

**Encounter Resources Limited**  
**ABN 47 109 815 796**

Consolidated Financial Statements  
For The Year Ended 30 June 2010

**Encounter Resources Limited**  
**ABN 47 109 815 796**

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***Competent Persons Statement***

*The information in this report that relates to Exploration Results 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 the information compiled by him, in the form and context in which it appears.*

**Encounter Resources Limited**  
**ABN 47 109 815 796**

**Corporate Directory**

**Directors**

Paul Chapman	Non-Executive Chairman
Will Robinson	Managing Director
Peter Bewick	Exploration Director
Jonathan Hronsky	Non-Executive Director

**Company Secretary**

Kevin Hart  
Dan Travers (Joint Company Secretary)

**Principal and Registered Office**

Level 7, 600 Murray Street  
West Perth, Western Australia 6005  
Telephone (08) 9486 9455  
Facsimilie (08) 6210 1578  
Web [www.enrl.com.au](http://www.enrl.com.au)

**Auditor**

WHK Horwath Perth Audit Partnership  
Level 6, 256 St Georges Terrace  
Perth, Western Australia 6000

**Share Registry**

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
Applecross, Western Australia 6153  
Telephone (08) 9315 2333  
Facsimilie (08) 9315 2233

**Stock Exchange Listing**

The Company's shares are quoted on the Australian Securities Exchange. The home exchange is Perth, Western Australia.

**ASX Code**

ENR – Ordinary shares

**Company Information**

The Company was incorporated and registered under the Corporations Act 2001 in Western Australia on 30 June 2004 and became a public company on 26 May 2005.

The Company is domiciled in Australia.

**Encounter Resources Limited**  
**ABN 47 109 815 796**

**Directors' Report**

The Directors present their report on Encounter Resources Limited (the Company) and the entities it controlled at the end of, and during the year ended 30 June 2010 (the Group).

**Directors**

The names and details of the Directors of Encounter Resources Limited during the financial year and until the date of this report are:

**Paul Chapman – B.Comm, ACA, Grad. Dip. Tax, CFTP(Snr), MAICD, SA Fin**  
***Non-Executive Chairman appointed 7 October 2005***

Mr Paul Chapman is a chartered accountant with over twenty years experience in the resources sector gained in Australia and the United States. Mr Chapman has experience across a range of commodity businesses including gold, nickel, uranium, manganese, bauxite/alumina and oil/gas. Mr Chapman has held managing director and other senior management roles in public companies of various sizes. Mr Chapman was a director of Albidon Limited until 22 April 2009 and is the chairman of ASX listed gold producer Silver Lake Resources Ltd and minerals explorer Rex Minerals Ltd.

**Will Robinson – B.Comm, MAusIMM**  
***Managing Director (Executive) appointed 30 June 2004***

Mr Robinson is a resources industry commercial and finance specialist with over sixteen years experience in commercial management, transaction structuring and negotiation, business strategy development and London Metals Exchange metals trading. Mr Robinson held various senior commercial positions with WMC in Australia and North America from 1994 to 2003. Mr Robinson has extensive experience in the sale and distribution of commodities and was Vice President – Marketing for WMC's nickel business from 2001 to 2003. Mr Robinson founded Encounter Resources Limited in 2004 and has overseen the development of the Company as its Managing Director. Mr Robinson is the President of the Association of Mining and Exploration Companies (AMEC).

**Peter Bewick – B.Eng (Hons), MAusIMM**  
***Exploration Director (Executive) appointed 7 October 2005***

Mr Bewick is an experienced geologist and has held a number of senior mine and exploration geological roles during a fourteen year career with WMC. These roles include Exploration Manager and Geology Manager of the Kambalda Nickel Operations, Exploration Manager for St Ives Gold Operation, Exploration Manager for WMC's Nickel Business Unit and Exploration Manager for North America based in Denver, Colorado. Whilst at WMC, Mr Bewick gained extensive experience in project generation for a range of commodities including nickel, gold and bauxite. Mr Bewick has been associated with a number of brownfields exploration successes at Kambalda and with the greenfield Collurabie NI-CU-PGE discovery.

**Jonathan Hronsky - BAppSci, PhD, MAusIMM, FSEG**  
***Non-executive director appointed 10 May 2007***

Dr. Jon Hronsky has more than twenty five years of experience in the mineral exploration industry, primarily focused on project generation, technical innovation and exploration strategy development. Dr. Hronsky has particular expertise in targeting for nickel sulfide deposits, but has worked across a diverse range of commodities. His work led to the discovery of the West Musgrave nickel sulfide province in Western Australia. Dr. Hronsky was most recently Manager-Strategy & Generative Services for BHP Billiton Mineral Exploration. Prior to that, he was Global Geoscience Leader for WMC Resources Ltd. He is currently a Director of exploration consulting group Western Mining Services and Chairman of the board of management of the Centre for Exploration Targeting at the University of Western Australia.

**Encounter Resources Limited**  
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**Directors' Report**

**Company Secretary**

**Kevin Hart – B.Comm, CA**

Mr Hart is a Chartered Accountant and was appointed to the position of Company Secretary on 4 November 2005. He has over 20 years experience in accounting and the management and administration of public listed entities in the mining and exploration industry.

He is currently a partner in an advisory firm, Endeavour Corporate, which specialises in the provision of company secretarial services to ASX listed entities.

**Dan Travers – B.Sc (Hons), FCCA**

Mr Travers is a member of the Association of Chartered Certified Accountants and was appointed to the position of Joint Company Secretary on 20 November 2008. He is an employee of Endeavour Corporate, which specialises in the provision of company secretarial services to ASX listed entities in the mining and exploration industry.

**Directors' Interests**

As at the date of this report the Directors' interests in shares and unlisted options of the Company are as follows:

<i>Director</i>	<i>Directors' Interests in Ordinary Shares</i>	<i>Directors' Interests in Unlisted Options</i>	<i>Options vested at the reporting date</i>
P Chapman	4,747,400	-	-
W Robinson	21,846,900	-	-
P Bewick	4,725,000	800,000	800,000
J Hronsky	-	500,000	500,000

Included in the Directors' interests in Unlisted Options, there are 1,300,000 options that are vested and exercisable as at the date of signing this report.

**Directors' Meetings**

The number of meetings of the Company's Directors held during the year ended 30 June 2010, and the number of meetings attended by each Director are as follows:

<i>Director</i>	<i>Board of Directors' Meetings</i>	
	<i>Held</i>	<i>Attended</i>
P Chapman	5	5
W Robinson	5	5
P Bewick	5	5
J Hronsky	5	5

**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.

**Results of Operations**

The consolidated net loss after income tax for the financial year was \$918,288 (2009: \$1,987,843).

Included in the consolidated loss for the current year is a write-off of deferred exploration expenditure totalling \$666,519 (2009: \$1,311,311).

**Encounter Resources Limited**  
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**Directors' Report**

**Dividends**

No dividend has been paid since the end of the previous financial year and no dividend is recommended for the current year.

**Review of Activities**

Exploration

In the 2009/10 financial year the main exploration focus for the company was the Yeneena project in the Paterson Province of Western Australia.

The company completed drill programs at six separate prospects within this extensive exploration project (1300km<sup>2</sup>) located south-west of the giant Telfer gold/copper deposit. The targeted drilling resulted in high grade intersections of copper (BM1 prospect), zinc (BM5 prospect) and manganese (MN1 prospect).

The discovery of high grade copper in multiple intersections over an extensive area at the BM1 prospect is a very encouraging development for the company.

Financial Position

At the end of the financial year the Group had \$2,374,645 (2009: \$2,278,318) in cash and at call deposits. Capitalised mineral exploration and evaluation expenditure is \$6,052,602 (2009: \$3,716,716).

Expenditure was principally focused on the exploration for base metals and manganese at the Company's Yeneena Project in the Paterson Province of Western Australia.

