



30 June 2008

AIM: FML

**Frontier Mining Ltd  
("Frontier" or "the Company")**

**Final Results for the year ended 31 December 2007**

**Summary:**

- Acquired a 50% interest in the Benkala copper-molybdenum-gold deposit ("Benkala"), located in North-western Kazakhstan, which is estimated to contain 2.79 million tonnes of contained copper
- Increase in exploration and evaluation assets of US\$25,908,105
- 3,132 ounces of gold and 20,173 ounces of silver produced at Naimanjal and sold for an average price of \$701 per ounce gold and \$13 per ounce silver
- Revenue of US\$2,394,778 from gold and silver sales in 2007 ( 2006: US\$2,974,472)
- Change of IFRS accounting reporting with regard to revenue capitalization.
- Encouraging drilling results announced at Frontier's Koskuduk Prospect
- Scoping study commenced at Beschoku Gold and Copper Project

**Post Year End Highlights:**

- Appointment of a joint technical and financial advisory team to fast track the development of the Benkala project towards pre-feasibility
- Aker Kvaerner appointed to lead Frontiers' conceptual study team participation in the Benkala Joint Venture
- Extension of exploration period licences at Koskuduk and Baritovy, Beschoku, and Yubileiny

**Brian Savage, CEO of Frontier commented** *"We are pleased with the progress achieved to date at the Benkala project including our appointment of an advisory team and a Conceptual study team. We have said before that we believe Benkala has the potential to be the Company's flagship project. Along with our joint venture partner and these appointments, Benkala is not only a promising asset, but is now complemented with a strong team of expertise which is well-equipped to propel Benkala towards production. Unfortunately, production of gold and silver was less than targeted at Naimanjal following a lack of development plan execution, adverse weather conditions and untimely regulatory and permitting issues, which have now been fully identified and addressed. Therefore, we remain confident about realizing the future potential of Naimanjal where drilling has developed new resource areas and more high priority targets are already earmarked for drilling. We are also pleased with the progress made at our other gold and copper exploration projects, particularly Koskuduk and Beschoku prospects. We look forward to completing a pre-feasibility study at Benkala, achieving targeted production at Naimanjal, and continuing to advance Frontier's portfolio of exploration stage gold and copper assets."*

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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 in Kazakhstan. They are the Naimanjal exploration and mining licence, held by FML Kazakhstan and, 50% of U.S. Megatech Inc. which holds the Benkala licence. FML Kazakhstan is a wholly-owned subsidiary of Frontier Mining Ltd. Frontier has one producing gold mine, Naimanjal and one pre-feasibility stage gold project, Koskuduk.

Frontier also has a 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 owns a 50% interest in the joint venture Company that owns the Benkala copper-molybdenum-gold deposit located in north-western Kazakhstan within the Urals gold/copper ore belt. A Competent Persons Report ("CPR") on the Benkala project completed by Wardell Armstrong International ("WAI") in March 2007 estimates 47.75 Mt at an average grade of 0.36% Cu for the oxide mineralization, and 873.75 Mt at an average grade of 0.30% Cu for the sulphide mineralisation, representing some 2.8 million tonnes of contained copper.

**Issued and Fully Diluted Ordinary Shares**

Frontier shares are traded on the AIM market of the London Stock Exchange. Frontier currently has 218,120,095 and 21,812,009 reserved and outstanding options giving 239,932,104 fully diluted ordinary shares.

For further Company information on Frontier Mining Ltd, please visit; <http://www.frontiermining.com/>

## **Chairman's Statement**

I am pleased to report the financial results of Frontier Mining Ltd. ("Frontier" or the "Company") for the financial year ended December 31, 2007. 3,132 ounces of gold and 20,173 ounces of silver were produced and sold for an average price of \$701 per ounce gold and \$13 per ounce silver resulting in income of \$2,394,778. An accounting reporting change due to the test status of pilot production at Naimanjal required 2007 revenue to be offset against capitalized development costs. Following the acquisition of Benkala, the balance sheet has increased and the Group has total assets of \$50,528,571 versus total liabilities of \$14,440,434.

## **Benkala Copper Deposit**

The management of Frontier believe the Benkala copper-molybdenum-gold deposit ("Benkala" or the "Benkala Project") will be a company-transforming asset. Frontier purchased 50% of Benkala in 2007 from Coville Intercorp Ltd. ("Coville") for a consideration of \$21 million comprising the issuance of a US\$9.7 million in convertible notes, and the issuance of 48,998,495 new shares of Frontier common stock.

The Benkala project, a significant porphyry copper project, is located in north-western Kazakhstan in the Urals gold/copper ore belt, north east of Aktobe Oblast and 100km south east of the Zhetikara Mountains, an area close to the Russian border with a long regional mining history. Benkala is in an attractive position for mine development given that it already contains developed infrastructure, including a main line railway, an all weather highway and excellent power supply to the site.

The property was discovered in 1968. Between 1976 and 1980, 70 holes totalling 21,800 metres were drilled, with depths up to 700 metres and with core recovery between 70% and 75%. Metallurgical test work was conducted between 1973 and 1979 and determined that the oxide ores were amenable to heap leaching using sulphuric acid as well as flotation.

A Competent Person Report ("CPR") on the Benkala Project completed by Wardell Armstrong International ("WAI") in March 2007 estimates 47.75 Mt at an average grade of 0.36% Cu for the oxide mineralization, and 873.75 Mt at an average grade of 0.30% Cu for the sulphide mineralization.

Frontier appointed a joint technical and financial advisory team (the "Advisor") to oversee the development of Benkala. The Advisor is a joint venture between Videira Management ("Videira"), a specialist mineral project development team and DCM Structured Finance ("DCMSF"), an advisory firm with extensive experience in arranging mine financings. Working closely with the Company's joint-venture partner, Coville, the Advisor will act as Frontier's "owner's team" to assist and facilitate the fast-tracking of Benkala's development, supervising the overall process from resource definition through to Feasibility Study completion. This will include the initial analysis and verification of historic Soviet drilling data; additional infill and step-out drilling to produce a JORC-compliant resource; a Pre-Feasibility study and a full Bankable Feasibility Study thereafter. The Advisor will direct this systematic and disciplined approach, combining Videira's mineral project management expertise and track record in developing similar copper porphyry projects with DCMSF's specialist financial capabilities, to help assure and optimize the "bankability" of the Benkala project.

Aker-Kvaerner Chile S.A. ("Aker Kvaerner") and NCL Ingeniería y Construcción ("NCL"), well respected, "bankable" industry consultants with extensive copper porphyry experience, are near completion of a Conceptual Study that will provide a preliminary evaluation of the various "trade-off" options for economic development of the Project, and to form the basis for a Pre-Feasibility Study. We expect the final results of this Conceptual Study in the next couple of weeks and are confident that it will confirm our belief that Benkala is a significant porphyry copper project.

Drilling is underway and we expect to complete a JORC-compliant resource update by the end of 2008.

