



Interim Consolidated Financial Report

**For the Half-Year Ended
31 December 2018**

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Directors' Report

The Directors present their interim consolidated report of Encounter Resources Limited and its controlled entity for the half-year ended 31 December 2018.

Directors

The following persons were directors of Encounter Resources Limited during the whole of the half-year and up to the date of this report:

Paul Chapman	<i>(Non-Executive Chairman)</i>
Will Robinson	<i>(Managing Director)</i>
Peter Bewick	<i>(Exploration Director)</i>
Jonathan Hronsky	<i>(Non-Executive Director)</i>

Company Secretary

Kevin Hart
Dan Travers

Review of Operations

The consolidated net loss after income tax for the half-year was \$408,283 (31 December 2017: \$288,395). Included in the loss for the period was income of \$400,000 recognised in respect of the provision of project generation services to the Group's project generation alliance partner (31 December 2017: \$nil).

At the end of the half-year the Group had \$3,372,491 (30 June 2018: \$2,860,071) in cash and at call deposits. Capitalised mineral exploration and evaluation expenditure is \$12,319,257 (30 June 2018: \$11,638,248).

Operations during the reporting period were primarily focused on gold and base metals exploration at the Group's projects in Western Australia.

In November 2018, the Company welcomed Independence Group NL ("IGO") as a new major shareholder and partner in advancing the Yeneena Copper-Cobalt Project in the Paterson Province of WA. IGO subscribed for a placement of 24 million ordinary shares at a price \$0.075 – a 60% premium to 20 trading day VWAP - to raise a total of \$1.8 million. Encounter shall apply a minimum of 80% of the funds raised towards advancing Yeneena. At any time before 1 March 2020, IGO may elect to enter an earn-in agreement to spend up to \$15 million to earn a 70% interest in Yeneena.

Directors' Report

Matters Subsequent to the End of the Financial Period

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

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 the following page.

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

DATED at Perth this 12th day of March 2019.



Will Robinson
Managing Director

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Encounter Resources Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

**CROWE HORWATH PERTH****CYRUS PATELL**

Partner

Signed at Perth, 12 March 2019

Encounter Resources Limited
ABN 47 109 815 796

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31 December 2018

	Note	Consolidated	
		31 December 2018 \$	31 December 2017 \$
Other income	3	438,345	19,895
Interest income		18,705	16,200
Total revenue		457,050	36,095
Employee expenses		(622,070)	(763,017)
Employee expenses recharged to exploration		423,150	550,182
Equity based remuneration expense		(68,601)	(21,846)
Profit/(loss) on disposal of assets		-	296
Gain/(loss) in fair value of financial assets	9	(215,242)	276,740
Depreciation expense	3	(297)	-
Corporate expenses		(51,620)	(46,178)
Administration and other expenses		(224,765)	(211,395)
Exploration costs written off and expensed	3	(105,888)	(109,272)
Loss before income tax		(408,283)	(288,395)
Income tax benefit/(expense)		-	-
Loss for the half-year		(408,283)	(288,395)
Other comprehensive Income		-	-
Total comprehensive loss for the period		(408,283)	(288,395)
Loss per share			
Basic loss per share (cents)		(0.2)	(0.2)
Diluted loss per share (cents)		(0.2)	(0.2)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

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Consolidated Statement of Financial Position
As At 31 December 2018

	Note	Consolidated	
		31 December 2018 \$	30 June 2018 \$
Current assets			
Cash and cash equivalents	11	3,372,491	2,860,071
Trade and other receivables		40,105	80,844
Other current assets		256,348	242,614
Total current assets		3,668,944	3,183,529
Non-current assets			
Financial assets	9	737,974	953,216
Property, plant and equipment		46,263	55,515
Capitalised mineral exploration and evaluation expenditure	12	12,319,257	11,638,248
Total non-current assets		13,103,494	12,646,979
Total assets		16,772,438	15,830,508
Current liabilities			
Trade and other payables	10	94,030	629,889
Employee benefits		316,771	288,568
Total current liabilities		410,801	918,457
Total liabilities		410,801	918,457
Net assets		16,361,637	14,912,051
Equity			
Issued capital		42,465,654	40,676,386
Accumulated losses		(26,392,147)	(26,075,127)
Equity remuneration reserve		288,130	310,792
Total equity		16,361,637	14,912,051

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

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Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2018

