Regulatory Announcement

Company	Frontier Mining Ltd
TIDM	FML
Headline	Final Results
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Frontier Mining Ltd
("Frontier" or "the Company")

22nd June 2007 AIM:FML

Final Results for the year ended 31 December 2006

Highlights:

- Revenue of $2,974,472 from gold and silver sales in 2006, providing a gross operating margin of $1,005,632
- Debt free with net current assets of $3.4 million
- Capital expenditures of $5.3 million
- $3.1 million spent on exploration
- Discovery of three new significant gold/silver deposits at the Naimanjal Complex
- Several new areas of potential oxide gold-silver mineralisation discovered at Koskuduk
- Potential for Koskuduk to be a polymetallic target confirmed by reinterpretation of historical data and metallurgical test work

Post Year End Highlights:

- Gold and silver resources increased at Naimanjal
- Two year exploration extension for the evaluation of a commercial discovery at the Baltemir License, our fifth since listing in September 2004
- Strengthened management team

Brian Savage, CEO of Frontier commented, "We have made further progress across our portfolio of projects this year and have reported encouraging results from the various gold and copper exploration programmes we are running concurrently. We believe our prospective exploration assets are balanced well with our producing Naimanjal mine, which provides important revenues for the Company. Despite the issues encountered in 2006 and the subsequent downgrading of our production targets, we are positioned to meet our stated gold and silver production targets and we look forward to the coming year with confidence."

Enquiries

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About Frontier Mining Ltd:

Frontier Mining Ltd. is a mineral exploration and development company that was incorporated in the state of Delaware, USA, on 5 August 1998 for the purpose of exploring and developing gold and copper deposits in the Republic of Kazakhstan. Through its subsidiaries and affiliates, Frontier locates, evaluates, acquires, explores and develops mineral properties.

Frontier has two licenses owned by its wholly owned subsidiaries in Kazakhstan. They are the Naimanjal exploration and mining licence, held by FML Kazakhstan, and the Baltemir exploration licence, held by Baltemir LLP. Frontier has one producing gold mine, Naimanjal; one pre-feasibility stage gold project, Koskuduk; and one exploration stage gold prospect, Baltemir.

Frontier also has one potential copper porphyry deposit with associated gold and molybdenum, Baitimir; and several copper/gold prospects along a 25-km trend including both VMS and porphyry types. Metallurgical tests on its Beschoku and Yubileiny copper projects confirm the oxide copper ore is amenable to extraction using low cost SX-EW technology.

Frontier shares are traded on the AIM market of the London Stock Exchange. Frontier has 132,979,597 ordinary shares issued and 6,057,091 outstanding options and warrants, giving 139,026,688 fully diluted ordinary shares.

Further company information may be accessed at the Frontier Mining Ltd. website at:
www.frontiermining.com

Chairman's Statement

I am pleased to report the financial results of Frontier for the financial year ended 31 December 2006. During 2006, we made progress developing our Naimanjal gold/silver mine and continued to advance our other gold and copper projects.

The Naimanjal Complex

The Naimanjal Complex is a highly mineralised commercial discovery area of about 170 square kilometres consisting of the existing Naimanjal gold/silver mine and six satellite deposits. The Naimanjal gold/silver mine is only a small part of this area.

During 2006 Naimanjal produced 4,879 ounces of gold and 10,187 ounces of silver, of which 4,675 ounces of gold and 8,703 ounces of silver were sold during 2006. Although we are disappointed that we did not meet our production targets in 2006, we are now well placed to ramp up production over the coming year, and it is important to remember that Frontier is currently one of the few gold producers on AIM. Furthermore, we have increased gold and silver resources at Naimanjal and expect to convert a good portion of these resources to reserves during 2007.

Although we are still operating under pilot production status in Kazakhstan, we have reported revenue of $2,974,472 from sales of gold and silver during 2006. The average price received for gold was $611.68 per ounce and $13.20 per ounce silver, set against a cash cost of $364.00 per ounce.

The issues that caused lower than expected gold and silver production during 2006 were lower than expected recoveries and lower than expected grade due to both higher dilution and higher ore losses than forecast. In response to this, we made modifications to the Merrill Crowe circuit and installed a carbon circuit to help increase recovery as well as through put. Unfortunately, colder than expected weather in November required us to cease stacking operations, and caused a slow down in recovery due to lower solution temperatures in the heap. We plan to start heating solutions one month earlier this year to increase the solution temperature in the heap well ahead of winter weather. We have implemented stricter grade control procedures to better define ore zones, with a particular emphasis on minimising ore losses and fully appreciated the importance of silver. It is important to note that because gold and silver are not directly correlated, we can have gold with silver, gold without silver, and silver without gold. Our grade models are based on a gold equivalent, thus incorporating silver in our mine plans and therefore, minimising the loss of silver and improving overall economics.

Exploration at Naimanjal during 2006 led to the discovery of three new significant gold/silver deposits, including Pit 3 West, Grassy Knoll South, and Area 124. The Naimanjal exploration programme included 39 core holes totaling 1,826 metres, 374 reverse circulation ("RC") holes totaling 16,131 metres, 93 trenches totaling 14.8 line kilometres, 18 line kilometres of ground magnetics, 42.5 line kilometres of induced polarisation and resistivity, and a geochemical programme consisting of 950 soil samples over 19 line kilometres.

Exploration on the satellite deposits Baritovy, Jal, Ergozy, and Jantailak included 42 RC drill holes totaling 1,421 metres, 52 trenches totaling 3.5 line kilometres, 49 line kilometres of induced polarisation and resistivity surveys, and a geochemical programme consisting of 503 soil samples over 9.3 line kilometres.

A Pilot Production Licence has now been granted on the Baritovy satellite deposit, 9 kilometres from the existing Naimanjal mine.

Koskuduk Prospect

Frontier's drilling programme at Koskuduk in 2006 was designed to test the shallow strike extensions of known mineralisation and areas of anomalous soil geochemistry. This successfully identified several new areas of potential oxide gold mineralisation, and further infill drilling is now required.

