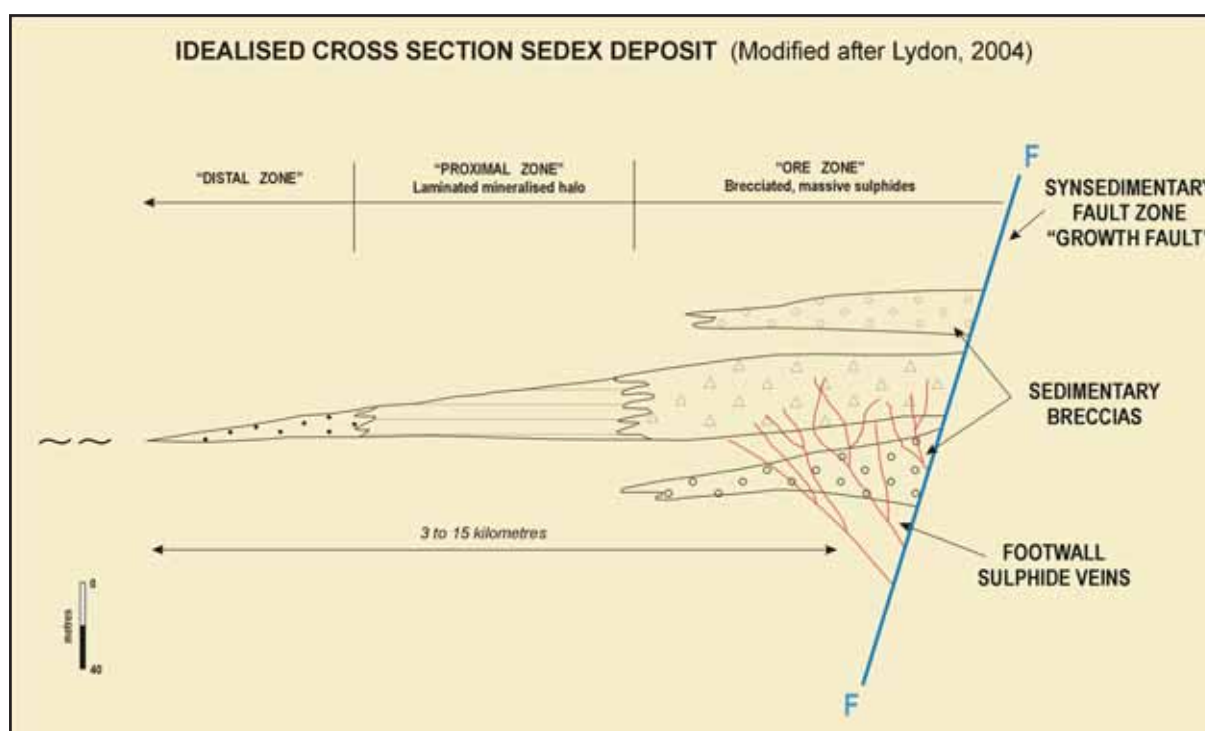
Drilling in the mid 1990s CRA Exploration intersected an extensive area of low grade Zn-Cu-Ag mineralisation extending laterally over 8km by 5km. A total of 29 holes were drilled by CRA tracing the mineralised horizon to a maximum depth of 200m below surface with the shoot remaining open to the south. Typical holes within the mineralised area returned intersections of 10-15m thickness, grading 0.5-1% Zn, 500-1000ppm Cu and 5-15g/t Ag. Examples of mineralised holes are tabled below.

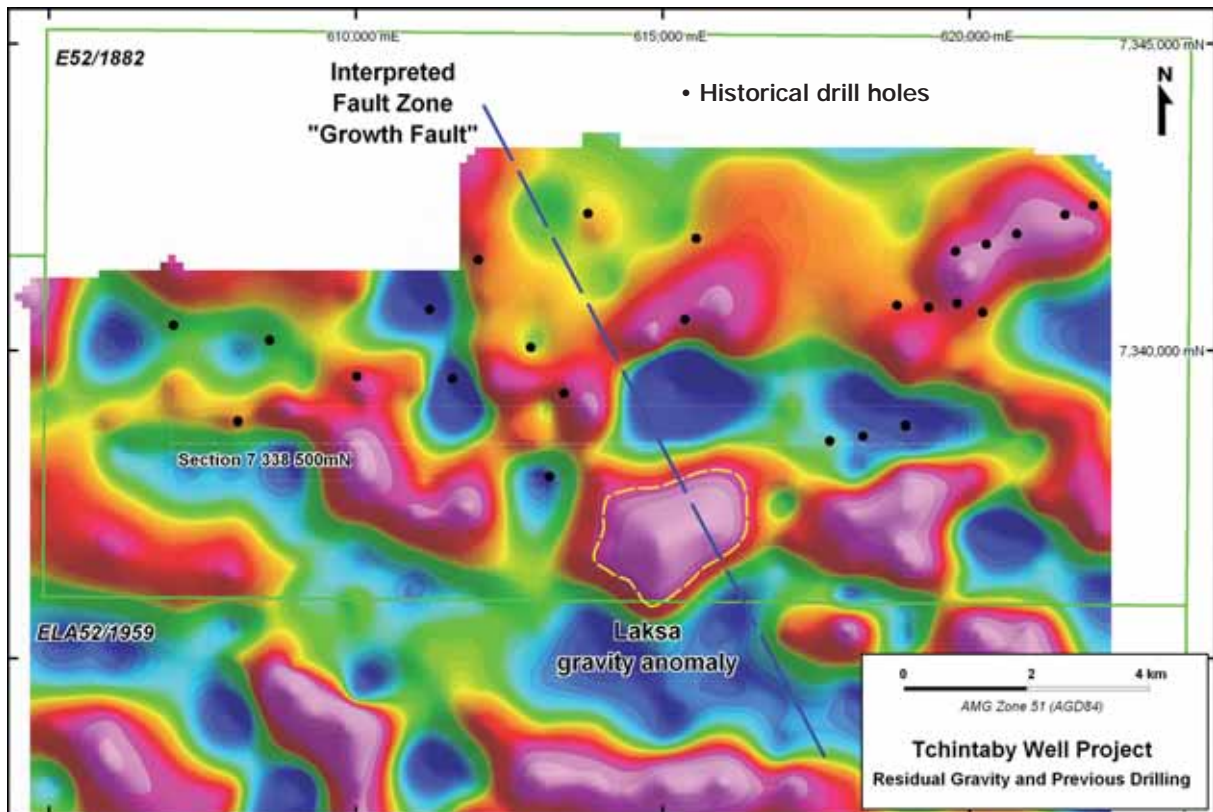
Preliminary geological investigations indicate that the prospective horizon that hosts the Zn-Cu-Ag mineralisation may be laterally extensive at depth throughout the Tchintaby project area.

