encounter
RESOURCES LIMITED
ABN 47 109 815 796

Interim Consolidated Financial Report

For the Half-Year Ended
31 December 2019

Contents

Directors' Report

The Directors present their interim consolidated report of Encounter Resources Limited and its controlled entity for the half-year ended 31 December 2019.

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, unless otherwise stated:

Paul Chapman	(*Non-Executive Chairman)*
Will Robinson	(*Managing Director)*
Peter Bewick	(*Exploration Director)*
Jonathan Hronsky	*(Non-Executive Director)*
Philip Crutchfield	*(Non-Executive Director) (appointed 9 October 2019)*

Mr Crutchfield is a prominent and highly respected barrister specialising in commercial law. Since 2015, Philip has been Non-Executive Chairman of highly successful financial services company Zip Co Limited (ASX:Z1P).

Mr Crutchfield is a board member of the Geelong Grammar School Council, Bell Shakespeare Theatre Company and the Victorian Bar Foundation Limited. Philip is also a former partner of Mallesons Stephen Jaques (now King & Wood Mallesons). Philip is a senior barrister practising in commercial law and was admitted to practice in 1988.

Company Secretary

Kevin Hart
Dan Travers

Principal Activities

The principal activity of the Company during the financial year was mineral exploration in Western Australia. There were no significant changes in these activities during the financial year.

Review of Operations

The consolidated net loss after income tax for the half-year was $841,355 (31 December 2018: $408,283). Included in the loss for the comparative period was income of $400,000 recognised in respect of the provision of project generation services to the Group's project generation alliance partner.

At the end of the half-year the Group had $2,477,211 (30 June 2019: $2,480,280) in cash and at call deposits. Capitalised mineral exploration and evaluation expenditure is $13,644,042 (30 June 2019: $13,008,555).

Operations during the reporting period were primarily focused on gold and base metals exploration at the Group's projects in Western Australia, and project generation in the Western Australia and the Northern Territory.

Matters Subsequent to the End of the Financial Period

On 4 March 2020 the Company announced that IGO Limited had formally advised of its election to enter into an earn-in agreement to sole fund up to $15 million to earn a 70% interest in the Yeneena Project.

Other than the above, there has not arisen in the interval between the end of the financial 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 Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Directors' Report

Significant Changes in the State of Affairs of the Group

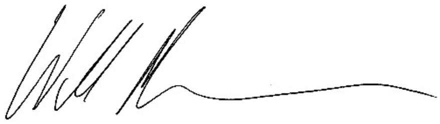
Other than as stated in this report there has not arisen during or since the end of the financial period any changes in the state of affairs of the Group.

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 the following page.

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

DATED at Perth this 5th day of March 2020.



Will Robinson
Managing Director

Crowe Perth
ABN 96 844 819 235
Level 5 45 St Georges Terrace
Perth WA 6000
PO Box P1213
Perth WA 6844
Australia
Main +61 (8) 9481 1448
Fax +61 (8) 9481 0152
www.crowe.com.au

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 2019, 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.

Crowe Perth

Crowe Perth

Ash Pather
Partner

Signed at Sydney, 5 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31 December 2019

		Consolidated	
	Note	**31 December 2019 $**	31 December 2018 $
Other income	3	**6,008**	438,345
Interest income		**18,195**	18,705
Total revenue		**24,203**	457,050
Employee expenses		**(616,663)**	(622,070)
Employee expenses recharged to exploration		**458,127**	423,150
Equity based remuneration expense		**(375,240)**	(68,601)
Profit/(loss) on disposal of assets		**19,545**	-
Gain/(loss) in fair value of financial assets	9	**122,996**	(215,242)
Depreciation expense		**(257)**	(297)
Corporate expenses		**(54,935)**	(51,620)
Administration and other expenses		**(255,303)**	(224,765)
Exploration costs written off and expensed	3	**(163,828)**	(105,888)
Loss before income tax		**(841,355)**	(408,283)
Income tax benefit/(expense)		**-**	-
Loss for the half-year		**(841,355)**	(408,283)
Other comprehensive Income		**-**	-
Total comprehensive loss for the period		**(841,355)**	(408,283)
Loss per share			
Basic loss per share (cents)		**(0.3)**	(0.2)
Diluted loss per share (cents)		**(0.3)**	(0.2)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position
As At 31 December 2019

