

*A highly active exploration company with projects in Western Australia prospective for base metals, uranium, manganese and gold*

**ASX Code**

ENR

**Market Cap (28/01/10)**

A\$18.1m (\$0.23/share)

**Issued Capital (31/12/09)**

78.9 million ordinary shares  
3.0 million employee options

**Cash (31/12/09)**

A\$4.1M

**Board of Directors & Management**

Mr. Paul Chapman  
Non-Executive Chairman

Mr. Will Robinson  
Managing Director

Mr. Peter Bewick  
Exploration Director

Dr. Jon Hronsky  
Non-Executive Director

Mr. Kevin Hart  
Company Secretary

[www.enrl.com.au](http://www.enrl.com.au)

Level 7, 600 Murray Street  
West Perth WA 6005  
P: 08 9486 9455  
F: 08 6210 1578  
contact@enrl.com.au

## HIGHLIGHTS

### PATERSON PROVINCE

**Yeneena - Major ground position between the Nifty copper mine and the Kintyre uranium deposit**

- Diamond drilling has identified high grade zinc-lead-silver mineralisation at BM5 grading 28.5% zinc, 2.3% lead and 34g/t silver. A downhole electromagnetic has outlined a large scale off hole conductor.
- Diamond drilling at the BM1 prospect has intersected a large hydrothermal alteration system below the +1km long regolith copper anomaly.
- High grade, near surface manganese mineralisation discovered at the MN1 prospect including 2m @ 20% Mn from 25m.
- Detailed ground gravity survey completed at MN1 has identified multiple manganese drill targets
- The 2010 drilling program is scheduled to commence in April and will include drilling at the BM1, BM5 and MN1 targets.

### YILGARN DISTRICT

**Inferred Resources totalling 11 million lbs U<sub>3</sub>O<sub>8</sub>**

- The strategic review of the company's calcrete uranium resources to consider the potential development and commercial alternatives to advance the projects is progressing.

### CORPORATE

- During the quarter the company completed a private placement to raise \$3.5 million, before costs, through the issue of 10,289,535 ordinary fully paid shares in the Company at a price of \$0.34 per share. The Company's cash balance at the end of the quarter was \$4.1 million.

## EXPLORATION

Encounter Resources Limited (Encounter) is a Western Australian (WA) based exploration and resource development company with projects in three geological regions of WA. Encounter's portfolio covers over 4,500km<sup>2</sup> of strategically located and highly prospective exploration projects (Figure 7). The portfolio includes:

- A major ground position in the Paterson mineral province between the Nifty copper mine, Woodie Woodie manganese operation and the Kintyre uranium deposit, considered highly prospective for Proterozoic copper and silver-lead-zinc mineralisation, unconformity related uranium and carbonate hosted manganese deposits;
- 11 million pounds of near surface calcrete style uranium resources in the Yilgarn Province; and
- Six projects targeting base metals deposits in the Bangemall Basin.

## PATERSON PROVINCE

### YENEENA (Encounter earning 75% from Barrick)

The Yeneena project covers a 1,300km<sup>2</sup> tenement package in the Paterson Province of WA located between the Nifty copper mine and the Kintyre uranium deposit (Figure 1). The project is considered highly prospective for Nifty/Isa style copper mineralisation, silver-lead-zinc mineralisation, Woodie Woodie style manganese mineralisation and unconformity related uranium mineralisation. Encounter is earning a 75% interest in the tenements from Barrick Gold of Australia through the expenditure of \$3M over 5 years.

Simplified geological stratigraphy for the region comprises the Palaeo-Proterozoic Rudall Complex as the lowermost unit, overlain by the Neo-Proterozoic Coolbro Sandstone. The Broadhurst Formation sits stratigraphically above the Coolbro Sandstone and is the host to the base metals targets and the Nifty copper mine. The Kintyre uranium deposit sits directly below the unconformity between the Coolbro Sandstone and the Rudall Complex.

During the quarter an initial diamond drill program at the BM1, BM5 and T2 targets was completed. This drill program at the Yeneena project is being co-funded through the WA Government Exploration Incentive Scheme.