## **Naimanjal Complex**

The Naimanjal Complex is a highly mineralized commercial discovery area of about 170 square kilometres and the existing Naimanjal mine represents a small part of that area. The Naimanjal Complex also includes 6 identified satellite prospects and more than 100 exploration targets. At a gold equivalent cut-off grade of 0.3 grams per tonne ("g/t") there

are 3,502,393 tonnes of measured and Indicated resource at an average grade of 0.73 g/t gold and 17.31 g/t silver containing 82,022 ounces of gold and 1,948,699 ounces of silver. In addition, the model indicates that there are 8,300,939 tonnes of Inferred resources at an average grade of 0.64 g/t gold and 18.95 g/t silver containing 170,626 ounces of gold and 5,058,476 ounces of silver. The Measured, Indicated, and Inferred resource at the Naimanjal deposit using a cut-off grade of 0.3 g/t gold equivalent totals 11,803,332 tonnes at an average grade of 0.67 g/t gold and 18.46 g/t silver containing 252,648 ounces of gold and 7,007,175 ounces of silver. The gold equivalent grades discussed above were derived by converting silver grades to gold equivalent by dividing them by a factor of 92.5. This factor is derived from gold and silver metallurgical recoveries of 74% and 40% respectively and gold and silver prices of \$600 per ounce and \$12 per ounce, respectively.

In late 2006 substantial changes were made to the processing plant circuits to enhance silver and gold extraction from the heap leach solutions. A comprehensive review of the performance of the existing Merrill Crowe system was undertaken and modifications were made to operate the Merrill Crowe circuit in combination with the introduction of a carbon circuit utilising five in-line carbon columns. This resulted in the processing plant operating in a production testing environment for 2007.

The Company is still operating under a Pilot Production license and during 2007 produced 3,132 ounces of gold and 20,173 ounces of silver, receiving an average of \$701 per ounce gold and \$13 per ounce silver. These results reflect the testing process that was underway in 2007 following changes to the plant operations. We remain positive and confident about the future potential of Naimanjal.

Naimanjal has over two dozen, large, high-priority target areas. Those that have been extensively drilled have been developed into new resource areas. Those with minimal drilling have returned encouraging results. More than half the high-priority targets have not yet been drilled. These targets however, do not form part of the resource estimate discussed above.

The main reasons for Naimanjal's under-performance to date have been a lack of development plan execution, adverse weather conditions and untimely regulatory and permitting issues, which have now been fully identified and we have addressed these matters by implementing changes. We will continue to review and make any further necessary changes at Naimanjal in order to fully realise its potential. We have sufficient capacity to meet our preliminary targets and whilst the grade has been lower than originally forecast, we continually obtain very high-grade vein intercepts that give us confidence for possible grade improvements. Furthermore, exploration at Naimanjal has consistently identified extended strike lengths of mineralisation.

## **Koskuduk**

At least three styles of mineralization are present at Koskuduk. The first is a gold-dominant oxide mineralization occurring from surface to depths of approximately 50 metres where minor zinc and lead may be present and positive silver grades are closely associated with the presence of lead. The second is grade gold-silver-lead-zinc and lesser lead mineralization associated with discreet veins and feeder zones. These zones are generally narrow (<2 metres) but have excellent depth potential. Third, relatively thick (>10 metre) lower grade gold-silver-zinc and lesser lead mineralization occur as disseminated stratigraphically controlled bodies associated with some tuff horizons. All styles of mineralization are attractive.

## **Copper prospects**

The area from Beschoku (copper-gold) to Yubileiny (copper) is termed the "Copper Trend") and has surface copper showings over a strike length of over 20 kilometres. Baitimir is 25 kilometres north of Beschoku.

Beschoku appears to be the most promising copper prospect in the Copper Trend and is a high grade gold-copper breccia pipe complex with a variably developed oxide zone that is located within the same structural corridor as Yubileiny.

Yubileiny is a structurally controlled copper target with the potential for polymetallic silver-lead-copper mineralization at depth. Much of the primary copper mineralization intercepted at Yubileiny occurs as pyrite-chalcopyrite filled fracture networks whose distribution is part controlled by autobreccia units at the top of rhyolitic flows.

Baitimir is located approximately 25 kilometres to the north of the Copper Trend and comprises a copper-mineralized dioritic and granodioritic intrusive complex with a variably developed secondary copper zone.

### **Baltemir**

We are in the process of relinquishing our wholly owned Baltemir license. The Company does not believe that Baltemir has sufficient potential to warrant continued management time and expenditure, particularly in light of the potential indicated at our other projects.

### **Directors**

I want to take this opportunity to thank the two Directors who did not stand for re-election at this year's Annual General Meeting, Dr. Shamil Tukhvatulin and Mr. Naum Voloshin, for their valuable contributions and years of service to the Company. Dr. Tukhvatulin was a founder and Director of the Company since its inception in 1998 and played an integral role in the development of the Company. Mr. Naum Voloshin was a Director of the Company since 2001.

We have two vacancies on the board due to the above departures. We have been in discussions with several candidates and we expect to announce additions to the board in the coming weeks.

### **Share Price**

Share price growth over the medium term is important and something that management seek to deliver to shareholders. However, management are focused first and foremost on managing and optimising the business and expect share price growth to follow this. Management firmly believe that Frontier is trading at a significant discount to the intrinsic value of its assets.

### **Outlook**

We remain positive about Naimanjal's ability to produce gold and silver and regard it as an important near-term value driver for the Company. As mentioned before, we believe Benkala is a Company transforming asset and do not believe that its potential is currently reflected in our stock price. As we advance Benkala through Bankable Feasibility Study and develop a JORC-compliant resource, we believe the potential and value of Benkala will start to be recognised further by the market and in turn, reflected in Frontier's share price.

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
*(Expressed in US Dollars)*

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	Notes	2007	2006
Revenue	6	-	2,974,472
Cost of sales		-	(1,968,840)
<b>Gross profit</b>		-	1,005,632
Selling, general and administrative expenses	7	(3,526,071)	(3,340,652)
Write-off of exploration and evaluation assets	8	(695,056)	-
Legal and related fees		-	(576,404)
<b>Operating loss</b>		(4,221,127)	(2,911,424)
Interest income		-	187,888
Finance costs		(88,540)	(84,777)
Other income (expenses)		37,314	(27,956)
Foreign exchange gain/(loss), net		(41,920)	191,786
<b>Loss before taxation</b>		(4,314,273)	(2,644,483)
Income tax benefit	24	60,199	1,051,840
<b>Loss for the year</b>		(4,254,074)	(1,592,643)
<b>Loss per share</b>			
Basic	27	(0.03)	(0.01)