	Consolidated			Total \$
	Issued capital \$	Accumulated losses \$	Equity remuneration reserve \$	
<u>6 months ended 31 December 2017</u>				
Balance at the start of the financial period	37,678,887	(16,052,305)	386,311	22,012,893
Comprehensive loss for the financial period	-	(288,395)	-	(288,395)
Shares issued (net of costs)	295,835	-	-	295,835
Movement in equity remuneration reserve in respect of options vested	-	-	21,846	21,846
Transfer to accumulated losses on expiry of options	-	78,756	(78,756)	-
Balance at the end of the financial period	37,974,722	(16,261,944)	329,401	22,042,179
<u>6 months ended 31 December 2018</u>				
Balance at the start of the financial period	40,676,386	(26,075,127)	310,792	14,912,051
Comprehensive loss for the financial period	-	(408,283)	-	(408,283)
Shares issued (net of costs)	1,789,268	-	-	1,789,268
Movement in equity remuneration reserve in respect of options vested	-	-	68,601	68,601
Transfer to accumulated losses on expiry of options	-	91,263	(91,263)	-
Balance at the end of the financial period	42,465,654	(26,392,147)	288,130	16,361,637

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

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Consolidated Statement of Cash Flows
For the half-year ended 31 December 2018

	Note	Consolidated	
		31 December 2018 \$	31 December 2017 \$
Cash flows from operating activities			
Other income		1,854	-
Income from project generation services		400,000	-
Interest received		18,705	16,200
State Government funded drilling rebate		112,674	281,328
Research and development tax refund		-	127,640
Payments to suppliers and employees		(480,975)	(449,165)
Net cash from/(used in) operating activities		52,258	(23,997)
Cash flows from investing activities			
Contributions received from farm-in partners		-	108,050
Contributions received from project development alliance partner		127,298	383,373
Payments for project generation and acquisition costs		(305,731)	(84,701)
Payments for exploration and evaluation		(1,151,473)	(2,871,155)
Proceeds from the disposal of plant and equipment		-	6,364
Payments for plant and equipment		-	(3,046)
Net cash used in investing activities		(1,329,906)	(2,461,115)
Cash flows from financing activities			
Proceeds from the issue of shares		1,800,800	179,086
Payments for costs associated with issues of shares		(10,732)	(5,287)
Net cash from financing activities		1,790,068	173,799
Net increase/(decrease) in cash held		512,420	(2,311,313)
Cash at the beginning of the period		2,860,071	3,631,091
Cash at the end of the period		3,372,491	1,319,778

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

Notes to the Interim Financial Statements
For the half-year ended 31 December 2018

Note 1 Basis of preparation of half-year report

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and *AASB 134 Interim Financial Reporting*. Compliance with *AASB 134* ensures compliance with International Financial Reporting Standard *IAS 34 Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report. The Group is a for profit entity for financial reporting purposes under Australian Accounting Standards.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report, are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 30 June 2018.

These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Adoption of new and revised accounting standards

In the half year ended 31 December 2018, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2018. It has been determined by the Group that, there is no impact, material or otherwise, of the new and revised standards and interpretations on its business and therefore no change is necessary to Group accounting policies, including:

- *AASB 9 Financial Instruments*

AASB 9 Financial Instruments introduces new classification and measurement models for financial assets and is applicable to annual reporting periods beginning on or after 1 January 2018.

The Group previously and currently accounts for its non-cash financial assets at Fair Value through Profit or Loss, which is consistent with a treatment permitted under *AASB 9 Financial Instruments*.

The Group does not consider there to be any material impact from the adoption of *AASB 9 Financial Instruments*.

- *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018.

The Group does not currently have any contracts with customers in place.

The Group does not consider there to be any material impact from the adoption of *AASB 15 Revenue from Contracts with Customers*.

The Group has not early adopted any new Standards and Interpretations that have been issued but are not yet effective at 31 December 2018.

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Notes to the Interim Financial Statements
For the half-year ended 31 December 2018

Note 1 Basis of preparation of half-year report (continued)

No retrospective change in accounting policy or material reclassification has occurred requiring the inclusion of a third Statement of Financial Position as at the beginning of the comparative financial period, as required under AASB 101.

The half year financial report was approved by the Board of Directors on 12th March 2019.

Note 2 Segment information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. Reportable segments disclosed are based on aggregating operating segments, where the segments have similar characteristics. The Group's sole activity is mineral exploration and resource development wholly within Australia, therefore it has aggregated all operating segments into the one reportable segment being mineral exploration.

The reportable segment is represented by the primary statements forming these financial statements.

Note 3 Loss for the period

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

	31 December 2018 \$	31 December 2017 \$
Depreciation		
Office equipment	297	-
Other income		
Income from the provision of project generation services ¹	400,000	-
Other income	38,345	19,895
	438,345	19,895
Exploration costs		
Previously capitalised exploration costs written off	-	-
Depreciation of field equipment	(8,955)	(12,798)
Exploration costs not capitalised	(96,933)	(96,474)
	(105,888)	(109,272)
Exploration expenditure written off and expensed		

¹ Included in the loss for the period was income of \$400,000 recognised in respect of the provision of project generation services to the Group's project generation alliance partner.

