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20th September 2007

Company Announcements Office
ASX Limited

Dear Sir,

RE: ANNUAL REPORT FOR YEAR ENDED 30 JUNE 2007

We enclose the Annual Report for the year ended 30 June 2007.

The Annual General Meeting of Shareholders will be held at The Paradise Room, Gold Coast Turf Club, Racecourse Drive, Surfers Paradise, Queensland on Tuesday 20th November 2007 at 1.00pm.

Yours faithfully
FRONTIER RESOURCES LTD

A handwritten signature in black ink, appearing to read "G.M. Edwards". The signature is written in a cursive, flowing style.

G.M. Edwards
Company Secretary

Encl.

Kc/ge089.07

Frontier Resources Ltd



Cu

Au

ANNUAL REPORT 2007

Mo

Ag

Zn

Pb



FRONTIER RESOURCES LTD

ABN 96 095 684 389

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CORPORATE DIRECTORY

| | | |
|---|--|--|
| NON-EXECUTIVE CHAIRMAN Bob D. McNeil | HEAD OFFICE & REGISTERED OFFICE Level 1, 94 Bundall Road Bundall, Qld 4217 | SHARE REGISTRY Registries Limited Level 2 28 Margaret Street Sydney NSW 2000 |
| MANAGING DIRECTOR Peter A. McNeil | POSTAL ADDRESS: PO Box 7996 Gold Coast Mail Centre Qld 9726 Australia | AUDITORS PricewaterhouseCoopers Riverside Centre, Level 15 123 Eagle Street BRISBANE QLD 4000 |
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| NON-EXECUTIVE DIRECTOR Warren J. Staude | | |
| COMPANY SECRETARY Garry M. Edwards | | |

LETTER FROM THE MANAGING DIRECTOR

Dear Fellow Shareholder,

Frontier Resources Ltd is focused on exploring the highly mineralised Pacific 'Rim of Fire' in Papua New Guinea plus its excellent prospects in Tasmania, Australia. The primary objective is to advance the World Class Kodu copper-gold-molybdenum Deposit (PNG) through feasibility to mining, plus, the Company has also made a concerted and successful effort to evaluate and advance several other prospects in PNG to create a secondary focus and add value for shareholders.



Frontier has a 100% interest in 3 copper-gold-molybdenum, zinc-silver-gold and gold only Exploration Licences in PNG (Kodu, Likuruanga and Andewa covering 804km²), plus 5 zinc-lead-silver-gold or gold only Exploration Licences and 2 gold-silver-zinc-lead and gold-bismuth Retention Licences (covering 211 km²) in Tasmania.

The portfolio offers excellent mineral deposit potential, with primary targets being World Class porphyry, epithermal and VHMS (massive sulphide) deposits. The projects all have high-grade exploration results in rock, trenches and/or drill hole and are in the same or similar geological terranes as existing World Class and/or major mines.

The Kodu Deposit was rapidly advanced during the year, by confirming, delineating and expanding the existing resource base. Our team have worked diligently and cost effectively at this task and recently reported an 88% increase in total tonnage from our previous estimation dated 11 August 2006, to 203 million tonnes grading 0.47% copper equivalent*. This represents a total 139% increase over the estimated tonnage when we acquired the project and management are very pleased with this result.

A Scoping or Conceptual Mining Study was commenced in early September 2007, to assess the economic viability of a deposit such as Kodu in PNG and to assist in determining future exploration and development requirements. The probable viability of Kodu is assisted by the fact that it is close to the national capital of Port Moresby and is located only about 20km from the Sir Hubert Murray Highway and consequently mains electrical power. There is abundant process water for any development, no known environmental issues and Frontier have completed a 'tracked vehicle' track to the Deposit to reduce ongoing shorter term operational costs.

The company's primary goal for 2007/2008 is to further progress the Kodu Deposit by completing the Resource update and Conceptual Mining Study (CMS). This will be followed by the commencement of a Feasibility Study, if the CMS indicates possible economic viability.

Drilling is currently being undertaken at the 'virginal' Andewa gold project to attempt to define an initial gold resource by the end of 2007, that could potentially be amenable to rapid development via low cost methods such as vat leaching. A future mine at Andewa may be capable of generating significant cashflow to move the Company forward in the 'nearer term'. The attributes and width of megascopic mineralisation noted in core from each of the 6 holes drilled to date (10/9/2007) are very encouraging. I hope to report significant gold mineralised drill intersections from Andewa in the very near future, followed in a few months by an initial Indicated and Inferred Resource for the project.

Two relatively deep holes were drilled at the Elo porphyry copper-gold-molybdenum Prospect and assay results are expected forthwith. Megascopic copper mineralisation encountered in these holes was not as obvious or ubiquitous as at Kodu. The rig remains on site whilst awaiting assays, with further holes planned subject to results.

Frontier intends to recommence exploration (planned to commence November 2007) at its highly prospective SMRV (Southern Mount Read Volcanic) Project in southwest Tasmania, at a previously untested airborne electromagnetic (AEM) target. Assuming encouragement from preliminary field work on this area, the new zinc-lead-silver-gold target will be drilled commencing in mid-January 2008. Regardless, additional drilling will be undertaken at the Wart Hill Prospect to attempt to locate the continuation

LETTER FROM THE MANAGING DIRECTOR

(faulted off section) of the previously defined mineralised horizon. These types of deposits (massive sulphide) are very high value targets and generally form in clusters of about 10 deposits /occurrences per district. I commenced working in this district 14 years ago and firmly believe that the SMRV project contains at least one World Class polymetallic deposit that will be defined with continued perseverance.