		Consolidated	
	Note	**31 December 2019 $**	30 June 2019 $
Current assets			
Cash and cash equivalents	11	**1,704,211**	2,480,280
Financial assets held at amortised cost – term deposits	11	**773,000**	-
Trade and other receivables		**21,832**	70,692
Other current assets		**163,879**	149,216
Total current assets		**2,662,922**	2,700,188
Non-current assets			
Financial assets	9	**614,978**	491,982
Property, plant and equipment		**105,447**	37,009
Capitalised mineral exploration and evaluation expenditure	12	**13,644,042**	13,008,555
Total non-current assets		**14,364,467**	13,537,546
Total assets		**17,027,389**	16,237,734
Current liabilities			
Trade and other payables	10	**96,314**	199,282
Employee benefits		**311,253**	315,096
Total current liabilities		**407,567**	514,378
Total liabilities		**407,567**	514,378
Net assets		**16,619,822**	15,723,356
Equity			
Issued capital		**43,828,235**	42,465,654
Accumulated losses		**(27,796,428)**	(27,011,196)
Equity remuneration reserve		**588,015**	268,898
Total equity		**16,619,822**	15,723,356

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

Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2019

	Consolidated			
	Issued capital $	Accumulated losses $	Equity remuneration reserve $	Total $
<u>6 months ended 31 December 2018</u>				
Balance at the start of the financial period	40,676,386	(26,075,127)	310,792	14,912,051
Comprehensive loss for the financial period	-	(408,283)	-	(408,283)
Shares issued (net of costs)	1,789,268	-	-	1,789,268
Movement in equity remuneration reserve in respect of options vested	-	-	68,601	68,601
Transfer to accumulated losses on expiry of options	-	91,263	(91,263)	-
Balance at the end of the financial period	42,465,654	(26,392,147)	288,130	16,361,637
<u>6 months ended 31 December 2019</u>				
Balance at the start of the financial period	**42,465,654**	**(27,011,196)**	**268,898**	**15,723,356**
Comprehensive loss for the financial period	**-**	**(841,355)**	**-**	**(841,355)**
Shares issued (net of costs)	**1,362,581**	**-**	**-**	**1,362,581**
Movement in equity remuneration reserve in respect of options vested	**-**	**-**	**375,240**	**375,240**
Transfer to accumulated losses on expiry of options	**-**	**56,123**	**(56,123)**	**-**
Balance at the end of the financial period	**43,828,235**	**(27,796,428)**	**588,015**	**16,619,822**

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

Consolidated Statement of Cash Flows
For the half-year ended 31 December 2019

	Note	Consolidated	
		31 December 2019 $	31 December 2018 $
Cash flows from operating activities			
Other income		**4,528**	1,854
Income from project generation services		**-**	400,000
Interest received		**18,195**	18,705
State Government funded drilling rebate		**-**	112,674
Payments to suppliers and employees		**(466,874)**	(480,975)
Net cash from/(used in) operating activities		**(444,151)**	52,258
Cash flows from investing activities			
Payments for term deposit investments		**(773,000)**	-
Contributions received from farm-in and joint venture partners		**278,250**	-
Contributions received from project generation alliance partner		**-**	127,298
Payments for project generation and acquisition costs		**-**	(305,731)
Payments for exploration and evaluation		**(1,134,096)**	(1,151,473)
Proceeds from the disposal of plant and equipment		**19,545**	-
Payments for plant and equipment		**(85,198)**	-
Net cash used in investing activities		**(1,694,499)**	(1,329,906)
Cash flows from financing activities			
Proceeds from the issue of shares		**1,383,741**	1,800,800
Payments for costs associated with issues of shares		**(21,160)**	(10,732)
Net cash from financing activities		**1,362,581**	1,790,068
Net increase/(decrease) in cash held		**(776,069)**	512,420
Cash at the beginning of the period		**2,480,280**	2,860,071
Cash at the end of the period		**1,704,211**	3,372,491

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 2019

Note 1 Basis of preparation of half-year report

Statement of compliance
The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report. The Group is a for profit entity for financial reporting purposes under Australian Accounting Standards.

Basis of preparation
The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Other than as stated below, the accounting policies and methods of computation adopted in the preparation of the half-year financial report, are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 30 June 2019.

These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

New Standards and Interpretations applicable for the half year ended 31 December 2019
For the period ended 31 December 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current reporting period. Those which have a material impact on the Group are set out below.

AASB 16 Leases - Change in accounting policy
AASB 16 *Leases* supersedes AASB 117 *Leases*. The Group has adopted AASB 16 from 1 July 2019 which has resulted in changes in the classification, measurement and recognition of leases. The changes result in almost all leases where the Group is the lessee being recognised on the Statement of Financial Position and removes the former distinction between 'operating and 'finance' leases. The new standard requires recognition of a right-of-use asset (the leased item) and a financial liability (to pay rentals). The exceptions are short-term leases and leases of low value assets.