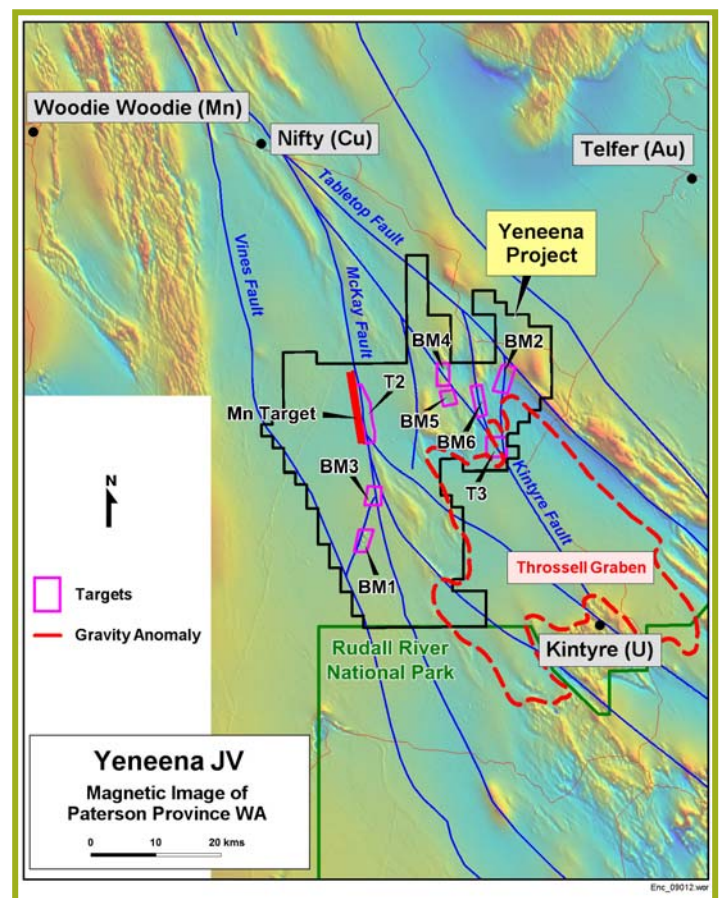


Figure 1: Yeneena targets and major structures over magnetics

## BM1 Target.

The BM1 target sits within the Broadhurst Formation and is almost entirely overlain by transported cover.

Drill hole EPT057 was targeted to test below the zone of regolith copper anomalism identified in a shallow aircore program completed in June 2009. The hole intersected two thick (+80m) zones of brecciated and altered dolomite hosted within carbonaceous shales (Figure 2). The alteration included intense carbonate veining, silicification, disseminated pyrite and sporadic occurrences of chalcopyrite. Anomalous copper up to 16.4m @ 550ppm was intersected from 189.3m within the upper dolomite unit. Several zones of intense hematite alteration were encountered within the lower dolomite unit.

The company interprets that the zones of intense hydrothermal alteration are important plumbing pathways for mineralising fluids. A combination of detailed gravity and aircore drilling is planned for the June 2010 quarter to target where these pipe like fluid pathways intersect geological trap sites. These sites are prospective for the formation of significant copper mineralisation.

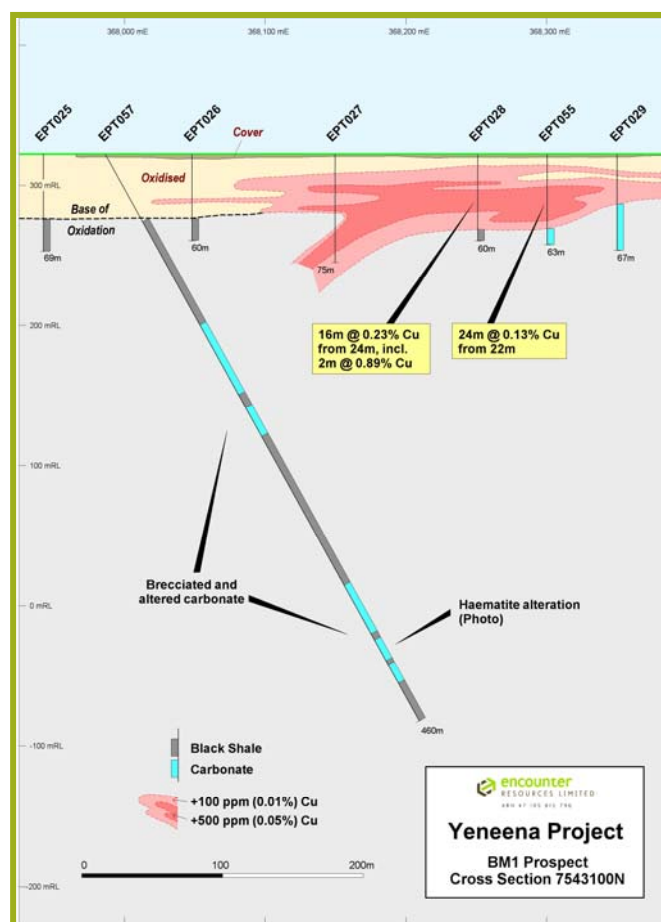


Figure 2: BM1 drill section 7543100mN

## BM5 Target.

The BM5 target is located along the regionally extensive Kintyre Fault (Figure 1). During the quarter drill hole EPT062 was drilled to test beneath a gossanous iron manganese horizon associated with copper-lead-zinc-silver geochemical anomalism (see ASX announcement 29 October 2009). Drilling confirmed the gossanous horizon sits at the upper stratigraphic contact of a carbonate unit which is the host to the base metal deposits in this region. The primary target for base metals mineralisation is the lower contact of this carbonate unit.