The Bukuam Prospect (EL 1351 in New Britain, PNG) has shown excellent improvement during the year, with a 4.8km long copper / molybdenum +/- gold and silver in soil anomaly now defined by our work and located adjacent to the eastern margin of the Esis-Sai intrusive granitoid complex. The area is now prospective for porphyry copper type mineralisation in addition to (what are now obviously peripheral) high grade zinc-silver-gold skarns.

PNG is very attractive for exploration and mining because it is highly prospective for major mineral deposits; it has been an independent democracy for 32 years. The Government has been improving its fiscal regime in recent years and its politicians and citizens recognise that mining contributes enormously to GDP and regional development in a way that few industries can.

The Company is currently extending Kodu's access track a few kilometres to the landowner's village as service to their community. The landowners are 100% committed to support our exploration and development effort. They have very few material possessions and are very pragmatic about mineral resource development. They see the possible development of the Kodu Deposit as their best chance this generation to improve the lives of all their people.

Frontier is very well positioned with respect to copper and gold, given the:

- o Continued high copper-gold-molybdenum and gold prices and their long term outlook.
- o Major increase in the total copper equivalent contained in Kodu's Inferred Resource.
- o Potential to further increase the global resource at Kodu.
- o Excellent potential to locate additional copper-gold-molybdenum mineralisation at the Elo, Oomargi, Tamala and Ua' Ule Prospects (also within EL1348).

The Company's Directors and management team have more than 200 years combined experience in PNG and Australia to effectively move the Company forward. Frontier is unique, operating with a general policy of 'DRILLING' our quality projects with our self manufactured, cost effective, environmentally friendly, man-portable diamond core rigs. In addition, owning and operating our own earth moving and geophysical equipment allows the immediate capability to undertake planned exploration programs and also for the substantial cost savings on direct exploration costs. Basically it means we can drill more metres for the same total cost, thus increasing our 'discovery potential'.

Frontier Resources Ltd has the prerequisites for exploration success in 2007/2008 being:

- o Directors, management and staff with substantial experience in PNG and Tasmania;
- o High-quality, mostly 100% owned, advanced exploration projects in stable, democratic and mining friendly jurisdictions;
- o Adequate working capital to achieve our immediate goals;
- o Equipment to accomplish the tasks in our timeframes; and
- o The attitude and approach.

I invite shareholders to call me on +61 (0) 8 9295 0388 for additional information relating to the Company and its projects and visit our website at www.frontierresources.com.au.

Thank you for your historic support and I wish you a successful and prosperous 2007/2008.



P.A. McNeil, M.Sc.
Managing Director

HIGHLIGHTS 2007

➤ KODU DEPOSIT (EL 1348)

- Drilling was initiated at the Kodu porphyry copper-gold-molybdenum Deposit in October 2006 and in June 2007, the Inferred Resource was re-estimated with the contained tonnage increased 88% to 203 million tonnes (grading 0.47% copper equivalent*). This represents a total 139% increase in tonnage from when Frontier acquired and commenced work on the property in July 2006.
- The deposit currently (10/9/2007) contains an estimated 945,000 tonnes of copper equivalent* grading 0.47%, within 203 Million tonnes grading 0.28% copper + 0.32g/t gold + 73ppm molybdenum + 1.8g/t silver (570,000 tonnes of copper, 65 tonnes of gold, 15,000 tonnes of molybdenum and 365 tonnes of silver).
- The mineralisation at Kodu is contained in one contiguous zone that appears to dip steeply to the west on its western side and steeply easterly on its eastern side. This means that the deposit appears to be widening with depth. The deposit also appears to have a higher grade core running along its length, that could provide the basis for a 'Starter Pit'.
- Good continuity of copper-gold-molybdenum mineralisation has been documented on nearly all sections drilled to date, further extending and confirming the continuity of the deposit (section 10300N at the far northern end is apparently outside of the deposit and is the exception).
- Resource delineation and expansion drilling continued at Kodu until late June, 2007. Rig 1 was shipped to the Elo Prospect and rig 2 was moved to the Andewa Gold Project to conduct drilling to satisfy EL 1345's exploration commitment.
- 4,898.7m of diamond core drilling was completed by the Company at the Kodu Deposit and 10,235.2m has been completed in total.
- An Indicated and Inferred Resource estimation was commenced in August and should be completed mid- October 2007.
- A Scoping or Conceptual Mining Study was commenced in early September 2007 to evaluate various parameters associated with possible development paths forward for the deposit and its further exploration.

➤ ANDEWA PROJECT (EL 1345)

- Assay results from limited new trenching at the Komsen Prospect included 21.6m of 4.41g/t (containing 2m of 24.22g/t), 15.3m of 1.07g/t and 4.5m of 2.23g/t gold, with good continuity noted in the vein/alteration system and visible gold documented in each trench.
- Structural mapping and sampling was undertaken to assess the gold system and determine the predominant mineralised structure / vein orientations.
- Diamond drilling commenced at Komsen in late July 2007. The goal is to attempt to define an Inferred (and partly Indicated) gold Resource following the completion of the planned initial 3 month, up to 52 hole and 3,800m program.
- Systematic approx. 20m spaced hand trenching was completed/in-filled over the central section of the structure/vein system, to assist future drill targeting and for later incorporation into the Resource estimation. Results are awaited.
- A bulldozer was purchased to undertake an extensive regional trenching program and will be mobilised to site forthwith.

