

EAGLE BAY

RESOURCES N. L.



A.B.N. 14 051 212 429

**FINANCIAL REPORT
FOR THE HALF-YEAR
ENDED 31 DECEMBER 2006**

DIRECTORS Anthony Rechner
James B Craib
John T Roy

SECRETARY Linda Bell

REGISTERED OFFICE 1st Floor, 610 Murray Street, West Perth
Western Australia 6005
Telephone: (08) 9481 3322
Facsimile: (08) 9481 3330
Email: ebr@eaglebayresources.com.au
Web: www.eaglebayresources.com.au
Postal Address:
PO Box 913, West Perth
Western Australia 6872

ACN 051 212 429

AUDITORS Stantons International
Level 1
1 Havelock Street West Perth
Western Australia 6005

BANKERS ANZ Bank
1275 Hay Street, West Perth
Western Australia 6005

STOCK EXCHANGE The Company's shares are quoted on the official list
at the Australian Stock Exchange Ltd, ASX Code EBR

SHARE REGISTRY Advanced Share Registry
110 Stirling Highway
Nedlands WA 6009
Telephone (08) 9389 8033

SOLICITORS Salter Power
Level 2, 6 Kings Park Road, West Perth
Western Australia

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Directors' Report

The directors hereby present the following report for the half-year ended 31 December 2006.

The names of the directors who held office during or since the end of the half-year are:

ANTHONY RECHNER
JAMES BENTON CRAIB
JOHN THOMAS ROY

The consolidated entity, the Company (EBR) and its subsidiaries are actively engaged in exploration.

REVIEW OF OPERATIONS

1. OIL AND GAS EXPLORATION

1.1 VICP47 – EBR 25% GIPPSLAND BASIN OFFSHORE VICTORIA

Vic/P47 contains the 1989 Shell Judith-1 Emperor Subgroup gas discovery. Judith-1 was evaluated with a full suite of wireline logs, a velocity survey, and 35 formation pressure tests in Emperor gas sands between 2300m and total depth of 2958m. Judith-1 petrophysical analysis indicates a number of potential gas columns, some with permeabilities indicating good reservoir potential. Judith has also been remapped using modern 3-D seismic data. The commercial potential of Judith is being evaluated in a scoping study the first draft of which is due early March 2007.

1.2 VIC/P41 - EBR 25% (Diluting to 17.5% Free Carried) GIPPSLAND BASIN OFFSHORE VICTORIA

The 500km² 3D seismic using the Western Trident has been completed by the operator pursuant to their earning requirements in the permit. A status report on processing and interpretation has been received. Final interpretation is complete and a direct hydrocarbon indicator (DHI) – amplitude versus offset study has been reviewed by the Joint Venture partners. The operator continues to pursue farminees.

1.3 PEL-182 - EBR 37.6% AND OPERATOR ONSHORE PETROLEUM EXPLORATION – COOPER BASIN, S.A

The operator has secured an option over Century Rig 3 to drill after the last three wells scheduled by Beach Petroleum for this rig. This may be late February 2007 depending on weather, breakdowns and any discoveries. Please refer to the September 2006 quarterly report for further details in relation to this tenement.

2. NICKEL EXPLORATION CARR BOYD JOINT VENTURE - EL 39/491 & EL 39/492 EBR 70% AND DILUTING

A Geochemistry review has been received which defined 5 targets. Further geochemistry is planned.

**3. ULEY GRAPHITE MINE - EBR 100% and diluting to 25% free carried
PORT LINCOLN, SA**

History of Company's Graphite Mine

The Uley Graphite project contains a world class resource of high grade flake graphite. Uley is located 23km from Port Lincoln and is well served by existing infrastructure including an established deep water port. Some \$14 million has been spent on mining and the processing plant. Three farm in offers were being negotiated and our wholly owned subsidiary Eagle Bay Graphite Pty Ltd is being corporately reviewed.

The Current Position

On 7 October 2006 EBR entered into a non binding memorandum of understanding (MOU) with a private venture capital company which is expected to begin its diligence work shortly.

**4. URANIUM / COPPER / GOLD EXPLORATION
SOUTH AUSTRALIA**

**4.1 CULTANA JOINT VENTURE EL 3547 (formerly ELA 105/2000)
EBR 75%, Minotaur 25%**

Minotaur had agreed to operate the first phase drilling over the Falcon™ defined targets. Access negotiations made little progress and have recently recommenced under a new formal Exploration Licence. The application has been made to test a number of Falcon gravity anomalies.