The base metal potential of Koskuduk was discovered during this latest drill programme, with assays indicating that Koskuduk has a polymetallic gold-silver-zinc-lead signature at depth. The potential for Koskuduk to be a polymetallic target has also been confirmed by the re-interpretation of a historic data set comprising approximately 159 diamond holes (approximately 37,387 metres) and approximately 4,930 RC holes (approximately 147,153 metres), which were drilled from 1991 to 1994 by a joint venture between the Semipalatinsk Exploration Party and Semgeo JSC.

Baltemir

Baltemir is situated about 56 kilometres east of Frontier's producing gold/silver mine, Naimanjal. The Licence covers an area of 154 square kilometres and is held by Frontier's wholly owned subsidiary, Baltemir LLP. So far, the Baltemir exploration programme, overseen by Behre Dolbear, has identified the potential for a small gold resource of narrow high grade vein material at West Baltemir occurring within a zone 1 kilometre wide and 7 kilometres long. To date, twenty-five core holes totaling 1,941 metres have been drilled at various locations along this quartz vein system.

Earlier this year, the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan approved a two year exploration extension for the evaluation of a commercial discovery at Frontier's Baltemir License in north east Kazakhstan. The exploration license is now valid until 5 March 2009.

Beschoku & Yubileiny

The Beschoku prospect is a high grade gold-copper breccia pipe complex with a variably developed oxide zone that is located within the same structural corridor as the Yubileiny prospect. Data indicate that drilling has only tested the periphery of a significant anomaly that will be explored further in the 2007 program. The Yubileiny prospect is approximately 20 kilometres to the southeast of Beschoku and is a structurally controlled copper target with the potential for polymetallic silver-lead-copper mineralisation at depth. Metallurgical tests on Beschoku and Yubileiny confirm the oxide copper is amenable to extraction using low cost SX-EW technology.

Baitimir

The Baitimir prospect is located approximately 25 kilometres to the north of Beschoku and comprises a copper-mineralised dioritic and granodioritic intrusive complex with a variably developed secondary copper zone. The 2006 trenching programme intercepted significant mineralisation including 10 metres grading 1.06% copper and 88 metres grading 0.47% copper.

Outlook

We are forecasting production of 15,000 ounces of gold and 50,000 ounces of silver at Naimanjal during 2007. Included in this forecast are plans to transport an initial small tonnage of higher grade ore from Baritovy to Naimanjal for stacking and processing, while additional exploration is undertaken to further define and extend the Baritovy deposit.

The two issues that will have the greatest impact on production in 2007 are grade control and water. Grade control will ensure we maximize the grade to the heap leach pads and minimise ore losses. Water will ensure that the heap leach pads are sufficiently saturated because second lifts will be stacked on certain heap leach pad cells this year.

The 2007 exploration programme at Naimanjal and satellites will include over 400 RC holes totaling 20,000 metres, 32 core holes totaling 3,400 metres, 18,000 metres of trenching, along with soil sampling, geological mapping and outcrop sampling. The programme will focus on expanding known reserves and resources; follow-up drilling and trenching on five new mineralised areas explored in 2006 at Naimanjal; initial trenching and drilling on two new prospects; and trenching, core and/or RC drilling at the satellite projects at Baritovy, Jal, Ergozy, Jantailak, Crystalnoye, and Toksanbai.

At Koskuduk, our main focus in 2007 will be the completion of a scoping study including metallurgical test work on both oxide and sulphide mineralisation, defining the near surface oxide gold resources and reserves to a JORC standard, and identifying polymetallic structural zones for drilling.

At Baltemir, Behre Dolbear has recommended a limited three phase exploration programme to test the potential of three key targets. The exploration programme includes 70 trenches totaling 1,050 metres, 35 core holes totaling 1,420 metres, and finally, metallurgical test work.

At our copper projects, Beschoku, Yubileiny, and Baitimir, we will be focusing our efforts on Beschoku, the high grade gold-copper breccia pipe complex, while continuing to do limited additional drilling at Yubileiny and defining high grade areas at Baitimir to drill both sulphide and oxide material.

I would like to thank my fellow directors, staff and consultants for their hard work and dedication and, most of all, our loyal shareholders for their continued support of the Company.

Brian C. Savage
Chairman and Chief Executive Officer

22 June 2007

FRONTIER MINING LTD
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Expressed in US Dollars)

	Notes	2006	2005
Revenue	5	2,974,472	231,781
Cost of sales	6	(1,968,840)	(324,115)
Gross profit / (loss)		1,005,632	(92,334)
Selling, general and administrative expenses	8	3,340,652	2,867,619
Legal and related fees		576,404	515,645
Operating loss		2,911,424	3,475,598
Interest income		(187,888)	(33,093)
Finance costs		84,777	7,187
Other expenses, net		27,956	12,118
Foreign exchange (gain)/loss		(191,786)	886,431
Loss before taxation		2,644,483	4,348,241
Taxation		(1,051,840)	-
Consolidated net loss		1,592,643	4,348,241
Loss per share – basic and diluted	25	0.01	0.05

FRONTIER MINING LTD
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2006
(Expressed in US Dollars)