TABLE 2: TCHINTABY WELL – EXAMPLES OF MINERALISED HISTORICAL DRILL HOLES

| Hole # | Northing | Easting | From(m) | To(m) | Zn(ppm) | Cu(ppm) | Ag(g/t) |
|----------|----------|---------|---------|-------|---------|---------|---------|
| RC94AN03 | 7339308 | 613388 | 38 | 50 | 7722 | 965 | 9.25 |
| RC97AN23 | 7339547 | 611570 | 60 | 72 | 7262 | 979 | 7.5 |
| RC97AN26 | 7340506 | 615360 | 70 | 85 | 6865 | 882 | 7 |

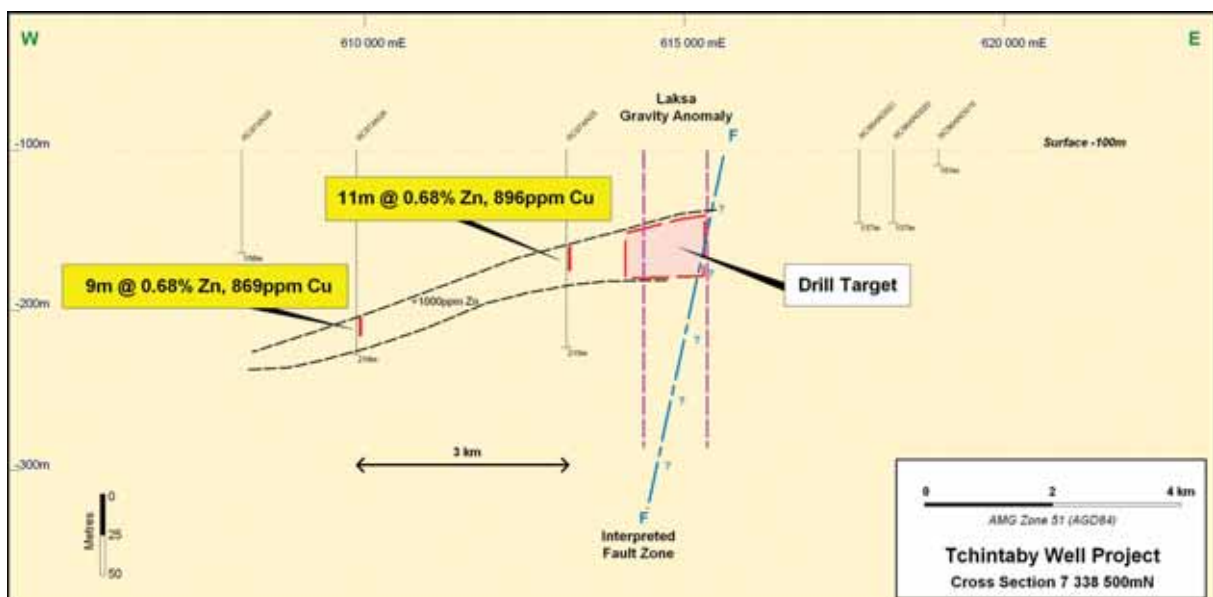
Datum AMG z50





Interpretation of the 1km by 500m ground gravity data has defined a distinct SSE trending gravity gradient. It is interpreted that this gradient is related to a major basement structure that has been the focus of mineralising fluids at Tchintaby. Significantly, the best part of the known mineralisation defined by CRA also defines a SSE trend. The target at Tchintaby is high grade Zn mineralisation

proximal to this structure, downdip to the SSE of the existing low grade halo defined by CRA. Re-modelling of the gravity data has outlined a 1km by 1km gravity high (Laksa anomaly) along the interpreted SSE trend to the immediate south of the past drilling. Further geophysical work will be completed before a drilling program commences to test the defined target.



Exploration Review (continued)

Pingandy Creek (ELA08/1779)

80% Encounter, 20% Avoca

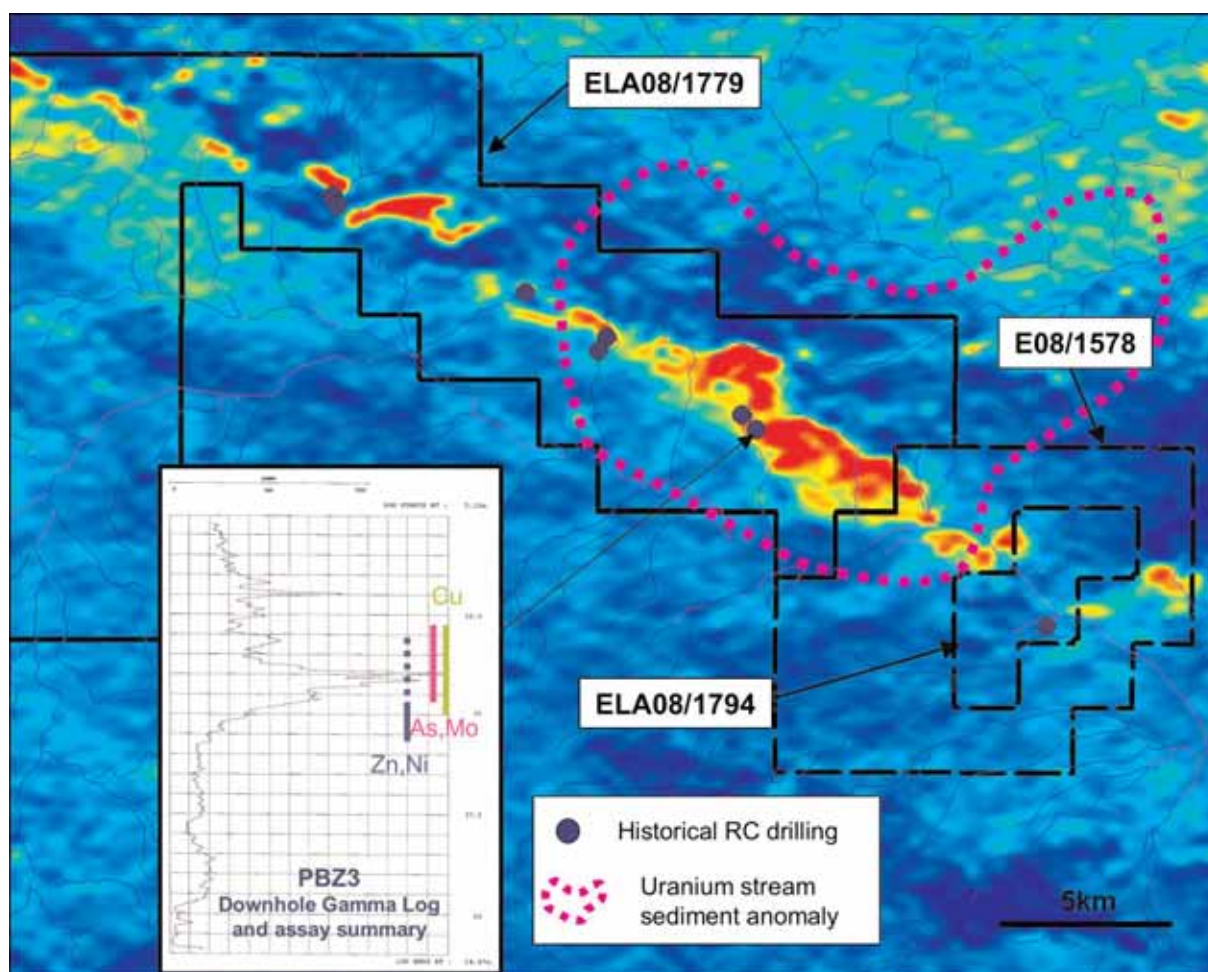
The Pingandy Creek Project encompasses a regional base metals and uranium geochemical anomaly. A series of shallow drill holes were completed by Pasminco in the 1990s that extended over 30km of strike. The drilling intersected a sphalerite and chalcopryite mineralised sequence at the base of the Jillawarra Formation and returned 3m @ 1.25%Zn (including 1m @ 2.88%Zn) within the Pingandy Creek project.