**4.2 MYALL CREEK JOINT VENTURE EL 3538 (formerly EL 2800)
EBR 50%, Minotaur 50%**

Trial electrical geophysical surveys at the Myall Creek copper prospect, discovered in 1975 by Australian Selection Pty Ltd, were able to delineate mineralization recorded in historic drilling. Additional electrical geophysics have been undertaken to map key features in the subsurface. A potential farminee is currently reviewing the project and some \$75,000 of State Government fund has been attracted on the basis of the project's geology. Drilling is planned.

RESULTS OF OPERATIONS

The consolidated entity incurred an after tax operating profit for the half year ended 31 December 2006 of \$137,169 (half year ended 31 December 2005 loss of \$1,450,869).

EVENTS SUBSEQUENT TO REPORTING DATE

On 16 January 2006, the company announced a pro rata 1:4 issue of 57,644,500 shares and free attaching options (EBROA) to raise \$3,458,670 underwritten by KEFU Underwriters P/L. The options are to convert to shares on payment of 15c on and before 30 June 2009. The prospectus will be lodged with the ASX and ASIC and sent to all shareholders registered at the Record Date.

Apart from the above, there have not been any matters that have arisen since the end of the half-year that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of the affairs of the consolidated entity in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 20.

Signed in accordance with a resolution of the directors

A handwritten signature in cursive script, appearing to read "A Rechner".

Anthony Rechner
Director

West Perth, Western Australia
24 January 2007

Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

| | Notes | CONSOLIDATED | |
|---|-------|-----------------------|---------------------------|
| | | 2006 \$ | 2005 \$ |
| Continuing operations | | | |
| Revenue | 3 | 896,929 | 165,469 |
| Other expenses | 3 | <u>(759,760)</u> | <u>(1,616,338)</u> |
| Profit/(loss) from continuing operations before income tax | | 137,169 | (1,450,869) |
| Income tax expense | 5 | <u>-</u> | <u>-</u> |
| Profit/(loss) after tax from continuing operations attributable to members | | <u>137,169</u> | <u>(1,450,869)</u> |
| Earnings per share (cents per share) | | | |
| - basic for loss for the half-year | 4 | 0.06 cents | (0.64) cents |
| - dividends paid per share | | Nil | Nil |

Diluted earnings per share does not represent an inferior view of the economic entity's performance and is not disclosed for this reason.

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

Condensed Balance Sheet

AS AT 31 DECEMBER 2006

| | Notes | CONSOLIDATED | |
|----------------------------------|-------|---------------------------------|-----------------------------|
| | | As at 31 December 2006 \$ | As at 30 June 2006 \$ |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 10 | 4,437,331 | 4,191,565 |
| Trade and other receivables | | 4,125 | 221,285 |
| Total Current Assets | | 4,441,456 | 4,412,850 |
| Non-current Assets | | | |
| Property, plant and equipment | | 139,883 | 150,000 |
| Financial assets | | 162,888 | 25,833 |
| Other | | 25,649 | - |
| Total Non Current Assets | | 328,420 | 175,833 |
| TOTAL ASSETS | | 4,769,876 | 4,588,683 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | | 169,201 | 125,978 |
| Provisions | | 558,000 | 558,000 |
| Total Current Liabilities | | 727,201 | 683,978 |
| TOTAL LIABILITIES | | 727,201 | 683,978 |
| NET ASSETS | | 4,042,675 | 3,904,705 |
| EQUITY | | | |
| Contributed equity | 6 | 23,000,633 | 23,000,632 |
| Accumulated losses | | (19,222,458) | (19,359,627) |
| Other reserves | | 264,500 | 263,700 |
| TOTAL EQUITY | | 4,042,675 | 3,904,705 |