	Notes	2006	2005
ASSETS			
Non-current assets			
Exploration and development costs	9	9,745,844	6,883,607
Property, plant and equipment	10	9,577,021	4,999,869
Intangible assets		43,478	49,691
Long-term value added tax receivable	11	436,159	400,622
Deferred tax asset	24	1,100,856	-
Restricted cash	12	112,000	112,000
		21,015,358	12,445,789
Current assets			
Inventory	13	2,984,369	934,835
Trade accounts receivable	14	586,404	142,445
Current portion of value added tax receivable	11	320,000	-
Prepaid expenses	15	134,878	282,706
Other accounts receivable	16	26,101	249,174
Cash and cash equivalents	17	1,253,063	13,958,038
		5,304,815	15,567,198
TOTAL ASSETS		26,320,173	28,012,987
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	18	1,325,816	1,325,816
Share premium	18	36,440,425	36,440,425
Accumulated deficit		(14,321,876)	(12,729,233)
		23,444,365	25,037,008
Non-current liabilities			
Provision for future site restoration	19	59,477	119,187
Due to Government of the Republic of Kazakhstan	20	700,188	689,605
Debt to US Trade and Development Agency	21	240,000	340,000
Deferred tax liability	24	49,016	-
		1,048,681	1,148,792
Current liabilities			
Accounts payable	22	959,720	863,287
Debt to US Trade and Development Agency	21	100,000	-
Due to Government of the Republic of Kazakhstan	20	31,587	132,146
Other current liabilities	23	735,820	831,754
		1,827,127	1,827,187
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		26,320,173	28,012,987

FRONTIER MINING LTD
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006
(Expressed in US Dollars)

	Notes	Share capital	Share premium	Treasury stock	Accumulated deficit	Total
At January1, 2005		611,179	12,139,942	(670)	(8,380,992)	4,369,459
Placement of shares	18	175,000	7,812,897	-	-	7,987,897
Shares granted	18	6,350	239,013	-	-	245,363
Private placement	18	400,000	12,359,240			12,759,240
Exercise of warrants	18	131,954	3,850,673	670	-	3,983,297
Exercise of options	18	1,333	38,660			39,993
Net loss		-	-	-	(4,348,241)	(4,348,241)
At December 31, 2005		1,325,816	36,440,425	-	(12,729,233)	25,037,008
Net loss		-	-	-	(1,592,643)	(1,592,643)
At December 31, 2006		1,325,816	36,440,425	-	(14,321,876)	23,444,365

FRONTIER MINING LTD
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Expressed in US Dollars)

	Notes	2006	2005
OPERATING ACTIVITIES:			
Loss before taxation		(2,644,483)	(4,348,241)
Adjustments for non cash flow items:			
Depreciation of property, plant and equipment	10	762,474	471,244
Amortization of intangible assets		7,987	8,978
Increase in provision for tax liabilities	23	15,800	30,000
Foreign Exchange (gain)/loss, net		(191,786)	886,431
Loss from disposal of property, plant and equipment	10	31,430	-
Finance costs	19/20	84,777	7,187
Operating cash flows before movement in working capital		(1,933,801)	(2,944,401)
Increase in value added tax receivable	11	(355,537)	(400,622)
Increase in inventory	13	(2,049,534)	(934,835)
Increase in trade accounts receivable	14	(443,959)	(142,445)
Decrease/ (increase) in prepaid expenses	15	147,828	(208,563)
Decrease/ (increase) in other accounts receivable	16	223,073	(223,071)
Increase in restricted cash	12	-	(112,000)
Increase in accounts payable	22	96,433	661,947
Increase /(decrease)in other current liabilities	23	(111,734)	400,051
NET CASH USED IN OPERATING ACTIVITIES		(4,427,231)	(3,903,939)
INVESTING ACTIVITIES:			
Additions to exploration and development costs	9	(3,096,700)	(2,960,759)
Purchase of property, plant and equipment	10	(5,371,056)	(5,549,860)
Purchase of intangible assets		(1,774)	(11,340)
NET CASH USED IN INVESTING ACTIVITIES		(8,469,530)	(8,521,959)
FINANCING ACTIVITIES:			
Capital contributions, net of direct issue cost		-	24,770,427
Repayment of short-term debts		-	(412,106)
NET CASH FLOWS FROM FINANCING ACTIVITIES		-	24,358,321
Net decrease/(increase) in cash and cash equivalents		(12,896,761)	11,932,423
Effects of exchange rate changes on the balance of cash held in foreign currencies		191,786	(625,128)
Cash and cash equivalents at beginning of year	17	13,958,038	2,650,743
Cash and cash equivalents at end of year	17	1,253,063	13,958,038

(Expressed in US Dollars)

1. NATURE OF THE BUSINESS

Frontier Mining Ltd ("Frontier" or "the Company") was incorporated under the laws of the state of Delaware on August 5, 1998, for the purpose of exploring, and if warranted, developing gold and copper deposits in the Republic of Kazakhstan.

The principal activities of the Company and its subsidiaries (the "Group") as of December 31, 2006 are as follows:

Operating entity	Principal activity	Country of incorporation
Frontier Mining Ltd	Management of the Group	United States of America
FML Kazakhstan LLP	Exploration and development	Republic of Kazakhstan
Baltemir LLP	Exploration	Republic of Kazakhstan

Through its wholly owned subsidiaries, FML Kazakhstan LLP ("FMLK") and Baltemir LLP, Frontier holds interests in, or is the beneficial owner of, non-producing and producing gold and copper properties in Kazakhstan. The Group is actively exploring and developing its wholly owned Naimanjal and Baltemir contract license areas.

The Naimanjal contract dated August 16, 1999, represents the combined exploration and extraction contract for a 30-year period. The Naimanjal license No. 1166DD currently covers an approximate area of 529 square kilometres in the North Eastern Kazakhstan.

The Baltemir license No. 1256D issued by the Competent Agency on August 16, 1999, covers an area of approximately 154 square kilometres in the North Eastern Kazakhstan.

On August 27, 2005, the Group received regulatory approvals for a 2½ year extension of the exploration period to evaluate four commercial discoveries on the Naimanjal license.

On August 27, 2005, the Company received regulatory approvals and commenced pilot production on the Naimanjal Mine.

At December 31, 2006, the Company's registered office was located at: 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, the USA. At December 31, 2006, the Company had four representative offices, two of which were located in the Republic of Kazakhstan, one in Colorado, USA, and one in London, England.

The number of employees of the Group at December 31, 2006, was 189 people (2005: 89 employees).