**Significant Changes in the State of Affairs**

During the year the Group acquired the remaining 25% interest in the Yeneena Joint Venture from Barrick (Australia Pacific) Limited.

On 2 October 2009 the Company completed a placement of 10,289,535 shares at \$0.34 cents each, raising \$3,489,442 before costs. Subsequent to the balance date the Company completed a placement of 11,482,925 shares at \$0.27 each, raising \$3,100,390 before costs.

Other than the above, there have been no significant changes in the state of affairs of the Company and Group during or since the end of the financial year.

**Options over Unissued Capital**

Unlisted Options

During the financial year the Company granted no unlisted options (2009: 1,125,000) over unissued shares to employees of the Company.

During the year no options were cancelled or expired (2009: 100,000 unlisted options were cancelled on the cessation of employment of an employee).

During the financial year 275,000 (2009: nil) ordinary shares were issued on the exercise of options. The shares were issued at 10 cents each and were exercisable on or before 28 February 2014.

Since the end of the financial year no options have been issued by the Company. No options have been exercised since the end of the financial year.

**Encounter Resources Limited**  
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**Directors' Report**

**Options over Unissued Capital (continued)**

As at the date of this report 2,750,000 unissued ordinary shares of the Company are under option as follows:

<i>Number of Options Granted</i>	<i>Exercise Price</i>	<i>Grant Date</i>	<i>Expiry Date</i>
100,000	20 cents	23 March 2006	23 March 2011
100,000	45 cents	15 May 2006	15 May 2011
250,000	52.5 cents	7 December 2006	7 December 2011
50,000	50 cents	9 August 2007	9 August 2012
125,000	50 cents	11 December 2007	30 November 2012
500,000	53.5 cents	11 December 2007	30 November 2012
400,000	55 cents	11 December 2007	30 November 2012
400,000	70 cents	11 December 2007	30 November 2012
325,000	30 cents	1 July 2008	30 June 2013
500,000	10 cents	1 March 2009	28 February 2014

All options on issue at the date of this report are vested and exercisable.

These unlisted options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

The holders of unlisted options are not entitled to any voting rights until the options are exercised into ordinary shares.

**Matters Subsequent to the End of the Financial Year**

The Company completed a share placement on 26 August 2010 by the issue of 11,482,925 ordinary fully paid shares at \$0.27 each, raising \$3,100,390 before costs.

Other than the above, there has not arisen in the interval between the end of the financial year 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.

**Likely Developments and Expected Results of Operations**

Disclosure of any further information has not been included in this report because, in the reasonable opinion of the Directors to do so would be likely to prejudice the business activities of the Group and is dependent upon the results of the future exploration and evaluation.

**Environmental Regulation and Performance**

The Group holds various exploration licences to regulate its exploration activities in Australia. These licences include conditions and regulations with respect to the rehabilitation of areas disturbed during the course of its exploration activities.

So far as the Directors are aware, all exploration activities have been undertaken in compliance with all relevant environmental regulations.

**Encounter Resources Limited**  
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**Directors' Report**

**Remuneration Report (Audited)**

*Remuneration Policy*

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. Remuneration packages include fixed remuneration with bonuses or equity based remuneration entirely at the discretion of the Board based on the performance of the Company.

Total remuneration for all Non-Executive Directors was last voted on by shareholders on 26 November 2007, whereby it is not to exceed \$200,000 per annum. Non-Executive Directors do not receive bonuses. Directors' fees cover all main Board activities.

At the date of this report the Company has not entered into any agreements with Directors or senior executives which include performance based components.

*Details of Remuneration for Directors and Executive Officers*

During the year there were no senior executives which were employed by the Company for whom disclosure is required.

Details of the remuneration of each Director of the Company are as follows:

<i>2010</i> <i>Directors</i>	<i>Base Emolument</i> \$	<i>Superannuation Contributions</i> \$	<i>Other Benefits</i> \$	<i>Value of Options Granted</i> \$	<i>Total</i> \$
P. Chapman	<b>39,267</b>	<b>3,534</b>	-	-	<b>42,801</b>
W. Robinson	<b>213,513</b>	<b>19,216</b>	-	-	<b>232,729</b>
P. Bewick	<b>196,333</b>	<b>17,670</b>	-	-	<b>214,003</b>
J. Hronsky	<b>40,600</b>	<b>3,654</b>	-	-	<b>44,254</b>
<b>Total</b>	<b>489,713</b>	<b>44,074</b>	-	-	<b>533,787</b>

<i>2009</i> <i>Directors</i>	<i>Base Emolument</i> \$	<i>Superannuation Contributions</i> \$	<i>Other Benefits</i> \$	<i>Value of Options Granted</i> \$	<i>Total</i> \$
P. Chapman	38,667	3,480	-	-	42,147
W. Robinson	210,250	18,923	-	-	229,173
P. Bewick	193,333	17,400	-	-	210,733
J. Hronsky	40,000	3,600	-	-	43,600
<b>Total</b>	<b>482,250</b>	<b>43,403</b>	-	-	<b>525,653</b>



**Encounter Resources Limited**  
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**Directors' Report**

**Remuneration Report (Continued)**

*Executive Employment Agreements*

Remuneration and other terms of employment for the Managing Director and Exploration Director are set out in their respective Executive Employment Agreements. Both employment contracts are for a two year term commencing 23 January 2009 and are subject to a three month notice of termination of contract.

The contractual arrangements contain certain provisions typically found in contracts of this nature.

Payment of termination benefit by the employer, other than amongst other things for gross misconduct is equal to the payment limit set by Sub-section 200G of the Corporations Act 2001.

*Unlisted Options*

No options over unissued shares have been issued to Directors or Key Management Personnel of the Company during or since the end of the financial year.

No options were exercised by Key Management Personnel during or since the end of the financial year.

**End of Remuneration Report**

**Officer's Indemnities and Insurance**

During the year the Company paid an insurance premium to insure certain officers of the Company. The officers of the Company covered by the insurance policy include the Directors named in this report.

The Directors and Officers Liability insurance provides cover against all costs and expenses that may be incurred in defending civil or criminal proceedings that fall within the scope of the indemnity and that may be brought against the officers in their capacity as officers of the Company. The insurance policy does not contain details of the premium paid in respect of individual officers of the Company. Disclosure of the nature of the liability cover and the amount of the premium is subject to a confidentiality clause under the insurance policy.

The Company has not provided any insurance for an auditor of the Company.

**Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company or Group, or to intervene in any proceedings to which the Company or Group is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company or Group with leave of the Court under section 237 of the Corporations Act 2001.

**Corporate Governance**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in the Annual Report.

**Encounter Resources Limited**  
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**Directors' Report**

**Non-audit Services**

During the year WHK Horwath the Company's auditor, has not performed any other services in addition to their statutory duties:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
Total remuneration paid to auditors during the financial year:	\$	\$	\$	\$
Audit and review of the Company's financial statements	<b>30,500</b>	27,800	<b>30,500</b>	27,800
Other services	-	-	-	-
<b>Total</b>	<b>30,500</b>	27,800	<b>30,500</b>	27,800

The board considers any non-audit services provided during the year by the auditor and satisfies itself that the provision of any non-audit services during the year by the auditor is compatible with, and does not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services are reviewed by the board to ensure they do not impact the impartiality and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they do not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

**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 11.

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

Dated at Perth this 28<sup>th</sup> day of September 2010.