The targeted horizon hosts a 9km long uranium channel radiometric anomaly and coincident GSWA regional, multi-element (U-As-Mo-Sb) stream sediment anomaly within the Pingandy Project. Downhole gamma logs of two of the percussion holes drilled by Pasminco indicate highly anomalous radiometric responses of over ten times background associated with significant Zn, Cu, As, Mo and Ni anomalism. Base metal anomalism is found within the alteration halo of



Outcrop at Pingandy Creek

a number of unconformity uranium deposits and the coincident radiometric anomalism at Pingandy Creek is considered to be highly encouraging. No uranium analysis was completed on the historic RC drill holes.



Staten (ELA52/2126)

100% Encounter

The Staten Project covers over 300km² and is located near the southern margin of the Bangemall Basin, some 60kms east of Mt Augustus. The tenement covers two historical BHP regional stream sediment gold anomalies and an extensive uranium channel radiometric anomaly along the eastern flank of Staten Hill.

A small rock chip sampling program was completed along a 200m section of the greater than 10km long radiometric anomaly at Staten Hill. An interesting multi-element anomaly in U-Ag-Cu-Mo-Ni-Zn was noted within a highly altered and sheared siltstone. This metal association highlights a potentially extensive area of metal enrichment along a key stratigraphic horizon. A systematic program of ground geochemistry and geophysics is planned once the tenement is granted.



Staten Project

Eastern flank of Staten Hill



Exploration Review (continued)

Wanna and Waldburg Range

(E09/1297 and ELA51/2031)

80% Encounter, 20% Avoca

The Wanna and Waldburg Range projects cover two areas of anomalous uranium and base metals geochemistry identified in the GSWA regional stream sediment surveys. The projects are located along the southern margin of the Bangemall Basin and are considered prospective for both base metals mineralisation and for unconformity related uranium mineralisation.

A regional lag geochemical survey has commenced at Wanna with infill sampling and surface geophysics to follow up areas of interest.

Crossland Hill and Gidgie Bore

(E51/1096 and E51/1097)

80% Encounter, 20% Avoca

The Crossland Hill and Gidgie Bore Projects are located approximately 60kms northwest of Meekatharra and lie within the Yilgarn Block. The geology of the area consists of extensive granitic and gneissic outcrop. Interpretation of the surface uranium channel radiometrics indicates the area contains a broad zone of metasomatic alteration and

elevated uranium anomalism within the two projects. Recently, a series of regional rock chip traverses were completed at both projects. Results from the rock chip sampling program identified several areas of base metals anomalism that lie within an interpreted major structural trend that cross cuts the projects. A geochemical review and targeting program will be completed with a program of ground geophysics planned for the coming year.

Lake Irwin (E38/1784)

80% Encounter, 20% Avoca

The Lake Irwin Project is located 95 km north east of Leonora. A series of shallow auger holes were drilled at the project to determine the nature and source of the airborne radiometric anomalism.

Drilling results at Lake Irwin did not identify any significant near surface uranium mineralisation. However, multi-element geochemical analysis was completed on all holes with some base metals anomalism noted. Plotting of these results identified broadly coincident Zn and Cu anomalism within the lake sediments of up to 1.7m at 485ppm Zn and 405ppm Cu at the bottom of a 3.2m auger hole. Additional drilling is required to determine the significance of the base metals anomalism.

Waldburg Range



Diamonds

Lakeview (E29/577 and ELA37/877)

80% Encounter, 20% Avoca

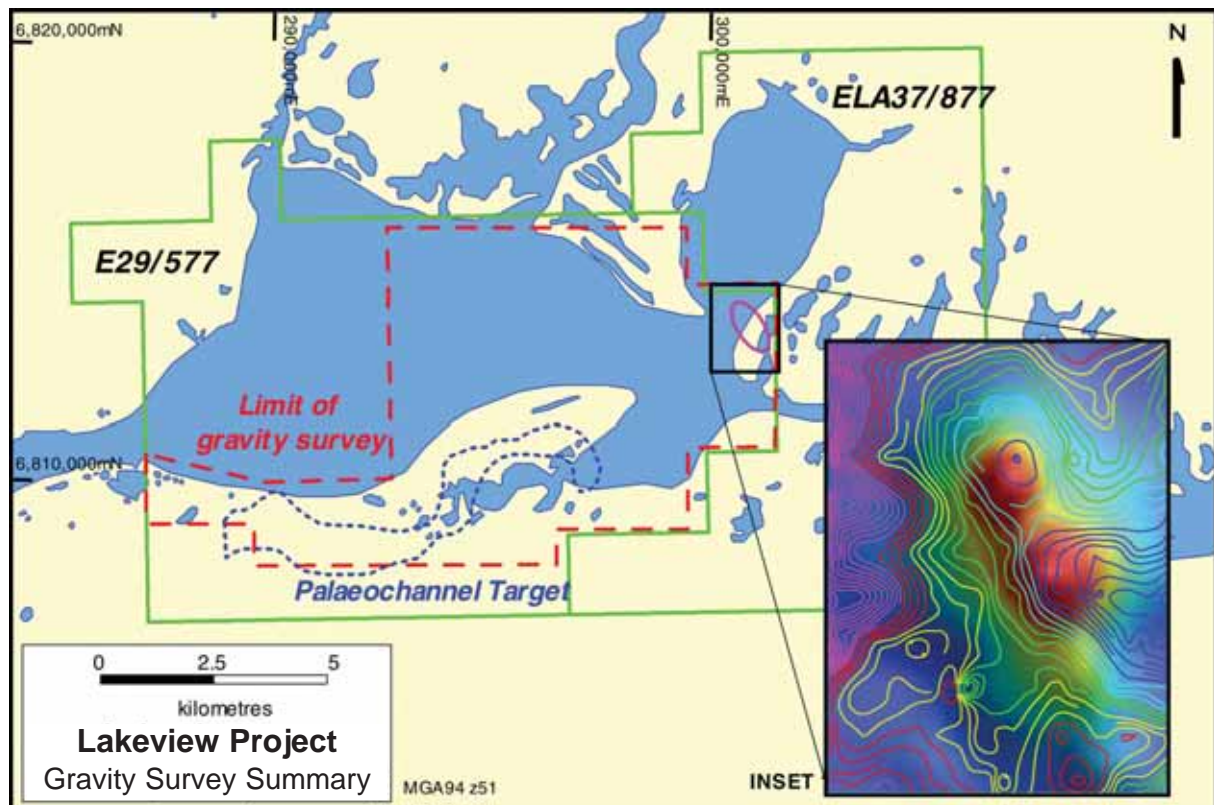
A detailed gravity survey was completed over a discrete magnetic anomaly in the east of the Lakeview Project. The survey successfully defined a circular gravity low over the magnetic body that is likely to be associated with increased weathering of the magnetic body.