**CONSOLIDATED BALANCE SHEET**  
**AT DECEMBER 31, 2007**  
*(Expressed in US Dollars)*

		<b>2007</b>	<b>2006</b>
<b>ASSETS</b>	<b>Notes</b>		
<b>Non-current assets</b>			
Exploration and evaluation assets	9, 10	32,220,409	6,312,304
Mine development assets	9	6,213,086	4,652,719
Property, plant and equipment	11	6,922,788	8,357,842
Intangible assets		36,043	43,478
Value added tax receivable	12	797,707	436,159
Restricted cash	13	112,000	112,000
Deferred tax asset	24	1,112,038	1,100,856
Total non-current assets		<u>47,414,071</u>	<u>21,015,358</u>
<b>Current assets</b>			
Inventories	14	422,463	2,984,369
Trade accounts receivable	15	41,762	586,404
Value added tax receivable	12	-	320,000
Prepaid expenses	16	136,585	134,878
Other receivables	17	39,738	26,101
Cash and cash equivalents	18	2,473,952	1,253,063
Total current assets		<u>3,114,500</u>	<u>5,304,815</u>
<b>TOTAL ASSETS</b>		<u>50,528,571</u>	<u>26,320,173</u>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	19	2,181,201	1,325,816
Additional paid-in-capital	19	51,824,776	36,440,425
Option premium on convertible notes	19	425,185	-
Equity settled employee benefits reserve	19	232,925	-
Accumulated losses		(18,575,950)	(14,321,876)
Total shareholders' equity		<u>36,088,137</u>	<u>23,444,365</u>
<b>Non-current liabilities</b>			
Borrowings	20	1,962,963	-
Site restoration provision	21	624,423	59,477
Due to Government of the Republic of Kazakhstan	22	708,135	700,188
Due to the US Trade and Development Agency	23	340,000	240,000
Deferred tax liability	24	182,222	49,016
Total non-current liabilities		<u>3,817,743</u>	<u>1,048,681</u>
<b>Current liabilities</b>			
Trade accounts payable	25	117,456	959,720
Borrowings	20	7,129,630	-
Due to the US Trade Development Agency	23	-	100,000
Due to Government of the Republic of Kazakhstan	22	64,120	31,587
Other current liabilities	26	3,311,485	735,820

Total current liabilities

10,622,691

1,827,127

**TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES**

50,528,571

26,320,173

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
*(Expressed in US Dollars)*

	Note	Share capital	Additional paid-in-capital	Accumulated losses	Option premium on convertible notes	Equity settled employee benefit reserve	Total
<b>At January 01, 2006</b>		1,325,816	36,440,425	(12,729,233)	-	-	25,037,008
Net income recognized directly in equity		-	-	-	-	-	-
Loss for the year		-	-	(1,592,643)	-	-	(1,592,643)
Total recognized income and expense		-	-	(1,592,643)	-	-	(1,592,643)
<b>Balance at January 01, 2007</b>		1,325,816	36,440,425	(14,321,876)	-	-	23,444,365
Net income recognized directly in equity		-	-	-	-	-	-
Loss for the year		-	-	(4,254,074)	-	-	(4,254,074)
Total recognized income and expense		-	-	(4,254,074)	-	-	(4,254,074)
Issue of shares	19	855,385	15,384,351	-	-	-	16,239,736
Issue of convertible notes	20	-	-	-	607,407	-	607,407
Equity settled employee benefit reserve	19	-	-	-	-	232,925	232,925
Related income tax	19	-	-	-	(182,222)	-	(182,222)
<b>At December 31, 2007</b>		<u>2,181,201</u>	<u>51,824,776</u>	<u>(18,575,950)</u>	<u>425,185</u>	<u>232,925</u>	<u>36,088,137</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**  
*(Expressed in US Dollars)*

	Notes	<u>2007</u>	<u>2006</u>
<b>OPERATING ACTIVITIES:</b>			
Loss for the year		(4,254,074)	(1,592,643)
Adjustments for non cash flow items:			
Income tax benefit recognized in profit or loss	24	(60,199)	(1,051,840)
Depreciation of property and equipment	11	1,490,973	762,474
Amortization of intangible assets		7,436	7,987
Equity settled employee benefit reserve	19	232,925	-
Foreign exchange loss/(gain)		41,920	(191,786)
Loss from disposal of property and equipment	11	-	31,430
Finance costs		88,540	84,777
Increase in provision for tax liabilities		-	15,800
Operating cash flows before movement in working capital		<u>(2,452,479)</u>	<u>(1,933,801)</u>
Increase in value added tax receivable	12	-	(320,000)
Decrease/(increase) in inventory	14	61,695	(2,049,534)
Decrease/(increase) in trade accounts receivable	15	544,642	(443,959)
(Increase)/decrease in prepaid expenses	16	(1,707)	147,828
(Increase)/decrease in other receivable	17	(13,637)	223,073
(Decrease)/increase in trade accounts payable	25	(842,264)	96,433
Increase/(decrease) in other current liabilities	26	2,738,038	(111,734)
<b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>		<u>34,288</u>	<u>(4,391,694)</u>
<b>INVESTING ACTIVITIES:</b>			
Increase in exploration and evaluation assets	9	(4,601,607)	(939,432)
Increase in mine development assets	9	(1,413,839)	(2,157,268)
Cash proceeds from test production sales	6	2,353,016	-
Benkala acquisition costs	10	(1,032,715)	-
Purchase of property and equipment		(55,919)	(5,371,056)
Purchase of intangible assets		-	(1,774)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(4,751,104)</u>	<u>(8,469,530)</u>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from share placement	19	7,400,000	-
Cost of share placement	19	(1,216,454)	-
Increase in value added tax receivable		(41,548)	(35,537)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<u>6,141,998</u>	<u>(35,537)</u>
Net increase/(decrease) in cash and cash equivalents		1,425,182	(12,896,761)
Effects of exchange rate changes on the balance of cash held in foreign currencies		(204,293)	191,786

Cash and cash equivalents at the beginning of year	18	1,253,063	13,958,038
Cash and cash equivalents at the end of year	18	<u><u>2,473,952</u></u>	<u><u>1,253,063</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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. Frontier is the ultimate parent entity of the Group.

The principal activities of the Company and its subsidiaries (the “Group”) as of December 31, 2007 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 (“Baltemir”)	Exploration licence is being relinquished	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, gold and copper properties in Kazakhstan.

The Group has two licenses: the Naimanjal contract license area and the Baltemir license. The Group is actively exploring and developing its wholly owned Naimanjal contract license area-

The Naimanjal contract dated August 16, 1999 provides combined exploration and extraction rights for a 30-year period. On August 27, 2005 the Company received regulatory approval 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. The Naimanjal license No. 1166DD currently covers an approximate area of 529 square kilometres in 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 North-Eastern Kazakhstan. The Directors decided to relinquish this exploration licence (see Note 8)

In addition, Frontier acquired a 50% interest in US Megatech Inc. (“US Megatech”) during the year. US Megatech owns the Benkala copper-molybdenum-gold deposit located in North-western Kazakhstan within the Urals gold/copper ore belt. Benkala is currently in feasibility analysis stage (see Note 10).

At December 31, 2007, the Company’s registered office was located at: 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, the USA. At December 31, 2007 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, 2007 was 88 people (2006: 189 employees).