HIGHLIGHTS 2007

➤ ELO PROSPECT (EL 1348)

- Diamond drilling commenced at the large Elo porphyry copper-gold-molybdenum mineralised system, located 18km NW of Kodu in June 2007, initially testing the highest tenor copper/gold/molybdenum soil anomalies with 2 long drill holes.
- Hole 1 was drilled to the southwest at a 55° inclination from the top of Elo hill and was completed at 373.4m depth.
- Hole 2 was drilled easterly at a 55° inclination from the same pad to 266.9m.
- The rig remains onsite at Elo while assay results are awaited. Additional holes are planned subject to encouraging results.

➤ BUKUAM PROSPECT (EL 1351)

- An open ended, 4.8km long multi-element soil anomaly was defined at the Bukuam Prospect, within a 5.5km long x 1.2km wide stream sediment copper anomaly.
- The soil anomaly consists of copper + coincident molybdenum +/- gold and silver with locally peripheral zinc.
- Additional soil sampling is required to close the anomaly off to the north, south, southeast and locally east.
- Sampling confirmed significant gold potential in the historically identified Kapea Shear Zone and Costean One Zone, with 20m grading 6.99g/t gold, 12.5m grading 4.04g/t gold and 2.5m grading 6.39g/t gold. Costean One sampling of the silicate-sulphide-magnetite skarn returned 30.5m grading 2.99g/t gold (including 2m grading 19.6g/t gold) and 2m grading 9.66g/t gold. Both zones also had highly significant zinc and silver credits.

➤ SW KODU / SIRIMU PROSPECTS (EL1348)

- Significant gold-silver-lead assay results were returned from rocks and soil samples from the SW Kodu /Sirimu Epithermal precious metal Prospect, over an area at least 1.5km long and 1.0km wide, centred about 1,100m west of Kodu.
- Rock chip sampling of float in Ofi Creek returned a consistent epithermal style of mineralisation with assays to 5.73g/t gold, 491g/t silver and 8.49% lead. In addition, two rocks contained molybdenum only, grading 1300ppm and 131ppm.
- Soil sampling in this area returned peak gold of 0.14g/t, with coincident lead grading 0.24%, in a north trending zone.
- A major bulldozer trenching program is currently underway at the Sirimu/SW Kodu Prospect to locate surface gold anomalies and potentially define drilling targets. The only previous drill hole (KD005) in this region was a 'wildcat' that targeted this style of mineralisation and returned 2m of 15.5 g/t gold and several wide anomalous intervals.

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

Frontier initiated drilling at the Kodu Deposit in October 2006 and completed an update to the Inferred Resource estimation. The total tonnage at the project has increased by 139% since acquiring the project, going from 85 million to 203 million tonnes. This is a significant achievement that the Company is attempting to further enhance.

The Company's goals for 2007-2008 are to continue to concentrate exploration on the most advanced projects and progress them rapidly and cost effectively to the development phase, including:

- **Kodu Deposit (PNG)**
 - Complete the ongoing Indicated and Inferred Resource estimation.
 - Complete the ongoing Conceptual Mining Study.
 - Commence a Feasibility Study if assessment of the CMS suggests potential economic viability.
 - Complete the extensive bulldozer trenching program at the nearby Sirimu Prospect, assess results and define drilling targets.

- **Andewa Project (PNG)**
 - Continue the drill evaluation of Komsen Prospect until late November 2007.
 - Create tracked vehicle access to Komsen and undertake bulldozer trench evaluation of it and other gold anomalous areas, commencing late September 2007.
 - Undertake a Resource estimation at Komsen.
 - Assess Komsen's possible economic viability and possibilities of obtaining an early cash flow from the development of this project via low cost vat leaching methods (assuming positive drilling results).

- **SMRV Project (Tasmania)**
 - Undertake an Inferred Resource estimate on the zinc/lead/silver/gold Wart Hill Prospect.
 - Drill evaluate Wart Hill commencing mid-January 2008, to locate the plunging extension to the mineralised host horizon, that was previously defined by the Company.
 - Undertake ground geological, geochemical and geophysical evaluation of the NE Osmund Prospect, to assess if this large airborne electromagnetic (AEM) anomaly could reflect significant subsurface mineralisation.
 - Drill test the NE Osmund Prospect if its initial evaluation is successful.

- **Gowrie Park Project (Tasmania)**
 - Undertake resource estimations for the Narrawa/Higgs gold-polymetallic deposit and the Stormont gold-bismuth deposit.
 - Evaluate if these small deposits can be quickly and easily developed via low cost methods such as open pit mining and toll treatment.

- **Elo Prospect(PNG)**
 - Further evaluation of the porphyry copper-gold-molybdenum potential.
 - Initiate bulldozer trench evaluation of the related large gold anomaly on the southern flank of Elo Hill.