The coincident geophysical anomaly is located within dunes on the margin of Lake Raeside in a region where De Beers and others have identified a number of kimberlitic bodies and diamond indicator minerals. Modelling of the geophysical data has generated two sub vertical pipe-like bodies within the granitic terrain that are interpreted to be Kimberlitic intrusions.

Although diamonds are not the core focus of Encounter, this target is considered to be a high quality opportunity. A drilling program will test the southern of the two anomalies to determine the lithology and prospectivity of the defined geophysical targets.



Glen Budge (Field Manager) and Clay Schmidt (Peak Drilling)

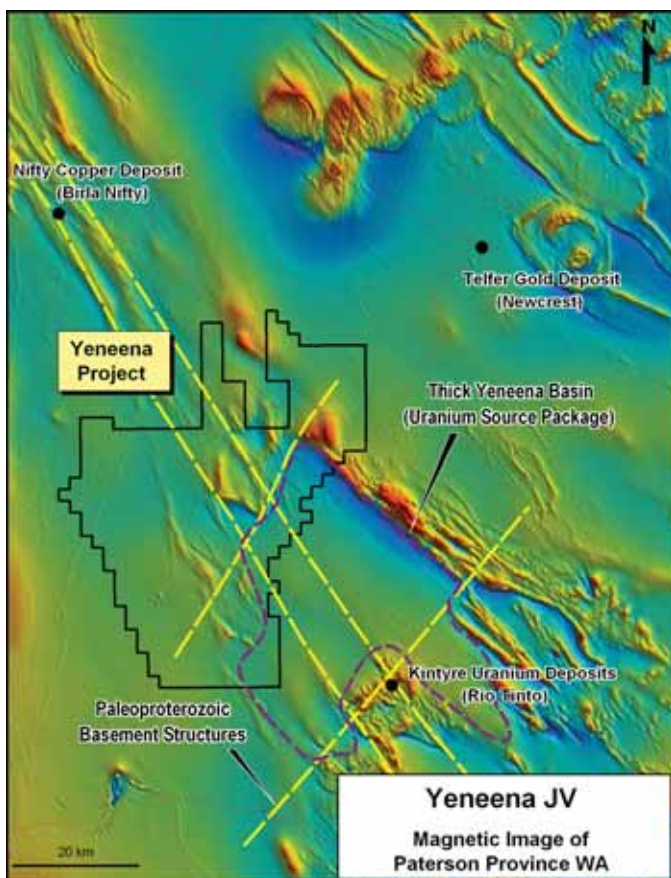


Exploration Review (continued)

Business Development

Yeneena Joint Venture – Barrick Gold of Australia

In September 2007, Encounter executed the Yeneena Joint Venture Agreement with Barrick Gold of Australia. The agreement allows Encounter to earn a 75% interest in a 1500km² tenement package in the Paterson Province of WA. The project area is considered highly prospective for unconformity related uranium mineralisation and for base metals mineralisation.



The project area captures the northern margin of an area of anomalously thick Yeneena Group sedimentary rocks. This margin replicates the geological setting seen on the southern margin some 40kms to the south, which hosts the Kintyre uranium deposits. The Yeneena sediments are also host to the Nifty copper deposit which is located 45km north west of the project.

The Kintyre uranium deposits lie within Lower Proterozoic metamorphic rocks of the Rudall Complex. Younger Proterozoic sandstones of the Yeneena Group overlie these rocks and are interpreted to be the source of uranium. The contact between the older Rudall Complex rocks and the younger Yeneena Group rocks is known as an "unconformity". Such unconformities are critical in the formation of 'unconformity style' uranium ores such as at Kintyre and in the Athabasca Basin of Canada.

A localised, anomalously thick basin of Yeneena Group sedimentary rocks occurs between the Yeneena project and the area of the Kintyre uranium deposits. The structures at the margins of this basin are considered to be important in controlling uranium mineralisation.

Within the Yeneena project, the favourable unconformity position is preserved and interpreted to be present beneath a thin veneer of Yeneena Group sandstones. The area is largely under sand cover with limited outcrop.

The overlying sandstones are also considered prospective for base metals with the Nifty copper mine hosted in the same stratigraphy, 45km to the north west of the Yeneena project.

Planned activities for the Yeneena Project for the upcoming year include:

- 1) Access discussions with the Western Desert Lands Aboriginal Corporation
- 2) Re-logging and assaying of gold exploration drill holes completed by Barrick
- 3) Interpretation of the airborne EM survey to be completed over the project area by Geoscience Australia as part of the Onshore Energy Security Program
- 4) Field reconnaissance