**Organization history** – On July 10, 1998 the founders of Frontier agreed that Frontier, upon its incorporation, would issue 280,000 ordinary shares at \$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:

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

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 the 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 Company’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 Company could have a significant impact on the Company’s ability to continue operations. As of December 31, 2007, the Company 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 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”). These financial statements are presented in US Dollars (“\$” or “\$”), unless otherwise indicated. The US Dollar is used as the functional and presentation currency. Management consider that using the US Dollar as the functional currency best represents the economic effects of transactions, events and conditions related to the Group’s operations. Transactions in other currencies are treated as transactions in foreign currencies.

The consolidated annual financial statements are prepared under the historical cost convention, except for the revaluation of certain financial instruments as described in Note 4.

**Going concern** – These consolidated annual financial statements are prepared on a going concern basis.

The Group operates as a natural resources exploration and development company. To date, the Group has not earned significant revenues and is considered to be in the exploration and development stage. The Group incurred losses of \$4,254,074 and \$1,592,643 for the years ended December 31, 2007 and 2006, respectively, and has accumulated losses of \$18,575,950 and \$14,321,876 as at December 31, 2007 and December 31, 2006, respectively.

Additional financing will be required to fund any material expenditures relating to new mineral exploration projects or advancing the Group’s current projects and to fund the repayment of its indebtedness. 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.

These factors, as well as other factors, raise doubt about whether the Group can continue as a going concern.

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. KEY SOURCES OF ESTIMATION UNCERTAINTY AND CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated annual financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Critical judgments in applying the entity's accounting policies** - In the process of applying the entity's accounting policies, which are described in Note 4, management has made the following judgments and estimates that have the most significant effect on the amounts recognized in the financial statements.

**Exploration, Evaluation and Development**- The mining industry in general is inherently risky in nature. Mineral properties are often non-productive for reasons that cannot be anticipated in advance and the Group may be subject to risks from operations, mining law, environmental regulations, permits and licenses and financing.

Exploration activities rely on the exploration results collected at that time and on the professional judgement of people involved in the exploration business. There can be no assurance that exploration programs will result in a discovery being made. In the event that a discovery is made, no assurance can be given that the discovery will result in either resources or reserves being established on the property. If reserves are established, it may take a number of years and substantial expenditures until production is achieved, during which the economical feasibility of the project may change.

The long-term profitability of the Group's operation will, in part, be directly related to the success of its exploration programs in finding additional reserves, which may be affected by a number of factors that are beyond the control of the Group.

The Group assesses on an annual basis the recoverability of exploration and evaluation assets, mine development assets and property, plant and equipment having regard to factors such as drilling results, commodity prices and estimates of recoverable reserves.

**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 economic useful 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.

**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 non-current 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 necessarily applies its 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.

## **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **4.1 Principles of consolidation**

The consolidated financial statements of the Group include Frontier and the companies that it controls, and from which it obtains economic benefits. This control is normally evidenced when the Company is able to govern the financial and operating policies of an entity so as to 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. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated on consolidation.

### **4.2 Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets and liabilities are recognized at their fair values at the acquisition date. Any premium paid as part of the purchase consideration is assessed as to whether it relates to mining properties or exploration potential before determining whether goodwill on acquisition is to be recognized.

### **4.3 Interests in joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, which is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any excess of purchase consideration over the acquisition of the Group's interests in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for business combinations.

Where the Group transacts with its jointly controlled entities, unrealized profits & losses are eliminated to the extent of the Group's interest in the joint venture.

### **4.4 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognized when the risks and rewards associated with ownership of goods are passed to customers; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; it is probable that the economic benefits associated with the transaction will

flow to the Group; the amount can be measured reliably; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from saleable gold and silver produced during the testing phase of production activities is deducted from capitalized mine development costs.

#### **4.5 Foreign currencies**

The functional and presentation currency of the Group is US Dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the entities' functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in items of historical cost in a foreign currency are not retranslated.

Exchange differences are generally recognized in profit or loss in the period in which they arise.

#### **4.6 Borrowing costs**

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of qualifying assets. In that case, borrowing costs are added to the cost of these assets, until such time as the assets are substantially ready for their intended use.

#### **4.7 Share-based payments**

Equity-settled share-based payments to employees and others including non-executive directors are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

#### **4.8 Taxation**

Frontier is subject to United States (federal and state) and foreign income taxes. The Group's liability for current tax is calculated using tax rates enacted or substantially enacted at the balance sheet date.

##### **Deferred tax**

Deferred tax is recognized 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 consolidated 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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.

Current and deferred tax for the period is charged or credited to the consolidated income statement, except when it relates to items credited or charged directly to equity (in which case the deferred tax is also recognized directly in equity) or where they arise from initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in determining the excess of the Group's interest in the net fair values of the acquiree's net assets over the cost of the business combination.

#### **4.9 Retirement benefit costs**

The Group accounts for its employee retirement 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. This plan is a defined contribution plan and such contributions (social tax payments) are charged to expense as incurred.

#### **4.10 Property, plant and equipment**

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

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 therefore charged to the consolidated income statement as incurred.

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

	<b>Years</b>
Buildings	10 – 14
Machinery and equipment	4 – 10
Other	5 – 12

The useful lives and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits to be derived from items of property, plant and equipment. The effects of any changes in estimate are accounted for on a prospective basis.

#### **4.11 Exploration and evaluation assets**

Exploration and evaluation assets are measured at cost.

Expenditures related to the following activities are capitalized and included in the initial measurement of exploration and evaluation 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 and development 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.

Exploration and expenditure for each area of interest, other than that acquired from the purchase of another mining company, is carried forward as an asset provided that one of the following conditions is met:

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

Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

An impairment review is performed when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

### **Mine Development Assets**

The decision to develop a mine property within a project area is based on an assessment of the commercial and technical viability of the project, the availability of financing and the existence of markets for the product. Once the decision to proceed to mine development is made, development 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. Exploration and evaluation assets are reallocated to Mine Development Assets at the time a decision is made to proceed to development.

Development expenditure is recognised at cost. Upon reaching designed commercial production capacity, exploration and evaluation assets and mine development assets are amortized using the unit of production method based on the volumes of proved and probable reserves of ore.

#### **4.12 Intangible assets**

Intangible assets include non-mining and exploration licenses and computer software. Intangible assets under development are not amortized. Amortization of these assets will begin when the related assets are placed in service.

**Licenses** – Licenses are stated at cost net of accumulated amortization. Amortization is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life.

**Computer software** – Computer software costs are recognized as assets at cost and are amortized on a straight-line basis over their useful lives, but not exceeding a period of seven years.

#### **4.13 Impairment of tangible and intangible assets**

The Group reviews on an annual basis 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 not possible 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that its carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### **4.14 Inventories**

Inventories are stated at the lower of cost net and realizable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most applicable to the particular class of inventory. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### **4.15 Accounts receivable**

Accounts receivable are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Accounts receivable are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

#### **4.16 Cash and cash equivalents**

Cash includes cash on hand, deposits with banks with original maturity terms not more than three months.

#### **4.17 Restricted cash**

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

#### **4.18 Site restoration costs**

Provision is made for the closure, 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 income statement. 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.

#### 4.19 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.

#### 4.20 Financial liabilities and equity instruments issued by the Group

##### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

##### Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs or at the fair value of the consideration given when issued for asset purchases.

##### Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. The amount is recorded as a liability on an amortized cost basis using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured.

##### Other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

#### 4.21 Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the year ended December 31, 2006 to conform to their current period presentation. These reclassifications have not affected previously reported results of operations or shareholders' equity. Details are:

Nature of reclassification	Account	As previously reported	Amount of reclassification	As reclassified
Balance Sheet				
Reclassification to segregate Mine Development assets to a standalone line item	Property, plant and equipment	9,577,021	(1,219,179)	8,357,842
Reclassification to segregate Mine	Exploration and evaluation	9,745,844	(3,433,540)	6,312,304

Development assets to a standalone line item	assets			
Reclassification to segregate Mine Development assets to a standalone line item	Mine development assets	-	4,652,719	4,652,719

The reclassifications have been made to improve the disclosure of the nature of the Group's assets.

#### 4.22 Adoption of new and revised standards

In the current year the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on or after January 1, 2007.

In the current year, the Group has adopted IFRS 7 "Financial Instruments: Disclosures" which is effective for annual reporting periods beginning on or after January 1, 2007, and the consequential amendments to IAS 1 "Presentation of Financial Statements". The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Group's financial instruments (see Note 31).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC "7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"; IFRIC 8 "Scope of IFRS 2"; IFRIC 9 "Reassessment of Embedded Derivatives"; and IFRIC 10 "Interim Financial Reporting and Impairment". The adoption of these Interpretations has not led to any significant changes in the Group's accounting policies.

At the date of authorization of these financial statements the following Standards and Interpretations were in issue but not yet effective:

##### New Standards:

IFRS 8 Operating Segments	Effective for annual periods beginning on or after January 1, 2009
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##### Amendments to Standards

IAS 23 "Borrowing Costs"	Effective for annual periods beginning on or after January 1, 2009
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IAS 1 "Presentation of Financial Statements"	Effective for annual periods beginning on or after January 1, 2009
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IAS 27 "Consolidated and Separate Financial Statements"	Effective for annual periods beginning on or after July 1, 2009
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IAS 31 "Interests in Joint Ventures"	Effective for annual periods beginning on or after July 1, 2009
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IFRS 3 "Business Combinations"	Effective for annual periods beginning on or after July 1, 2009
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IFRS 1/IAS 27 "Cost of an Investment in a Subsidiary, Jointly Controlled Entity, or Associate"	Effective for annual periods beginning on or after January 1, 2009
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Improvements to IFRSs	Effective dates vary by amendment, however, most amendments are effective for annual periods beginning on or after January 1, 2009
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New Interpretations:

IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"	Effective for annual periods beginning on or after March 1, 2007
IFRIC 12 "Service Concession Arrangements"	Effective for annual periods beginning on or after January 1, 2008
IFRIC 13 "Customer Loyalty Programmes"	Effective for annual periods beginning on or after January 1, 2008
IFRIC 14 , IAS 19 "The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction"	Effective for annual periods beginning on or after January 1, 2008

The Group anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group in the period of initial application.

## 5. SEGMENTAL ANALYSIS

A segment is a distinguishable component of a company that is engaged in providing products or services in a particular business sector (business segment) or in providing products or services in a particular economic environment (geographic segment), which is subject to risks and rewards different to those other segments. The Group operated for the year in one segment, the exploration and development of mineral properties and in one principal geographic area, Kazakhstan.

## 6. REVENUE AND COST OF SALES

The gold and silver processing plant on the Naimanjal licence area was commissioned and operating in the designed manner during 2006 as the Group progressed towards commercial mining and production capacity. Accordingly, during 2006 the Group recognised actual revenue of \$2,974,472.

In late 2006 the Group decided to make substantial changes to its processing plant circuits to enhance silver and gold extraction from the heap leach solutions. A comprehensive review of the performance of the existing Merrill Crowe system was undertaken and modifications were made to operate the Merrill Crowe circuit in combination with the introduction of a carbon circuit utilising five in-line carbon columns. Various production trials were undertaken to determine the optimum processing layout. As a result, the processing plant went out of full production and into a production testing phase in 2007. Full commercial production is now expected to commence in the 3<sup>rd</sup> quarter of 2008.

During 2007 the Group sold \$2,394,778 of gold and silver, being 3,132 ounces of gold and 20,173 ounces of silver at an average price of \$701 and \$13, respectively. The Group did not record revenue as it was in the test production phase and instead has offset this amount against capitalized mine development costs.

## 7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2007</u>	<u>2006</u>
Employee benefit expense	1,263,040	914,066
Equity settled employee benefit expense	232,925	-
Travel and accommodation	485,159	523,496
Rent and office services	301,586	206,565
Financial and consulting services	394,525	315,205
Telecommunication	57,991	98,774
Depreciation and amortization	43,566	465,945
Audit and accounting fees	123,799	95,138

Public relations and promotion	208,513	282,180
Printing stationary and office miscellaneous	134,883	106,604
Taxes other than income tax	78,154	67,551
Insurance	100,683	91,480
Bank charges	24,665	38,965
Other expenses	76,582	134,683
	<u>3,526,071</u>	<u>3,340,652</u>

## 8. WRITE-OFF OF EXPLORATION AND EVALUATION ASSETS

During 2007 the Group decided to relinquish the Baltemir license so as to concentrate on its other properties which were assessed as having greater development potential.

This action results in the Group recording an expense of \$695,056 in 2007 relating to the write-off of previously capitalized exploration and development costs for the Baltemir license area.

## 9. EXPLORATION AND EVALUATION ASSETS

	<u>2007</u>	<u>2006</u>
Naimanjal licence area	10,811,067	5,617,248
Benkala license area (Note 10)	21,409,342	-
Baltemir license area	-	695,056
	<u>32,220,409</u>	<u>6,312,304</u>

Movements for the year are summarised as follows:

At 1 January	6,312,304	3,932,715
Naimanjal additions	5,193,819	2,614,052
Acquisition of Benkala	20,788,905	-
Benkala additions	620,437	-
Changes in estimate	-	(234,463)
Write-off of Baltemir	(695,056)	-
	<u>32,220,409</u>	<u>6,312,304</u>

### Mine development assets

Mine development costs of \$6,213,086 (2006: \$4,652,719) represents costs incurred on the Naimanjal licence area following the decision to proceed to development of the gold and silver mine on that property.

## 10. ACQUISITION OF INTEREST IN BENKALA PROJECT

During November 2007 the Group acquired a 50% interest in US Megatech Inc. which owns the mineral exploration and development license for the Benkala project. In accordance with its accounting policies, the Group has accounted for its investment in US Megatech Inc. based on proportional consolidation and, accordingly, has recorded the Group's share of the license to explore and develop the Benkala deposit.

The Benkala Project will develop a significant porphyry copper deposit, situated in North-Western Kazakhstan in the Urals gold/copper ore belt, North-East of Aktobe Oblast and 100km South-East of the Zhetikara Mountains, an area close to the Russian border with a long regional mining history. Benkala is in a highly attractive position

for mine development given that it already contains developed infrastructure, including a main line railway, an all weather highway and excellent power supply to the site.