Organization history – On August 5, 1998, the founders of Frontier agreed that Frontier, upon its incorporation, would issue 280,000 ordinary shares at US$ 0.01 par value per share to its founders as compensation and acquire, from SEMTECH in exchange for the assets and assumption of liabilities and the issuance of 200,000 ordinary shares of Frontier at par value:

- 100% of Polygon Resources LLP,
- 70% of Besshoky LLP ("Besshoky") and
- 50% of Semgeo LLP.

The purchase accounting was used to account for the acquisition and, accordingly, the assets acquired and liabilities assumed were recorded at their respective fair market values as of the acquisition date.

On October 31, 1998, Polygon Resources LLP was re-registered in Kazakhstan as FML Kazakhstan LLP ("FMLK") to reflect the name change and the Company's 100% ownership.

In September 1999, Frontier acquired 100% of Baltemir LLP by issuing to its owners 50,000 ordinary shares of Frontier and agreeing to pay historical exploration expenses to the main shareholder.

Besshoky LLP and Semgeo LLP ceased their operations and were liquidated by the Company in January and February 2004, respectively.

Political and economic environment – The Kazakhstan economy continues to display certain traits consistent with that of a market economy in transition. These characteristics have in the past included:

- higher than normal historic inflation,
- lack of liquidity in the capital markets, and
- the existence of currency controls, which cause the national currency to be illiquid outside of Kazakhstan.

The continued success and stability of the Kazakhstan economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Meanwhile, the Group's operations and financial position will continue to be affected by Kazakhstan political developments including the application of existing and future legislation and tax regulations. The likelihood of such occurrences and their effect on the Group could have a significant impact on the Group's ability to continue operations. As of December 31, 2006, the Group does not believe that any material matters exist relating to the developing markets and evolving fiscal and regulatory environment in Kazakhstan, including current pending or future governmental claims and demands, which would require adjustment to the accompanying consolidated financial statements in order for those statements not to be misleading.

2. PRESENTATION OF FINANCIAL STATEMENTS

Consolidated subsidiaries – FML Kazakhstan LLP (100% ownership) and Baltemir LLP (100% ownership).

Basis of presentation – These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS include standards and interpretations approved by International Accounting Standards Boards ("IASB"), including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). In absence of specific IFRS guidance for the extractive industries, the Group has developed accounting policies in accordance with practices in the mining industry so that they do not contradict the IFRS principles.

These consolidated financial statements are presented in US Dollars ("US$"), unless otherwise indicated. The US Dollar is used as the functional and presentation currency as the majority of the Group's transactions are denominated and measured in US Dollars. Transactions in other currencies are treated as transactions in foreign currencies.

The consolidated annual financial statements are prepared under the historical cost basis, except for mark-to-market valuation of certain financial instruments in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", which is more fully described in note 4 (h).

Adoption of new and revised standards - The Group has adopted all the new and revised Standards and Interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for reporting periods ending December 31, 2006.

At the date of authorization of these consolidated annual financial statements, the following Standards, Interpretations and amendments to published Standards were issued but not yet effective:

- IFRS 7 “Financial Instruments: Disclosures”;
- Amendments to IAS 1 “Presentation of Financial Statements” on capital disclosures;
- IFRIC 8 “Scope of IFRS 2”;
- IFRIC 9 “Reassessment of Embedded Derivatives”;
- IFRIC 7 “Applying the Restatement Approach under IAS 29 “Financial Reporting in Hyperinflationary Economies”;
- IFRIC 10 “Interim Financial Reporting and Impairment”;
- IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”;
- IFRIC 12 “Services Concession Arrangements”.

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated annual financial statements of the Group.

Going concern – These consolidated annual financial statements were prepared on a going concern basis and there is no evidence that the Group is intending or in a position to terminate or significantly reduce its operations in the near future.

The Group operates as a natural resources exploration company. To date, the Group has not earned significant revenues and is considered to be in the exploration and development stage. The Group has an accumulated deficit of US$ 14,321,876 and US$ 12,729,233 as of December 31, 2006, and 2005, respectively. This factor, as well as other factors, raise doubt about whether the Group can continue as a going concern.

Additional financing will be required to fund any material expenditures relating to new mineral exploration projects or advancing the Group’s current projects. Whilst the Group has been successful in raising financing in the past, there can be no assurance that the Group will be able to continue to raise such additional financing as may be required for future operations.

The Group intends to seek additional financing through the issuance of equity or debt instruments.

The consolidated annual financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets and liabilities that may result from the outcome of this uncertainty.

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated annual financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful economic lives of property, plant and equipment - The Group's mining and non-mining property, plant and equipment are depreciated on a straight line basis over their useful economic lives or life of mine whichever is shorter. Management periodically reviews the appropriateness of the useful economic lives of the assets. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Exploration and evaluation assets – Management’s judgment is involved in determination of whether the expenditures which are capitalised as exploration and evaluation assets will be recouped by future exploration or sale. To determine this, management estimates the possibility of finding recoverable ore reserves related to particular area of interest unless evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable ore reserves.

Mine evaluations - The decision to develop a mine is based on the economics of an identified resource extraction. These economics change over time and management’s judgments are based on best available information at a time, including mineral resource prices and reserve estimations. In the case of deferred exploration costs, these relate to ongoing exploration activities that management is actively undertaking to further assess the future opportunity to exploit reserves in those areas of interest.

Provision for mine abandonment and site restoration - The Group's mining activities are subject to various laws and regulations governing the protection of the environment. The Group estimates the provision for mine abandonment and site restoration obligations based on management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for mine abandonment and site restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Impairment of assets - The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment of impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit. Management applies their judgment in allocating assets that do not generate independent cash flows to appropriate cash generating units and in estimating the timing and value of the underlying cash flows within the value-in-use calculation. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Contingencies - By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events (see note 26).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group's significant accounting policies are set out below:

(a) Basis of consolidation

Subsidiaries

The consolidated annual financial statements incorporate financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company has power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(b) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

	Years
Machinery & equipment	4 – 10
Transport& vehicles	3 – 5
Office equipment	3 – 7

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Capitalized cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to the consolidated income statement as incurred.