**W Robinson**  
**Director**

**AUDITOR'S INDEPENDENCE DECLARATION**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Encounter Resources Limited for the year ended 30 June 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP



NICHOLAS HOLLENS

Partner

Perth, WA

Dated this 28<sup>th</sup> day of September 2010

**Encounter Resources Limited**  
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**Consolidated Statement of Comprehensive Income**  
**For the financial year ended 30 June 2010**

	Note	Consolidated 2010 \$	2009 \$
Revenue	5	<u>305,373</u>	174,288
<b>Total revenue</b>		<b>305,373</b>	174,288
Employee expenses		<b>(896,280)</b>	(935,703)
Employee expenses recharged to exploration		<b>716,688</b>	685,461
Equity based remuneration expense		<b>(44,762)</b>	(230,297)
Non-executive Director's fees		<b>(79,867)</b>	(78,667)
Depreciation expense	11	<b>(16,629)</b>	(23,103)
Corporate expenses		<b>(105,536)</b>	(100,868)
Joint venture administration costs recharged		<b>383</b>	24,806
Other expenses from ordinary activities		<b>(303,227)</b>	(305,635)
Exploration costs written off and expensed	6	<u><b>(666,519)</b></u>	(1,311,311)
<b>Loss before income tax</b>		<b>(1,090,376)</b>	(2,101,029)
Income tax benefit/(expense)	7	<u><b>172,088</b></u>	113,186
<b>Loss after tax</b>	17	<u><b>(918,288)</b></u>	(1,987,843)
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<u><b>(918,288)</b></u>	(1,987,843)
Earnings per share for loss attributable to the ordinary equity holders of the Company		<b>Cents</b>	Cents
Basic earnings/(loss) per share	28	<u><b>(1.2)</b></u>	(2.9)
Diluted earnings/(loss) per share	28	<u><b>(1.2)</b></u>	(2.9)

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

**Encounter Resources Limited**  
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**Consolidated Statement of Financial Position**  
**As at 30 June 2010**

	Note	Consolidated 2010 \$	2009 \$
<b>Current assets</b>			
Cash and cash equivalents	8	2,374,645	2,278,318
Trade and other receivables	9(a)	320,961	160,374
Other current assets	9(b)	96,079	43,586
<b>Total current assets</b>		<b>2,791,685</b>	2,482,278
<b>Non-current assets</b>			
Property, plant and equipment	11	152,274	220,907
Capitalised mineral exploration and evaluation expenditure	12	6,052,602	3,716,716
<b>Total non-current assets</b>		<b>6,204,876</b>	3,937,623
<b>Total assets</b>		<b>8,996,561</b>	6,419,901
<b>Current liabilities</b>			
Trade and other payables	14(a)	454,483	322,422
Employee benefits	14(b)	62,973	46,585
<b>Total current liabilities</b>		<b>517,456</b>	369,007
<b>Total liabilities</b>		<b>517,456</b>	369,007
<b>Net assets</b>		<b>8,479,105</b>	6,050,894
<b>Equity</b>			
Issued capital	15	12,745,067	9,443,330
Accumulated losses	17	(4,742,176)	(3,823,888)
Equity remuneration reserve	17	476,214	431,452
<b>Total equity</b>		<b>8,479,105</b>	6,050,894

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 financial year ended 30 June 2010**

2009	Issued capital	Accumulated losses	Equity remuneration reserve	Total
	\$	\$	\$	\$
Balance at the start of the financial year	9,443,330	(1,836,045)	201,155	7,808,440
Loss for the financial year	-	(1,987,843)	-	(1,987,843)
Movement in equity remuneration reserve	-	-	230,297	230,297
Balance at the end of the financial year	<u>9,443,330</u>	<u>(3,823,888)</u>	<u>431,452</u>	<u>6,050,894</u>
 <b>2010</b>				
Balance at the start of the financial year	<b>9,443,330</b>	<b>(3,823,888)</b>	<b>431,452</b>	<b>6,050,894</b>
Loss for the financial year	-	<b>(918,288)</b>	-	<b>(918,288)</b>
Movement in equity remuneration reserve	-	-	<b>44,762</b>	<b>44,762</b>
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued	<b>3,301,737</b>	-	-	<b>3,301,737</b>
Balance at the end of the financial year	<u><b>12,745,067</b></u>	<u><b>(4,742,176)</b></u>	<u><b>476,214</b></u>	<u><b>8,479,105</b></u>

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

**Encounter Resources Limited**  
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**Consolidated Statement of Cash Flows**  
**For the financial year ended 30 June 2010**

	Note	Consolidated 2010 \$	2009 \$
<b>Cash flows from operating activities</b>			
State Government funded drilling rebate		150,000	-
R&D tax concession tax refund		113,732	-
Interest received		157,352	181,023
Payments to suppliers and employees		<u>(629,858)</u>	<u>(525,733)</u>
<b>Net cash used in operating activities</b>	27	<u>(208,774)</u>	<u>(344,710)</u>
<b>Cash flows from investing activities</b>			
Payments for project acquisition costs		(400,000)	-
Payments for exploration and evaluation		(2,568,314)	(2,040,876)
Payments for plant and equipment		<u>(7,333)</u>	<u>(37,139)</u>
<b>Net cash used in investing activities</b>		<u>(2,975,647)</u>	<u>(2,078,015)</u>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares		3,291,745	-
Payments for share issue costs		<u>(10,997)</u>	<u>-</u>
<b>Net cash used in financing activities</b>		<u>3,280,748</u>	<u>-</u>
<b>Net increase/(decrease) in cash held</b>		<b>96,327</b>	<b>(2,422,725)</b>
<b>Cash at the beginning of the financial year</b>		<u><b>2,278,318</b></u>	<u>4,701,043</u>
<b>Cash at the end of the financial year</b>	8(a)	<u><u><b>2,374,645</b></u></u>	<u><u>2,278,318</u></u>

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

**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 1 Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes financial statements for the consolidated entity consisting of Encounter Resources Limited and its subsidiaries ("Group").

**(a) Basis of preparation**

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

On 28 June 2010, the government announced the passage of the Corporations Amendment (Corporate Reporting Reform) Bill 2010. The changes contained within the Bill have come into effect for the financial year ended 30 June 2010. A key change that impacted the financial report of the Group is the abolition of the requirement to prepare parent company financial statements in addition to consolidated financial statements. As a result of this, the separate financial statements of the parent entity, have not been presented within this group financial report. Certain disclosures required by the Corporations Act 2001 in relation to the parent entity are detailed in Note 30 to the financial statements.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar.

The financial report of the Group was authorised for issue in accordance with a resolution of Directors on 28<sup>th</sup> September 2010.

*Statement of Compliance*

The consolidated financial report of Encounter Resources Limited complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AIFRS), in their entirety. Compliance with AIFRS ensures that the financial report also complies with International Financial Reporting Standards (IFRS) in their entirety.

***Changes in accounting policies on initial application of Accounting Standards***

During the year, certain accounting policies have changed as a result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards, relevant to the Group are:

- Principles of consolidation – revised AASB 127 *Consolidated and Separate Financial Statements and changes made by AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity and Associate*
- Business combinations – revised AASB 3 *Business Combinations*
- Segment reporting – new AASB 8 *Operating Segments*
- Financial Instruments – revised AASB 7 *Financial Instruments: Disclosures*
- Borrowing Costs – revised AASB 123 *Borrowing Costs*
- Presentation of Financial Statements – AASB 101



**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 1 Summary of significant accounting policies (continued)**

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*.  
AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-10 *Amendments to Australian Accounting Standards - Classification of Rights Issue* [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- IFRIC19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

*Reporting basis and conventions*

These financial statements have been prepared under the historical cost convention, and on an accrual basis.

*Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**Encounter Resources Limited**  
**ABN 47 109 815 796**

**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 1 Summary of significant accounting policies (continued)**

*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.

**(b) Segment reporting**

Operating segments are identified and segment information disclosed, where appropriate, on the basis of internal reports reviewed by the Company's board of directors, being the Group's Chief Operating Decision Maker, as defined by AASB 8. Adoption of AASB 8 by the Group has not resulted in a redefinition of previously reported operating segments.

**(c) Revenue recognition and receivables**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, allowances and amounts collectable on behalf of third parties.

