



Interim Consolidated Financial Report

**For The Half-Year Ended
31 December 2011**

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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 2011.

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	
Dan Travers	<i>(Joint Company Secretary)</i>

Review of Operations

The consolidated net loss after income tax for the half-year was \$546,489 (31 December 2010: \$5,148,327).

At the end of the half-year the Group had \$3,007,783 (30 June 2011: \$7,241,296) in cash and at call deposits. Capitalised mineral exploration and evaluation expenditure is \$11,929,550 (30 June 2011: \$7,535,748).

Operations during the reporting period was primarily focussed on copper and base metals exploration at the Company's 100% owned Yeneena Project in the Paterson Province of Western Australia.

Matters Subsequent to the End of the Financial Period

Other than the following, 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.

On 15 February 2012 the Company completed the placement of 13,675,000 ordinary fully paid shares at 40 cents per share to raise \$5,470,000 before costs. A further 1,175,000 ordinary fully paid shares will be issued to Directors of the Company pursuant to the placement to raise a further \$470,000, subject to shareholder approval being sought at a general meeting of shareholders on 23 March 2012.

Directors' Report

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 5.

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

DATED at Perth this 14th day of March 2012.

A handwritten signature in black ink, appearing to be 'W Robinson', with a long horizontal flourish extending to the right.

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 2011, 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.

A handwritten signature in blue ink that reads "Crowe Horwath Perth".

CROWE HORWATH PERTH

A handwritten signature in blue ink, appearing to be "Cyrus Patell".

CYRUS PATELL
Partner

Signed at Perth, 14 March 2012

Encounter Resources Limited
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Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2011

		Consolidated	
		31 December 2011	31 December 2010
		\$	\$
Continuing operations	Note		
Other income		11,554	-
Interest income		188,517	75,822
Total revenue		200,071	75,822
Employee expenses		(772,367)	(510,927)
Employee expenses recharged to exploration		640,287	379,018
Equity based remuneration expense	8	(145,551)	(3,080,509)
Depreciation expense		(3,367)	(7,709)
Corporate expenses		(64,706)	(87,951)
Administration and other expenses		(207,046)	(212,194)
Exploration costs written off and expensed		(204,746)	(1,703,877)
Loss before income tax	3	(557,425)	(5,148,327)
Income tax benefit/(expense)		10,936	-
Loss for the half-year		(546,489)	(5,148,327)
Other comprehensive Income		-	-
Total comprehensive income for the period		(546,489)	(5,148,327)
Loss per share			
Basic loss per share (cents)		(0.6)	(5.8)
Diluted loss per share (cents)		(0.6)	(5.8)

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

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Consolidated Statement of Financial Position
As At 31 December 2011

	Consolidated	
	31 December 2011 \$	30 June 2011 \$
Current assets		
Cash and cash equivalents	3,007,783	7,241,296
Trade and other receivables	191,583	121,144
Other current assets	80,916	98,584
Total current assets	3,280,282	7,461,024
Non-current assets		
Property, plant and equipment	350,685	337,195
Capitalised mineral exploration and evaluation expenditure	11,929,550	7,535,748
Total non-current assets	12,280,235	7,872,943
Total assets	15,560,517	15,333,967
Current liabilities		
Trade and other payables	1,113,654	482,966
Employee benefits	34,678	37,878
Total current liabilities	1,148,332	520,844
Total liabilities	1,148,332	520,844
Net assets	14,412,185	14,813,123
Equity		
Issued capital	21,660,548	21,660,548
Accumulated losses	(9,986,073)	(9,448,420)
Equity remuneration reserve	2,737,710	2,600,995
Total equity	14,412,185	14,813,123

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

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Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2011

	Issued capital \$	Accumulated losses \$	Equity remuneration reserve \$	Total \$
<u>6 months ended 31 December 2010</u>				
Balance at the start of the financial period	12,745,067	(4,742,176)	476,214	8,479,105
Comprehensive loss for the financial period	-	(5,148,327)	-	(5,148,327)
Movement in equity remuneration reserve	-	-	3,080,509	3,080,509
Transfer from equity remuneration reserve on exercise of options	-	118,383	(118,383)	-
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued	8,751,980	-	-	8,751,980
Balance at the start of the financial period	21,497,047	(9,772,120)	3,438,340	15,163,267
<u>6 months ended 31 December 2011</u>				
Balance at the start of the financial period	21,660,548	(9,448,420)	2,600,995	14,813,123
Comprehensive loss for the financial period	-	(546,489)	-	(546,489)
Movement in equity remuneration reserve on issue of options	-	-	145,551	145,551
Transfer from equity remuneration reserve	-	8,836	(8,836)	-
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued	-	-	-	-
Balance at the start of the financial period	21,660,548	(9,986,073)	2,737,710	14,412,185