- **Likuruanga Project (PNG)**
 - Continue the evaluation of the Bukuam copper-gold-molybdenum-silver porphyry occurrence, plus the associated high-grade zinc-silver-gold skarns and high-grade structurally controlled gold targets.
 - Initiate systematic exploration on other promising targets such as the Esis porphyry copper occurrence, located ~14km SW of Bukuam (subject to funding availability). Initially this would consist of a ground magnetic survey to locate mineralised zones and extensions associated with magnetite.

- Raise additional capital in early-mid 2008 to implement these goals.

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

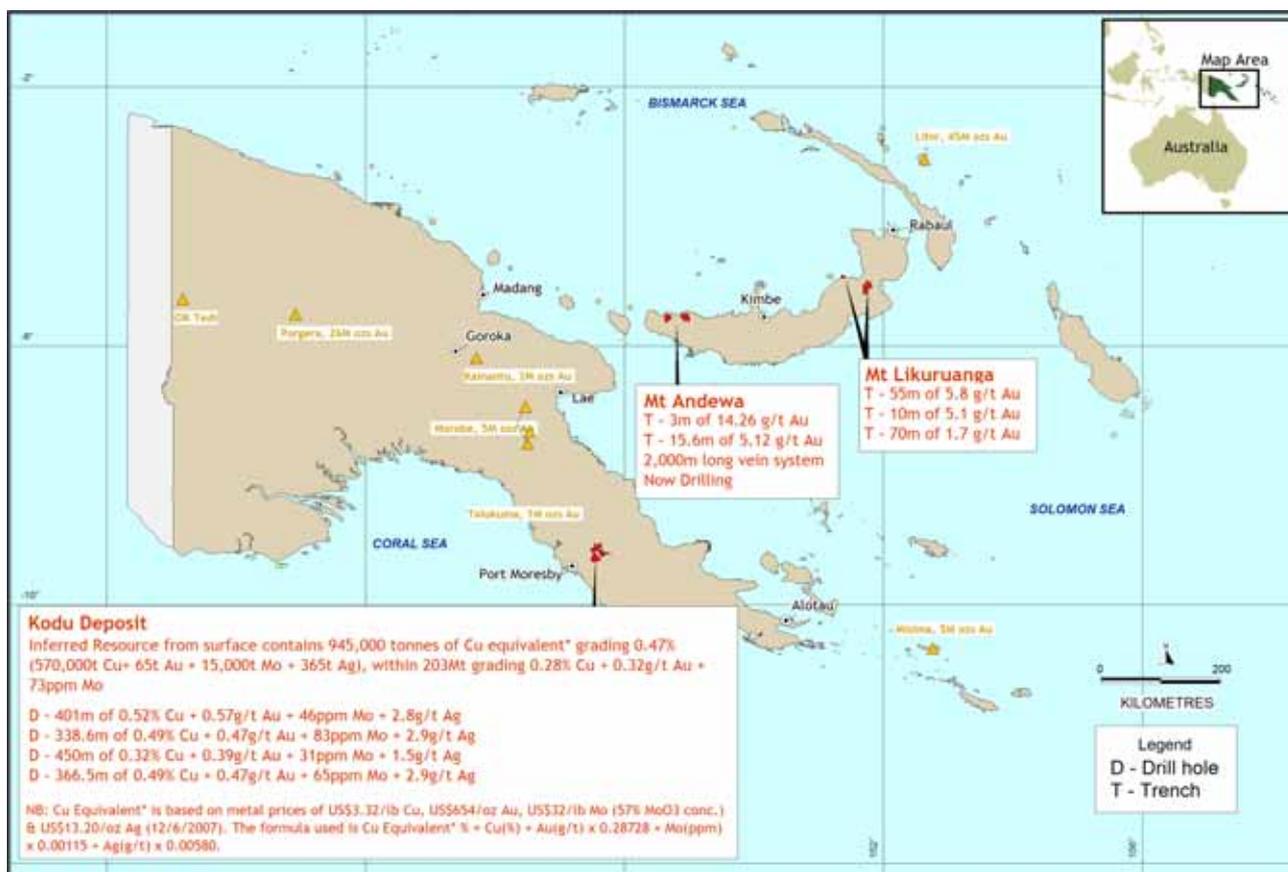
Drilling is the means to ultimately defining a mineral deposit and returning significant value to shareholders. To be able to explore in a cost effective and efficient manner, we 'manufacture' our own drilling rigs and undertake our own drilling programs. This strategy allows the Company to rapidly implement its exploration goals.

PROJECT HIGHLIGHTS

PAPUA NEW GUINEA PROPERTIES

Mt Bini (EL 1348), Andewa (EL1345) and Likuruanga (EL 1351) are granted Exploration Licences. For additional information and plans on all the properties please review the Company's releases to the Australian Securities Exchange.

Figure 1. Location of the Frontier Resource Ltd's 3 PNG Exploration Licences.



THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

EL 1348 - MT BINI (366km²)
KODU PORPHYRY COPPER - GOLD - MOLYBDENUM DEPOSIT

KODU DEPOSIT

Frontier hold all of the recently defined Mt Bini porphyry copper/gold/molybdenum district in PNG , with 5 known, but mostly unexplored, mineralised porphyry occurrences.

