Frontier Mining Ltd (FML)

Back on track post refinancing

Frontier's interim results are encouraging with good progress at Naimanjal and Benkala. Following its financial crisis in 2008, the company is back on track post refinancing to bring its Naimanjal precious metal mine on stream and advance the large low grade Benkala copper-molybdenum project.

Event

Interim results to 30th June 2009 amounted to a loss of US$1.905m. Post the interim period income of $1.57m was generated from the first sales of gold and silver at their Naimanjal precious metal project in Kazakhstan.

Key Points

- **US$14m financing completed** – In April 2009, the company announced a $10m facility with Zere JSC of Kazakhstan. At 30th June 2009, $3.7m had been drawn down. Also in April 2009, Sokol Holdings Inc. subscribed for $4m of shares. This was used to redeem part of the $7.7m note held by Colville Intercorp Ltd. Full payment of the remaining $2.4m of this note is due by the end of 2009. On 25th August 2009, the company entered into a £5m standby equity facility with YA Global Master SPV Ltd. So far the company has only issued a nominal amount from this facility.
- **Year to date income of $1.57m from Naimanjal** – Mining operations restarted in June and to date 109,000 tonnes of ore have been stacked on the leach pads. 1,499 ounces of gold and 4,886 ounces of silver have been produced so far, and the company anticipates that a further 2,000 ounces of gold will be produced in 2009. The company is hopeful that Governmental approval for full commercial production will be forthcoming by the end of 2009.
- **Benkala evaluation continues** – Over the past year, the 50:50 joint venture with Coleville KazCopper has completed 6,700 metres (m) of infill drilling in 54 holes. For Governmental reserve calculations, 8 holes totalling 800m remain to be completed. An additional 39 holes totalling about 5,000m remain to be completed for the JORC compliant resource statement. The company now anticipates that the resource statement for the oxide/supergene zone will be completed in the second quarter of 2010. In the interim period, KazCopper received Governmental approval to connect electricity to the site, and purchased $0.2m of equipment. KazCopper is focused on exploring financing options to bring early production from Benkala in 2011.

Performance

Year End Dec ($000)	2008A	1H2008A	1H2009A	2009e	2010e
Revenues	-	-	-	2,000	4,000
Earnings before tax	(5,015)	(1,420)	(1,905)	(4,500)	(5,000)
Net Income	(5,320)	(1,420)	(1,905)	(4,500)	(5,000)
Diluted EPS	NM	NM	NM	NM	NM
DPS	NM	NM	NM	NM	NM
P/E (x)	NM	NM	NM	NM	NM

Source: Libertas Partners Estimates and Company Data

Buy

Price	**9.13p**
Sector	**Mining**

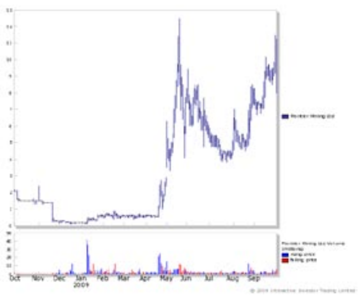
Stock Data

Main Listing	AIM
Secondary Listing	N/A
Ticker	FML
52-Week Range	12.25p-0.13p
No of shares	509.795m
Fully diluted	939.1m
Mkt Cap (£m)	£46.5m
Fiscal Year End	Dec
Average Daily Volume	2.6m
Free Float (%)	30%
Broker/Nomad	Libertas Partners LLC

Financial Statistics

Net Debt (Cash) ($000)	$8,200

Share Price



Source: Interactive Investor

Company Summary

Frontier Mining Ltd is an early stage mining company with two major Kazakstani assets. They hold 50% of KazCopper LLP a joint venture with Colville Intercorp Ltd who are developing the large low grade Benkala copper molybdenum project. Precious metal production has just started from their 100% owned Naimanjal mine which contains JORC Measured, Indicated and Inferred resources of 252,000 ounces of gold and 7Million ounces of silver. They have a number of other precious and base metal exploration projects also in Kazakhstan.

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Please see analyst certification and important disclosures at the end of this report.