*Interest income*

Interest income is recognised on a time proportion basis and is recognised as it accrues.

**(d) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary timing differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to those timing differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 1 Summary of significant accounting policies (continued)**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Amounts receivable from the Australian Tax Office in respect of research and development tax concession claims are recognised in the year in which the expenditure on which the claim was incurred.

**(e) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

**(f) Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(g) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(h) Fair value estimation**

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 1 Summary of significant accounting policies (continued)**

**(i) Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight line and written down value methods to allocate their cost, net of residual values, over their estimated useful lives, as follows:

Field equipment	33.3%
Office equipment	33.3%
Leasehold improvements	Over the term of the lease

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(f)). Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

**(j) Mineral exploration and evaluation expenditure**

Mineral exploration and evaluation expenditure is written off as incurred or accumulated in respect of each identifiable area of interest and capitalised. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

- such costs are expected to be recouped through the successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in, or in relation to, the area of interest are continuing.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the year in which that assessment is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Immediate restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure. Exploration activities resulting in future obligations in respect of restoration costs result in a provision to be made by capitalising the estimated costs, on a discounted cash basis, of restoration and depreciating over the useful life of the asset. The unwinding of the effect of the discounting on the provision is recorded as a finance cost in the income statement.

**(k) Joint ventures**

Interests in joint ventures have been brought to account by including the appropriate share of the relevant assets, liabilities and costs of the joint ventures in their relevant categories in the financial statements. Details of these interests are shown in Note 13.

**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 1 Summary of significant accounting policies (continued)**

**(l) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

**(m) Employee benefits**

*Wages, salaries and annual leave.*

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*Long service leave.*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future salaries, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*Share based payments.*

Share based compensation payments are made available to Directors and employees.

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

**(n) Issued capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 1 Summary of significant accounting policies (continued)**

**(o) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the earnings attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(p) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as a part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flow.

**(q) Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(r) Investments and other financial assets**

*Recognition*

When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

*(i) Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 1 Summary of significant accounting policies (continued)**

**Investments and other financial assets (continued)**

*(ii) Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments included to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

*(iii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

*(iv) Financial liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**(s) Fair value estimation**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

*Investments in equity and debt securities*

The fair value of financial assets at fair value through profit or loss, held to maturity investments and available for sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held to maturity investments is determined for disclosure purposes only. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

*Trade and other receivables*

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**Encounter Resources Limited**  
**ABN 47 109 815 796**

**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 2 Financial risk management**

The Group has exposure to a variety of risks arising from its use of financial instruments. This note presents information about the Company's exposure to the specific risks, and the policies and processes for measuring and managing those risks. The Board of Directors has the overall responsibility for the risk management framework and has adopted a Risk Management Policy.

**(a) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from transactions with customers and investments.

*Trade and other receivables*

The Group has no investments and the nature of the business activity of the Group does not result in trading receivables. The receivables that the Group does experience through its normal course of business are short term and the most significant recurring by quantity is the receivable from the Australian Taxation Office, the risk of non-recovery of receivables from this source is considered to be negligible.

*Cash deposits*

The Group's primary banker is St George Bank Limited, at balance date significantly all operating accounts and funds held on deposit are with this bank other than a cash at call deposit with Rabobank Australia. The Directors believe any risk associated with the use of predominantly only one bank is addressed through the use of an AA rated bank as a primary banker and by the holding of a portion of funds on deposit with an alternative AAA rated institution. Except for this matter the Group currently has no significant concentrations of credit risk.

**(b) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages its liquidity risk by monitoring its cash reserves and forecast spending. Management is cognisant of the future demands for liquid finance resources to finance the Company's current and future operations, and consideration is given to the liquid assets available to the Company before commitment is made to future expenditure or investment.

**(c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising any return.

*Interest rate risk*

The Group has significant cash assets which may be susceptible to fluctuations in changes in interest rates. Whilst the Group requires the cash assets to be sufficiently liquid to cover any planned or unforeseen future expenditure, which prevents the cash assets being committed to long term fixed interest arrangements; the Group does mitigate potential interest rate risk by entering into short to medium term fixed interest investments.

The Group does not have any direct contact with foreign exchange or equity risks other than their effect on the general economy.



**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 3 Critical accounting estimates and judgements**

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*

The Group's accounting policy is stated at 1(j). 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.

**Note 4 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 5 Revenue**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
<i>Operating activities</i>	<b>\$</b>	<b>\$</b>
State Government funded drilling rebate	<b>150,000</b>	-
Interest receivable	<b>155,123</b>	174,288
Other income	<b>250</b>	-
	<hr/> <b>305,373</b>	<hr/> <b>174,288</b>

**Note 6 Loss for the year**

*Loss before income tax includes the following specific expenses:*

Depreciation		
Office equipment	<b>9,250</b>	15,724
Leasehold improvements	<b>7,379</b>	7,379
	<hr/> <b>16,629</b>	<hr/> <b>23,103</b>
Rental expenses on operating leases – minimum lease payments	<b>28,142</b>	29,492
Exploration expenditure written off and expensed	<b>666,519</b>	1,311,311
	<hr/> <b>666,519</b>	<hr/> <b>1,311,311</b>

**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 7 Income tax**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	\$	\$
<i>a) Income tax expense</i>		
<i>Current income tax:</i>		
Current income tax charge (benefit)	<b>(993,401)</b>	(784,446)
Current income tax not recognised	<b>993,401</b>	784,446
R&D tax refund receivable	<b>(172,088)</b>	(113,186)
<i>Deferred income tax:</i>		
Relating to origination and reversal of timing differences	<b>(21,865)</b>	(664,887)
Deferred income tax benefit not recognised	<b>21,865</b>	664,887
Income tax expense/(benefit) reported in the income statement	<b>(172,088)</b>	(113,186)

The Group submitted a claim to the Australian Taxation Office for a Research and Development tax concession in respect of qualifying transactions occurring during the year ended 30 June 2009. The \$171,542 refund (2009: \$113,186) has been received by the Group prior to the date of signing this financial report.

*b) Reconciliation of income tax expense to prima facie tax payable*

Loss from continuing operations before income tax expense	<b>(1,090,376)</b>	(1,987,843)
Tax at the Australian rate of 30% (2009 – 30%)	<b>(327,113)</b>	(596,353)
<i>Tax effect of permanent differences:</i>		
Non-deductible share based payment	<b>13,429</b>	69,089
R&D tax refund receivable	<b>(172,088)</b>	(113,186)
Exploration costs written off	<b>199,956</b>	364,926
Non-deductible entertainment	<b>-</b>	622
Capital raising costs claimed	<b>(46,902)</b>	(33,400)
Net deferred tax asset benefit not brought to account	<b>160,630</b>	195,116
Tax (benefit)/expense	<b>(172,088)</b>	(113,186)

*c) Deferred tax – Balance Sheet*

*Liabilities*

Prepaid expenses	<b>28,823</b>	13,076
Capitalised exploration expenditure	<b>1,815,781</b>	1,115,015
	<b>1,844,604</b>	1,128,091

*Assets*

Revenue losses available to offset against future taxable income	<b>3,118,000</b>	2,386,343
Employee provisions	<b>18,892</b>	13,976
Accrued expenses	<b>6,000</b>	7,685
Deductible equity raising costs	<b>60,550</b>	39,942
	<b>3,203,442</b>	2,447,946

Net deferred tax asset/(liability)	<b>1,358,838</b>	1,319,855
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**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 7 Income tax (continued)**

	<b>Consolidated</b>	
	<b>2010</b>	2009
	\$	\$
<i>d) Deferred tax – Income Statement</i>		
<i>Liabilities</i>		
Accrued income	-	2,689
Prepaid expenses	<b>(12,257)</b>	5,827
Capitalised exploration expenditure	<b>(700,766)</b>	(200,270)
<i>Assets</i>		
Accruals	<b>(1,685)</b>	3,195
Increase in tax losses carried forward	<b>731,657</b>	854,712
Employee provisions	<b>4,916</b>	(1,266)
	<b>21,865</b>	664,887
Deferred tax benefit/(expense) not recognised	<b>21,865</b>	664,887

The deferred tax assets of tax losses not brought to account will only be obtained if:

- (i) The Company derives future assessable income of a nature and an amount sufficient to enable the benefit from the tax losses to be realised;
- (ii) The Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) No changes in tax legislation adversely affect the Company realising the benefit from the deduction of the losses.

