



Interim Consolidated Financial Report

**For The Half-Year Ended
31 December 2009**

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Encounter Resources Limited
ABN 47 109 815 796

Directors' Report

The Directors present their interim consolidated report of Encounter Resources Limited and its controlled entity for the half-year ended 31 December 2009.

Directors

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

| | |
|------------------|---------------------------------|
| Paul Chapman | <i>(Non-Executive Chairman)</i> |
| Will Robinson | <i>(Managing Director)</i> |
| Peter Bewick | <i>(Exploration Director)</i> |
| Jonathan Hronsky | <i>(Non-Executive Director)</i> |

Company Secretary

| | |
|----------------|----------------------------------|
| Kevin Hart | |
| Daniel Travers | <i>(Joint Company Secretary)</i> |

Review of Operations

The consolidated net loss after income tax for the half-year was \$790,768 (31 December 2008: \$841,387).

Included in the loss for the current half-year is expensed deferred exploration expenditure totalling \$606,761 (31 December 2008: \$373,543).

At the end of the half-year the Group had \$4,146,828 (30 June 2009: \$2,278,318) in cash and at call deposits. Capitalised mineral exploration and evaluation expenditure is \$4,205,258 (30 June 2009: \$3,716,716).

Expenditure was principally focused on exploration for base metals, uranium, manganese and gold exploration in Western Australia.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act is set out on page 4.

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

DATED at Perth this 8th day of March 2010.



W Robinson
Managing Director

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Encounter Resources Limited for the half-year ended 31 December 2009, I declare that, to the best of my knowledge and belief, there have been:

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

WHK HORWATH PERTH AUDIT PARTNERSHIP

Nicholas Hollens

NICHOLAS HOLLENS
Principal

Perth, WA

Dated this 8th day of March 2010

Encounter Resources Limited
ABN 47 109 815 796

Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2009

| | | Consolidated | |
|--|------|------------------------------|------------------------------|
| | | 31 December 2009 \$ | 31 December 2008 \$ |
| Continuing operations | Note | | |
| Other income | | 120,250 | - |
| Interest income | | 65,530 | 128,617 |
| Total revenue | | 185,780 | 128,617 |
| Employee expenses | | (437,234) | (603,027) |
| Employee expenses recharged to exploration | | 326,971 | 368,770 |
| Equity based remuneration expense | | (37,465) | (175,902) |
| Operating lease expenses | | (24,125) | (22,809) |
| Depreciation expense | | (9,066) | (10,049) |
| Corporate expenses | | (72,743) | (70,195) |
| Administration and other expenses | | (116,808) | (107,258) |
| Joint venture administration costs recharged | | 137 | 24,009 |
| Exploration costs written off and expensed | | (606,761) | (373,543) |
| Loss before income tax | 3 | (791,314) | (841,387) |
| Income tax expense | | 546 | - |
| Loss for the half-year | | (790,768) | (841,387) |
| Other comprehensive Income | | - | - |
| Total comprehensive income for the period | | (790,768) | (841,387) |
| Loss per share from continuing operations | | | |
| Basic loss per share (cents) | | (1.1) | (1.2) |
| Diluted loss per share (cents) | | (1.1) | (1.2) |
| Loss per share | | | |
| Basic loss per share (cents) | | (1.1) | (1.2) |
| Diluted loss per share (cents) | | (1.1) | (1.2) |

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

Encounter Resources Limited
ABN 47 109 815 796

Consolidated Statement of Financial Position
As At 31 December 2009

| | Consolidated | |
|--|---------------------|-------------|
| | 31 | 30 |
| | December | June |
| | 2009 | 2009 |
| | \$ | \$ |
| Current assets | | |
| Cash and cash equivalents | 4,146,828 | 2,278,318 |
| Trade and other receivables | 162,726 | 160,314 |
| Other current assets | 79,570 | 43,586 |
| Total current assets | 4,389,124 | 2,482,278 |
| Non-current assets | | |
| Property, plant and equipment | 185,289 | 220,907 |
| Capitalised mineral exploration and evaluation expenditure | 4,205,258 | 3,716,716 |
| Total non-current assets | 4,390,547 | 3,937,623 |
| Total assets | 8,779,671 | 6,419,901 |
| Current liabilities | | |
| Trade and other payables | 161,915 | 322,422 |
| Employee benefits | 46,758 | 46,585 |
| Total current liabilities | 208,673 | 369,007 |
| Total liabilities | 208,673 | 369,007 |
| Net assets | 8,570,998 | 6,050,894 |
| Equity | | |
| Issued capital | 12,716,736 | 9,443,330 |
| Accumulated losses | (4,614,655) | (3,823,888) |
| Equity remuneration reserve | 468,917 | 431,452 |
| Total equity | 8,570,998 | 6,050,894 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Encounter Resources Limited
ABN 47 109 815 796

Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2009

| | Consolidated | |
|---|---------------------|-----------|
| | 31 | 31 |
| | December | December |
| | 2009 | 2008 |
| | \$ | \$ |
| Total equity at the beginning of the financial year | 6,050,894 | 7,808,440 |
| Net (expense)/income recognised directly in equity | - | - |
| Loss for the period | (790,768) | (841,387) |
| Total recognised income and expense for the period | (790,768) | (841,387) |
| Movement in equity remuneration reserve | 37,465 | 175,902 |
| Transactions with equity holders in their capacity as equity holders: | | |
| Issued capital | 3,498,442 | - |
| Capital raising costs | (225,036) | - |
| Total equity at the end of the period | 8,570,998 | 7,142,955 |