Drilling conditions were difficult resulting in the hole not reaching target depth and being abandoned at 306m. A vein of massive sulphide containing sphalerite and galena was intersected between 301.6m and 301.7m within 5m of the end of hole in brecciated dolomite (Figure 3).

Assay results for the interval returned **0.1m @ 28.5% zinc, 2.3% lead and 33.9g/t silver.**

As reported in the ASX announcement on 17 December 2009 a downhole electromagnetic survey from drill hole EPT062 identified a significant +500m long, offhole conductor approximately 60m below the bottom of hole. The conductive body is interpreted to be at or near the base of the host carbonate sequence. No conductive stratigraphy was intersected in EPT062 other than the massive sulphide vein and it is interpreted that the offhole conductor may represent additional base metal sulphide mineralisation.

It is highly encouraging to intersect high grade massive sulphide mineralisation in the first diamond drill hole at the BM5 prospect and the testing of the EM conductor is a priority for 2010.

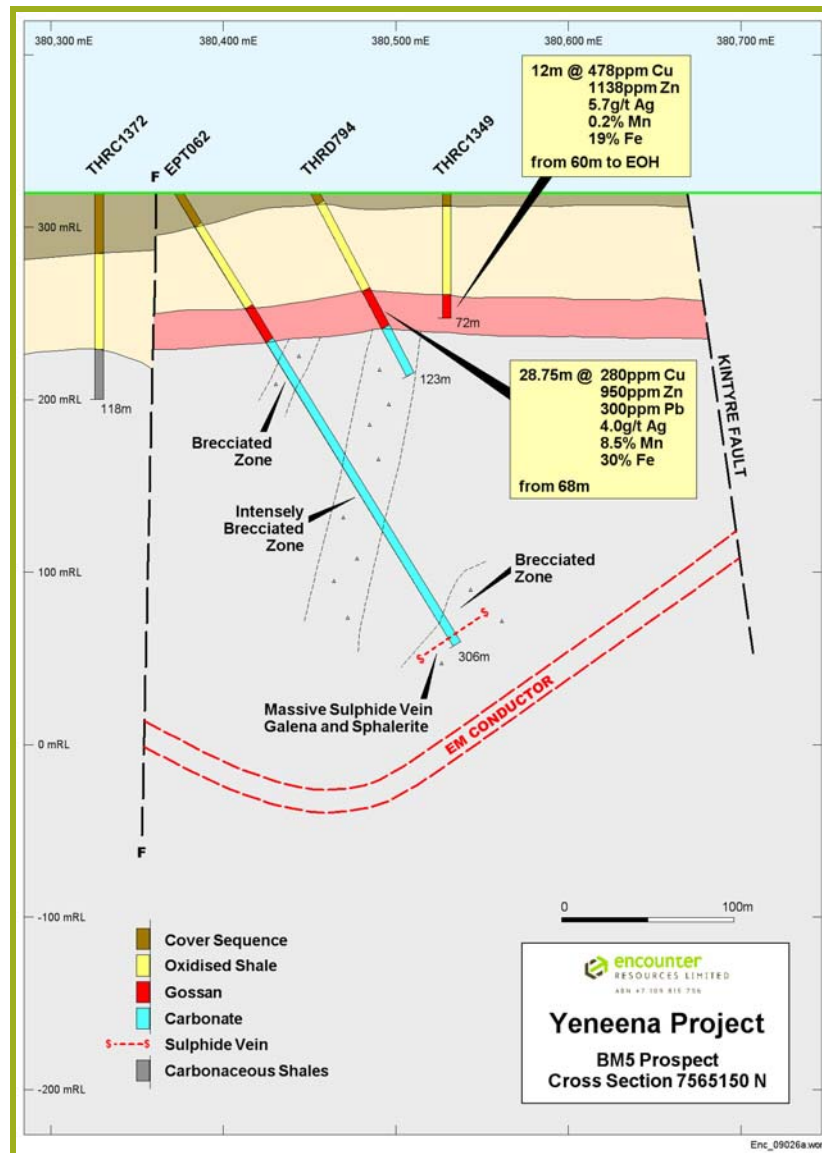


Figure 3: BM5 drill section 7565150mN

## MN1 Target.

Two high grade, near surface manganese intersections have been identified in the re-analysis of samples from the drilling program completed by Barrick Gold of Australia in 2006. The manganese intercepts are located at the southern end of a 14km long gravity anomaly that sits to the west of, and parallel to, the regionally extensive McKay Fault (Figure 4).