The Group has adopted AASB 16 using the modified retrospective approach under which the reclassifications and the adjustments arising from the new leasing rules are recognised in the opening Statement of Financial Position on 1 July 2019. Under this approach, there is no initial Impact on retained earnings under this approach, and comparatives have not been restated.

The Group leases various premises, plant and equipment. Prior to 1 July 2019, leases were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, where the Company is a lessee, the Group recognises a right-of-use asset and a corresponding liability at the date which the lease asset is available for use by the Group (i.e. commencement date). Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a consistent period rate of interest on the remaining balance of the liability for each period.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the rate implied in the lease. If this rate is not readily determinable, the Group uses its incremental borrowing rate.

Notes to the Interim Financial Statements
For the half-year ended 31 December 2019

Note 1 Basis of preparation of half-year report (continued)

Lease payments included in the initial measurement if the lease liability consist of:

- Fixed lease payments less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at commencement date;
- Any amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of purchase options, if the Group is reasonably certain to exercise the options; and
- Termination penalties of the lease term reflects the exercise of an option to terminate the lease.

Extension options are included in a number of property leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if, at commencement date, it is reasonably certain that the options will be exercised.

Subsequent to initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured (with a corresponding adjustment to the right-of-use asset) whenever there is a change in the lease term (including assessments relating to extension and termination options), lease payments due to changes in an index or rate, or expected payments under guaranteed residual values

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement date, less any lease incentives received and any initial direct costs. These right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Where the terms of a lease require the Group to restore the underlying asset, or the Group has an obligation to dismantle and remove a leased asset, a provision is recognised and measured in accordance with AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated on a straight-line basis over the term of the lease (or the useful life of the leased asset if this is shorter). Depreciation starts on commencement date of the lease.

Where leases have a term of less than 12 months or relate to low value assets, the Group has applied the optional exemptions to not capitalise these leases and instead account for the lease expense on a straight-line basis over the lease term.

Adoption of AASB 16 Leases – Impact of Changes

The Group has applied AASB 16 from 1 July 2019 using the modified retrospective approach, with no restatement of comparative information.

As at 31 December 2019 the Group had no commitments pursuant to operating or finance leases, therefore the impact on the accounting policies, financial performance and financial position of the Group from the adoption of AASB 16 is considered to be immaterial and no lease liability or right to use asset has been recognised as at 31 December 2019.

Other than the above, there is no material impact of the new and revised Standards and Interpretations on the Group.

Notes to the Interim Financial Statements
For the half-year ended 31 December 2019

Note 1 Basis of preparation of half-year report (continued)

Standards and Interpretations in issue not yet adopted
The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the period ended 31 December 2019. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Group and, therefore, no change is necessary to Group accounting policies.

Critical accounting estimates
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 Group and that are believed to be reasonable under the circumstances.

Accounting for capitalised exploration and evaluation expenditure
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.

Accounting for share based payments
The values of amounts recognised in respect of share-based payments have been estimated based on the fair value of the equity instruments granted. Fair values of options issued are estimated by using an appropriate option pricing model. There are many variables and assumptions used as inputs into the models. If any of these assumptions or estimates were to change, this could have a significant effect on the amounts recognised.

Principles of consolidation
The financial statements of subsidiary companies are included in the consolidated financial statements from the date control commences until the date control ceases. The financial statements of subsidiary companies are prepared for the same reporting period as the parent company, using consistent accounting policies.

Inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation. Investments in subsidiary companies are accounted for at cost in the individual financial statements of the Company.

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.

The half year financial report was approved by the Board of Directors on 5th March 2020.

Notes to the Interim Financial Statements
For the half-year ended 31 December 2019

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.

Note 3 Loss for the period

Loss before income tax includes the following specific income/(expenses):	**31 December 2019 $**	31 December 2018 $
Other income		
Income from the provision of project generation services[1]	**-**	400,000
Other income	**6,008**	38,345
	6,008	438,345
Exploration costs		
Depreciation of field equipment	**16,502**	8,955
Exploration costs not capitalised	**147,326**	96,933
Exploration expenditure written off and expensed	**163,828**	105,888

[1] Included in the loss for the comparative period was income of $400,000 recognised in respect of the provision of project generation services to the Group's project generation alliance partner.

Note 4 Dividends

No dividends were paid or proposed during the period.

The Company has no franking credits available as at 31 December 2019 or 30 June 2019.

Note 5 Contingencies

(i) Contingent liabilities
There has been no change in contingent liabilities since the last annual reporting date.

(ii) Contingent assets
There has been no change in contingent assets since the last annual reporting date.