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

Encounter Resources Limited
ABN 47 109 815 796

Consolidated Statement of Cash Flows
For the half-year ended 31 December 2009

| | Consolidated | |
|--|------------------------------|------------------------------|
| | 31 December 2009 \$ | 31 December 2008 \$ |
| Cash flows from operating activities | | |
| Interest received | 67,759 | 135,352 |
| Research and development tax refund | 113,732 | - |
| Payments to suppliers and employees | (322,984) | (256,445) |
| Net cash used in operating activities | (141,493) | (121,093) |
| Cash flows from investing activities | | |
| Payments for exploration and evaluation | (1,239,899) | (1,466,433) |
| Payments for plant and equipment | (2,515) | (32,831) |
| Net cash used in investing activities | (1,242,414) | (1,499,264) |
| Cash flows from financing activities | | |
| Proceeds from the issue of shares | 3,264,245 | - |
| Payments for the issue of shares | (11,828) | - |
| Net cash from financing activities | 3,252,417 | - |
| Net increase/(decrease) in cash held | 1,868,510 | (1,620,357) |
| Cash at the beginning of the period | 2,278,318 | 4,701,043 |
| Cash at the end of the period | 4,146,828 | 3,080,686 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Interim Financial Statements
For the half-year ended 31 December 2009

Note 1 Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2009 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by Encounter Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

The half year report has been prepared on an accruals basis and is based on historic costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The consolidated interim financial statements were approved by the Board of Directors on 8th March 2010.

New accounting standards adopted since the end of the last reporting period

The group has adopted the following mandatory Accounting Standards issued by the Australian Accounting Standards Board during the reporting period:

AASB 8 - Operating segments

Operating segments are identified and segment information disclosed, where appropriate, on the basis of internal reports reviewed by the Company's board of directors, being the Group's Chief Operating Decision Maker, as defined by AASB 8. Adoption of AASB 8 by the Group has not resulted in a redefinition of previously reported operating segments.

AASB 101 – Presentation of Financial Statements

The adoption of AASB 101 has resulted in the following changes from the last financial report:

- Renaming of primary financial statements;
- Adoption of the Statement of Comprehensive Income, replacing the Income Statement. Items of income and expense recognised directly in equity are disclosed as components of 'other comprehensive income'. Items classified as 'other comprehensive income' are no longer reflected as equity movements on the Statement of Changes in Equity;
- Adoption of the single statement approach to the presentation of the Statement of Comprehensive Income.

No retrospective change in accounting policy or material reclassification has occurred requiring the inclusion of a third Statement of Financial Position as at the beginning of the comparative financial period, as required under AASB 101.

Note 2 Segment information

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. Reportable segments disclosed are based on aggregating operating segments, where the segments have similar characteristics. The group's sole activity is mineral exploration and resource development wholly within Australia, therefore it has aggregated all operating segments into the one reportable segment being mineral exploration.

The reportable segment is represented by the primary statements forming these financial statements.

Encounter Resources Limited
ABN 47 109 815 796

Notes to the Interim Financial Statements
For the half-year ended 31 December 2009

Note 3 Loss for the period

Loss before income tax includes the following specific income/(expenses):

| | 31 December 2009 \$ | 31 December 2008 \$ |
|--|--|------------------------------|
| Depreciation | | |
| Leasehold improvements | (3,689) | (3,689) |
| Office equipment | (5,377) | (6,360) |
| | (9,066) | (10,049) |
| Government funded contribution to exploration | 120,000 | - |
| Previously capitalised exploration costs written off | (532,599) | (330,781) |
| Exploration costs not capitalised | (74,162) | (42,762) |
| Exploration expenditure written off and expensed | (606,761) | (373,543) |

Note 4 Issued capital

| | <i>Issue price</i> | 31 December 2009 No. | 31 December 2008 No. | 31 December 2009 \$ | 31 December 2008 \$ |
|------------------------------------|--------------------|---|-------------------------------|--|------------------------------|
| Balance at the start of the period | | 68,596,900 | 68,596,900 | 9,443,330 | 9,443,330 |
| Share placement | <i>\$0.34</i> | 10,289,535 | - | 3,498,442 | - |
| Share issue costs | | - | - | (225,036) | - |
| Balance at the end of the period | | 78,886,435 | 68,596,900 | 12,716,736 | 9,443,330 |

Note 5 Dividends

No dividends were paid or proposed during the period.

The Company has no franking credits available as at 31 December 2008 or 31 December 2009.

Notes to the Interim Financial Statements
For the half-year ended 31 December 2009

Note 6 Contingencies

(i) Contingent liabilities

There were no material contingent liabilities not provided for in the financial statements of the Company as at the reporting dates, other than:

Native Title and Aboriginal Heritage

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

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

(ii) Contingent assets

There were no material contingent assets as at the reporting dates.

Note 7 Events occurring after the balance sheet date

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

Directors' Declaration

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

- (a) the interim financial statements and notes set out on pages 5 to 11 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standard AASB134 – *Interim Financial Reporting*, and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the financial position as at 31 December 2009 and of the performance for the half-year ended on that date of the Consolidated Entity.

- (b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

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

Signed at Perth this 8th day of March 2010.



W Robinson
Managing Director

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ENCOUNTER RESOURCES LIMITED AND ITS CONTROLLED ENTITIES**Report on the half-year financial report**

We have reviewed the accompanying half-year financial report of Encounter Resources Limited and its Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with the Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Encounter Resources Limited and its Controlled Entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP



NICHOLAS HOLLENS
Principal

Perth, WA

Dated this 8th day of March 2010

Total Financial Solutions

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