

**PRO-FORMA UNAUDITED BALANCE SHEET AT 31 DECEMBER 2005
ENCOUNTER RESOURCES LIMITED**

ACTUAL PROCEEDS OF \$4M WITH OVERSUBSCRIPTIONS OF \$1M.

	Notes	Audited 30 June 2005 \$	Unaudited Pro forma 31 December 2005 \$
CURRENT ASSETS			
Cash assets	2	22,315	4,843,656
Receivables	3	1,876	7,604
Other	4	116,820	159,683
TOTAL CURRENT ASSETS		<u>141,011</u>	<u>5,010,943</u>
NON-CURRENT ASSETS			
Plant and equipment	5	-	2,158
TOTAL NON-CURRENT ASSETS		<u>-</u>	<u>2,158</u>
TOTAL ASSETS		<u>141,011</u>	<u>5,013,101</u>
CURRENT LIABILITIES			
Payables	6	7,964	-
Other	7	204,336	-
TOTAL CURRENT LIABILITIES		<u>212,300</u>	<u>-</u>
TOTAL LIABILITIES		<u>212,300</u>	<u>-</u>
NET (DEFICIENCY OF) ASSETS		<u>(71,289)</u>	<u>5,013,101</u>
EQUITY			
Contributed equity	8	1	5,215,001
Accumulated losses	9	(71,290)	(201,900)
TOTAL EQUITY		<u>(71,289)</u>	<u>5,013,101</u>

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1. Assumptions used in compiling the Unaudited Pro-forma Balance Sheet

The preceding table, which assumes official quotation of Encounter on the ASX, sets out:

- (i) The audited Statement of Financial Position of Encounter as at 30 June 2005 and the Unaudited Pro-Forma Balance Sheet as at 31 December 2005 which have reflected the following matters described in (ii) and (xi) below.
- (ii) Conversion of one ordinary share held by Mr Will Robinson at 30 June 2005 into 33,300 ordinary shares.
- (iii) Further advances made by Mr Will Robinson of \$30,000 post 30 June 2005.
- (iv) The issue of 100,000 ordinary shares to directors to raise \$100,000 during September 2005.
- (v) The issue of 200,000 ordinary shares to Mr Will Robinson in satisfaction of \$200,000 of loans made to the company and outstanding at 30 June 2005.
- (vi) Repayment of the balance of amounts owing to Mr Will Robinson of \$34,336.
- (vii) Share split on the basis of 93 for 1 ordinary shares during October 2005 at the time when there were 333,300 ordinary shares on issue.
- (viii) The issue to seed capital investors of 4,000,000 ordinary shares to raise \$400,000 (consisting of 4,000,000 ordinary shares issued at 10 cents each).
- (ix) The actual funds raised under the Offer, based on the issue of 20,000,000 ordinary shares at 20 cents each under the Offer to raise \$4,000,000 and the acceptance of \$1,000,000 in oversubscriptions.
- (x) The write off against share capital of the costs associated with the Offer of \$485,000. This includes \$91,590 incurred and paid post 1 July 2005 and prior to 31 December 2005.
- (xi) Operating activities of the company for the period 1 July 2005 to 31 December 2005 resulted in the following transactions:

• Payment of suppliers	\$ 196,263
• Prepaid tenement rentals	\$ 40,781
• Plant and equipment purchases	\$ 2,158
• GST received	\$ 6,940
• Payment of accruals	\$ 7,964
• GST receivable	\$ 12,668
• Prepaid expenses	\$ 2,082
• Prospectus costs incurred and paid post 1 July 2005 and pre 31 December 2005	\$ 91,590

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	Unaudited Pro forma 31 December 2005 \$
2. Reconciliation of cash balance	
Balance of cash as per historical Statement of Financial Position at 30 June 2005	22,315
Advances from Mr Will Robinson (Note 1 (iii))	30,000
Proceeds from share capital raising (Note 1 (iv))	100,000
Repayment of amounts owing to Mr Will Robinson (Note 1 (vi))	(34,336)
Seed capital raisings (Note 1 (viii))	400,000
Proceeds of the Offer (Note 1 (ix))	4,000,000
Oversubscriptions received	1,000,000
Costs of the Offer incurred and paid post 1 July 2005 and prior to 31 December 2005 (note 1 (xi))	(91,590)
Remaining costs of the Offer (Note 1 (x))	(393,410)
GST received (Note 1 (xi))	6,940
Payments to suppliers (Note 1 (xi))	(196,263)
Balance of cash as per the Unaudited Pro-forma Balance Sheet	<u>4,843,656</u>
3. Reconciliation of receivables	
Balance of receivables as per historical Statement of Financial Position at 30 June 2005	1,876
GST received (Note 1 (xi))	(6,940)
GST receivable (Note 1 (xi))	12,668
Balance of receivables as per the Unaudited Pro-forma Balance Sheet	<u>7,604</u>
4. Reconciliation of other current assets	
Balance of other current assets as per Historical Statement of Financial Position at 30 June 2005	116,820
Prospectus costs incurred and paid post 1 July 2005 and prior to 31 December 2005 (Note 1 (xi))	91,590
Transfer of prospectus costs to share capital on ASX listing	(91,590)
Prepaid expenses (Note 1 (xi))	2,082
Prepaid tenement rentals (Note 1 (xi))	40,781
Balance of other current assets as per the Unaudited Pro-Forma Balance Sheet.	<u>159,683</u>
5. Reconciliation of plant and equipment	
Balance of plant and equipment as per historical Statement of Financial Position at 30 June 2005	-
Plant and equipment purchases (Note 1 (xi))	2,158
Balance of plant and equipment as per the Unaudited Pro-Forma Balance Sheet	<u>2,158</u>

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ENCOUNTER RESOURCES LIMITED**

ACTUAL PROCEEDS OF \$4M WITH OVERSUBSCRIPTIONS OF \$1M.