The Flagship Kodu porphyry copper/gold/molybdenum Deposit has an Inferred Resource with 945,000 tonnes copper equivalent in 203 Mt of rock grading 0.28% copper + 0.32g/t gold + 73ppm molybdenum and is located 55km north-east of Port Moresby.

There is very good scope to significantly increase the Inferred Resource at Kodu. The mineralisation is open:

- o at depth;
- o along strike to the south-west and possibly fault offset in the north; and
- o to the east contained within the host wallrock.

Thirty drill holes in total have been completed to date for 10,235.2m, with 19 holes being terminated in mineralisation.

The 366km² area is virtually all gold anomalous in drainages, with zones that have only had varying but generally limited follow-up completed. Logistics for exploration and development are very good relatively, being located 55km north-east of the National capital of Port Moresby and 20 linear km from blacktop road access, with a 'tracked vehicle' track to site complete.

Drilling has substantially improved the documented continuity of mineralisation on all sections reported to date (except the northern most section). The consistent copper and gold assays returned have extended the mineralisation throughout the Deposit and have added significant tonnage to the resource model. Importantly, the last hole drilled this year (KFD014) showed the eastern mineralisation boundary dips to the east (not west as previously modelled) and this will add increasingly significant tonnage with increasing depth.

An internal zone of variable but coherent higher-grade mineralisation appears to run longitudinally and dip steeply to the west, within the wider and lower grade mineralised envelope. The copper-gold-molybdenum mineralised zone (on the 10100N section) is now about 500m wide at a 0.2% copper equivalent cut-off grade.

The Company announced a substantial increase (88%) in the Inferred Resource tonnage at the Kodu Deposit to 203 million tonnes grading 0.47% copper equivalent* (0.28% copper, 0.32g/t gold, 1.8g/t silver and 73ppm molybdenum) on June 18th. Previously (on 11 August 2006) the Company had announced an Inferred Resource of 108 million tonnes grading 0.52% copper equivalent* (both using a 0.2% copper equivalent* cut-off). The recent estimation represents a 139% total tonnage increase from Frontier's exploration.

The revised Inferred Resource contains 945,000 tonnes of copper equivalent*, including 570,000 tonnes of copper, 65 tonnes of gold, 15,000 tonnes of molybdenum and 365 tonnes of silver (or 1.25 billion pounds of copper, 2.1 million ounces of gold, 33 million pounds molybdenum and 12 million ounces of silver).

Exceeding the 200 million tonne 'hurdle' is important because it indicates Kodu could have sufficient size to move to production. A Scoping or Conceptual Mining Study (CMS) is presently evaluating possible development paths forward and associated order of magnitude data on physical parameters, capital expenditure and operating costs. It is presently scheduled for finalisation in early November 2007. Continuing exploration requirements at Kodu will also be assessed relative to the findings of the CMS.

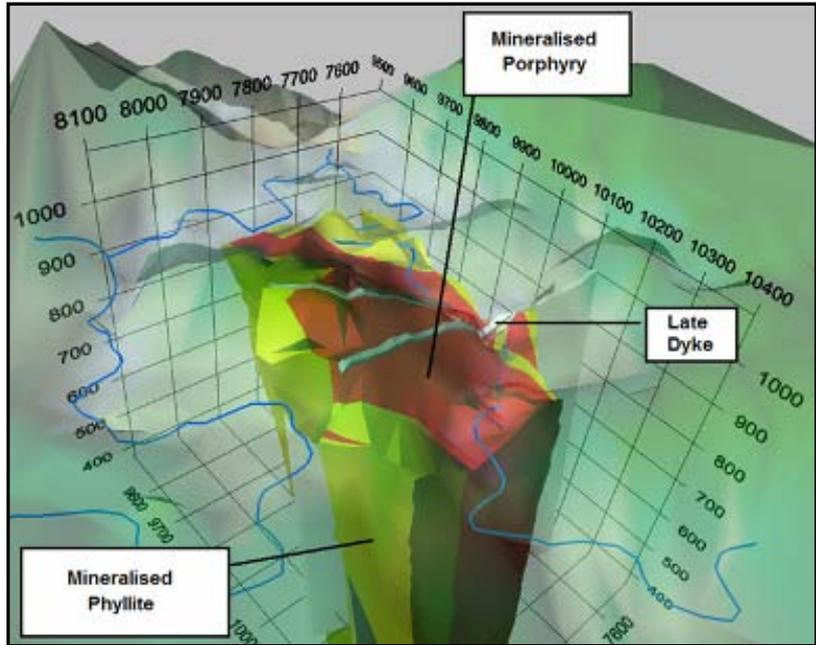
The strike of the deposit runs broadly northeast - southwest with a dyke/plug like composite stock occupying the central part of the resource with mineralised phyllite on either side of the mineralised

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

porphyry. The porphyry has been modelled as one unit with two narrow unmineralised dykes modelled crosscutting it in a NW-SE direction. The mineralised phyllite boundaries were determined using a 0.2% copper equivalent cut-off grade.

Figure 2. Model of the mineralised porphyry and wallrock (phyllite) at the Kodu Deposit, viewed to the southwest.

The slightly lower copper equivalent* grade in the 6/2007 Inferred Resource (than that in the 11 August 2006 estimation) results from the edges of the resource being more thoroughly tested by drilling, with larger volumes of peripheral lower grade but still significantly mineralised wallrock (phyllite) being defined and included. This also accounts for the 22% increase in molybdenum grade which is more abundant peripheral to, than coincident with the copper mineralisation.