Summary of Tenements

| Lease | Lease Name | Project Name | Area Km ² | Registered Holders/Applicant | Encounter Interest |
|------------|-------------------|------------------|----------------------|------------------------------|-----------------------|
| E08/1578 | Pingandy Option | Bangemall Basin | 73.9 | Callum Baxter | Option to earn 100% |
| E08/1779 | Pingandy Creek | Bangemall Basin | 332.8 | Encounter Resources Limited | 80% |
| E09/1297 | Wanna | Bangemall Basin | 354.4 | Encounter Resources Limited | 80% |
| E52/1882 | Tchintaby | Bangemall Basin | 172.5 | Encounter Resources Limited | 80% |
| ELA08/1794 | Table Top | Bangemall Basin | 15.7 | Encounter Resources Limited | 100% |
| ELA52/1959 | Tchintaby South | Bangemall Basin | 589.1 | Encounter Resources Limited | 80% |
| ELA52/2031 | Waldburg Range | Bangemall Basin | 224 | Encounter Resources Limited | 80% |
| ELA52/2077 | Turkey Creek | Bangemall Basin | 191.1 | Encounter Resources Limited | 80% |
| ELA52/2089 | Grand Junction | Bangemall Basin | 360.8 | Encounter Resources Limited | 80% |
| ELA52/2126 | Statan | Bangemall Basin | 312.6 | Encounter Resources Limited | 100% |
| E09/1197 | Minneritchie Well | Gascoyne | 52.2 | Encounter Resources Limited | 80% |
| E09/1296 | Stone Tank Well | Gascoyne | 100.4 | Encounter Resources Limited | 80% |
| E53/1010 | Wiluna South | Lake Way Sth JV | 50.7 | Avoca Resources Ltd | 60% of Uranium Rights |
| E53/1232 | Wiluna South | Lake Way Sth JV | 66.8 | Avoca Resources Ltd | 60% of Uranium Rights |
| E29/577 | Lakeview | Leonora Regional | 126.4 | Encounter Resources Limited | 80% |
| E29/587 | McPherson's Bore | Leonora Regional | 123.4 | Encounter Resources Limited | 80% |
| E30/299 | Walling Rock | Leonora Regional | 62.8 | Encounter Resources Limited | 80% |
| E30/300 | Galah Rocks | Leonora Regional | 65.7 | Encounter Resources Limited | 80% |
| ELA29/674 | Perrinvale Nth | Leonora Regional | 78.5 | Encounter Resources Limited | 100% |
| ELA29/675 | Perrinvale Sth | Leonora Regional | 116 | Encounter Resources Limited | 100% |
| ELA37/877 | Lakeview East | Leonora Regional | 87.3 | Encounter Resources Limited | 80% |
| E51/1096 | Gidgee Bore | Meekatharra | 89.3 | Encounter Resources Limited | 80% |
| E51/1097 | Crossland Hill | Meekatharra | 30.8 | Encounter Resources Limited | 80% |
| E51/1127 | Hillview | Meekatharra | 202.1 | Encounter Resources Limited | 80% |
| E51/1137 | Yalgar | Meekatharra | 216.1 | Encounter Resources Limited | 80% |
| E37/830 | Lake Darlot | Melrose | 164 | Encounter Resources Limited | 80% |
| E38/1784 | Lake Irwin | Melrose | 109 | Encounter Resources Limited | 80% |
| E38/1786 | Throssell | Officer Basin | 63.2 | Encounter Resources Limited | 80% |
| E38/1787 | Lake Rason | Officer Basin | 123.5 | Encounter Resources Limited | 80% |
| E38/1969 | Buldya | Officer Basin | 88.6 | Encounter Resources Limited | 80% |
| ELA38/1790 | Lake Yeo 1 | Officer Basin | 194.1 | Encounter Resources Limited | 80% |
| ELA38/1791 | Lake Yeo 2 | Officer Basin | 212.3 | Encounter Resources Limited | 80% |
| ELA38/1792 | Lake Yeo 3 | Officer Basin | 133.4 | Encounter Resources Limited | 80% |
| E45/2500 | Yeneena | Paterson JV | 163.4 | Barrick Gold of Australia | earning 75% |
| E45/2501 | Yeneena | Paterson JV | 82.9 | Barrick Gold of Australia | earning 75% |
| E45/2502 | Yeneena | Paterson JV | 216.3 | Barrick Gold of Australia | earning 75% |
| E45/2503 | Yeneena | Paterson JV | 155.8 | Barrick Gold of Australia | earning 75% |
| E45/2561 | Yeneena | Paterson JV | 178 | Barrick Gold of Australia | earning 75% |
| E45/2657 | Yeneena | Paterson JV | 222.8 | Barrick Gold of Australia | earning 75% |
| E45/2658 | Yeneena | Paterson JV | 222.6 | Barrick Gold of Australia | earning 75% |
| ELA45/2805 | Yeneena | Paterson JV | 63.7 | Barrick Gold of Australia | earning 75% |
| ELA45/2806 | Yeneena | Paterson JV | 209.7 | Barrick Gold of Australia | earning 75% |
| E70/2956 | Talbot | SW Regional | 407.9 | Encounter Resources Limited | 80% |
| ELA70/2957 | Shackleton | SW Regional | 583 | Encounter Resources Limited | 80% |
| ELA70/2958 | Wongan Hills | SW Regional | 589.6 | Encounter Resources Limited | 80% |
| E53/1154 | Suprise Bore | Yeelirrie Nth | 44.1 | Encounter Resources Limited | 80% |
| E53/1155 | Rubble Bore | Yeelirrie Nth | 35.2 | Encounter Resources Limited | 80% |
| E53/1156 | Mt Merewether | Yeelirrie Nth | 70.4 | Encounter Resources Limited | 80% |
| E53/1157 | Limestone Well | Yeelirrie Nth | 9.8 | Encounter Resources Limited | 80% |
| E53/1158 | Bitter Bore | Yeelirrie Sth | 10.5 | Encounter Resources Limited | 80% |
| E36/540 | Easter Bore | Yeelirrie Sth | 201.1 | Encounter Resources Limited | 80% |
| E36/541 | Altona Bore | Yeelirrie Sth | 176 | Encounter Resources Limited | 80% |
| E36/542 | Black Tank Well | Yeelirrie Sth | 213.5 | Encounter Resources Limited | 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, the Board, resources available and 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.enr.com.au. In accordance with the recommendations of the ASX, information published on the Company's website includes:

- Board 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 2006/2007 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"). 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.

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.

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 four members, two non-executive and two executive.

The Non-Executive Directors are Mr Paul Chapman (Chairman) and Dr Jonathan Hronsky. 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.

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 one of the current non executive directors, Mr Chapman does not meet the recommended independence criteria, by virtue of his substantial shareholding in the Company.

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.

Only one of the four Directors' is 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. This Code addresses expectations for conduct in the following areas:

- 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 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.



Corporate Governance Statement (continued)

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 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.

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.enrl.com.au.

Corporate Governance Council Recommendation 7

Recognise and manage risk

Risk management

The Board's 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 2007.

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 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 Board meetings 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 bonuses.

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.

Directors' Report

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

Directors

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

Paul Chapman – B.Comm, ACA, Grad. Dip. Tax, CFTP(Snr), MAICD, SA Fin
Non-Executive Chairman appointed 7 October 2005

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

Will Robinson – B.Comm, MAusIMM

Managing Director (Executive) appointed 30 June 2004

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

Peter Bewick – B.Eng (Hons), MAusIMM

Exploration Director (Executive) appointed 7 October 2005

Mr Bewick is an experienced geologist and has held a number of senior mine and exploration geological roles during a fourteen year career with WMC. These roles include Exploration Manager and Geology Manager of the

Kambalda Nickel Operations, Exploration Manager for St Ives Gold Operation and Exploration Manager for WMC's Nickel Business Unit. Most recently he held the position of Exploration Manager for North America based in Denver, Colorado. Whilst at WMC, Mr Bewick gained extensive experience in project generation for a range of commodities including nickel, gold and bauxite. Mr Bewick has been associated with a number of brownfields exploration successes at Kambalda and with the greenfield Collurabie NI-CU-PGE discovery.

Jonathan Hronsky – BAppSci, PhD, MAusIMM, FSEG

Non-executive director appointed 10 May 2007

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

Company Secretary

Kevin Hart

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

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

Directors' Interests

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

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

Directors' Meetings

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

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

Principal Activities

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

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

Results of Operations

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

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

Dividends

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

Review of Activities

Exploration

Calcrete Uranium – Yilgarn/Gascoyne

Yeelirrie Channel

Drilling at Bellah Bore East defined an area of near surface uranium mineralisation approximately 500m by 150m and between 2m to 10m thick. Results include:

- 8m @ 215ppm U₃O₈ from surface including 2m @ 410ppm U₃O₈
- 10m @ 166ppm U₃O₈ from surface including 2m @ 410ppm U₃O₈
- 3m @ 781ppm U₃O₈ from 4m including 1m @ 2111ppm U₃O₈.

Lake Way South

The southern 1km of the 12km long uranium channel radiometric anomaly that crosses Lake Way was drill tested.

The results have extended the area of known uranium mineralisation at Nova Energy's Centipede uranium at least 150m into the Lake Way JV tenement. Results include:

- 1m @ 312ppm U₃O₈ from 5m
- 1m @ 224ppm U₃O₈ from 3m
- 1m @ 147ppm U₃O₈ from 8m

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

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

Regional Auger Geochemical Program

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

McPherson's Bore

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

- 1m @ 448ppm U₃O₈ from surface
- 1m @ 283ppm U₃O₈ from surface
- 1m @ 271ppm U₃O₈ from surface

Hillview

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

Stone Tank

Surface sampling of the 7km long zone of outcropping calcrete body has returned elevated uranium oxide values. Samples from three separate locations returned assay between 67 and 105ppm U₃O₈ and has identified visible uranium mineralisation at two of these locations.