All unused tax losses of \$10,393,333 (2009: \$7,954,477) were incurred by Australian entities.

**Note 8 Current assets - Cash and cash equivalents**

Cash at bank and on hand	61,863	143,954
Deposits at call	<b>2,312,782</b>	2,134,364
	<b>2,374,645</b>	2,278,318

*(a) Reconciliation to cash at the end of the year*

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Cash and cash equivalents per statement of cash flows	<b>2,374,645</b>	2,278,318
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*(b) Deposits at call*

The deposits are bearing fixed interest rates of 5.35% (2009: 4.0%). These deposits have an average maturity of 30 days.

**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 9 Current assets – Receivables**

	<b>Consolidated</b>	
	<b>2010</b>	2009
	\$	\$
<i>a) Trade and other receivables</i>		
Other receivables	<b>185,327</b>	124,527
Recoverable joint venture expenses	<b>4,808</b>	12,792
GST recoverable	<b>130,826</b>	23,055
	<b>320,961</b>	160,374
<i>b) Other current assets</i>		
Prepaid tenement costs	<b>84,444</b>	30,678
Prepaid insurance	<b>11,635</b>	12,908
	<b>96,079</b>	43,586

Details of fair value and exposure to interest risk are included at note 18.

**Note 10 Non-current assets – Investment in controlled entities**

*a) Investment in controlled entities*

The following amounts represent the respective investments in the share capital of Encounter Resources Limited's wholly owned subsidiary companies:

	<b>Company</b>	
	<b>2010</b>	2009
	\$	\$
Encounter Operations Pty Ltd	<b>2</b>	2
Hamelin Resources Pty Ltd	<b>1</b>	-
	<b>3</b>	2

<b>Subsidiary Company</b>	<b>Country of Incorporation</b>	<b>Ownership Interest</b>	
		<b>2010</b>	<b>2009</b>
Encounter Operations Pty Ltd	Australia	100%	100%
Hamelin Resources Pty Ltd	Australia	100%	N/a

- Encounter Operations Pty Ltd was incorporated in Western Australia on 27 November 2006.
- Hamelin Resources Pty Ltd was incorporated in Western Australia on 24 November 2009, and has been dormant since its incorporation.

The ultimate controlling party of the group is Encounter Resources Limited.

*b) Loans to controlled entities*

The following amounts are payable to the parent company, Encounter Resources Limited at the reporting date:

	<b>Company</b>	
	<b>2010</b>	2009
	\$	\$
Encounter Operations Pty Ltd	<b>3,878,589</b>	1,123,268
Hamelin Resources Pty Ltd	<b>-</b>	-
	<b>3,878,589</b>	1,123,268

The loan to Encounter Operations Pty Ltd, to fund exploration activity is non interest bearing. The Directors of Encounter Resources Limited do not intend to call for repayment within 12 months.

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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 11 Non-current assets – Property, plant and equipment**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	\$	\$
<i>Field equipment</i>		
At cost	339,457	337,594
Accumulated depreciation	(219,206)	(159,869)
	120,251	177,725
<i>Office equipment</i>		
At cost	68,569	63,099
Accumulated depreciation	(43,925)	(34,675)
	24,644	28,424
<i>Leasehold improvements</i>		
At cost	22,137	22,137
Accumulated depreciation	(14,758)	(7,379)
	7,379	14,758
	152,274	220,907
<b>Reconciliation</b>		
<i>Field equipment</i>		
Net book value at start of the year	177,725	266,126
Additions	1,863	440
Depreciation	(59,337)	(88,841)
	120,251	177,725
<i>Office equipment</i>		
Net book value at start of the year	28,424	24,182
Additions	5,470	19,966
Depreciation	(9,250)	(15,724)
	24,644	28,424
<i>Leasehold improvements</i>		
Net book value at the start of the year	14,758	7,855
Additions	-	14,282
Depreciation	(7,379)	(7,379)
	7,379	14,758

No items of property, plant and equipment have been pledged as security by the Group.

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**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**Note 12 Non-current assets – Capitalised mineral exploration and evaluation expenditure**

	<b>Consolidated</b>	
<i>In the exploration and evaluation phase</i>	<b>2010</b>	2009
	\$	\$
Cost carried forward in respect of:		
Incurred at cost by Encounter Resources Limited on assets not governed by joint venture agreements (i)	<b>455,301</b>	646,598
Costs capitalised by Encounter Operations Pty Ltd in respect of the Yeneena Project (ii)	<b>3,725,243</b>	1,078,365
Capitalised share of exploration assets under JV Agreements (iii)	<b>1,872,058</b>	1,991,753
	<hr/>	<hr/>
Cost carried forward	<b>6,052,602</b>	3,716,716
	<hr/>	<hr/>

The recoverability of the carrying amount of the exploration and evaluation assets is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

- (i) Exploration and evaluation expenditure recognised on exploration assets held solely by Encounter Resources Limited.
- (ii) Exploration and evaluation expenditure recognised incurred on tenements under the Yeneena Project, includes pre and post earn in spend plus \$400,000 in respect of the acquisition of the remaining 25% interest in the Yeneena Project from Barrick (Australia Pacific) Limited.
- (iii) Exploration and evaluation expenditure recognised on tenements under joint venture agreements with Avoca Resources Limited. This amount includes Encounter Resources Limited's proportionate share of exploration assets held by the respective joint venture entities.

The capitalised exploration expenditure written off includes expenditure written off on surrender of, or intended surrender of tenements for both the group entities and the Group's proportionate share of the exploration written off by the joint venture entities.

Capitalised exploration costs at the start of the period	<b>3,716,716</b>	3,049,148
Capitalised costs in respect of the acquisition of the remaining 25% interest in the Yeneena Project from Barrick (Australia Pacific) Limited	<b>400,000</b>	-
Total exploration costs capitalised for the period	<b>2,602,405</b>	1,978,879
Total exploration costs written off and expensed for the period	<b>(666,519)</b>	(1,311,311)
	<hr/>	<hr/>
Capitalised exploration costs at the end of the period	<b>6,052,602</b>	3,716,716
	<hr/>	<hr/>

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**Note 13 Interest in joint ventures**

Included in the assets and liabilities of the Group were the items below which represented the Group's interest in the assets and liabilities employed in joint ventures.

The total amount of the Group's capitalised exploration and evaluation expenditure capitalised and employed under joint venture agreements at the reporting date is \$1,872,058 (2009: \$1,991,753).

During the reporting period the Group recognised an expense of \$289,495 (2009: \$885,185) being its share of the exploration expenditure written off by the joint venture entities during the period.

*(i) Lake Way Joint Venture*

	<b>Consolidated</b>	
	<b>2010</b>	2009
	\$	\$
Cash and cash equivalents	5,680	17,482
Trade and other receivables	1,146	1,318
Capitalised mineral exploration and evaluation expenditure	174,711	170,301
<b>Total Assets</b>	<b>181,537</b>	<b>189,101</b>
Trade and other payables	7,213	19,188
<b>Total Liabilities</b>	<b>7,213</b>	<b>19,188</b>
<b>Net Assets</b>	<b>174,324</b>	<b>169,913</b>
<i>Share of Joint Venture's revenue, expenses and results:</i>		
Revenue	1	17
Administration expenses	-	-
<b>Result before tax</b>	<b>1</b>	<b>17</b>

*(ii) Uranium Regional Joint Venture*

The Company originally had an 80% interest in a portfolio of projects and tenements which is increasing due to the election of the Joint Venture partner Avoca Resources Limited to cease contributing to Joint Venture activities and hence diluting its own interest.