The overall silver grade of the Inferred Resource has increased due to systematic sampling for silver in the recent drilling (not all previous drilling assayed for silver) and further intersections with an epithermal overprint higher in silver content (1.8g/t versus the previous average of 1.5g/t).

The current Inferred Resource includes drill hole assay data from nine new holes (2801.4m) from the Frontier drilling program and is now defined by a total of twenty four drill holes (8,151m). The block model was run using the same interpolation parameters defined in the 2006 resource calculation, however, the current geological interpretation has been enhanced by infill drilling, mineralised boundaries have been expanded and late unmineralised dykes have been modelled in more detail. There is a significantly greater drill density than previously available. Data density, and geological confidence are good, however the resource has all been classified as inferred at this stage.

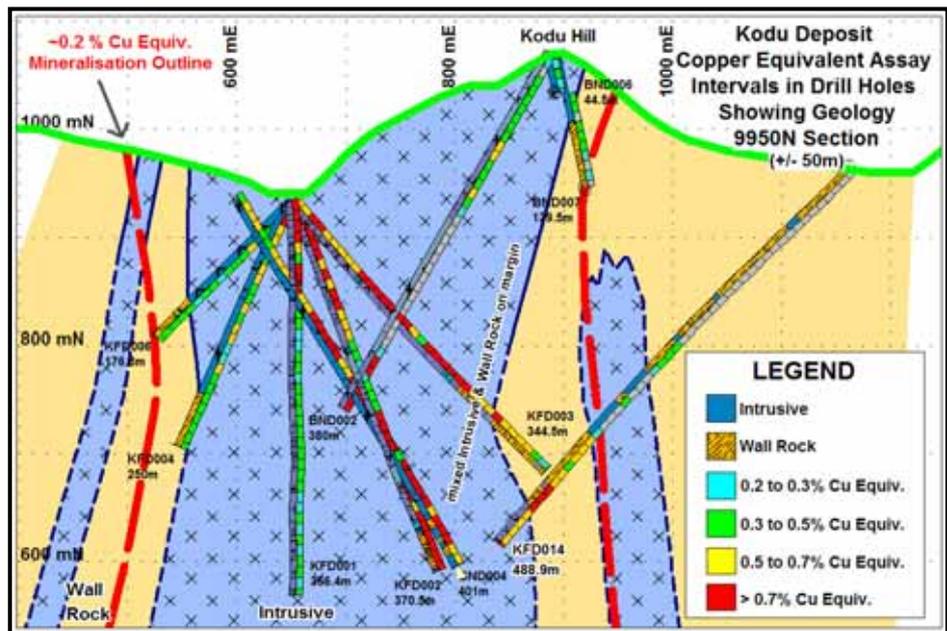
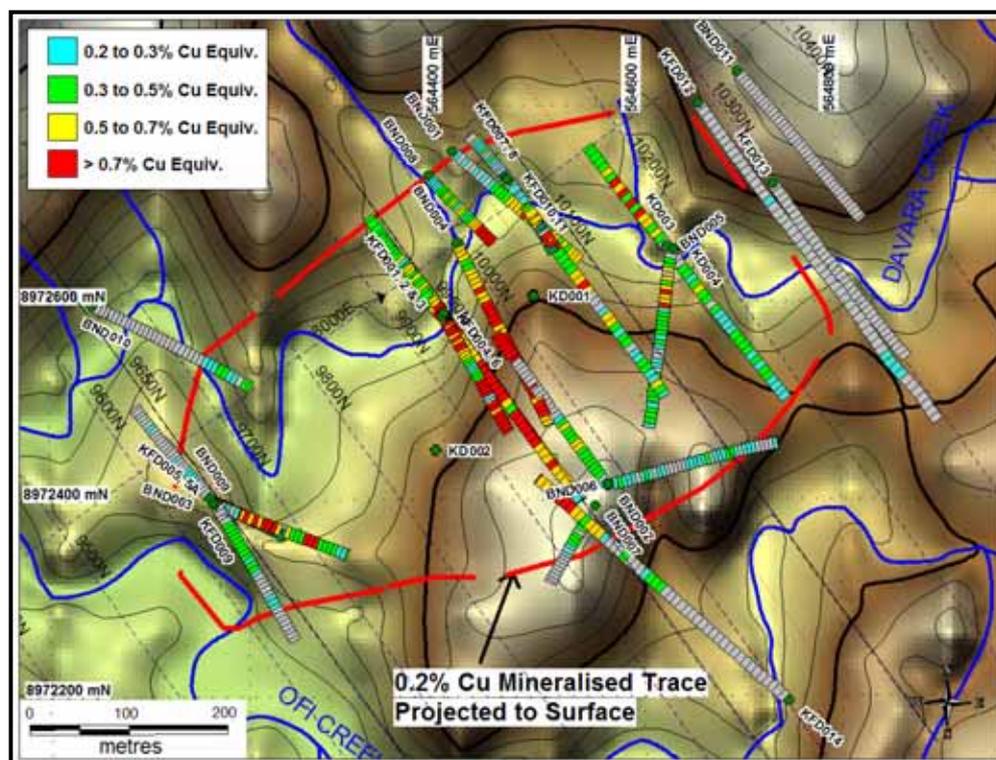


Figure 3. Cross section for 9950N, showing the boundary of the 0.2% copper equivalent mineralised zone, the traces of drill holes completed to date, 10m composite downhole copper equivalent* mineralised intervals, several porphyry intrusives and the mineralised and un-mineralised wallrock (now east dipping from hole KFD014).