The property was discovered in 1968. Between 1976 and 1980, 70 holes totalling 21,800 metres of core drilling on a 200 metre by 200 metre and 200 metre by 100 metre grid, some to a depth of 700 metres with core recovery between 70% and 75%. Metallurgical test work was conducted between 1973 and 1979 and determined that that the near surface chalcocite ores were amenable to heap leaching using sulphuric acid as well as flotation. The sulphide ores were amenable to flotation.

A Competent Person Report ('CPR') on the Benkala Project completed in March 2007 estimates 47.75 Mt at an average grade of 0.36% Cu for the oxide mineralisation, and 873.75 Mt at an average grade of 0.30% Cu for the sulphide mineralisation.

The total purchase consideration of \$20,788,905 (including acquisition costs of \$1,032,715) was funded as follows:

- o A director-related entity paid \$10.8 million prior to the acquisition to secure the rights to the Benkala deposit. Frontier repaid the director-related entity through the issuance of 42,748,495 new ordinary shares of Frontier with a fair value of \$8,806,190 and the issuance of a convertible note of \$2 million to the director-related entity (see Note 19 & 20);
- o The issue of a convertible note to the vendor for \$7.7 million; and
- o The issue of 6,250,000 new ordinary shares of Frontier with a fair value of \$1.25 million to the vendor.

The fair values ascribed to the Frontier shares issued were determined by reference to the quoted market price of Frontier shares at the dates of exchange.

The net assets of US Megatech Inc. at acquisition date were minimal other than its ownership of the Benkala licence.

The following amounts (before fair value adjustments) are included in the Group consolidated financial statements as a result of the proportionate consolidation of US Megatech Inc. at 31 December 2007:

	<b>2007</b>
Current assets	89,618
Non-current assets	614,953
Current liabilities	756,256
	<b>2007</b>
Income	-
Expenses	31,248
Net Loss	31,248

## 11. PROPERTY, PLANT AND EQUIPMENT

<b>Cost:</b>	<b>Buildings</b>	<b>Machinery &amp; equipment</b>	<b>Transport &amp; vehicles</b>	<b>Office equipment</b>	<b>Capital work-in-progress</b>	<b>Total</b>
<b>At December 31, 2006</b>	-	3,647,777	898,321	336,692	4,742,773	<b>9,625,563</b>

Additions	1,397	48,048	2,213	4,261	-	<b>55,919</b>
Transfer	<u>3,962,270</u>	<u>627,867</u>	<u>          </u>	<u>          </u>	<u>(4,590,137)</u>	<u>          </u>
<b>At December 31, 2007</b>	<b><u>3,963,667</u></b>	<b><u>4,323,692</u></b>	<b><u>900,534</u></b>	<b><u>340,953</u></b>	<b><u>152,636</u></b>	<b><u>9,681,482</u></b>
<b>Accumulated Depreciation: At December 31, 2006</b>	-	(861,002)	(187,952)	(218,767)	-	<b>(1,267,721)</b>
Charge for the year	<u>(168,978)</u>	<u>(1,019,610)</u>	<u>(240,331)</u>	<u>(62,054)</u>	<u>          </u>	<b><u>(1,490,973)</u></b>
<b>At December 31, 2007</b>	<b><u>(168,978)</u></b>	<b><u>(1,880,612)</u></b>	<b><u>(428,283)</u></b>	<b><u>(280,821)</u></b>	<b><u>          </u></b>	<b><u>(2,758,694)</u></b>
<b>Net Carrying Amount:</b>						
<b>At December 31, 2006</b>	<u>          </u>	<u>2,786,775</u>	<u>710,369</u>	<u>117,925</u>	<u>4,742,773</u>	<b><u>8,357,842</u></b>
<b>At December 31, 2007</b>	<b><u>3,794,689</u></b>	<b><u>2,443,080</u></b>	<b><u>472,251</u></b>	<b><u>60,132</u></b>	<b><u>152,636</u></b>	<b><u>6,922,788</u></b>

Depreciation charged for the year includes \$1,447,407 (2006: nil) which has been capitalized to exploration and evaluation assets.

## 12. VALUE-ADDED TAX RECEIVABLE

Value-added tax (VAT) receivable was recorded in the books of FML Kazakhstan as of December 31, 2007 and has been classified as a non-current asset. The Group's asset held by FML Kazakhstan is in pilot production and will be able to recover the VAT amount following the period when the Group expects to commence commercial production (estimated to be 3<sup>rd</sup> quarter 2008).

	<u>2007</u>	<u>2006</u>
Long-term portion of value added tax receivable	797,707	436,159
Current portion of value added tax receivable	<u>          </u>	<u>320,000</u>
	<b><u>797,707</u></b>	<b><u>756,159</u></b>

## 13. RESTRICTED CASH

Restricted cash as of December 31, 2007 in the amount of \$112,000 (December 31, 2005: \$112,000), represents cash held in a restricted bank account for future site restoration works. Pursuant to the Naimanjai Subsurface Use Contract, the Group is required to accumulate cash to meet future obligations to restore and make the mines safe after use and the estimated costs of cleaning up any chemical leakage.

## 14. INVENTORIES

	<u>2007</u>	<u>2006</u>
Finished goods	-	144,814

Work-in-process	-	1,895,730
Ore in warehouse	-	459,667
Stores and materials	422,463	484,158
<b>Total</b>	<b>422,463</b>	<b>2,984,369</b>

## 15. TRADE ACCOUNTS RECEIVABLE

Trade receivables as of December 31, 2007 comprise an amount receivable from Metalor Technologies S.A. of \$41,762 for sales of gold in December 2007 (2006: \$586,404). The average credit period on sales is 30 days.

## 16. PREPAID EXPENSES

As of December 31, 2007 and December 31, 2006 prepaid expenses primarily relate to materials, works and services for the operation of the plant at the Naimanjal mine.

## 17. OTHER RECEIVABLES

	2007	2006
Due from employees	16,282	5,132
Security deposit on office rent	10,891	12,655
Other	12,565	8,314
	<b>39,738</b>	<b>26,101</b>

## 18. CASH AND CASH EQUIVALENTS

	2007	2006
GBP current bank account	1,814,433	1,141,170
US Dollars current bank account	365,850	86,193
KZT current bank account	293,502	25,700
Cash on hand	167	-
	<b>2,473,952</b>	<b>1,253,063</b>

## 19. SHARE CAPITAL

As of December 31, 2007 the Company's authorized capital comprises 500,000,000 ordinary shares of \$0.01 par value per share (December 31, 2006: 500,000,000 shares at \$0.01 par value each).