Base Metals/Unconformity Uranium – Bangemall Basin

Pingandy Creek

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

Directors' Report (continued)

Review of Activities (continued)

Exploration (continued)

Tchintaby Well

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

Diamonds – Yilgarn

Lakeview Project

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

Financial Position

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

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

Significant Changes in the State of Affairs

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

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

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

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

Options Over Unissued Capital

Unlisted Options

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

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

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 |
| 250,000 (iii) | 52.5 cents | 7 December 2006 | 7 December 2011 |
| 50,000 (iv) | 57 cents | 6 July 2007 | 6 July 2012 |
| 50,000 (v) | 50 cents | 9 August 2007 | 9 August 2012 |

(i) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 23 March 2007.

(ii) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 15 May 2007.

(iii) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 7 December 2007.

(iv) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 6 July 2008.

(v) Unlisted options have a 12 month vesting period upon grant whereby option exercise can occur after 9 August 2008.

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

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

Matters Subsequent to the End of the Financial Year

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

Likely Developments and Expected Results of Operations

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

Environmental Regulation and Performance

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

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

Remuneration Report

Remuneration Policy

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

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

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

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

Details of Remuneration for Directors and Executive Officers

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

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

| 2007 | Base Emolument \$ | Superannuation Contributions \$ | Other Benefits \$ | Value of Options \$ | Total \$ |
|------------------------------------|-------------------------|---------------------------------------|-------------------------|---------------------------|----------------|
| <i>Directors</i> | | | | | |
| P. Chapman | 20,000 | 1,800 | — | — | 21,800 |
| W. Robinson | 188,750 | 16,988 | — | — | 205,738 |
| P. Bewick | 170,833 | 15,375 | — | — | 186,208 |
| J. Hronsky (appointed 10 May 2007) | 5,591 | 503 | — | — | 6,094 |
| Total | 385,174 | 34,666 | — | — | 419,840 |
| 2006 | | | | | |
| P. Chapman | 3,922 | 2,006 | — | — | 5,928 |
| W. Robinson | 74,559 | 6,710 | — | — | 81,269 |
| P. Bewick | 96,616 | 8,695 | — | — | 105,311 |
| Total | 175,097 | 17,411 | — | — | 192,508 |

Executive Employment Agreements

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

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

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

Directors' Report (continued)

Unlisted Options

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

Officer's Indemnities and Insurance

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

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

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

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

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

Corporate Governance

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

Non-audit Services

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

Total remuneration paid to auditors during the financial year:

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

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

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act is set out on page 29.

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

DATED at Perth this 17th day of September 2007.



W Robinson
Director

AUDITOR'S INDEPENDENCE DECLARATION

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

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP



SEAN MCGURK
Principal

Perth, WA

Dated this 17th day of September 2007

Total Financial Solutions



*Horwath refers to Horwath International Association, a Swiss Verein.
Each member of the Association is a separate and independent legal entity.*

Member Horwath International

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A WHK Group firm

Income Statement

For the financial year ended 30 June 2007

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

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

Balance Sheet

As at 30 June 2007

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

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

Statement of Changes in Equity

For the financial year ended 30 June 2007

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

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

Cash Flow Statement

For the financial year ended 30 June 2007

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

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



Notes to the Financial Statements

For the financial year ended 30 June 2007

Note 1 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Compliance with IFRS

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

Early adoption of standards

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

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

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

Reporting basis and conventions

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

Critical accounting estimates

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

(b) Segment reporting

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

(c) Revenue recognition and receivables

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

Interest income

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



Note 1 Summary of significant accounting policies (continued)

(d) Income tax

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

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

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

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

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

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

(e) Leases

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

(f) Impairment of assets

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

(g) Cash and cash equivalents

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

(h) Fair value estimation

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



Notes to the Financial Statements (continued)

For the financial year ended 30 June 2007

Note 1 Summary of significant accounting policies (continued)

(i) Property, plant and equipment

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

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

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

| | |
|------------------|-------|
| Field equipment | 33.3% |
| Office equipment | 33.3% |

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

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

(j) Mineral exploration and evaluation expenditure

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

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

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

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

(k) Joint ventures

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

(l) Trade and other payables

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



Note 1 Summary of significant accounting policies (continued)

(m) Employee benefits

Wages, salaries and annual leave

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

Long service leave

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

Share based payments

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

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

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

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

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

(n) Issued capital

Ordinary shares are classified as equity.

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

(o) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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



Notes to the Financial Statements (continued)

For the financial year ended 30 June 2007

Note 1 Summary of significant accounting policies (continued)

(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

Recognition

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

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

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.

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.

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.

Financial liabilities

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



Note 2 Financial risk management

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

(a) Market risk

Currently the Company is not exposed to any significant market risk.

(b) Credit risk

The Company currently has no significant concentrations of credit risk.

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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

Note 3 Critical accounting estimates and judgements

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

Accounting for capitalised exploration and evaluation expenditure

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

Note 4 Segment information

Business segments

The Company is involved in the mineral exploration sector.

Geographical segments

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

Notes to the Financial Statements (continued)

For the financial year ended 30 June 2007

Note 5 Revenue

Operating activities

Interest receivable – other persons

| | 2007 \$ | 2006 \$ |
|-------------------------------------|------------|------------|
| Interest receivable – other persons | 275,313 | 90,131 |

Note 6 Loss for the year

Loss before income tax includes the following specific expenses:

Depreciation

Office equipment
Rental expenses on operating leases – minimum lease payments
Exploration expenditure written off and expensed

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

Note 7 Income tax

a) Income tax expense

Current income tax

Current income tax charge (benefit)

Current income tax not recognised

| | | |
|-------------------------------------|-----------|-----------|
| Current income tax charge (benefit) | (373,740) | (326,410) |
| Current income tax not recognised | 373,740 | 326,410 |

Deferred income tax:

Relating to origination and reversal of timing differences

Deferred income tax benefit not recognised

| | | |
|--|-----------|-----------|
| Relating to origination and reversal of timing differences | (222,093) | (151,644) |
| Deferred income tax benefit not recognised | 222,093 | 151,644 |

Income tax expense reported in the income statement

| | | |
|---|---|---|
| Income tax expense reported in the income statement | – | – |
|---|---|---|

b) Reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense

| | | |
|---|-----------|-----------|
| Loss from continuing operations before income tax expense | (592,664) | (346,270) |
|---|-----------|-----------|

Tax at the Australian rate of 30% (2006 – 30%)

| | | |
|--|-----------|-----------|
| Tax at the Australian rate of 30% (2006 – 30%) | (177,799) | (103,881) |
|--|-----------|-----------|

Tax effect of permanent differences:

Non-deductible share based payment

Non-deductible entertainment

Net deferred tax asset benefit not brought to account

| | | |
|---|---------|---------|
| Non-deductible share based payment | 13,888 | 788 |
| Non-deductible entertainment | 625 | 381 |
| Net deferred tax asset benefit not brought to account | 163,286 | 102,712 |

Tax (benefit)/expense

| | | |
|-----------------------|---|---|
| Tax (benefit)/expense | – | – |
|-----------------------|---|---|

Note 7 Income tax (continued)

c) Deferred tax – Balance Sheet

Liabilities

| | | |
|-------------------------------------|----------------|----------------|
| Accrued income | 5,401 | 7,563 |
| Prepaid expenses | 44,768 | 95,953 |
| Capitalised exploration expenditure | 291,182 | 75,247 |
| | 341,351 | 178,763 |