Cash and cash equivalents	9,053	18,579
Trade and other receivables	381	3,890
Capitalised mineral exploration and evaluation expenditure	2,140,673	2,239,309
<b>Total Assets</b>	<b>2,150,107</b>	<b>2,261,778</b>
Trade and other payables	3,693	16,608
<b>Total Liabilities</b>	<b>3,693</b>	<b>16,608</b>
<b>Net Assets</b>	<b>2,146,414</b>	<b>2,245,170</b>
<i>Share of Joint Venture's revenue, expenses and results:</i>		
Revenue	2	2,714
Exploration costs written off	(289,495)	(885,185)
Administration expenses	(123)	(124)
<b>Result before tax</b>	<b>(289,616)</b>	<b>(882,595)</b>

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**Notes to the Financial Statements**  
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<b>Consolidated</b>	
<b>2010</b>	2009
\$	\$

**Note 14 Current liabilities – Trade and other payables**

a) Trade and other payables

Trade payables and accruals	396,406	301,717
Other payables	58,077	20,705
	454,483	322,422

b) Employee benefits

Liability for annual leave	62,973	46,585
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Liabilities are not secured over the assets of the company. Details of fair value and exposure to interest risk are included at note 18.

**Note 15 Issued capital**

a) *Ordinary shares*

The Company is a public company limited by shares. The Company was incorporated in Perth, Western Australia.

The Company's shares are limited whereby the liability of its members is limited to the amount (if any) unpaid on the shares respectively held by them.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value. There is no limit to the authorised share capital of the Company.

<i>b) Share capital</i>	<b>2010</b>	2009	<b>2010</b>	2009
	<b>No.</b>	No.	<b>\$</b>	\$
Issued share capital	<b>79,161,435</b>	68,596,900	<b>12,745,067</b>	9,443,330

c) *Share movements during the year*

Balance at the start of the financial year		68,596,900	68,596,900	9,443,330	9,443,330
Share placement	\$0.34	10,289,535	-	3,489,442	-
Issued on exercise of options	\$0.10	275,000	-	27,500	-
Less share issue costs		-	-	(215,205)	-
Balance at the end of the financial year		<b>79,161,435</b>	68,596,900	<b>12,745,067</b>	9,443,330

d) *Option plan*

Information relating to the Encounter Resources Limited Directors, Officers and Employees Option Plan is set out in note 16.



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**Notes to the Financial Statements**  
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**Note 16 Option Plan**

The establishment of the Encounter Resources Limited Directors, Officers and Employees Option Plan ("the Plan") was last approved by a resolution at the Annual General Meeting of shareholders of the Company on 30 November 2009. All eligible Directors, executive officers and employees of Encounter Resources Limited who have been continuously employed by the Company are eligible to participate in the Plan.

The Plan allows the Company to issue free options to eligible persons. The options can be granted free of charge and are exercisable at a fixed price in accordance with the Plan.

Options issued under the Plan have a 12 month vesting period prior to exercise, except under certain circumstances whereby options may be capable of exercise prior to the expiry of the vesting period.

*a) Options issued during the year*

During the financial year the Company granted no options over unissued shares.

*b) Options exercised during the year*

During the financial year the Company issued shares on the exercise of 275,000 unlisted employee options (2009: Nil). The options were exercised at \$0.10 each and were to expire 28 February 2014.

*c) Options cancelled during the year*

During the year no options (2009: 100,000) were cancelled upon termination of employment.

*c) Options on issue at the balance date*

The number of options outstanding over unissued ordinary shares at 30 June 2010 is 2,750,000 (2009: 3,025,000). The terms of these options are as follows:

<i>Number of options outstanding</i>	<i>Exercise price</i>	<i>Expiry date</i>
100,000	20 cents	23 March 2011
100,000	45 cents	15 May 2011
250,000	52.5 cents	7 December 2011
50,000	50 cents	9 August 2012
125,000	50 cents	30 November 2012
500,000	53.5 cents	30 November 2012
400,000	55 cents	30 November 2012
400,000	70 cents	30 November 2012
325,000	30 cents	30 June 2013
500,000	10 cents	28 February 2014
<hr/>		
2,750,000		

*d) Subsequent to the balance date*

No options have been granted subsequent to the balance date to the date of signing this report.

No options have been exercised subsequent to the balance date to the date of signing this report.

**Encounter Resources Limited**  
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**Notes to the Financial Statements**  
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**Note 16 Option Plan (Continued)**

*Reconciliation of movement of options over unissued shares during the period including weighted average exercise price (WAEP)*

	2010		2009	
	No.	WAEP (cents)	No.	WAEP (cents)
Options outstanding at the start of the year	<b>3,025,000</b>	<b>40.5</b>	2,000,000	54.6
Options granted during the year	-	-	1,125,000	16.2
Options exercised during the year	<b>(275,000)</b>	<b>10.0</b>	-	
Options expiring unexercised during the year		-	(100,000)	20.0
Options outstanding at the end of the year	<b>2,750,000</b>	<b>43.6</b>	3,025,000	40.5

*Basis and assumptions used in the valuation of options.*

The options were valued using the Black-Scholes option valuation methodology.

**2010**

No options granted during the financial year.

**2009**

Date granted	Number of options granted	Exercise price (cents)	Expiry date	Risk free interest rate used	Volatility applied	Option valuation (cents)
1 July 2008	350,000*	30.0	30 June 2013	6.75%	52%	12.06
1 March 2009	775,000*	10.0	28 February 2014	3.61%	120%	5.65

\* Options are subject to a 12 month vesting period

Historical volatility has been used as the basis for determining expected share price volatility, as it is assumed that this is an indicator of future tender, which may not eventuate.

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**Note 17 Reserves and accumulated losses**

Consolidated	2010		2009	
	Accumulated losses	Equity remuneration reserve (i)	Accumulated losses	Equity remuneration reserve (i)
	\$	\$	\$	\$
Balance at the beginning of the year	(3,823,888)	431,452	(1,865,530)	230,640
Loss for the period	(918,288)	-	(1,987,843)	-
Movement in equity remuneration reserve in respect of options issued	-	44,762	-	230,297
Transfer to accumulated losses on exercise of options	-	-	-	-
Transfer to accumulated losses on cancellation of options	-	-	29,485	(29,485)
Balance at the end of the year	<b>(4,742,176)</b>	<b>476,214</b>	<b>(3,823,888)</b>	<b>431,452</b>

*(i) Equity remuneration reserve*

The equity remuneration reserve is used to recognise the fair value of options issued but not exercised.

**Note 18 Financial instruments**

**Credit risk**

The Directors do not consider that the Group's financial assets are subject to anything more than a negligible level of credit risk, and as such no disclosures are made, note 2(a).

**Impairment losses**

The Directors do not consider that any of the Group's financial assets are subject to impairment at the reporting date. No impairment expense or reversal of impairment charge has occurred during the reporting period, other than the write off of deferred exploration assets at note 12.