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

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Consolidated Statement of Cash Flows
For the half-year ended 31 December 2011

	Consolidated	
	31 December 2011 \$	31 December 2010 \$
Cash flows from operating activities		
Interest received	189,519	75,822
State Government funded drilling rebate	10,552	-
Research and development tax refund	10,936	171,542
Payments to suppliers and employees	(389,949)	(399,662)
Net cash used in operating activities	(178,942)	(152,298)
Cash flows from investing activities		
Payments for exploration and evaluation	(3,981,113)	(2,210,732)
Payments for plant and equipment	(73,458)	(13,570)
Net cash used in investing activities	(4,054,571)	(2,224,302)
Cash flows from financing activities		
Proceeds from the issue of shares	-	9,281,640
Share issue costs	-	(529,662)
Net cash from financing activities	-	8,751,978
Net increase/(decrease) in cash held	(4,233,513)	6,375,378
Cash at the beginning of the period	7,241,296	2,374,645
Cash at the end of the period	3,007,783	8,750,023

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

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Notes to the Interim Financial Statements
For the half-year ended 31 December 2011

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.

Basis of preparation

The condensed 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.

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 company's 2011 annual financial report for the financial year ended 30 June 2011, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Adoption of new and revised accounting standards

In the half year ended 31 December 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011. It has been determined by the Group that, there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and therefore no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies

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 14th March 2012.

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
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Notes to the Interim Financial Statements
For the half-year ended 31 December 2011

Note 3 Loss for the period

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

	31 December 2011 \$	31 December 2010 \$
Depreciation		
Leasehold improvements	-	(3,689)
Office equipment	(3,367)	(4,020)
	(3,367)	(7,709)
State Government funded drilling rebate	10,552	-
Previously capitalised exploration costs written off	(55,462)	(1,564,274)
Exploration costs not capitalised	(149,284)	(139,053)
Exploration expenditure written off and expensed	(204,746)	(1,703,327)

Note 4 Issued capital

	<i>Issue price</i>	31 December 2011 No.	31 December 2010 No.	31 December 2011 \$	31 December 2010 \$
Balance at the start of the period		99,344,360	79,161,435	21,660,547	12,745,067
Share placement	\$0.27	-	11,482,925	-	3,100,390
Exercise of options	\$0.10	-	500,000	-	50,000
Exercise of options	\$0.50	-	50,000	-	25,000
Exercise of options	\$0.525	-	50,000	-	26,250
Exercise of options	\$0.30	-	50,000	-	15,000
Exercise of options	\$0.45	-	100,000	-	45,000
Exercise of options	\$0.20	-	100,000	-	20,000
Share placement	\$0.80	-	7,500,000	-	6,000,000
Less - Share issue costs		-	-	-	(529,660)
Balance at the end of the period		99,344,360	98,994,360	21,660,547	21,497,047

Note 5 Dividends

No dividends were paid or proposed during the period.

The Company has no franking credits available as at 31 December 2010 or 31 December 2011.

Encounter Resources Limited
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Notes to the Interim Financial Statements
For the half-year ended 31 December 2011

Note 6 Contingencies

(i) Contingent liabilities

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

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 reporting date

Other than the following, 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.

On 15 February 2012 the Company completed the placement of 13,675,000 ordinary fully paid shares at 40 cents per share to raise \$5,470,000 before costs. A further 1,175,000 ordinary fully paid shares will be issued to Directors of the Company pursuant to the placement, subject to shareholder approval being sought at a general meeting of shareholders on 23 March 2012.

Note 8 Equity based remuneration expense

During the half year reporting period the Company issued 600,000 (2010: 5,000,000) unlisted options to directors, employees and consultants.

The options issued during the reporting period vested on grant and were valued using the Black-Scholes valuation model using the following inputs:

Number of options	150,000	450,000
Grant date	18 July 2011	25 October 2011
Exercise date	22 November 2014	30 September 2015
Share price on grant date	\$0.92	\$0.57
Option exercise price	\$1.35	\$0.80
Volatility	85%	80%
Interest rate	4.50%	4.50%
Discount applied to valuation in respect of non-transferability of options	30%	30%
Value per option	33.03 cents each	21.34 cents each

Encounter Resources Limited
ABN 47 109 815 796

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 12 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 2011 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 14th day of March 2012.



W Robinson
Managing Director



**TO THE MEMBERS OF ENCOUNTER RESOURCES LIMITED AND ITS CONTROLLED ENTITIES
INDEPENDENT AUDITOR'S REVIEW REPORT**

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 consolidated statement of financial position as at 31 December 2011, the consolidated statement of 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 the consolidated entity 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 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 2011 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 the consolidated 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 entities 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 2011 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 HORWATH PERTH

CYRUS PATELL
Partner

Signed at Perth, 14 March 2012