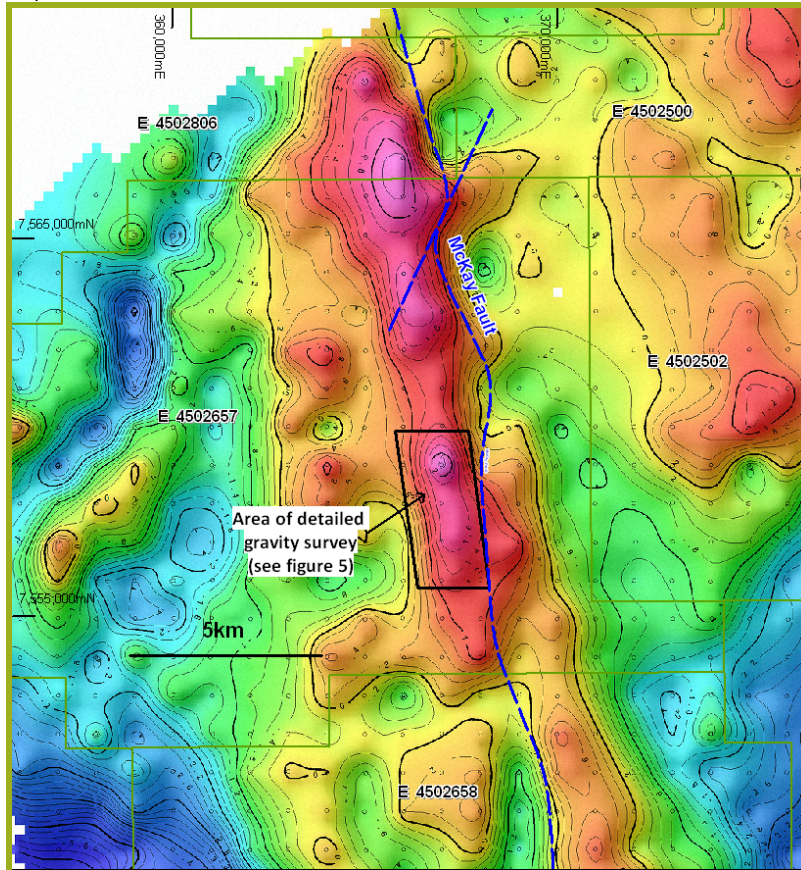


Figure 4: Bouguer Gravity (0-1km layer) showing area of orientation gravity survey

The intersections are 200m apart in adjacent vertical aircore holes. The mineralisation is open for 1.7km south and to the north for the length of the gravity anomaly. The intersections are:

- 2 metres at 20% Mn from 25 metres in YNAC 168 incl. 1m @ 28% Mn from 26m
- 3 metres\* at 16% Mn from 21 metres in YNAC 169 (Photo 1)  
\* composite sample



Photo 1: YNAC 169 (20-25m)

The intersections are located to the west of the T2 target within the company's Yeneena Project and 70km south east of the operating Woodie Woodie manganese mine (Figure 1).

The regionally significant gravity anomaly has a spatial relationship to the high grade manganese mineralisation. During the quarter a series of orientation ground gravity lines were completed at the MN1 prospect. The purpose of this orientation program is to determine the effectiveness of this technology in defining drill targets within the broad regional anomaly.

The ground gravity orientation program covered the southern 4kms of the 14km long regional gravity ridge (Figure 4). The program was completed at a spacing of 200m by 100m, with infill completed over the area of the existing manganese drill intersections.

The program results were highly encouraging resolving the regional anomaly into a number of discrete pod-like anomalies (Figure 5). These anomalies lie to west of the McKay Fault within shallow marine carbonates.

The manganese mineralisation intersected in YNAC 168 and YNAC 169 is on the margins of two pod-like anomalies defined in the program. It is interpreted that these gravity anomalies may represent thicker and denser manganese mineralisation than that intersected in holes YNAC 168 and YNAC 169.

During the program drill holes YNAC 168 and YNAC 169 were also located, photographed and re-sampled from the remnant surface piles (Photo 2). Assay results from the re-sampling show a good correlation with the original aircore results as well as confirming the low iron associated with the manganese mineralisation. This sampling program has also provided information on other elements not previously assayed (Table 1).