**Liquidity risk**

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements, note 2(b):

**2010**

Consolidated	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	\$	\$	\$	\$	\$	\$	\$
Trade and other payables	376,406	376,406	376,406	-	-	-	-
	<b>376,406</b>	<b>376,406</b>	<b>376,406</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**2009**

Consolidated	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	\$	\$	\$	\$	\$	\$	\$
Trade and other payables	276,099	276,099	276,099	-	-	-	-
	<b>276,099</b>	<b>276,099</b>	<b>276,099</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**Notes to the Financial Statements**  
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**Note 18 Financial instruments (continued)**

**Interest rate risk**

At the reporting date the interest profile of the Group's interest-bearing financial instruments was:

**2010**

	Carrying amount (\$)	
	2010	2009
<b>Fixed rate instruments</b>		
Financial assets	-	-
<b>Variable rate instruments</b>		
Financial assets	<u>2,374,645</u>	<u>2,278,318</u>

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

**2010**

	Profit or loss		Equity	
	1% increase	1% decrease	1% increase	1% decrease
<b>Variable rate instruments</b>	<u>23,746</u>	<u>(23,746)</u>	<u>23,746</u>	<u>(23,746)</u>

**2009**

	Profit or loss		Equity	
	1% increase	1% decrease	1% increase	1% decrease
<b>Variable rate instruments</b>	<u>22,783</u>	<u>(22,783)</u>	<u>22,783</u>	<u>(22,783)</u>

**Fair values**

*Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

<b>Consolidated</b>	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$	\$	\$	\$
Cash and cash equivalents	2,374,645	2,374,645	2,278,318	2,278,318
Trade and other receivables	-	-	129,352	129,352
Trade and other payables	<u>(376,406)</u>	<u>(376,406)</u>	<u>(276,099)</u>	<u>(276,099)</u>
	<u>1,998,239</u>	<u>1,998,239</u>	<u>2,131,571</u>	<u>2,131,571</u>

The Group's policy for recognition of fair values is disclosed at note 1(s).

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**Notes to the Financial Statements**  
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**Note 19 Dividends**

No dividends were paid or proposed during the financial year ended 30 June 2010 or 30 June 2009.

The Company has no franking credits available as at 30 June 2010 or 30 June 2009.

**Note 20 Key management personnel disclosures**

*(a) Directors*

The following persons were directors of Encounter Resources Limited during the financial year:

- (i) Chairman – non-executive*  
Paul Chapman
- (ii) Executive directors*  
Will Robinson, Managing Director  
Peter Bewick, Exploration Director
- (iii) Non-executive directors*  
Jonathan Hronsky, Director

*(b) Other key management personnel*

There were no other persons employed by or contracted to the Company during the financial year, having responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

*(c) Equity instrument disclosures relating to key management personnel*

*Unlisted Options provided as remuneration and shares issued on exercise of such options*

No options over unissued shares have been issued to key management personnel of the Company during the current or prior financial year.

The fair value of options issued as remuneration is allocated to the relevant vesting period of the options.

The options were provided at no cost to the recipients. No options were exercised by Key Management Personnel during the financial year.

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**Notes to the Financial Statements**  
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**Note 20 Key management personnel disclosures (continued)**

(c) *Equity instrument disclosures relating to key management personnel (continued)*

*Option holdings*

Key Management Personnel have the following interests in unlisted options over unissued shares of the Company.

<b>2010</b>	<b>Balance at start of the year</b>	<b>Received during the year as remuneration</b>	<b>Other changes during the year</b>	<b>Balance at the end of the year</b>	<b>Vested and exercisable at the end of the year</b>
<b>Name</b>					
<i>Directors</i>					
<b>P. Chapman</b>	-	-	-	-	-
<b>W. Robinson</b>	-	-	-	-	-
<b>P. Bewick</b>	<b>800,000</b>	-	-	<b>800,000</b>	<b>800,000</b>
<b>J. Hronsky</b>	<b>500,000</b>	-	-	<b>500,000</b>	<b>500,000</b>

<b>2009</b>	<b>Balance at start of the year</b>	<b>Received during the year as remuneration</b>	<b>Other changes during the year</b>	<b>Balance at the end of the year</b>	<b>Vested and exercisable at the end of the year</b>
<b>Name</b>					
<i>Directors</i>					
P. Chapman	-	-	-	-	-
W. Robinson	-	-	-	-	-
P. Bewick	800,000	-	-	800,000	400,000
J. Hronsky	500,000	-	-	500,000	500,000

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**Notes to the Financial Statements**  
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**Note 20 Key management personnel disclosures (continued)**

(c) *Equity instrument disclosures relating to key management personnel*

*Share holdings*

The number of shares in the Company held during the financial year by key management personnel of the Company, including their related parties are set out below. There were no shares granted during the reporting period as compensation.

<b>2010</b>	<b>Balance at start of the year</b>	<b>Received during the year on exercise of options</b>	<b>Other changes during the year</b>	<b>Balance at the end of the year</b>
<b>Name</b>				
<i>Directors</i>				
<b>P. Chapman</b>	<b>4,747,000</b>	-	-	<b>4,747,400</b>
<b>W. Robinson</b>	<b>21,846,800</b>	-	-	<b>21,846,900</b>
<b>P. Bewick</b>	<b>4,725,000</b>	-	-	<b>4,725,000</b>
<b>J. Hronsky</b>	-	-	-	-

<b>2009</b>	<b>Balance at start of the year</b>	<b>Received during the year on exercise of options</b>	<b>Other changes during the year</b>	<b>Balance at the end of the year</b>
<b>Name</b>				
<i>Directors</i>				
<b>P. Chapman</b>	<b>4,747,400</b>	-	-	<b>4,747,400</b>
<b>W. Robinson</b>	<b>21,846,900</b>	-	-	<b>21,846,900</b>
<b>P. Bewick</b>	<b>4,725,000</b>	-	-	<b>4,725,000</b>
<b>J. Hronsky</b>	-	-	-	-

(d) *Loans made to key management personnel*

No loans were made to key personnel, including personally related entities during the reporting period.

(e) *Other transactions with key management personnel*

There were no other transactions with key management personnel.

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**Notes to the Financial Statements**  
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	<b>Consolidated</b> <b>2010</b> \$	2009 \$
<b>Note 21 Remuneration of auditors</b>		
Audit and review of the Company's financial statements	30,500	27,800
Other services	-	-
Total	30,500	27,800

**Note 22 Contingencies**

*(i) Contingent liabilities*

There were no material contingent liabilities not provided for in the financial statements of the Group as at 30 June 2010 or 30 June 2009 other than:

*Yeneena Project Gold Claw-back*

Included in the agreement for the Group's acquisition of the remaining 25% interest in the Yeneena Project is a gold claw-back right in the event of a major discovery of a deposit of minerals dominant in gold, with gold revenue measured in a mining study equal to or exceeding 65% of total revenue and where a JORC compliant mineral resources exceeds 4,000,000 ounces of gold or gold equivalent, or is capable of producing at least 200,000 ounces of gold or gold equivalent per year for 10 years. Under the agreement Barrick (Australia Pacific) Limited retains the right to regain an interest of between 70 and 100% in the gold discovery at a price of between US\$40-100 per ounce, with a 1.5% net smelter royalty to Encounter Resources.

*Native Title and Aboriginal Heritage*

Native title claims have been made with respect to areas which include tenements in which the Group has an interest. The Group 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 Group 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 Group has an interest.

*(ii) Contingent assets*

There were no material contingent assets as at 30 June 2010 or 30 June 2009.

**Note 23 Commitments**

*(a) Exploration*

The Group has certain obligations to perform minimum exploration work on mineral leases held. These obligations may vary over time, depending on the Group's exploration programmes and priorities. As at balance date, total exploration expenditure commitments on tenements held by the Group have not been provided for in the financial statements and which cover the following twelve month period amount to \$1,144,500 (2009: \$1,649,750). These obligations are also subject to variations by farm-out arrangements or sale of the relevant tenements. This commitment does not include the expenditure commitments which are the responsibility of the joint venture partners.



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**Notes to the Financial Statements**  
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	<b>Consolidated</b>	
	<b>2010</b>	2009
	\$	\$
<b>Note 23 Commitments (continued)</b>		
<i>(b) Operating Lease Commitments</i>		
Commitments for minimum lease payments in relation to non-cancellable operating leases are as follows:		
Due within one year	<b>73,431</b>	68,931
Due later than one year but not later than five years	-	73,431
	<hr/>	<hr/>
Total	<b>73,431</b>	142,362

The operating lease commitment relates to the lease of the Group's Perth office plus car park. The initial lease period is for three years commencing from 1 July 2008. At the reporting date there are no other operating lease commitments.