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Notes to the Interim Financial Statements
For the half-year ended 31 December 2018

Note 4 Dividends

No dividends were paid or proposed during the period.

The Company has no franking credits available as at 31 December 2018 or 31 December 2017.

Note 5 Contingencies

(i) Contingent liabilities

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

(ii) Contingent assets

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

Note 6 Events occurring after the reporting date

There has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company to affect substantially the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Note 7 Issued capital

During the 6 month period to 31 December 2018 the Company issued 24 million ordinary fully paid shares at 7.5 cents per share to Independence Group NL pursuant to a share placement.

During the 6 month period to 31 December 2017 the Company issued 2,806,216 ordinary fully paid shares pursuant to a share placement and issued 250,000 ordinary fully paid shares in part consideration for the acquisition of exploration prospects at the Company's West Tanami project.

	Issue price	2018 No.	2017 No.	2018 \$	2017 \$
<i>Share movements during the period</i>					
Balance at 1 July		238,375,092	188,951,544	40,676,386	37,678,887
Share placement	\$0.075	24,000,000	-	1,800,000	-
Share placement	\$0.10	-	2,806,216	-	280,622
Shares issued to acquire exploration assets	\$0.082	-	250,000	-	20,500
Less share issue costs		-	-	(10,732)	(5,285)
Balance at 31 December		262,375,092	192,007,760	42,465,654	37,974,724

Encounter Resources Limited
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Notes to the Interim Financial Statements
For the half-year ended 31 December 2018

Note 8 Options

During the current period the following movements in options over unissued shares occurred:

	31 December 2018 No.	31 December 2017 No.
Options on issue at the start of the financial period	12,741,429	12,361,429
Options issued ¹	4,000,000	825,000
Options cancelled on expiry of the exercise period	(6,691,429)	(750,000)
Options on issue at the end of the financial period	10,050,000	12,436,429

¹ 4,000,000 unlisted options issued to directors of the Company pursuant to shareholder approval on 30 November 2018. Details of the options issued and Black-Scholes valuation inputs are as follows:

No of Options	Exercise price	Grant and vesting date	Expiry date	Volatility	Risk free rate	Value of Options
2,500,000	9 cents	3 Dec 2018	30 Nov 2022	53%	2.27%	\$43,948
1,500,000	12 cents	3 Dec 2018	30 Nov 2023	53%	2.27%	\$24,653

Note 9 Financial assets

Movement in investments at fair value through profit or loss

	31 December 2018 \$	31 December 2017 \$
Investment in Hampton Hill Mining NL:		
Fair value of investment at the start of the period	953,216	430,485
Movement in fair value of investment	(215,242)	276,740
Fair value of investment at the end of the period ¹	737,974	707,225

¹ The investment in Hampton Hill Mining NL (HHM) is measured by reference to the quoted price of HHM's shares on the Australian Securities Exchange as at the end of the financial period.

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Notes to the Interim Financial Statements
For the half-year ended 31 December 2018

Note 10 Trade and other payables

	31 December 2018 \$	30 June 2018 \$
Trade payables and accruals	54,719	344,847
Unspent farm-in and project generation alliance contributions ¹	-	223,741
Other payables	39,311	61,301
	94,030	629,889

¹Amounts in respect of unspent farm-in and project generation alliance contributions as at the reporting date.

Note 11 Cash and cash equivalents

Included in cash and cash equivalents of \$3,372,491 as at 31 December 2018 is an amount of approximately \$1,440,000 that the Group has undertaken to apply towards advancing the Yeneena Copper-Cobalt Project, pursuant to a share subscription agreement with Independence Group NL in November 2018.

Note 12 Capitalised mineral exploration and evaluation expenditure

During the half year ended 31 December 2018 the Group capitalised a total of \$681,009 (2017: \$2,073,764) net of drilling grants (EIS) invoiced of \$107,090 (2017: \$159,379) and net of research and development tax credits of nil (2017: \$127,640).

Encounter Resources Limited
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Directors' Declaration

The Directors of Encounter Resources Limited ("the Consolidated Entity") declare that:

- (a) the interim financial statements and notes set out on pages 6 to 14 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standard AASB 134 – *Interim Financial Reporting*, and the Corporations Regulations 2001; and
 - (ii) give a true and fair view of the financial position as at 31 December 2018 and of the performance for the half-year ended on that date of the Consolidated Entity.
- (b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

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

Signed at Perth this 12th day of March 2019.



Will Robinson
Managing Director

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Encounter Resources Ltd and its controlled entity (the consolidated entity) which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of Encounter Resources Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Encounter Resources Limited and its controlled entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Encounter Resources Limited and its controlled entity is not in accordance with the Corporations Act 2001 including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (ii) complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.



CROWE HORWATH PERTH



CYRUS PATELL

Partner

Signed at Perth, 12 March 2019