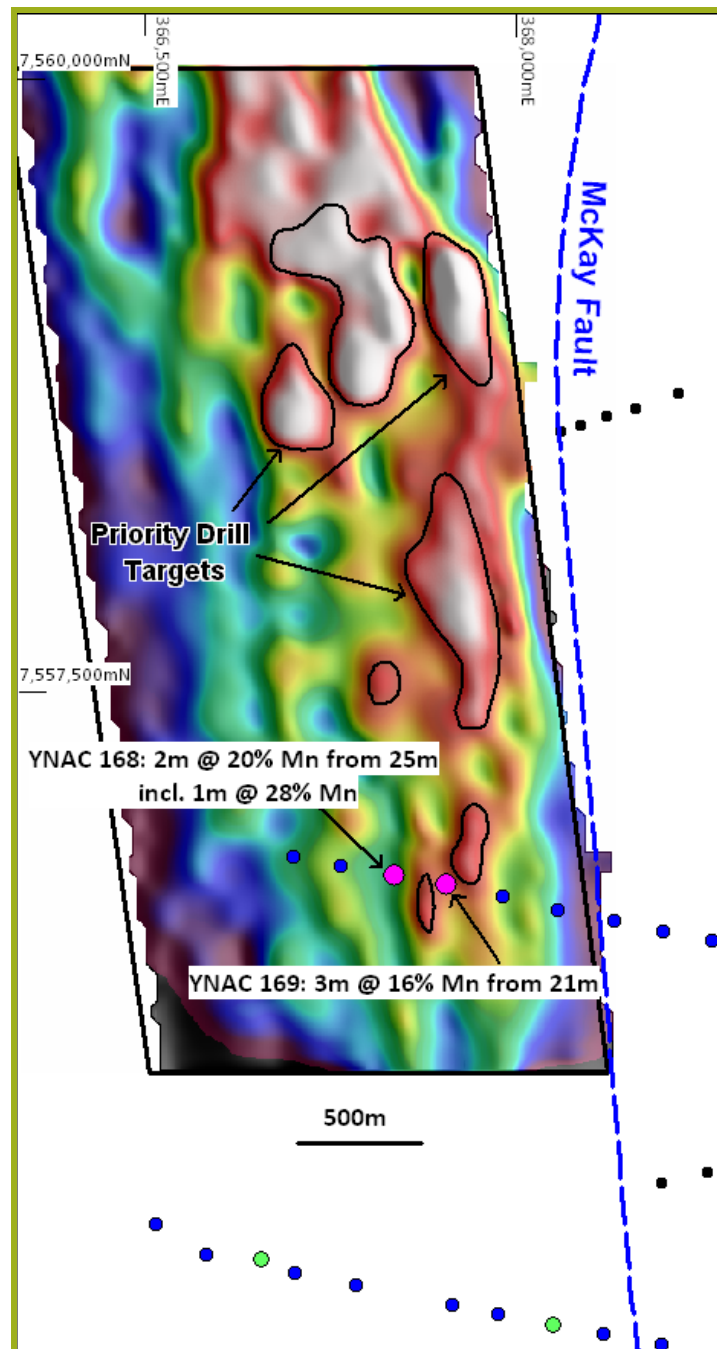
**Photo 2:** Manganese mineralisation in YNAC 169

**Table 1 – Assay results from samples taken from YNAC 168 and 169**

Sample #	Hole #	Depth	Mn%	Fe%	SiO2%	P2O5%	Al2O3%	Description
EX127883	YNAC 169	21-22m	17.6	3.67	0.17	0.14	1.04	Grab sample
EX127884		22-23m	8.29	4.89	0.20	0.21	2.10	Grab sample
EX127885		21-24m	22.7	2.71	0.13	0.16	0.87	Composite of Mn chips 21-24m
EX127885A			26.5	3.31	0.16	0.18	0.97	
EX127886	YNAC 168	26-27m	28.7	7.14	0.17	0.13	1.52	Mn chips
EX127887		22-24m	19.7	2.51	0.29	0.09	1.28	Mn coated carbonate

The geology in the MN1 area is masked by sand cover with only isolated surface outcrops. Logging of the mineralised aircore holes shows the manganese mineralisation is hosted in stromatolitic carbonates and siltstones. Although not previously mapped in the region, it is interpreted from the limited drilling and outcrops that these shallow marine sediments, extend the full 14km strike of the regional gravity ridge. This interpretation indicates the potential for numerous manganese discoveries within this extensive area of prospective stratigraphy.

Aircore drilling will commence in April 2010 and will test a number of the defined targets. A series of drill sections are planned around the existing manganese intersections and across the newly defined gravity targets. It is estimated that 3000 metres of aircore drilling will be completed at MN1 in this initial program.