	Unaudited Pro forma 31 December 2005 \$		Unaudited Pro forma 31 December 2005 \$
6. Reconciliation of payables			
Balance of payables as per historical Statement of Financial Position at 30 June 2005	7,964		
Accruals paid (Note 1 (xi))	(7,964)		
Balance of payables as per the Unaudited Pro-Forma Balance Sheet	<u>-</u>		
7. Reconciliation of other current liabilities			
Balance of other current liabilities as per historical Statement of Financial Position at 30 June 2005	204,336		
Amounts advanced by Mr Will Robinson post 1 July 2005 (Note 1 (iii))	30,000		
Issue of shares in part satisfaction of amounts owed to Mr Will Robinson (Note 1 (v))	(200,000)		
Repayment of balance of amounts owed to Mr Will Robinson (Note 1 (vi))	(34,336)		
Balance of other current liabilities as per Unaudited Pro-forma Balance Sheet	<u>-</u>		
	Unaudited Pro forma 31 December 2005 No.	Unaudited Pro forma 31 December 2005 No.	
8. Reconciliation of contributed equity			
Balance of contributed equity as per historical Statement of Financial Position at 30 June 2005	1	1	
Conversion of Mr Will Robinson's ordinary share pursuant to share split on the basis of 33,300 ordinary shares for one ordinary share (Note 1 (ii))	(1)	-	
Share capital raisings (Note 1 (iv))	33,300	-	
Shares issued in satisfaction of loan from Mr Will Robinson (Note 1 (v))	100,000	100,000	
	<u>200,000</u>	<u>200,000</u>	
	333,300	300,001	
Share split of the basis of 93 for every 1 ordinary share (Note 1 (vii))	(333,300)	-	
Seed capital raising (Note 1 (viii))	30,996,900	-	
	<u>4,000,000</u>	<u>400,000</u>	
	34,996,900	700,001	
Proceeds of the Offer (Note 1 (ix))	20,000,000	4,000,000	
Oversubscriptions accepted under the Offer	5,000,000	1,000,000	
Costs associated with the Offer (Note 1 (x)) but not incurred pre-31 December 2005	-	(393,410)	
Costs associated with the Offer incurred post 1 July 2005 and transferred from "prepayments" on listing on the ASX	-	(91,590)	
Balance of contributed equity as per the Unaudited Pro-forma Balance Sheet	<u>59,996,900</u>	<u>5,215,001</u>	

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Unaudited
Pro forma
31 December 2005
\$

9. Reconciliation of accumulated losses

Balance of accumulated losses as per historical Statement of Financial Position at 30 June 2005	(71,290)
Loss for period 1 July 2005 to 31 December 2005	(130,610)
Balance of accumulated losses as per the Unaudited Pro-forma Balance Sheet	<u>(201,900)</u>

10. Share Based Payments

On 1 February 2006, the Company entered into a share based payment arrangement with one of its employees. The terms of the arrangement are as follows:

- The employee will be granted with 100,000 unlisted options upon the company listing on the ASX, for nil consideration;
- Exercise price: 20 cents each;
- Exercise period: Anytime within 5 years of the company listing on the ASX;
- Vesting period: 12 months after the grant date.
- There are no participating rights or entitlements inherent in these options and holders of the options will not be entitled to participate in new issues of capital that may be offered to Shareholders during the currency of the option.
However, the Optionholder has the right to exercise their options prior to the date of determining entitlements to any capital issues to the then existing Shareholders of the Company made during the currency Options, and will be granted a period of at least nine (9) business days before the books closing date to exercise the Options; and
- All options will be cancelled upon the holder ceasing to be an employee of the Company unless the Directors in their absolute discretion (with no requirement to give any reasons therefore) resolve to extend the time for cancellation.

The fair value of the 100,000 unlisted options granted was \$10,500.

The fair value was calculated using a Black and Scholes Option pricing model applying the following inputs:

- Exercise price: 20 cents
- Exercise period: 5 years from grant date
- Underlying share price: 20 cents (upon ASX listing)
- Assumed volatility: 50%
- Risk free rate: 5.28% (at 1 February 2006)

Under the requirements of *AASB2 - Share Based Payments*, the fair value of the options granted is required to be expensed over the vesting period. However, upon immediate listing on the ASX, no amounts would be required to be recognised in the unaudited pro-forma Balance Sheet. The recognition of the expense would occur over the 12 month period commencing from the date of the company listing on the ASX and would result in the company recognising \$10,500 through the income statement with a corresponding amount being directly recognised in equity.