Assets

| | | |
|--|----------------|----------------|
| Revenue losses available to offset against future taxable income | 700,149 | 326,410 |
| Employee provisions | 11,940 | 3,997 |
| Accrued expenses | 3,000 | – |
| Deductible equity raising costs | 106,742 | 107,435 |
| | 821,831 | 437,842 |

Net deferred tax asset/(liability)

| | | |
|--|----------------|----------------|
| | 480,480 | 259,079 |
|--|----------------|----------------|

d) Deferred tax – Income Statement

Liabilities

| | | |
|-------------------------------------|-----------|----------|
| Accrued income | 2,162 | (7,563) |
| Prepaid expenses | 51,185 | (95,953) |
| Capitalised exploration expenditure | (215,936) | (75,247) |

Assets

| | | |
|--|---------|---------|
| Accruals | 3,000 | – |
| Increase in tax losses carried forward | 373,739 | 326,410 |
| Employee provisions | 7,943 | 3,997 |

Deferred tax benefit/(expense) not recognised

| | | |
|--|----------------|----------------|
| | 222,093 | 151,644 |
|--|----------------|----------------|

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

- (i) The Company derives future assessable income of a nature and an amount sufficient to enable the benefit from the tax losses to be realised;
- (ii) The Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) No changes in tax legislation adversely affect the Company realising the benefit from the deduction of the losses.

All unused tax losses were incurred by Australian entities.

Notes to the Financial Statements (continued)

For the financial year ended 30 June 2007

Note 8 Current assets – Cash and cash equivalents

Cash at bank and on hand
Deposits at call

| 2007 \$ | 2006 \$ |
|------------|------------|
| 8,721 | 87,255 |
| 6,766,424 | 4,121,978 |
| 6,775,145 | 4,209,233 |

a) Reconciliation to cash at the end of the year

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

Cash and cash equivalents

| | |
|-----------|-----------|
| 6,775,145 | 4,209,233 |
|-----------|-----------|

b) Cash at bank and on hand

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

c) Deposits at call

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

Note 9 Current assets – Receivables

Trade receivables
Accrued interest
Recoverable joint venture expenses
GST recoverable

| | |
|---------|--------|
| 17,273 | – |
| 18,002 | 25,210 |
| 93,263 | – |
| 13,586 | 31,068 |
| 142,123 | 56,278 |

b) Other current assets

Prepaid tenement costs
Prepaid insurance
Prepaid corporate advisory expenses

| | |
|---------|---------|
| 141,541 | 219,022 |
| 7,685 | 10,820 |
| – | 90,000 |
| 149,226 | 319,842 |

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

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

Field equipment

| | 2007 \$ | 2006 \$ |
|--------------------------|---------------|---------------|
| At cost | 104,491 | 69,702 |
| Accumulated depreciation | (31,057) | – |
| | 73,434 | 69,702 |

Office equipment

| | | |
|--------------------------|---------------|---------------|
| At cost | 27,748 | 23,766 |
| Accumulated depreciation | (8,864) | (1,335) |
| | 18,884 | 22,431 |
| | 92,318 | 92,133 |

Reconciliation

Field equipment

| | | |
|-------------------------------------|---------------|---------------|
| Net book value at start of the year | 69,702 | – |
| Additions | 34,789 | 69,702 |
| Depreciation | (31,057) | – |
| Net book value at end of the year | 73,434 | 69,702 |

Office equipment

| | | |
|-------------------------------------|---------------|---------------|
| Net book value at start of the year | 22,431 | – |
| Additions | 3,982 | 23,766 |
| Depreciation | (7,529) | (1,335) |
| Net book value at end of the year | 18,884 | 22,431 |

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

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

In the exploration and evaluation phase

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

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

Notes to the Financial Statements (continued)

For the financial year ended 30 June 2007

Note 12 Interest in joint ventures

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

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

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

(ii) Uranium Regional Joint Venture

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

Note 13 Current liabilities – Trade and other payables

a) Trade and other payables

| | | |
|-----------------------------|--------|--------|
| Trade payables and accruals | 41,252 | 46,568 |
| Other payables | 15,964 | 30,998 |
| | 57,216 | 77,566 |

b) Employee benefits

| | | |
|----------------------------|--------|--------|
| Liability for annual leave | 39,800 | 13,323 |
|----------------------------|--------|--------|

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

Note 14 Issued capital

a) Ordinary shares

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

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

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

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

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

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

d) Option plan

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

Note 15 Option Plan

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

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

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

Notes to the Financial Statements (continued)

For the financial year ended 30 June 2007

Note 15 Option Plan (continued)

a) Options issued during the year

During the financial year the Company granted the following unlisted options over unissued shares:

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

During the year no options were exercised.

b) Options on issue at the balance date

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

The terms of these options are as follows:

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

c) Subsequent to the balance date

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

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

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

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

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

Basis and assumptions used in the valuation of options

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

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

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

Note 16 Reserves and accumulated losses

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

(i) Equity remuneration reserve

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

Note 17 Financial instruments

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

| | Weighted average effective interest % | Funds available at fixed interest rates within one year \$ | Funds available at floating interest rate \$ | Assets/(liabilities) non interest bearing \$ | Total \$ |
|---|---------------------------------------|---|---|---|-------------|
| 2007 | | | | | |
| <i>Financial assets</i> | | | | | |
| Cash and cash equivalents | 6.34% | 6,766,424 | 8,721 | – | 6,775,145 |
| Trade and other receivables | 0.81% | 18,002 | – | 124,122 | 142,124 |
| <i>Total financial assets</i> | | 6,784,426 | 8,721 | 124,122 | 6,917,269 |
| <i>Financial liabilities</i> | | | | | |
| Trade and other payables | – | – | – | (97,016) | (97,016) |
| <i>Total financial liabilities</i> | | – | – | (97,016) | (97,016) |
| <i>Net financial assets/(liabilities)</i> | | 6,784,426 | 8,721 | 27,106 | 6,820,253 |
| 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 |
| <i>Total financial assets</i> | | – | 4,234,443 | 31,068 | 4,265,511 |
| <i>Financial liabilities</i> | | | | | |
| Trade and other payables | | – | – | (90,889) | (90,889) |
| <i>Total financial liabilities</i> | | – | – | (90,889) | (90,889) |
| <i>Net financial assets/(liabilities)</i> | | – | 4,234,443 | (59,821) | 4,174,622 |

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

Notes to the Financial Statements (continued)

For the financial year ended 30 June 2007

Note 18 Dividends

No dividends were paid or proposed during the financial year.