**Figure 5:** Residual gravity image from detailed survey (Dec09) and maximum Mn in aircore drill holes (magenta +15% Mn, green between 1-2% Mn, blue <1% Mn)

## T2 Target

The T2 target is located 20km north of BM1 (Figure 1). This area is covered by dune sands and contains minimal outcrop in the target areas.

A single diamond hole was drilled during the quarter to test a 600 metre long, discrete conductive body at a depth of 100-150m. A weakly sulphidic black shale was intersected at the interpreted position of the conductor. Assays from this hole are pending.

## BANGEMALL BASIN

### BEYONDIE (Encounter 100%)

A regional targeting exercise was initiated during the quarter incorporating key learnings from the work completed at the Yeneena Project and building on our understanding of the formation of large scale base metal systems.

The targeting program highlighted an area on the eastern margin of the Bangemall Basin that demonstrates a number of key structural ingredients. Applications have been over an area of 1500km<sup>2</sup> located approximately 150kms south south east of Newman. The tenements capture the intersection of the Tangadee Lineament with the margin of the Bangemall Basin and northern Yilgarn block. A series of field visits to the project are planned prior to the grant of the tenements.

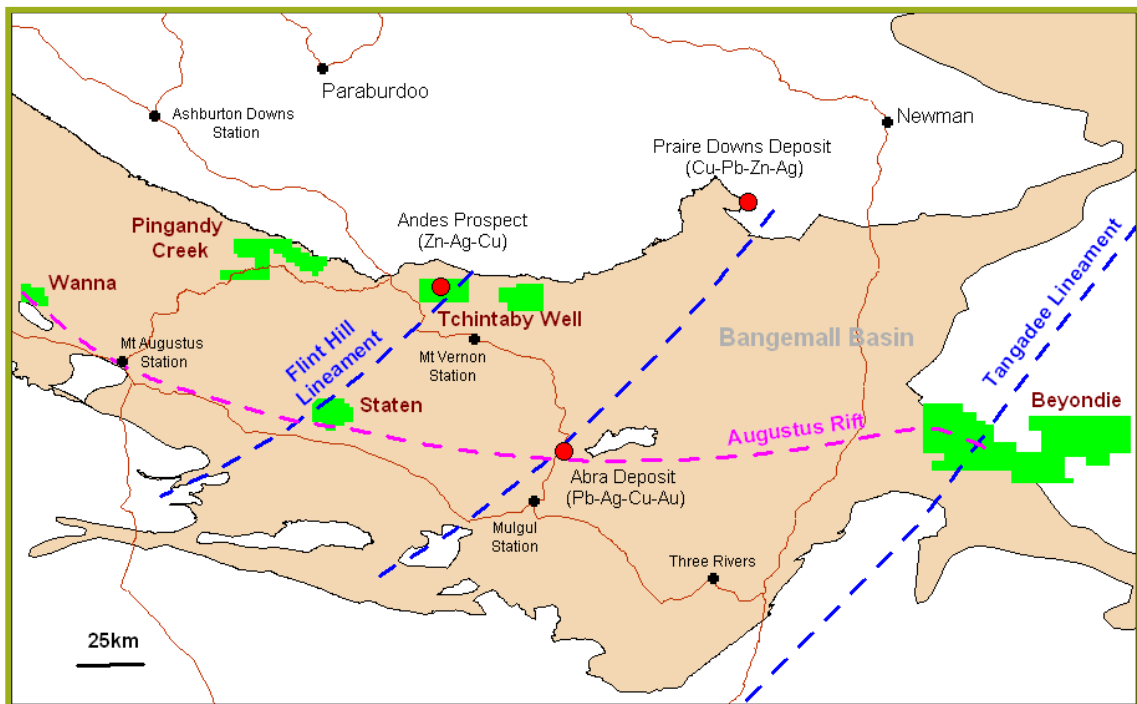


Figure 6: Bangemall Basin leasing plan



## YILGARN DISTRICT

### CALCRETE URANIUM RESOURCES

A strategic review of the calcrete uranium resource has been initiated by the company to consider the potential development and commercial alternatives to advance the projects.

#### HILLVIEW (E51/1127 - 80% Encounter, 20% Avoca)

The Hillview uranium project is located 50kms south east of Meekatharra and contains an Inferred Resource of 27.6 million tonnes, averaging 174ppm  $U_3O_8$  for a contained 10.6 million pounds of  $U_3O_8$ . The Inferred Resource is reported in accordance with the JORC code (2004) and guidelines.