(c) Exploration and development costs

The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Initially, the exploration costs are capitalized and then reviewed for impairment on a regular basis. Expenditures related to the following activities are included in the initial measurement of exploration assets:

- acquisition of rights to explore, mining licenses;
- topographical, geological, geochemical and geophysical studies;
- exploratory drilling;
- trenching;
- sampling; and
- activities in relation to evaluating technical feasibility and commercial viability of extracting a mineral resource.

Expenditures not included in the initial measurement of exploration assets are:

- the development of a mineral resource once technical feasibility and commercial viability of extracting a mineral resource have been established; and
- administration and other general overhead costs.

Once the decision to proceed to develop is made, development and other expenditures relating to the project are capitalized and carried at cost with the intention that these will be amortized by charges against earnings from future mining operations. At the same time, the exploration assets accumulated in respect of the property, for which the decision to proceed with the development has been made, are reclassified into the development costs.

Upon reaching designed commercial production capacity, exploration and development costs are consistency amortized using the unit of production method based on the volumes of proved and probable reserves of ore and are written off as the assets are depleted.

(d) Site restoration costs

Provision is made for the close down, restoration and environmental clean up costs where there are legal or constructive obligations to do so (which includes the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on the estimated future costs. The provision is discounted where material and the unwinding of the discount is shown as a finance cost in the consolidated statement of operations. At the time of establishing the provision, a corresponding asset is capitalized and amortised on a unit of production basis upon the commencement of production.

The provision is reviewed on an annual basis for changes in cost estimates or economic useful life of existing operations.

(e) Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land, buildings, other than investment property, or equipment, carried at a revalued amount, in which case the impairment loss is treated as decrease in revaluation reserve.

(f) Inventories

Materials are stated at the lower of cost or net realizable value. Cost comprises direct materials, customs duties, and transportation and handling costs. Cost is calculated using the first-in-first-out method.

Work-in-process is valued at the net unit cost of production based on the weighted average method.

Finished goods are measure at the lower of net production costs on the weighted average basis, or net realizable value. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(g) Equity instruments

Equity instruments issued by the Group are recorded at the time proceeds are received, net of direct issue cost. Changes in the fair value of a contract arising from variations in market interest rates do not affect the amount of cash or other financial assets to be paid or received, or the number of equity instruments to be received or delivered. Changes in the fair value of an equity instrument are not recognized in the financial statements.

(h) Financial instruments

Financial instruments recognized on the Group's balance sheet mainly include trade and other receivables, cash and cash equivalents, borrowings and trade and other payables

Accounts receivable – Accounts receivable are stated at their net realizable value after deducting provisions for uncollectible amounts.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, cash with banks, deposits and marketable securities with original maturity of three months or less.

Restricted cash – Restricted cash includes deposits with banks pursuant to the subsurface use contracts. The Group is obliged to accumulate cash to meet the obligations to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage.

Trade and other payables – Trade and other payable are initially measured as fair value and are subsequently measured at amortised cost using the effective interest method.

Borrowings – Loans and borrowings are initially measured at proceeds received, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost, which is calculated by taking into account any discount or premiums on settlement. Finance charges, including premiums payable on settlement or redemption, are accounted for on accrual basis and added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(i) Interest on borrowings

Interest on borrowings relating to major qualifying capital projects under construction are capitalised during the construction period in which they are incurred. Once a qualifying capital project has been fully commissioned, the associated borrowing costs are expensed in the income statement as and when incurred.

Other interest is expensed in the income statement as and when incurred.

(j) Employee benefit costs

The Group accounts for its employee benefit costs in accordance with the pension scheme of the Republic of Kazakhstan, which requires current contributions by the employer and employee calculated as a percentage of current gross salary payments. Such contributions (social tax payments) are charged to expense as incurred.

(k) Provisions

A provision is recognized when, and only when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (that is, more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is determined based on the present value of the expenditures expected to be required to settle the obligation.

(l) Revenue recognition

Revenue is recognized when legal title, and all the risks and benefits associated with the ownership of goods, are passed to the customers, and it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and Value Added Tax ("VAT").

(m) Taxation

Frontier is subject to United States federal, state and foreign income taxes. There are currently no income taxes payable. For companies working under Kazakh legislation, current taxes are calculated in accordance with the regulations of the Republic of Kazakhstan and are based on the companies' operating results prepared under Kazakh Accounting Standards after adjustments for tax purposes.

Deferred income taxes are accounted for using the balance sheet liability method in respect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying consolidated annual financial statements to the extent that there is a reasonable expectation of their realization. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

A valuation allowance is provided when it is probable that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. It is charged or credited to the consolidated statement of operations, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

(n) Reclassifications

Certain prior period 2005 comparative amounts have been reclassified to conform to current year presentation. The following summarizes the most significant reclassifications:

Nature of reclassification	Account	As previously reported	Amount of Reclassification	As reclassified
Balance Sheet				
Reclassification of current portion of USTDA liability to non-current	USTDA liability - current	100,000	(100,000)	-
Reclassification of current portion of USTDA liability to non-current	USTDA liability - non-current	240,000	100,000	340,000
Statement of cash flows				
Reclassification of non cash foreign exchange loss from Purchase of Property and Equipment	Foreign exchange loss	-	886,431	886,431
Reclassification of non cash foreign exchange loss from Purchase of Property and Equipment	Purchases of property and equipment	(5,288,557)	(261,303)	(5,549,860)
Reclassification of non cash foreign exchange loss from Purchase of Property and Equipment	Effect of exchange rate changes on the balances of cash held in foreign currencies	-	(625,128)	(625,128)
Reclassification of non cash amounts from changes in exploration and development costs	Changes in working capital due to Government of Republic of Kazakhstan	821,751	(821,751)	-
Reclassification of non cash amounts from changes in exploration and development costs	Changes in exploration and development costs	(3,782,510)	821,751	(2,960,759)
Reclassification of funds restricted for site restoration	Cash and cash equivalents at end of year	14,070,038	112,000	13,958,038
Reclassification of funds restricted for site restoration	Increase in funds restricted for site restoration		(112,000)	(112,000)