Figure 4. The plan shows the approximate boundary of the 0.2% copper equivalent mineralised zone, 10m downhole composite copper equivalent* intervals and 10m topographic contours. The mineralised zone is still completely open to the SW, even though the plan shows it tentatively closed off and appears to be fault offset (to the SE) in the NE sector.



The Kodu Resource is being re-estimated as Indicated and Inferred, utilising all holes drilled to date (i.e. incorporating KFD 008 and KFD010 - 014), for release anticipated mid to late October.

EL 1348 - MT BINI ELO PORPHYRY COPPER - GOLD - MOLYBDENUM PROSPECT

The Elo Prospect is prospective for porphyry copper-gold-molybdenum and epithermal gold deposits. The exploration target is 300 to 500M tonnes grading 0.5% to 1.0% copper equivalent, from near surface (based on the size and tenor of the soil geochemical anomaly, plus alteration noted). The regional example is the Kodu porphyry copper deposit (in respect to the above target we caution that the potential quantity and grade is conceptual in nature, no mineral resource has been defined on the property and it is uncertain if a mineral resource will be defined on the property).

A 2km x 3km elliptical topographic high hosts the large Elo mineralised system. Landsat imagery interpretation has shown a marked change in lineament / fault -fracture patterns in the central part of EL 1348, with Elo occurring on a major NE/SW trending lineament/structural zone that marks a change in dominant fracture trends.

The lineament is about 15km wide and contains the 5 known copper-gold-molybdenum mineralised occurrences (Kodu, Oomargi, Elo, Tamala and Ua-Ule). It appears to be a transfer fault, which is a highly prospective, long-lived and deeply extending structural corridor that has served as a conduit for mineralisation.

Porphyry copper style mineralisation has been observed in several creeks draining the elliptical topographic high and in the very limited, previously announced, historic hand dug trenching. Trench 2 was 212m of 0.08% copper, plus 0.10g/t gold (its entire length), including 84m of 0.10% copper plus 0.17g/t gold. There is a high probability of surface leaching of copper, as at Kodu, making these results highly encouraging. Gold was previously noted in the southern gold only zone in several trenches related to quartz/pyrite veining, with 50m of 0.163g/t gold and 60m of 0.122g/t gold. This is a separate target to be evaluated.

The core zone of the porphyry system at Elo was upgraded from 21 kilometres of grid-based soil sample assays. The NE oriented zone is quite cohesive and is roughly 750m x 250m, with semi coincident copper

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

and molybdenum (at >500ppm and >30ppm, respectively). This area expands rapidly at lower thresholds, with the entire anomaly covering an area of at least 4km².

Figure 5 is a plan showing spot samples of copper on 'contoured' gold in soils, with a grid spacing of 500m.

Gold and silver are locally coincident with the copper and molybdenum, but less cohesive; they occur peripherally to the copper and molybdenum and are more widely distributed over the entire grid. A major, but less cohesive triangular gold only zone (about 1,000m on edge) was documented on the south side of the prospect area, with minimal associated copper and molybdenum.