#### LAKE WAY SOUTH (E53/1232 – 60% Encounter, 40% Avoca Uranium rights only)

The Lake Way South project is located approximately 10kms south of Wiluna, between Toro Energy's Lake Way and Centipede uranium deposits. An Inferred Resource for the area of the Centipede resource within the JV tenement has been calculated. This resource contains 220,000t @ 244ppm  $U_3O_8$  for 120,000lbs of  $U_3O_8$ . The Inferred Resource is reported in accordance with the JORC code (2004) and guidelines

#### BELLAH BORE EAST (E53/1158 – 80% Encounter, 20% Avoca)

The Bellah Bore East is situated in the upper reaches of the Yeelirrie Channel. An Inferred Resource of 350,000t averaging 210ppm  $U_3O_8$  for 160,000lb of  $U_3O_8$  has been calculated for the Bellah Bore East prospect. The Inferred Resource is reported in accordance with the JORC code (2004) and guidelines

## CORPORATE

During the quarter the company completed a private placement to raise \$3.5 million before costs through the issue of 10,289,535 ordinary fully paid shares in the Company at a price of \$0.34 per share. The Company's cash balance at the end of the quarter was \$4.1 million.



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Will Robinson  
Managing Director

*The information in this report that relates to Exploration Results and Mineral Resources at Lake Way South is based on information compiled by Mr Peter Bewick who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Bewick is a full time employee of Encounter Resources Ltd and has sufficient experience which is relevant to the style of mineralisation under consideration to qualify as a Competent Person as defined in the 2004 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Bewick consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

*The information in this presentation that relates to Mineral Resources for the Hillview Uranium Project is based on information compiled by Mr Neil Inwood who is employed by Coffey Mining Ltd. Mr Peter Bewick from Encounter has consented to a joint sign off for the Resource, Mr Bewick taking responsibility for the quality and reliability of the drillhole database and Mr Inwood is responsible for the grade estimate and classification of the resource. Messrs Inwood and Bewick have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they have undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Messrs Inwood and Bewick consent to the inclusion in the report of the matters based on the information compiled by them, in the form and context in which it appears.*