Strengths

- Modest precious metal production from Naimanjal. Full Governmental approval for mining is expected by the company before the end of 2009.
- Benkala resource is very large. The March 2007 Competent Person's Report estimated that at a 10% discount rate and a US$1.50 per pound copper price. Benkala's Net Present Value amounted to almost US$500m. A resource upgrade is expected before the end of Q2 2010.
- Company has been successfully refinanced. They have not fully drawn down borrowings under this arrangement and have not yet issued shares from their standby facility.
- Other prospective exploration projects in Kazakhstan.

Weaknesses

- Kazakhstan's political situation might deteriorate. Full production at Naimanjal is dependent on obtaining a mining licence from the Government.
- Modest financial returns in the short term. Naimanjal has not met short term production targets.
- The credit crisis has made the financing of large capital cost projects very difficult. Even the scaled down project at Benkala may be difficult to finance in the equity market.
- $2.4m final repayment of the Colville loan is due by the end of the year. The company already has high levels of borrowings, and is scaling up its activities prior to cash flow generation.

Financial Statements

Year-End Dec (US$000)	2008A	1H08A	1H09A	2009e	2010e
Income Statement					
Revenues	-	-	-	2,000	4,000
Cost of Sales	-	-	-	(3,000)	(5,000)
Gross Profit	-	-	-	(1,000)	(1,000)
Selling, general and administrative expenses	(4,519)	(1,463)	(1,187)	(2,500)	(3,000)
Exploration write off	-	-	-	-	-
Operating loss	4,519	1,463	1,187	(3,500)	(4,000)
Net interest Income	(276)	-	(611)	(1,000)	(1,000)
Other expenses	(24)	38	24	-	-
Foreign exchange loss	(211)	6	(131)	-	-
Loss before tax	(5,015)	(1,420)	(1,905)	(4,500)	(5,000)
Taxation	(304)	-	--	-	-
Loss for the period	(5,320)	(1,420)	(1,905)	(4,500)	(5,000)
Balance Sheet					
Exploration assets	25,796	35,125	26,003	26,003	26,003
Mine development costs	16,406	6,242	17,066	18,000	22,000
Property , plant & equipment	4,650	6,838	4,739	5,000	6,000
Other assets	58	990	-	-	-
Deferred tax	808	1,112	842	850	900
Total non current assets	47,717	50,307	48,651	49,003	49,003
Inventories	264	599	574	600	600
Receivables	236	266	580	600	700
Cash	15	383	30	30	130
Current assets	515	1,248	1,184	1,230	1,430
Payables	1,245	184	1,699	1,700	1,700
Short term debt	7,130	7,130	2,209	209	209
Other current liabilities	5,122	5,604	4,963	4,900	4,900
Current liabilities	13,496	12,918	8,872	6,809	6,809
Long term debt	2,096	2,113	6,029	9,997	10,000
Site restoration provision	699	624	699	700	700
Due to Kazakh Government	649	708	648	650	650
Due to US Trade & Development Agency	340	340	340	340	340
Deferred Tax	182	182	182	182	182
Total non current liabilities	3,967	3,968	7,890	11,869	11,872
Total liabilities	17,463	16,886	16,762	17,678	17,681
Net assets	30,769	34,668	33,063	31,555	31,752
Cash Flow					
Loss	(5,320)	(1,420)	(1,905)	(4,500)	(5,000)
Non cash flow adjustments	1,686	86	739	1,000	1,500
Change in inventory	105	(176)	(311)	336	-
Change in receivables	(53)	(48)	(443)	(364)	100
Change in payables	1, 127	67	455	455	-
Change in other current liabilities	1,920	2,378	(158)	(222)	-
Change in exploration assets	(1,331)	(2,905)	(207)	(207)	-
Change in mine development assets	(1,810)	(221)	(660)	(1,594)	(4,000)
Change in other investing activities	1,446	192	37	37	-
Share issues	-	-	4,200	4,200	7,500
Net change in borrowings	--	-	(2,318)	980	-
Change in cash	(2,230)	(2,097)	146	121	100
Foreign exchange change	(229)	5	(131)	(91)	0
Closing cash	15	383	30	30	130

Source: Company Data & Libertas Partners Estimates

Important Disclosures:

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Libertas Partners LLP Recommendation Structure

Buy: Total return expected to appreciate 10% or more over a 12month period.
Neutral: Total return expected to be between +10% and –10% over a 12month period.
Sell: Total return expected to depreciate 10% or more over a 12month period.

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