



Interim Consolidated Financial Report

**For The Half-Year Ended
31 December 2010**

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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 2010.

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 \$5,148,327 (31 December 2009: \$790,768).

At the end of the half-year the Group had \$8,750,023 (30 June 2010: \$2,374,645) in cash and at call deposits. Capitalised mineral exploration and evaluation expenditure is \$6,269,686 (30 June 2010: \$6,052,602).

Expenditure was principally focused on exploration for base metals, uranium, manganese and gold 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 11th day of March 2011.



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 2010, 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 HORWATH PERTH

A handwritten signature in blue ink, appearing to read "Sean McGurk", written over a light blue rectangular background.

SEAN MCGURK
Partner

Perth, WA

Dated this day 11th day of March 2011

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Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2010

		Consolidated	
		31 December 2010	31 December 2009
Continuing operations	Note	\$	\$
Other income		-	120,250
Interest income		75,822	65,530
Total revenue		75,822	185,780
Employee expenses		(510,927)	(437,234)
Employee expenses recharged to exploration		379,018	326,971
Equity based remuneration expense	8	(3,080,509)	(37,465)
Operating lease expenses		(17,250)	(24,125)
Depreciation expense		(7,709)	(9,066)
Corporate expenses		(87,951)	(72,743)
Administration and other expenses		(194,964)	(116,808)
Joint venture administration costs recharged		20	137
Exploration costs written off and expensed		(1,703,877)	(606,761)
Loss before income tax	3	(5,148,327)	(791,314)
Income tax expense		-	546
Loss for the half-year		(5,148,327)	(790,768)
Other comprehensive Income		-	-
Total comprehensive income for the period		(5,148,327)	(790,768)
Loss per share			
Basic loss per share (cents)		(5.8)	(1.1)
Diluted loss per share (cents)		(5.8)	(1.1)

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 2010

	Consolidated	
	31 December 2010 \$	30 June 2010 \$
Current assets		
Cash and cash equivalents	8,750,023	2,374,645
Trade and other receivables	50,176	320,961
Other current assets	98,294	96,079
Total current assets	8,898,493	2,791,685
Non-current assets		
Property, plant and equipment	138,094	152,274
Capitalised mineral exploration and evaluation expenditure	6,269,686	6,052,602
Total non-current assets	6,407,780	6,204,876
Total assets	15,306,273	8,996,561
Current liabilities		
Trade and other payables	88,657	454,483
Employee benefits	54,349	62,973
Total current liabilities	143,006	517,456
Total liabilities	143,006	517,456
Net assets	15,163,267	8,479,105
Equity		
Issued capital	21,497,047	12,745,067
Accumulated losses	(9,772,120)	(4,742,176)
Equity remuneration reserve	3,438,340	476,214
Total equity	15,163,267	8,479,105

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

Encounter Resources Limited
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Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2010

	Issued capital \$	Accumulated losses \$	Equity remuneration reserve \$	Total \$
<u>6 months ended 31 December 2009</u>				
Balance at the start of the financial period	9,443,330	(3,823,888)	431,452	6,050,894
Comprehensive loss for the financial period	-	(790,767)	-	(790,767)
Movement in equity remuneration reserve	-	-	37,465	37,465
Transfer from equity remuneration reserve on exercise of options	-	-	-	-
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued	3,273,406	-	-	3,273,406
Balance at the start of the financial period	12,716,736	(4,614,655)	468,917	8,570,998
<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

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 2010

	Consolidated	
	31 December 2010 \$	31 December 2009 \$
Cash flows from operating activities		
Interest received	75,822	67,759
Research and development tax refund	171,542	113,732
Payments to suppliers and employees	(399,662)	(322,984)
Net cash used in operating activities	(152,298)	(141,493)
Cash flows from investing activities		
Payments for exploration and evaluation	(2,210,732)	(1,239,899)
Payments for plant and equipment	(13,570)	(2,515)
Net cash used in investing activities	(2,224,302)	(1,242,414)
Cash flows from financing activities		
Proceeds from the issue of shares	9,281,640	3,264,245
Share issue costs	(529,662)	(11,828)
Net cash from financing activities	8,751,978	3,252,417
Net increase in cash held	6,375,378	1,868,510
Cash at the beginning of the period	2,374,645	2,278,318
Cash at the end of the period	8,750,023	4,146,828

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 2010

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 2010 annual financial report for the financial year ended 30 June 2010, 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.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

AASB 2009-5 Introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditure on unrecognised assets in the statement of cash flows and the classification of leases of land and buildings.

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and have no affect on the amounts reported for the current or prior periods.

The half year financial report was approved by the Board of Directors on 11th March 2011.

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.

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Notes to the Interim Financial Statements
For the half-year ended 31 December 2010

Note 3 Loss for the period

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

	31 December 2010 \$	31 December 2009 \$
Depreciation		
Leasehold improvements	(3,689)	(3,689)
Office equipment	(4,020)	(5,377)
	(7,709)	(9,066)
Government funded contribution to exploration	-	120,000
Previously capitalised exploration costs written off	(1,564,274)	(532,599)
Exploration costs not capitalised	(139,053)	(74,162)
Exploration expenditure written off and expensed	(1,703,327)	(606,761)

Note 4 Issued capital

	31 December 2010 No.	31 December 2009 No.	31 December 2010 \$	31 December 2009 \$
Balance at the start of the period	79,161,435	68,596,900	12,745,067	9,443,330
Share placement \$0.34	-	10,289,535	-	3,498,442
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	-
- Share issue costs	-	-	(529,660)	(225,036)
Balance at the end of the period	98,994,360	78,886,435	21,497,047	12,716,736

Note 5 Dividends

No dividends were paid or proposed during the period.

The Company has no franking credits available as at 31 December 2009 or 31 December 2010.

Notes to the Interim Financial Statements
For the half-year ended 31 December 2010

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 Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Note 8 Equity based remuneration expense

During the half year reporting period the Company issued 5,000,000 (2009: nil) unlisted options to directors, employees and consultants.

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

Grant date	26 November 2010
Exercise date	22 November 2014
Share price on grant date	\$0.92
Option exercise price	\$1.35
Volatility	103%
Interest rate	5.27%
Value per option	\$0.6161

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 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 2010 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 11th day of March 2011.



W Robinson
Managing Director

**INDEPENDENT AUDITOR 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 2010, 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 2010 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 2010 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.

CROWE HORWATH PERTH



SEAN MCGURK
Partner

Perth, WA

Dated this day 11th day of March 2011