Movements in the issued share capital for the years ended December 31, 2007 and 2006 were as follows:

	Number of shares and outstanding	Nominal amount	Additional paid in capital	Total	Issue price per share (USD cents)
December 31, 2005	132,581,600	1,325,816	36,440,425	37,766,241	
December 31, 2006	132,581,600	1,325,816	36,440,425	37,766,241	

Issued in relation to Benkala acquisition (Note 10):					
- to director-related entity	42,748,495	427,485	8,378,705	8,806,190	20
- to vendor	6,250,000	62,500	1,187,500	1,250,000	20
Share placement	36,540,000	365,400	7,034,600	7,400,000	20
Cost of share placement	-	-	(1,216,454)	(1,216,454)	
	85,538,495	855,385	15,384,351	16,239,736	
<b>December 31, 2007</b>	<b>218,120,095</b>	<b>2,181,201</b>	<b>51,824,776</b>	<b>54,005,977</b>	

The proceeds of the share placement which was conducted in November 2007 are to be used for working capital requirements for the Benkala development program and costs related to the Benkala acquisition and the share placement.

During 2007 the Group issued two convertible notes in relation to the Benkala acquisition. The terms of the convertible notes are described in Note 20. The equity component of these compound financial instruments has been measured at \$425,185 (net of tax effect of \$182,222) and reported in the consolidated balance sheet as 'option premium on convertible notes'.

### Stock options

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

	2007		2006	
	Number of options	Weighted average option price	Number of options	Weighted average option price
<b>At beginning of year</b>	4,180,000	\$0.30	140,000	\$0.30
Granted	-	-	4,180,000	\$0.30
Exercised	-	-	-	-
Expired	-	-	(140,000)	\$0.30
<b>At end of year</b>	<b>4,180,000</b>	<b>-</b>	<b>4,180,000</b>	<b>-</b>

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.

The key terms of the share options are as follows:

- each option converts into one ordinary share of \$0.01 on exercise
- the expiry date is 2 September 2009
- the exercise price of the options is 15 GBP pence each, payable in cash
- the options carry neither rights to dividends nor voting rights

The grant date of the share options was 16 November 2006. The allocation of options was made by the Directors having regard to the need to retain key personnel.

The fair value of the options at grant date was assessed to be \$0.06 per share. Options were priced using the Black-Scholes pricing model. It was assumed that all option holders would exercise their options on the expiry date. The key inputs into the model were:

- o Share price at grant date: 14.75 GBP pence
- o Exercise price: 15 GBP pence
- o Dividend yield: 0%
- o Expected life: 3 years
- o Risk-free interest rate: 4.52%
- o Volatility: 19.44%

The Group recorded \$232,925 of expense during the current year relating to the issue of the stock options. As these are fully vested there is no additional expense associated with these stock options.

## 20. BORROWINGS

### Convertible notes

As discussed in Note 10, the Group issued \$9.7 million of convertible notes in November 2007. The terms of these notes are as follows:

- o \$2 million issued to director related entity: These notes are convertible into Frontier shares at a price of 20p (\$ 0.40) per share. The notes are convertible at the holder's option within a 3 year period from date of issue. These convertible loan notes are interest-free until 29 February 2008 and bear interest at 8% per annum after that date and are repayable, if not converted, in November 2010. Interest is payable annually in arrears.
- o \$7.7 million issued to the vendor of US Megatech Inc.: These notes are convertible shares of Frontier at a price of 14 pence per share. The notes are convertible for a period of 12 months after the date of registration of the Benkala subsurface use contract (which was 19 November 2007). Any conversion must be for the full amount of the notes. If the notes are not converted, the amount is due in November 2008. These notes are non interest bearing.

The conversion feature has been segregated from the liability and recorded separately on the balance sheet. The convertible notes have been recorded as a liability of \$9,092,593 (\$7,129,630 current liability and \$1,962,963 non-current) and equity related to the conversion feature of \$607,407.

## 21. SITE RESTORATION PROVISION

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 mining operations, approximately between the years 2027 to 2028. 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 extent of corrective actions.

	<u>2007</u>	<u>2006</u>
As of January 1	59,477	119,187
Un-winding of the discount	5,798	6,373
Changes in estimate	559,148	(66,083)

At of December 31

624,423

59,477

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 2007 prices is \$6,000,000
- Expected timing of future cash outflows 20 years
- Discount rate – approximately 12% per annum
- Inflation rate – approximately 8% per annum

To fund the future costs of the Naimanjal mine site restoration, the Group is required to transfer funds into a special deposit account (see Note 13).

## 22. DUE TO GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN

The Group is obligated to reimburse the Government of Kazakhstan the amount of \$1,436,400 for the historical cost of geological studies performed in respect of the Naimanjal contract. The Group paid \$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 subsurface use and exploration contracts, the historical cost of geologic studies is to be repaid in 40 equal, quarterly instalments, commencing from the date of commercial production as evidenced by an approval from the appropriate governmental authority.

	<u>2007</u>	<u>2006</u>
As of January 1	731,775	821,751
Obligations raised during the period	-	-
Change in estimate	(42,262)	(168,380)
Un-winding of the discount	82,742	78,404
As of December 31	<u>772,255</u>	<u>731,775</u>
Current portion	64,120	31,587
Non-current portion	<u>708,135</u>	<u>700,188</u>
	<u>772,255</u>	<u>731,775</u>

The estimate 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. In 2007 it was subsequently revised until the 3<sup>rd</sup> quarter of 2008. This resulted in a revision to the estimated fair value of the liability.

## 23. DUE TO THE US TRADE AND DEVELOPMENT AGENCY

	<u>2007</u>	<u>2006</u>
Current portion	-	100,000
Non-current portion	<u>340,000</u>	<u>240,000</u>
	<u>340,000</u>	<u>340,000</u>

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The Company has received a grant from the US Trade and Development Agency ("TDA"). The grant is 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 Naimanjil mine based on the feasibility study that the grant was provided to finance.

## 24. TAXATION

### 24.1 Income tax recognized in profit or loss

	<b>2007</b>	<b>2006</b>
Income tax expense comprises:		
Current tax expense	-	-
Deferred tax benefit relating to the origination and reversal of temporary differences	<u>(60,199)</u>	<u>(1,051,840)</u>
Total income tax benefit	<u>(60,199)</u>	<u>(1,051,840)</u>

The total charge for the year can be reconciled to the accounting profit/loss as follows:

	<b>2007</b>	<b>2006</b>
<b>Loss before taxation</b>	<u>(4,314,273)</u>	<u>(2,644,483)</u>
Income tax benefit calculated at 30%	(1,294,282)	(793,345)
Tax effect of unrecognized tax loss	1,234,083	793,345
Initial recognition of previously unrecognized deferred tax asset	-	<u>(1,051,840)</u>
Income tax benefit recognized in profit or loss	<u>(60,199)</u>	<u>(1,051,840)</u>

### 24.2 Deferred tax balances

	<b>2007</b>	<b>2006</b>
<b>Deferred tax assets</b>		
<b>Temporary differences</b>		
Exploration and evaluation costs	383,400	324,950
Mine development assets	184,883	239,516
Property plant and equipment	313,993	319,239
Accrued expenses	-	57,016
Accretion expense	26,619	28,787
Employee benefit expense (share options)	<u>69,878</u>	<u>-</u>
	978,773	969,508
<b>Unused tax losses</b>	133,265	131,348

Total	<u>1,112,038</u>	<u>1,100,856</u>
<b>Deferred tax liabilities</b>		
<b>Temporary differences</b>		
Exploration and evaluation costs	-	(49,016)
<b>Issue of convertible notes</b>	(182,222)	-
	<u>(182,222)</u>	<u>(49,016)</u>

### 24.3 Unrecognized deferred tax assets

A deferred tax asset has not been recognized in relation to carry-forward tax losses of Frontier Mining Limited, the USA incorporated parent entity of the Group, as recovery of those losses against future taxable income is not regarded as probable. The unrecognised deferred tax asset is approximately \$3.7 million (2006: \$2.7 million).