*(c) Contractual Commitment*

There are no material contractual commitments as at 30 June 2010 other than those disclosed above and not otherwise disclosed in the Financial Statements.

**Note 24 Related party transactions**

There were no related party transactions during the year, other than disclosed at note 20.

**Note 25 Interests in joint ventures**

Joint venture agreements have been entered into with third parties. Details of joint venture agreements are disclosed below.

Assets employed by these joint ventures and the Group's expenditure in respect of them is brought to account initially as capitalised exploration and evaluation expenditure (Refer Note 12) until a formal joint venture agreement is entered into. Thereafter, investment in joint ventures is recorded distinctly from capitalised exploration costs incurred on the company's 100% owned projects.

See note 13 for disclosures of interests in the assets and liabilities employed under formal joint venture agreements.

**Joint Venture and Exploration Agreement**

Under a Joint Venture and Exploration Agreement dated 1 April 2005 the Company and Avoca Resources Limited ("Avoca") have agreed to establish an unincorporated joint venture for the purposes of identifying, acquiring, evaluating and developing or selling mining tenements with potential uranium deposits within Western Australia. Encounter is the manager of the joint venture.

Avoca Resources held a 20% free carried interest in Encounter's exploration projects for the two year period which ended on 1st April 2007. In accordance with the Agreement, Avoca had elected to contribute to the exploration expenditure program commencing 1st April 2007 to maintain their 20% interest the projects. Under the terms of the agreement either party may elect to dilute their interest to a 1% net smelter royalty. On 30 September 2008, Avoca Resources elected to cease contributing to the Joint Venture and is diluting its interest in the projects in accordance with the terms of the Joint Venture agreement.

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**Note 25 Interests in joint ventures (continued)**

**Lake Way Uranium Joint Venture**

Under the Lake Way Uranium Joint Venture dated 1 July 2007 between Avoca Resources Limited and the Company, the Company has a 60% joint venture interest in the Uranium at the Lake Way South tenement. The parties are contributing to expenditure in accordance with their equity interest. Encounter is the manager of the joint venture. The company's interest in the joint venture may increase to 75% if Avoca elects to dilute its interest in the tenement and be free carried though to decision to mine.

**Yeneena Joint Venture with Barrick Gold of Australia**

During the financial year Encounter Resources Limited completed its initial earn in of 75% of the Yeneena Project from Barrick (Australia Pacific) Limited. In addition Encounter acquired the remaining 25% interest in the Yeneena Project on the following terms:

- Payment of \$400,000 cash, which was settled on 30 April 2010;
- Net smelter royalty of 1.5% on all minerals; and
- A gold claw-back right to Barrick (Australia Pacific) Limited in the event of a major discovery of a dominant gold system in excess of 4 million ounces of gold or gold equivalent. Barrick will then have the right to regain an interest in the gold discovery at a price between US\$40-100/oz.

**Note 26 Events occurring after the balance sheet date**

The Company completed a share placement on 26 August 2010 by the issue of 11,482,925 ordinary fully paid shares at \$0.27 each, raising \$3,100,390 before costs.

Other than the above, there has not arisen in the interval between the end of the financial year 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.

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**Notes to the Financial Statements**  
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	<b>Consolidated</b>	
	<b>2010</b>	2009
	\$	\$
<b>Note 27 Reconciliation of loss after tax to net cash inflow from operating activities</b>		
Loss from ordinary activities after income tax	<b>(918,288)</b>	(1,987,843)
Share of management fee to JV not capitalised	<b>25,470</b>	160,351
Depreciation	<b>16,629</b>	23,103
Exploration cost written off	<b>666,519</b>	1,311,311
Share based payments expense	<b>44,762</b>	230,297
<i>Movement in assets and liabilities:</i>		
(Increase)/decrease in R&D tax refundable	<b>(58,356)</b>	(113,186)
(Increase)/decrease in prepaid expenses	<b>1,273</b>	168
(Increase)/decrease in receivables	<b>2,229</b>	11,582
Increase/(decrease) in payables	<b>10,988</b>	19,507
Net cash outflow from operating activities	<b>(208,774)</b>	(344,710)
<b>Note 28 Earnings per share</b>		
	<b>Cents</b>	Cents
<i>a) Basic earnings per share</i>		
Loss attributable to ordinary equity holders of the Company	<b>(1.2)</b>	(2.9)
<i>b) Diluted earnings per share</i>		
Loss attributable to ordinary equity holders of the Company	<b>(1.2)</b>	(2.9)
<i>c) Loss used in calculation of basic and diluted loss per share</i>		
	\$	\$
Consolidated loss after tax from continuing operations	<b>(918,288)</b>	(1,987,843)
<i>d) Weighted average number of shares used as the denominator</i>		
	<b>No.</b>	No.
Weighted average number of shares used as the denominator in calculating basic and dilutive loss per share	<b>76,317,458</b>	68,596,900
At 30 June 2010 the Company has on issue 2,750,000 unlisted options (2009: 3,025,000) over ordinary shares that are not considered to be dilutive.		

**Encounter Resources Limited**  
**ABN 47 109 815 796**

**Notes to the Financial Statements**  
**For the financial year ended 30 June 2010**

**29. PARENT ENTITY INFORMATION**

*Financial position*

	<b>Company</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
Current assets	<b>2,791,685</b>	2,459,221
Non-current assets	<b>6,204,876</b>	3,982,528
	<b>8,996,561</b>	6,441,749
<b>Liabilities</b>		
Current liabilities	<b>517,456</b>	390,855
	<b>517,456</b>	390,855
<b>NET ASSETS</b>	<b>8,479,105</b>	6,050,894
<b>Equity</b>		
Issued Capital	<b>12,745,067</b>	9,443,330
Equity remuneration reserve	<b>476,214</b>	431,452
Accumulated losses	<b>(4,742,176)</b>	(3,823,888)
	<b>8,479,105</b>	6,050,894
<b>TOTAL EQUITY</b>	<b>8,479,105</b>	6,050,894

*Financial performance*

Loss for the year	<b>(918,288)</b>	(1,987,843)
Other comprehensive income	-	-
	<b>(918,288)</b>	(1,987,843)
Total comprehensive income	<b>(918,288)</b>	(1,987,843)

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

No guarantees have been entered into by the parent entity in relation to the debts of its subsidiary companies.

*Contingent liabilities*

For full details of contingencies see Note 22.

*Commitments*

For full details of commitments see Note 23.

**Encounter Resources Limited**  
**ABN 47 109 815 796**

**Directors' Declaration**

In the opinion of the Directors of Encounter Resources Limited ("the Company")

- (a) the financial statements and notes set out on pages 12 to 44 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the Group.
- (b) the remuneration disclosures that are contained in the Remuneration Report in the Directors Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, The Corporations Act 2001 and the Corporations Regulations 2001.
- (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
- (d) the financial statements comply with International Financial Reporting Standards as set out in Note 1.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.

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

Signed at Perth this 28<sup>th</sup> day of September 2010.



**W Robinson**  
**Director**

## **INDEPENDENT AUDIT REPORT TO MEMBERS OF ENCOUNTER RESOURCES LIMITED**

We have audited the accompanying financial report of Encounter Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### **Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

### **Auditor's Opinion**

In our opinion, the financial report of Encounter Resources Limited is in accordance with the Corporations Act 2001 including:

- (a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**REPORT ON THE REMUNERATION REPORT**

We have audited the Remuneration Report included in pages 8 to 9 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

In our opinion the Remuneration Report for Encounter Resources Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP



NICHOLAS HOLLENS

Partner

Perth, WA

Dated this 28<sup>th</sup> day of September 2010