Notes to the Interim Financial Statements
For the half-year ended 31 December 2019

Note 6 Events occurring after the reporting date

On 4 March 2020 the Company announced that IGO Limited had formally advised of its election to enter into an earn-in agreement to sole fund up to $15 million to earn a 70% interest in the Yeneena Project.

Other than the above, there has not arisen in the interval between the end of the financial 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 Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Note 7 Issued capital

During the 6 month period to 31 December 2019 the Company issued approximately 18.4 million ordinary fully paid shares at 7.5 cents per share pursuant to a share placement.

During the 6 month period to 31 December 2018 the Company issued 24 million ordinary fully paid shares at 7.5 cents per share to Independence Group NL pursuant to a share placement.

	Issue price	**2019 No.**	2018 No.	**2019 $**	2018 $
Share movements during the period					
Balance at 1 July		**262,375,092**	238,375,092	**42,465,654**	40,676,386
Share placement	$0.075	**-**	24,000,000	**-**	1,800,000
Share placement	$0.075	**18,449,876**	-	**1,383,741**	-
Less share issue costs			-	**(21,160)**	(10,732)
Balance at 31 December		**280,824,968**	262,375,092	**43,828,235**	42,465,654

Note 8 Options

During the current period the following movements in options over unissued shares occurred:

	31 December 2019 No.	31 December 2018 No.
Options on issue at the start of the financial period	**9,725,000**	12,741,429
Options issued[1]	**5,300,000**	4,000,000
Options cancelled on expiry of the exercise period	**(750,000)**	(6,691,429)
Options on issue at the end of the financial period	**14,275,000**	10,050,000

Details of the options issued and Black-Scholes valuation inputs are as follows:

No of Options	Exercise price	Grant and vesting date	Expiry date	Volatility	Risk free rate	Value of Options
5,300,000	20 cents	26 Nov 19	31 Oct 23	83.6%	0.69%	$375,240

Notes to the Interim Financial Statements
For the half-year ended 31 December 2019

Note 9 Financial assets

Movement in investments at fair value through profit or loss

	31 December 2019 $	31 December 2018 $
Investment in Hampton Hill Mining NL:		
Fair value of investment at the start of the period	**491,982**	953,216
Movement in fair value of investment	**122,996**	(215,242)
Fair value of investment at the end of the period[1]	**614,978**	737,974

[1] The investment in Hampton Hill Mining NL (HHM) is measured by reference to the quoted price of HHM's shares on the Australian Securities Exchange as at the end of the financial period.

Note 10 Trade and other payables

	31 December 2019 $	30 June 2019 $
Trade payables and accruals	**51,846**	151,051
Other payables	**44,468**	48,231
	96,314	199,282

Note 11 Cash and cash equivalents

Included in cash and cash equivalents as at 31 December 2018 is an amount of approximately $1,440,000 that the Group had undertaken to apply towards advancing the Yeneena Copper-Cobalt Project, pursuant to a share subscription agreement with Independence Group NL in November 2018.

As at the date of this report there are no committed funds pursuant to this undertaking.

Term deposits

Term deposits maturing more than 90 days from the date the term deposits were taken are classified as Financial assets held at amortised cost on the Statement of Financial Position. Amounts invested in term deposits and classified as Financial assets held at amortised cost are not reported as cash in the Statement of Cash Flows.

Note 12 Capitalised mineral exploration and evaluation expenditure

During the half year ended 31 December 2019 the Group capitalised a total of $635,487 (2018: $681,009) net of drilling grants (EIS) invoiced of $nil (2018: $107,090).

Directors' Declaration

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

(a) the interim financial statements and notes set out on pages 6 to 15 are in accordance with the Corporations Act 2001, including:

  (i) complying with Australian Accounting Standard AASB 134 – *Interim Financial Reporting*, and the Corporations Regulations 2001; and
  (ii) give a true and fair view of the financial position as at 31 December 2019 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 5th day of March 2020.

Will Robinson
Managing Director

Crowe Perth
ABN 96 844 819 235
Level 5 45 St Georges Terrace
Perth WA 6000
PO Box P1213
Perth WA 6844
Australia
Main +61 (8) 9481 1448
Fax +61 (8) 9481 0152
www.crowe.com.au

Independent Auditor's Review Report
To the Members of Encounter Resources Limited and its controlled Entity

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Encounter Resources Ltd and its controlled entity (the consolidated entity) which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of Encounter Resources Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report, 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 2019 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Encounter Resources Limited and its controlled entity, 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 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 have 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 entity is not in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(ii) complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

Crowe Perth

Crowe Perth

APather

Ash Pather
Partner

Signed at Sydney, 5 March 2020