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

Condensed Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

| | <i>Notes</i> | <i>CONSOLIDATED</i> | |
|--|--------------|-------------------------|-------------------------|
| | | <i>2006</i> | <i>2005</i> |
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Payments to suppliers and employees | | (859,715) | (2,450,449) |
| Bank guarantee | | (25,649) | - |
| Joint venture income received | | 460,000 | - |
| Management fees received | | 295,615 | - |
| Interest received | | 113,291 | 165,269 |
| Sundry income received | | 1,938 | - |
| Net cash flows used in operating activities | | <u>(14,520)</u> | <u>(2,285,180)</u> |
| Cash flows from investing activities | | | |
| Purchases of shares | | (110,170) | - |
| Loans repaid | | 377,446 | - |
| Payments for plant and equipment | | (6,990) | (14,457) |
| Net cash flows (used in)/from investing activities | | <u>260,286</u> | <u>(14,457)</u> |
| Cash flows from financing activities | | | |
| Proceeds from share issues | | - | 6,240 |
| Net cash flows from financing activities | | <u>-</u> | <u>6,240</u> |
| Net (decrease)/increase in cash and cash equivalents held | | 245,766 | (2,293,397) |
| Cash and cash equivalents at beginning of the half year | | <u>4,191,565</u> | <u>6,772,607</u> |
| Cash and cash equivalents at end of the half year | | <u><u>4,437,331</u></u> | <u><u>4,479,210</u></u> |

The accompanying notes form part of these financial statements.

Condensed Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

| <i>31 December 2006</i> | Issued capital | Accumulated losses | Other reserves | Total equity |
|---|-------------------|---------------------|----------------|------------------|
| CONSOLIDATED | \$ | \$ | \$ | \$ |
| At 1 July 2006 | 23,000,633 | (19,359,627) | 263,700 | 3,904,705 |
| Net gains on available for sale investments | - | - | 800 | 800 |
| Profit/(loss) for the period | - | 137,169 | - | 137,169 |
| At 31 December 2006 | 23,000,633 | (19,222,458) | 264,500 | 4,042,675 |

| <i>31 December 2005</i> | Issued capital | Accumulated losses | Other reserves | Total equity |
|-------------------------------------|-------------------|---------------------|----------------|------------------|
| CONSOLIDATED | \$ | \$ | \$ | \$ |
| At 1 July 2005 | 22,662,421 | (16,758,425) | 144,000 | 6,047,996 |
| Profit/(loss) for the period | - | (1,450,869) | - | (1,450,869) |
| Total income/expense for the period | 22,662,421 | (18,209,294) | 144,000 | 4,597,127 |
| Exercise of options | 6,240 | - | - | 6,240 |
| At 31 December 2005 | 22,668,661 | (18,209,294) | 144,000 | 4,603,367 |

Condensed Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1. CORPORATE INFORMATION

The financial report of Eagle Bay Resources NL (the Company) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 24 January 2006. Eagle Bay Resources NL is an unlimited company incorporated in Australia and its shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in note 7 and the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Eagle Bay Resources as at 30 June 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by Eagle Bay Resources and its controlled entities during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of Accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

Condensed Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(c) Summary of significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006.

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of Eagle Bay Resources and its subsidiaries ('the Group') as at 31 December 2006.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Eagle Bay Resources has control.

(ii) Interest in joint venture operation

The Group's investment in its joint venture operation is accounted for by writing off its contributions to exploration expenditure in the income statement.

(iii) Exploration expenditure

Exploration, evaluation and relevant acquisition costs are accumulated separately for each area of interest. They comprise acquisition costs, direct exploration and evaluation costs and an appropriate portion of related overhead expenditure. They do not include general overhead or administrative expenditure not having a specific nexus with a particular area of interest.

Costs of this nature are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
- ii) exploration and evaluation activities in the area have not at balance date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

Exploration and evaluation expenditure which does not satisfy this criteria is written off.

Ultimate recoupment of capitalised expenditure in respect of areas in the exploration and/or evaluation stage is dependent upon successful development and commercial exploitation or alternatively sale, of the respective areas.

Once a decision has been taken to proceed with mine development, all past and future exploration expenditure in respect of that area of interest is aggregated and reclassified as Mine Properties.

Condensed Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(iv) Mine Properties

Mine properties represent the accumulation of all exploration, evaluation, and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which a decision to commence mining of a mineral resource has been taken.

Where further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property, only when substantial economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

The net carrying value of each mine property is reviewed regularly and, to the extent to which this value exceeds its recoverable amount that excess is fully provided against in the financial year in which this is determined. The expected net cash flows included in determining recoverable amount are discounted to their present value.

(v) Foreign currency translation

Both the functional and presentation currency of Eagle Bay and its Australian subsidiaries is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

(vi) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – over 3 to 10 years

(vii) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an