5. REVENUE

During 2006, the Group remained in pilot production at the Naimanjal mine. The revenue recognized during 2006 comprised of amounts invoiced for initial sales of gold and silver produced from pilot production during 2006. In 2006, sales of silver represented approximately 4% of total sales (2005: 4.5%)

6. COST OF SALES

	2006	2005
On-mine and concentrating costs (see note 7)	2,716,645	594,255
Ore transportation expenses	261,225	42,470
Other expenses (including royalty)	374,953	137,273
Cash operating cost	3,352,823	773,998
Amortization and depreciation of operating assets (see note 12)	304,516	361,829
Total cost of production	3,657,339	1,135,827
Change in finished goods and work-in-process (see note 15)	(1,688,499)	(811,712)
Total	1,968,840	324,115

7. ON-MINE AND CONCENTRATING COSTS

	2006	2005
Consumables and spares	571,514	125,016
Labour	1,088,931	238,199
Power and other utilities	280,694	61,402
Maintenance	270,037	59,069
Third party services	505,469	110,569
Total (see note 6)	2,716,645	594,255

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2006	2005
Payroll and related staff costs	914,066	1,092,553
Travel and accommodation	523,496	434,986
Depreciation and amortization	465,945	118,393
Financial and consulting services	315,205	179,616
Public relations and promotion	282,180	74,101
Rent and office services	206,565	223,599
Printing stationary and office miscellaneous	106,604	67,620
Telecommunication	98,774	143,673
Audit and accounting fees	95,138	112,047
Insurance	91,480	46,168
Taxes other than income tax	67,551	56,582
Bank charges	38,965	30,056
Shares grants and options to Directors, Management and employees	-	245,363
Other expenses	134,683	42,862
TOTAL	3,340,652	2,867,619

9. EXPLORATION AND DEVELOPMENT COSTS

	2006	2005
As of January 1	6,883,607	3,210,726
Additions	2,862,237	3,672,881
As of December 31	9,745,844	6,883,607

10. PROPERTY, PLANT AND EQUIPMENT

	Machinery & equipment	Transport & vehicles	Office equipment	Capital work in progress (Naimanjal complex)	Total
Cost:					
At December 31, 2005	781,451	81,481	313,141	4,335,289	5,511,362
Additions	2,816,930	799,802	59,097	1,695,227	5,371,056
Disposals	(1,812)	-	(35,546)	(318)	(37,676)
Transfer	51,208	17,038	-	(68,246)	-
At December 31, 2006	3,647,777	898,321	336,692	5,961,952	10,844,742
Accumulated depreciation:					
At December 31, 2005	(333,380)	(22,602)	(155,511)	-	(511,493)
Charge for the year	(528,137)	(165,350)	(68,987)	-	(762,474)
Disposal	515	-	5,731	-	6,246
At December 31, 2006	(861,002)	(187,952)	(218,767)	-	(1,267,721)
Net carrying amount:					
At December 31, 2005	448,071	58,879	157,630	4,335,289	4,999,869
At December 31, 2006	2,786,775	710,369	117,925	5,961,952	9,577,021

11. VALUE-ADDED TAX RECEIVABLE

	2006	2005
Long term portion of value added tax receivable	436,159	400,622
Current portion of value added tax receivable	320,000	-
At December 31	756,159	400,622

In accordance with the Kazakh tax code, VAT receivable can be recovered by either an offset against VAT payable generated from local sales or through a direct reimbursement from tax authorities, which is only available after the Company commences commercial production, as evidenced by an approval from an appropriate governmental authority.

12. RESTRICTED CASH

Restricted cash as of December 31, 2006, of US$ 112,000 (December 31, 2005: $112,000), represents cash held in a restricted bank account for future site restoration works. Pursuant to the Naimanjal and Baltemir Subsurface Use Contracts, the Group is obliged to accumulate cash sufficient to meet the obligations to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage (see note 19).

13. INVENTORY

	2006	2005
Finished goods	144,814	124,363
Work-in-process	1,895,730	588,770
Ore in warehouse	459,667	98,579
Stores and materials	484,158	123,123
Total	2,984,369	934,835

14. TRADE ACCOUNTS RECEIABLE

Trade accounts receivable as of December 31, 2006, comprise of amount receivable from Metalor Technologies S.A. for sales of gold in November and December 2006 (see note 6).

15. PREPAID EXPENSES

As of December 31, 2006, and December 31, 2005, prepaid expenses primarily relate to materials, works and services for the operation of the plant at the Naimanjal mine.

16. OTHER ACCOUNTS RECEIVABLE

	2006	2005
Due from employees (see note 26)	5,132	41,511
Deferred expenses	-	112,771
Other receivables	8,314	86,869
Security deposit on office rent	12,655	8,023
	26,101	249,174

17. CASH AND CASH EQUIVALENTS

	2006	2005
GBP current bank account	1,141,170	13,627,397
US Dollars current bank account	86,193	202,564
KZT current bank account	25,700	5,484
Cash on hand	-	2,243
Cash on transit	-	120,350
	1,253,063	13,958,038

18. SHARE CAPITAL AND PREMIUM

As of December 31, 2006, the Company's authorized capital comprises 500,000,000 ordinary shares of US$ 0.01 par value per share (December 31, 2005: 500,000,000 shares at US$ 0.01 par value each) Movements in the share capital issued for the years ended December 31, 2005 and 2006 were as follows:

	Number of shares issued and outstanding	Share capital	Treasury stocks	Share premium	Total
January 31, 2005	61,117,897	611,179	(670)	12,139,942	12,750,451
AIM placement, net of direct issue cost	17,500,000	175,000		7,812,897	7,987,897
Private placement, net of direct issue cost	40,000,000	400,000	-	12,359,240	12,759,240
Shares granted to Directors and Management	635,000	6,350	-	239,013	245,363
Exercise of warrants	13,262,366	131,954	670	3,850,673	3,983,297
Exercise of options	133,310	1,333	-	38,660	39,993
December 31, 2005	132,648,573	1,325,816	-	36,440,425	37,766,241
December 31, 2006	132,648,573	1,325,816	-	36,440,425	37,766,241