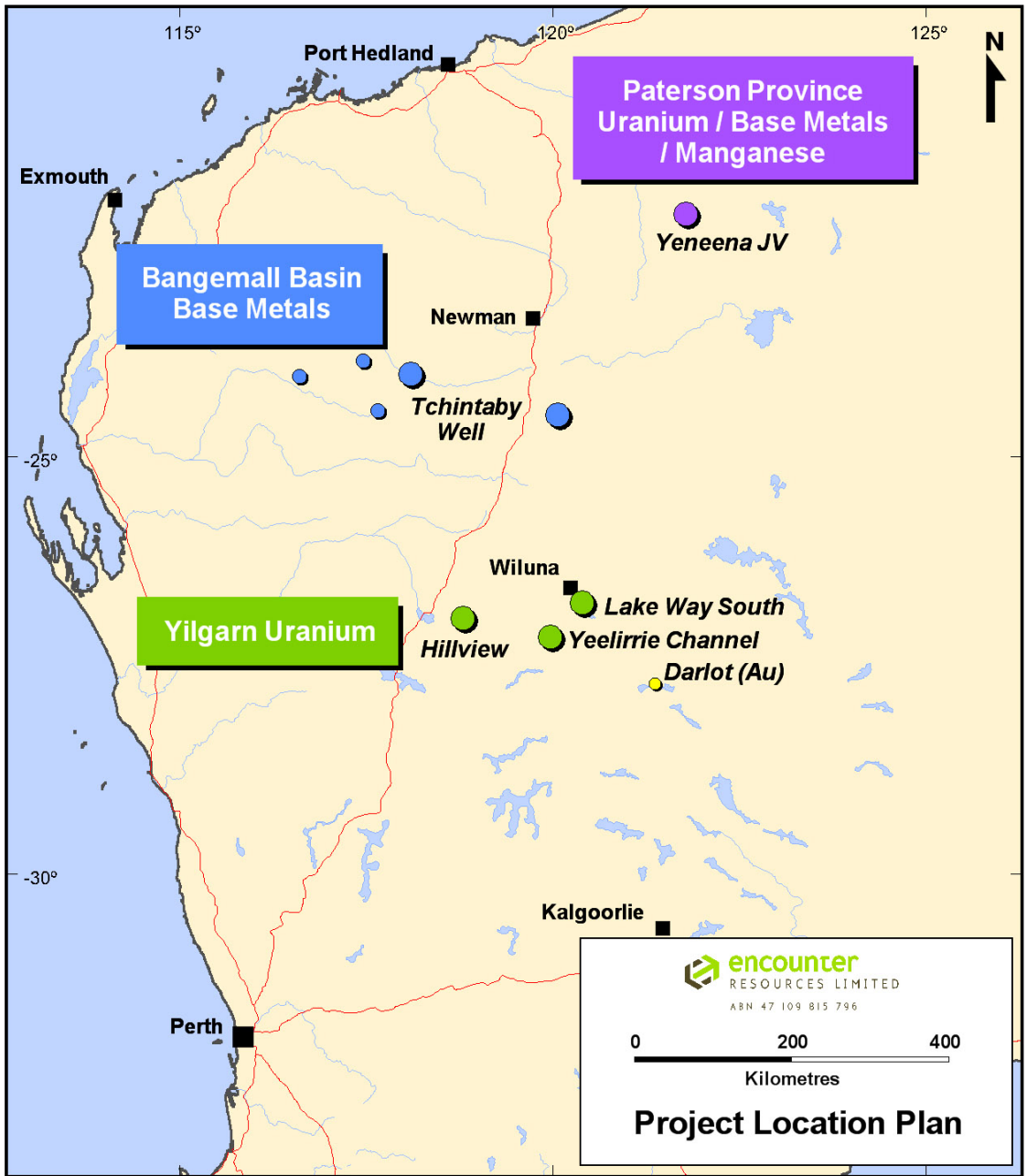


Figure 7: Encounter Resources Project Location Plan

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## Appendix 5B

### Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Encounter Resources Limited

ABN

47 109 815 796

Quarter ended ("current quarter")

31 December 2009

#### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(675)	(1,240)
(b) development	-	-
(c) production	-	-
(d) administration	(146)	(322)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	53	68
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – R&D tax concession refund	-	114
<b>Net Operating Cash Flows</b>	<b>(768)</b>	<b>(1,380)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(2)	(3)
1.9 Proceeds from sale of: (a)prospects	-	-
(b)equity investments	-	-
(c)other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(2)</b>	<b>(3)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(770)</b>	<b>(1,383)</b>

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(770)	(1,383)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds/(refunds) from issues of shares, options, etc.	3,264	3,264
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – capital raising costs	(12)	(12)
	<b>Net financing cash flows</b>	3,252	3,252
	<b>Net increase (decrease) in cash held</b>	2,482	1,869
1.20	Cash at beginning of quarter/year to date	1,665	2,278
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	4,147	4,147

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	131
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Item 1.23 - Remuneration of Directors.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

The company issued shares to the equity placement agent amounting to \$234,197 in lieu of fees and disbursements associated with the share placement completed during the quarter.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

-

+ See chapter 19 for defined terms.

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	350
4.2 Development	-
<b>Total</b>	<b>350</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	258	146
5.2 Deposits at call	3,889	1,519
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>4,147</b>	<b>1,665</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	E70/2957	relinquished	80%	0%
	E70/2958	relinquished	80%	0%
6.2 Interests in mining tenements acquired or increased	-	-	-	-

+ See chapter 19 for defined terms.

### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference +securities</b> <i>(description)</i>	-	-		
7.2 Changes during quarter				
(a) Increases through issues	-	-		
(b) Decreases through returns of capital, buy-backs, redemptions	-	-		
7.3 <b>+Ordinary securities</b>	78,886,435	78,886,435		
7.4 Changes during quarter				
(a) Increases through issues	10,289,535	10,289,535		
(b) Decreases through returns of capital, buy-backs	-	-		
(c) Released from Escrow	-	-		
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	-	-		
7.6 Changes during quarter				
(a) Increases through issues	-	-		
(b) Decreases through securities matured, converted	-	-		
7.7 <b>Options</b> <i>(description and conversion factor)</i>	100,000	-	<i>Exercise price</i> 20 cents	<i>Expiry date</i> 23/3/2011
	100,000	-	45 cents	15/5/2011
	250,000	-	52.5 cents	7/12/2011
	50,000	-	50 cents	9/8/2012
	500,000	-	53.5 cents	30/11/2012
	400,000	-	55 cents	30/11/2012
	400,000	-	70 cents	30/11/2012
	125,000	-	50 cents	30/11/2012
	325,000	-	30 cents	30/6/2013
	775,000	-	10 cents	28/2/2014
7.8 Issued during quarter	-	-		
7.9 Exercised during quarter	-	-		

+ See chapter 19 for defined terms.

7.10	Expired during quarter	-	-		
7.11	<b>Debentures</b> <i>(totals only)</i>	-	-		
7.12	<b>Unsecured notes</b> <i>(totals only)</i>	-	-		

## Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act [or other standards acceptable to ASX](#) (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 29 January 2010

(Company secretary)

Print name: Kevin Hart

## Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Cash Flow Statements* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.