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

Note 19 Key management personnel disclosures

(a) Directors

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

(i) Chairman – non-executive

Paul Chapman

(ii) Executive directors

Will Robinson, Managing Director

Peter Bewick, Exploration Director

(iii) Non-executive directors

Jonathan Hronsky, Director

(appointed 10 May 2007)

(b) Other key management personnel

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

(c) Key management personnel compensation

Remuneration Policy

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

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

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

Details of Remuneration for Key Management Personnel

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

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

| | Short Term | Post Employment | | | |
|-------------|------------|-----------------|----------|----------|---------|
| | Base | Superannuation | Other | Value of | Total |
| | Emolument | Contributions | Benefits | Options | |
| | \$ | \$ | \$ | \$ | \$ |
| 2007 | | | | | |
| Directors | | | | | |
| P Chapman | 20,000 | 1,800 | – | – | 21,800 |
| W Robinson | 188,750 | 16,988 | – | – | 205,738 |
| P Bewick | 170,833 | 15,375 | – | – | 186,208 |
| J Hronsky | 5,591 | 503 | – | – | 6,094 |
| Total | 385,174 | 34,666 | – | – | 419,840 |
| 2006 | | | | | |
| P Chapman | 3,922 | 2,006 | – | – | 5,928 |
| W Robinson | 74,559 | 6,710 | – | – | 81,269 |
| P Bewick | 96,616 | 8,695 | – | – | 105,311 |
| Total | 175,097 | 17,411 | – | – | 192,508 |

Note 19 Key management personnel disclosures (continued)

(c) Key management personnel compensation (continued)

Executive Employment Agreements

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

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

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

d) Equity instrument disclosures relating to key management personnel

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

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

Option holdings

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

Share holdings

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

2007

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

2006

| | | | | |
|-------------|---|---|------------|------------|
| P. Chapman | — | — | 4,710,000 | 4,710,000 |
| W. Robinson | 1 | — | 21,796,899 | 21,796,900 |
| P. Bewick | — | — | 4,700,000 | 4,700,000 |

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

e) Loans made to key management personnel

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

f) Other transactions with key management personnel

There were no other transactions with key management personnel.

Notes to the Financial Statements (continued)

For the financial year ended 30 June 2007

Note 20 Remuneration of auditors

Audit and review of the Company's financial statements
Taxation services
Independent Accountants Report

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

Note 21 Contingencies

(i) Contingent liabilities

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

Native Title and Aboriginal Heritage

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

(ii) Contingent assets

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

Note 22 Commitments

(a) Exploration

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

(b) Operating Lease Commitments

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

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

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

(c) Contractual Commitment

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



Note 23 Related party transactions

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

Note 24 Interests in joint ventures

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

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

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

Joint Venture and Exploration Agreement

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

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

Lake Way Uranium Joint Venture

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

Note 25 Events occurring after the balance sheet date

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

Notes to the Financial Statements (continued)

For the financial year ended 30 June 2007

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

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

Note 27 Earnings per share

a) Basic earnings per share

| | | |
|---|-------|-------|
| Loss attributable to ordinary equity holders of the Company | (1.0) | (1.1) |
|---|-------|-------|

b) Diluted earnings per share

| | | |
|---|-------|-------|
| Loss attributable to ordinary equity holders of the Company | (1.0) | (1.1) |
|---|-------|-------|

c) Loss used in calculation of basic and diluted loss per share

| | | |
|---|-----------|-----------|
| Loss after tax from continuing operations | (592,664) | (342,270) |
|---|-----------|-----------|

d) Weighted average number of shares used as the denominator

| | | |
|--|------------|------------|
| Weighted average number of shares used as the denominator in calculating basic and dilutive loss per share | No. | No. |
| | 62,046,763 | 30,648,129 |

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

Note 28 Subsidiary Information

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

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

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

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

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



Directors' Declaration

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

- (a) the financial statements and notes set out on pages 34 to 52 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the Company.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

Signed at Perth this 17th day of September 2007.



W Robinson
Director

INDEPENDENT AUDIT REPORT TO MEMBERS OF ENCOUNTER RESOURCES LIMITED

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

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

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

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

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

Independence

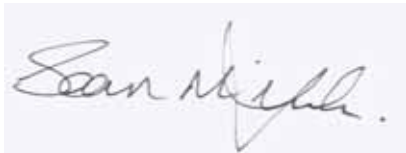
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Encounter Resources Limited on 17 September 2007, would be in the same terms if provided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

Auditor's Opinion

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

- a) i. giving a true and fair view of the company's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

WHK HORWATH PERTH AUDIT PARTNERSHIP



SEAN MCGURK
Principal

Perth, WA

Dated this 17th day of September 2007

Total Financial Solutions



*Horwath refers to Horwath International Association, a Swiss Verein.
Each member of the Association is a separate and independent legal entity.*

Member Horwath International

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A WHK Group firm

ASX Additional Information

Pursuant to the Listing Requirements of the Australian Stock Exchange Limited, the shareholder information set out below was applicable as at 28 September 2007.

A. Distribution of Equity Securities

Analysis of numbers of shareholders by size of holding:

| Distribution | Number of shareholders |
|-------------------|------------------------|
| 1- 1,000 | 88 |
| 1,001- 5,000 | 371 |
| 5,001- 10,000 | 296 |
| 10,001-100,000 | 378 |
| More than 100,000 | 38 |
| Totals | 1,171 |

There were 46 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 | 23.64% |
| Jacmew Pty Ltd | 5,580,000 | 8.13% |
| UBS Nominees Pty Ltd and related bodies corporate | 5,388,074 | 7.85% |
| Stone Poneys Nominees Pty Ltd | 4,650,000 | 6.77% |
| Solvista Pty Ltd | 4,650,000 | 6.77% |
| Eye Investment Fund Limited | 3,465,776 | 5.05% |

C. Restricted Securities

There are 29,496,900 restricted ordinary shares that are held in escrow until 24 March 2008.

ASX Additional Information (continued)

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 | 23.64% |
| Citicorp Nominees Pty Ltd | 5,710,810 | 8.33% |
| Jacmew Pty Ltd | 5,580,000 | 8.13% |
| Stone Poneys Nominees Pty Ltd | 4,650,000 | 6.77% |
| Solvista Pty Ltd | 4,650,000 | 6.77% |
| HSBC Custody Nominees Australia Ltd | 3,958,188 | 5.77% |
| National Nominees Limited | 2,643,000 | 3.85% |
| Jorge Bernhard | 1,773,300 | 2.59% |
| HSBC Custody Nominees Australia Ltd | 1,630,079 | 2.38% |
| Charles Arthur Bennett Robinson | 825,000 | 1.20% |
| Domain Investment Holdings Pty Ltd | 750,000 | 1.09% |
| HSBC Custody Nominees Australia Ltd | 700,000 | 1.02% |
| ANZ Nominees Ltd | 633,000 | 0.92% |
| Forty Traders Ltd | 550,000 | 0.80% |
| Pieter Los | 500,000 | 0.73% |
| HSBC Custody Nominees Australia Ltd | 400,000 | 0.58% |
| Bruce Birnie Pty Ltd | 300,000 | 0.44% |
| Palir Pty Ltd | 300,000 | 0.44% |
| Eric Roles | 300,000 | 0.44% |
| Andrew Ralph Bewick | 250,000 | 0.36% |
| Total | 52,320,277 | 76.25 |

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.

Australia's major trading partners generate significant electricity from nuclear power (Japan 30%, USA and UK 20%)

China is planning a fivefold increase in nuclear power capacity by 2020.

Nuclear power generation currently avoids more than 2 billion tonnes annually of CO2 emissions that would otherwise be produced from fossil fuels

Australia has around 40% of the world's low-cost uranium resources.

Australia has the opportunity to contribute significantly to world climate change responses by supplying natural uranium from an expanded and more diversified mining base.



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