Changes to the Company's stock options are summarized as follows:

	2006		2005	
	Number of options	Wt. avg. option price	Number of options	Wt. avg. option price
At beginning of year	140,000	$0.30	303,300	$0.38
Granted	4,180,000	$0.30	-	-
Exercise	-	-	(133,300)	$0.30
Expired	(140,000)	$0.30	(30,000)	$0.30
At end of year	4,180,000	-	140,000	$0.30

The Company maintains an incentive share option plan ("plan") under which directors, officers and key personnel may be granted options to purchase ordinary shares of the Company. Management believes the Company is in compliance with the Association of British Insurers' guidelines allowing up to 10% of the issued shares to be made available in options to executive directors and employees In 2006 the Company has reserved 277,091 ordinary shares for issuance upon the exercise of options granted under the terms of the plan (2005: 4,457,091).

19. PROVISION FOR FUTURE SITE RESTORATION

As of December 31, 2006 environmental restoration provisions are related to obligations to restore and make safe mines after use and the estimated costs of cleaning up any possible contamination. Most of these costs are expected to be incurred at the end of the mines' useful operations, approximately between the years 2025 to 2026. The extent and cost of future remediation programs are inherently difficult to estimate. They depend on the estimated lives of the mines, the scale of any possible contamination and the timing and extend of corrective actions.

	2006	2005
As of January 1	119,187	112,000
Un-winding of the discount	6,373	7,187
Changes in estimates	(66,083)	-
At of December 31	59,477	119,187

To fund the future costs of the Baltemir mine and Naimanjal mines, the Group is required to transfer funds into a special deposit account (see note 12). The following assumptions were used to estimate the net present value of the provision for future site restoration:

- Total undiscounted amount of future estimated cash out flows in current year 2006 prices is US$ 480,000
- Expected timing of future cash outflows 20 years
- Discount rate – approximately 12% per annum
- Inflation rate – approximately 8% per annum

20. DUE TO GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN

The Group is obligated to reimburse the Government of Kazakhstan the amount of US $1,436,400 for the historical cost of geological studies performed in respect of the Naimanjal contract. The Group paid US$ 14,364 upon assuming the liability: the remaining amount was discounted at a rate of 12% per annum to arrive to the net present value of the remaining liability. Pursuant to the exploration contract, the historical cost of geologic studies is to be repaid in 40 equal, quarterly installments, commencing from the date of commercial production as evidenced by an approval from the appropriate governmental authority.

	2006	2005
As of January 1	821,751	-
Obligations raised during the period	-	821,751
Change in estimate*	(168,380)	-
Un-winding of the discount	78,404	-
As of December 31	731,775	821,751
Current portion of due to Republic of Kazakhstan	31,587	132,146
Non-current portion of due to Republic of Kazakhstan	700,188	689,605
	731,775	821,751

*The present carrying value estimation of the obligation as of December 31, 2005, was based on the assumption that full commercial production would begin in early 2007. In 2006, the expected start of the full commercial production was deferred to the last quarter of 2007. This resulted in a revision to the estimated fair value of the amount due to the Government of the Republic of Kazakhstan.

21. DEBT TO US TRADE AND DEVELOPMENT AGENCY

	2006	2005
Current portion of debt to TDA	100,000	-
Non-current portion of debt to TDA	240,000	340,000
	340,000	340,000

As of December 31, 2006 debt comprised of a grant received from the US Trade and Development Agency ("TDA"). The grant is interest free and denominated in US Dollars. In accordance with the terms of the grant, the grant is refundable to the TDA when the Company succeeds in obtaining funding for the Naimanjal mine based on the feasibility study that the grant was provided to finance,.

22. ACCOUNTS PAYABLE

	2006	2005
Geological works and services	404,592	463,287
Consulting services	555,128	400,000
	959,720	863,287

23. OTHER CURRENT LIABILITIES

	2006	2005
Due to employees (see note 26)	252,839	322,283
Tax penalties provision	381,418	365,618
Taxes other than on income	51,785	91,330
Unused vacation	31,299	51,514
Other	18,479	1,009
	735,820	831,754

24. TAXATION

The effective income tax rate differs from statutory income tax rates. A reconciliation of the income tax expenses based on statutory rates with actual expense is as follows for years ended December 31, 2006 and 2005:

	2006	2005
Deferred tax assets		
Exploration and development costs	564,466	292,708
Property and Equipment	319,239	49,813
Accrued expenses	57,016	120,000
Accretion expense	28,788	2,156
Tax loss carried forward	2,121,976	2,416,096
	3,091,485	2,880,773
Deferred tax liabilities		
Exploration and development costs	49,016	42,362
Net position before valuation allowance	3,042,469	2,838,411
Valuation allowance	(1,990,629)	(2,838,411)

Net tax position	1,051,840	-

The Group had previously not recognized a deferred tax asset due to a lack of certainty that existed regarding the sufficiency of future taxable income to which prior year Kazakhstani tax losses could be applied.

In 2006, management revised its future cash flow forecasts to take into consideration, among other things, significantly higher global commodity prices and an increase in estimated recoverable ore reserves. Therefore, as of December 31, 2006, management believes that the amount and timing of realizing the potential tax benefits is reasonably determinable and will be utilized against future taxable income.

Income tax expense for the year can be reconciled to the loss per the consolidated income statement as follows:

Loss before income tax	(2,644,483)	(4,348,241)
Tax benefit at the statutory tax rate of Kazakhstan of 30%	(793,345)	(1,304,472)
Non-deductible expenditures incurred outside of Kazakhstan	589,287	786,676
Change in unrecognized deferred tax asset in prior years	(847,782)	517,796
Income tax benefit	(1,051,840)	-

25. EARNINGS/LOSS PER SHARE

Basic earnings/(loss) per share is calculated by dividing the net earnings/(loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings/(loss) per share is calculated by dividing the net earnings/(loss) for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive options and other shares reserved for issuance.