### 25. TRADE ACCOUNTS PAYABLE

Trade payables for:	<u>2007</u>	<u>2006</u>
Geological works and services	81,123	404,592
Consulting services	36,333	555,128
	<u>117,456</u>	<u>959,720</u>

The average credit period on purchases is 30 days. No interest is charged on trade payables.

### 26. OTHER CURRENT LIABILITIES

	<u>2007</u>	<u>2006</u>
Payables to related parties	2,583,285	-
Due to employees	297,947	252,839
Tax penalties provision	380,000	381,418
Taxes other than on income	44,132	51,785
Unused vacation	-	31,299
Other	6,121	18,479
	<u>3,311,485</u>	<u>735,820</u>

### 27. 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:

	<b>2007</b>	<b>2006</b>
Net loss attributable to common shareholders for basic earnings per share	<u>(4,254,074)</u>	<u>(1,592,643)</u>
Weighted average number of common shares for basic earnings per share	142,424,386	132,638,587
<b>Loss per share basic</b>	<b>(0.03)</b>	<b>(0.01)</b>

Potential ordinary shares related to the share options (refer Note 19), convertible notes (refer Note 20) and equity settled employee benefits (refer Note 19) have not been treated as dilutive as the effect would be to decrease reported loss per share.

## **28. RELATED PARTY TRANSACTIONS**

The parent entity and ultimate controlling entity is Frontier Mining Ltd., incorporated in Delaware, USA.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

At December 31, 2007 related parties include the directors and management of Sokol Holdings Inc. and Coville Intercorp Ltd.

Sokol Holdings Inc. is a related party to Frontier as Brian Savage (CEO of Frontier) and Thomas Sinclair (CFO of Frontier) are shareholders of Sokol Holdings Inc.

Coville Intercorp Ltd is a related party to Frontier as it is the other 50% interest holder in US Megatech Inc., the owner of the Benkala deposit.

During the year, the Group entities entered into the following transactions with related parties:

Purchase of an interest in US Megatech Inc. (refer Note 10). The amounts owed to related parties at 31 December 2007 are disclosed in Note 20;

- A director-related entity and the other shareholder in US Megatech Inc were owed \$2,583,285 at 31 December 2007 (2006: nil) relating to advances made to the Group for working capital funds (refer Note 26). The amounts are repayable within twelve months.

The number of key management personnel at December 31, 2007 was three (2006: 3 persons). Total compensation to key management personnel included in the general and administrative expenses in the consolidated income statement was \$634,507 for the year ended December 31, 2007 (2006: \$614,400). This amount is for short term employee benefits including applicable taxes.

As described in Note 19 the Group has recorded an expense of \$232,925 (2006 nil) relating to the issue of stock options to employees and others.

## **29. COMMITMENTS AND CONTINGENT LIABILITIES**

### **License commitments**

In 2007 the Group continued the contract for exploration and subsequent production for the Naimanjil license. The contract includes a work program defining the Group's obligations to invest into exploration on the licenses

and contract. The total amount of the minimum work program commitments is \$800,000 to December 15, 2007. The Group's share of the minimum work program commitments on the Benkala licence area at 31 December 2007 was \$18.8 million and covers the period to 2011.

## **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, 2007. 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 they are 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

### 30. 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 the country of the purchaser.

### 31. 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. This exposure is not significant to the Group as it is a development stage entity.

#### Credit risk

Credit risk is the risk that customer may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. As at December 31, 2007, 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 Group is subject to foreign currency risk on purchases and payables denominated in foreign currencies. The currency most associated with risk is the Kazakhstan Tenge (KZT). The risk associated with the Tenge is not able to be managed. Outlined below are the US dollar equivalent balances of KZT denominated assets and liabilities at balance date:

	2007	2006
<b>Current assets</b>		
Cash	208,934	25,700
Other receivables	28,369	26,102
Prepaid expenses	49,634	53,873
<b>Current liabilities</b>		
Accounts payable	77,463	401,330
Other current liabilities	147,507	270,371

The Group also has a foreign currency exposure on cash held in a British pounds denominated bank account (refer Note 18).

#### Currency sensitivity analysis

The Company is mostly exposed to the risk of a fluctuation in the USD.

The following table shows the Company's sensitivity to a 10% increase and reduction in the USD in relation to the Tenge. 10% is the sensitivity level used in internal reporting to senior management with respect to the currency

risk and is management's estimate of a reasonable change in exchange rates. A sensitivity analysis includes only unpaid cash items in foreign currency and adjusts their translation at the end of the period by 10%. A sensitivity analysis also includes loans, provisions, accounts payable and cash equivalents. A positive figure below indicates an increase in net income, when the USD strengthens by 10% against the Tenge. If the USD weakens by 10% against the Tenge the impact on net income will be the opposite, and the balances below will be negative.

	<b>Impact of the KZT</b>	
	<b>2007</b>	<b>2006</b>
Profit or loss	57,000	86,000

The Group believes the above risk to be insignificant. There are no material effects on other equity balances.

### **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, 2007 the Group believes it had sufficient insurance policies in force in respect of public liability and other insurable risks.

### **Capital risk management**

The capital structure of the Group consists of debt (the convertible notes described in Note 20), cash and cash equivalents and equity (comprising issued capital, reserves and accumulated losses).

The Group's capital management strategy to date has been to raise proceeds from share placements to fund exploration and development activities. A significant transaction in 2007 was the acquisition of the Benkala project as described in Note 10.

The gearing ratio at the year-end was as follows:

	2007	2006
Debt	9,092,593	-
Cash and cash equivalents	<u>(2,473,952)</u>	<u>(1,253,063)</u>
Net debt	6,618,641	(1,253,063)
Equity	<u>36,088,137</u>	<u>23,444,365</u>
Net debt to equity ratio	18%	(5%)

### **Interest rate risk management**

The Group's only borrowings related to convertible notes, one of which bears interest at a fixed rate.

### **Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board of Directors which has established an appropriate policy for the management of the Group's funding requirements. The Group manages liquidity risk by maintaining adequate cash balances and through the capital risk management policy described above.

### **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, 2007 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.

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

**Convertible notes**- Refer to Note 20 for description of fair value assessment of the liability component. The carrying value approximates fair value at balance date.

### **32. SUBSEQUENT EVENTS**

On the 25<sup>th</sup> March 2008 the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan extended the exploration period for commercial discovery appraisal at Frontier's gold project Koskuduk, and at its copper-gold prospects Baritovy, Beschoku and Yubileiny for an additional period of two years.