The following reflects the net earnings/(loss) for the year and share data used in the basic and diluted earnings/(loss) per ordinary share computations:

	2006	2005
Net loss attributable to common shareholders for basic earnings per share	(1,592,644)	(4,348,241)
Net loss attributable to common shareholders for diluted earnings per share	(1,592,644)	(4,348,241)
Weighted average number of common shares for basic earnings per share	132,638,587	82,752,099
Effect of dilution:		
Options	515,342	56,170
Warrants	-	3,570,444
Adjusted weighted average number of common shares for diluted earnings per share	133,153,929	86,378,713
Loss per share- basic and diluted	0.01	0.05

26. RELATED PARTY TRANSACTIONS

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions with related parties for the years ended December 31, 2006 and 2005 and balances as of those dates were carried out at market terms and were as follows:

	December 31, 2006		December 31, 2005	
	Related party transactions	Total category	Related party transactions	Total category
Other accounts receivables (see note 16)	5,132	26,101	128,380	249,174
Other current liabilities (see note 23)	252,839	735,820	41,511	322,283

At December 31, 2006, related parties primarily include the directors and management of the Company who own the majority of the Company's share capital.

Key management personnel totals to 3 persons as of December 31, 2006 (2005: 3 persons). Total compensation to key management personnel included in the general and administrative expenses in the statement of operations was US$ 614,400 for the year ended December 31, 2006 (2005: US$ 614,400).

27. COMMITMENTS AND CONTINGENT LIABILITIES

License commitments

In 2006, the Group continued contracts for exploration and subsequent production for Naimanjal license and exploration for Baltemir license. Each contract includes a work program defining the Group's obligations to invest into exploration on the licenses. The total amounts of the minimum work program commitments are US$ 1,835,000 to December 15, 2007 for Naimanjal and US$ 414,000 for Baltemir to December 31, 2007.

Taxation

Legislation and regulations regarding taxation, foreign currency translations and licensing of foreign currency loans in the Republic of Kazakhstan continue to evolve as the central government manages the transformation from a command to a market-oriented economy. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors, National Bank officials, and the Ministry of Finance. Instances of inconsistent opinions between local, regional, and national tax authorities and between National Bank and the Ministry of Finance are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's law, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid. Interest is assessable at rates of generally 0.03% per day. As a result, penalties and interest can result in amounts that are multiples of any unreported taxes.

The Group believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes is unclear, the Group has accrued tax liabilities based on management's best estimate.

Because of the uncertainties associated with the Kazakh tax and legal systems, the ultimate amount of taxes, penalties and interest, if any, assessed may be in excess of the amount expensed to date and accrued at December 31, 2006. Although such amounts are possible and may be material, it is the opinion of the Group's management that these amounts are either not probable, not reasonably determinable, or both.

Environmental matters

The Group is subject to various environmental laws and regulations of the Republic of Kazakhstan. While management believes that substantial compliance with such laws and regulations has been achieved, there can be no assurances that contingent liabilities do not exist.

Legal issues

In the ordinary course of business, the Group can be subject to legal actions and complaints. Management is not aware of any current or pending legal action or complaint. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Liquidation fund

The Group will be required to make a monetary contribution to the extent that the environmental clean-up costs required exceed the liquidation fund. The Group's management believes that the Group is in compliance with the commitments set forth in both the Naimanjal and Baltemir Subsurface Use Contracts. However, such compliance may be questioned by the relevant authorities whose interpretation may differ significantly from the Group's.

Insurance

The insurance industry in the Republic of Kazakhstan is in the process of development, and many forms of insurance coverage common in developed markets are not yet generally available. The Group does not have full coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations.

28. CONCENTRATION OF BUSINESS RISK

The Group's main business activities are within the Republic of Kazakhstan. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

The Group sells all finished goods to Metalor Technologies S.A. and the Group could be at risk due to changes in market situation in country of the purchaser.

29. FINANCIAL INSTRUMENTS

In the normal course of its operations, the Group is exposed to commodity price, credit, currency, and operational risks.

Commodity price risk

The Group is exposed to fluctuations in gold product prices as a result of market conditions and changes in London Metal Exchange (LME) quotes. The Group believes it has no significant exposure to commodity price risk as at December 31, 2006.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. As of December 31, 2006, the Group believes that its maximum exposure to credit risk relates to its cash and accounts receivable as reflected in their carrying value.

Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed.

The majority of the Group's activities are denominated in USD. The Group does not hedge its foreign currency risks. The Group believes it has no significant exposure to foreign currency exchange rate risk as of December 31, 2006.

Operational risk

Operational risk is the risk of the Group incurring financial losses as a result of business interruption and possible damage to the Group's property through natural disasters and technological accidents. In accordance with the subsoil contracts, the Group is obliged to carry medical insurance, insurance against accidents during production and occupational diseases to its employees.

At December 31, 2006, the Group believes it had sufficient insurance policies in force in respect of public liability and other insurable risks.

Fair value of financial instruments

Disclosure of estimated fair values of financial instruments is made in accordance with the requirements of IAS 32 "Financial instruments: Disclosure and presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount for which the instrument can be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument. As of December 31, 2006, the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash - Carrying amount of cash balances represents their fair value.

Trade and other accounts receivable - The carrying amount of trade and other accounts receivable is considered a reasonable estimate of their fair value as the allowance for estimated irrecoverable amounts is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Accounts payable - The carrying amount accounts payable is a reasonable estimate of their fair value.

30. SUBSEQUENT EVENTS

Subsurface contracts & licenses

In March 2007, the Ministry of Economics and Natural Resources responsible for exploration and mining approved "Commercial Discoveries" and exploration extension request for the gold deposit located within the Baltemir license area to March 2009.

END