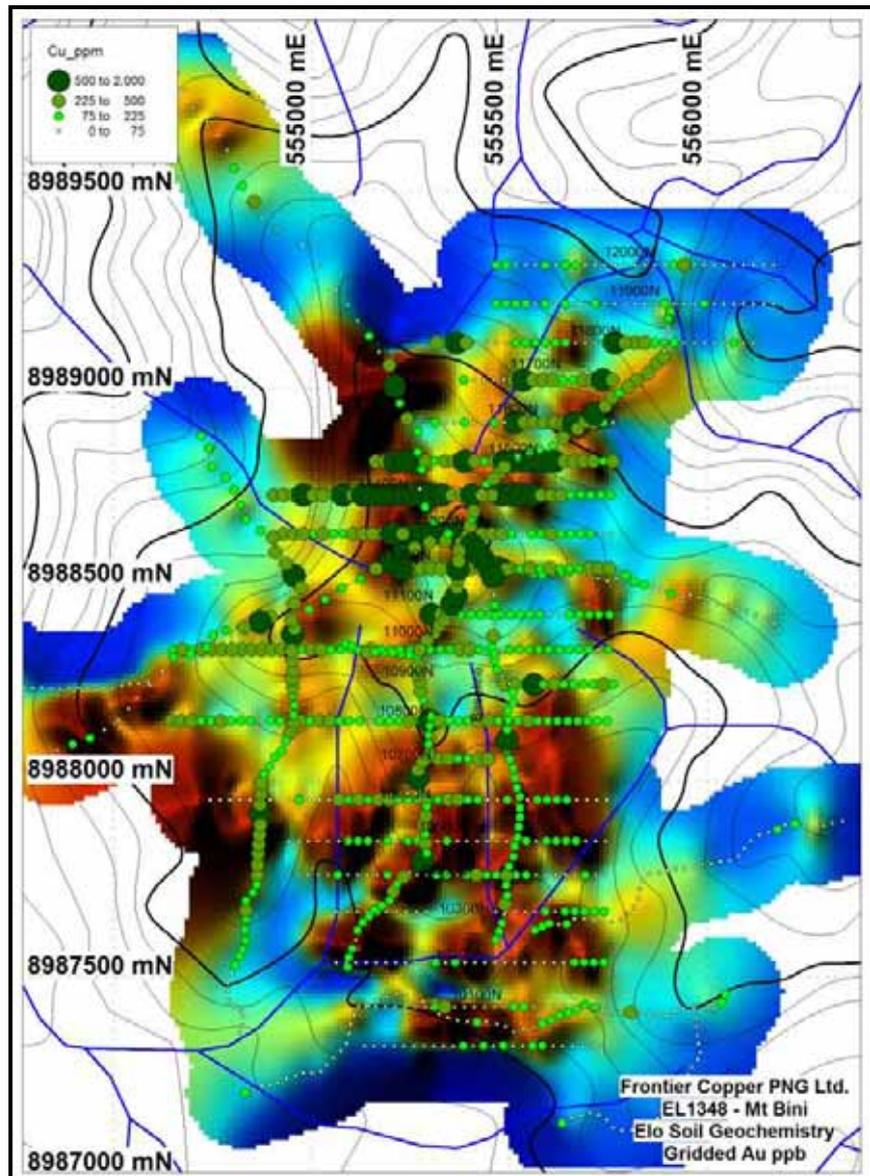
Peak soil assay values were: 0.12% copper, 90 ppm molybdenum and 0.54g/t gold, with intervals such as 600m of 456ppm copper + 35ppm molybdenum + 0.055g/t gold in the main copper zone and 275m of 0.19g/t gold in the southern gold only zone. A ground magnetic survey has now been completed over most of the prospect.

Diamond drilling commenced at Elo on 11 June 2007, testing the highest tenor copper/gold/molybdenum soil anomalies. Hole

EFD001 was drilled to the southwest at a 55° inclination from the top of Elo hill and completed at 373.4m depth. Hole EFD002 was drilled in an easterly direction at a 55° inclination from the same pad to 266.9m depth. Further holes are planned, subject to receipt of encouraging assay results.

When considering comparable intensity copper in soil geochemistry, Elo's mineralised surface area is approximately 6 times larger than that associated with the Kodu Deposit. The large size of the Elo system could reasonably reflect significant prospectivity for the discovery of a major body of copper-gold-molybdenum mineralisation.

Elo is located 54km NNE of the national capital, Port Moresby, and 18km to the NW of the Kodu Deposit; it is far removed from the Kokoda Track (which is located 13km to the SE). The project area is within 5km of existing logging tracks that provide good access and logistics during exploration and for any possible future development. A track is presently being pushed to the prospect.



THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

EL 1348 - MT BINI

SIRIMU / SW KODU / NW KODU EPITHERMAL GOLD PROSPECTS

The epithermal gold-silver-lead potential in the Kodu region was upgraded, with assays to 5.73g/t gold, 491g/t silver, 8.5% lead and 0.11% molybdenum in rock samples collected from SW Kodu, plus similar multi-element soil anomalism. A major bulldozer trenching program is currently underway.

Evaluation of the new data (in conjunction with Frontier's first review of the nearby Sirimu and Kodu NW Prospects) shows epithermal mineralisation apparently occurring over an area at least 1.5km long and 1.0km wide (centred 1,100m west of the Kodu Deposit).

Rock chip sampling of float in Ofi Creek returned a consistent epithermal style of mineralisation with assays to 5.73g/t gold, 491g/t silver and 8.49% lead. In addition, two rocks contained molybdenum only, grading 1300ppm and 131ppm. Soil sampling returned peak gold of 0.14g/t, with coincident lead grading 0.24%, in a north trending zone.

This high-grade epithermal gold, silver and base-metal mineralisation provides a significant exploration and possible development target near Kodu that, if discovered, could be easier and faster to bring into production than the large copper-gold-molybdenum deposit.

The exciting epithermal prospects at SW Kodu, Sirimu and NW Kodu warrant concerted exploration and the company is currently assessing the areas with systematic bulldozer trenching.

Sampling of quartz bearing float in Ofi creek by BHP during their historical reconnaissance returned gold assays of up to 20.8g/t with to 463g/t silver in multiple samples. They also noted very high silver in the drainage geochemistry of 2 small creeks draining the SE sector of the NW Kodu Prospect. These anomalies have never been followed up and are highly significant within the context of the high silver epithermal mineralisation discussed herein (as they drain from a silver-lead anomaly in the SE sector of the NW Kodu Prospect).

Sirimu Prospect

A significant gold in soil anomaly was historically noted at the Sirimu Prospect, the centre of which is located approximately 600m to the NE of the current Frontier soil sampling and 1,100m SW of the Kodu Deposit.

High-grade epithermal gold mineralisation is evident in trench and rock chip samples. Trench sampling results by previous explorers in the area include 35m grading 1.09g/t gold, 30m grading 1.10g/t gold and 60m grading 0.79g/t gold, with selective grab rock chip samples up to 20.3g/t gold with 5.5% copper. Dr Findlay recommended these trenches be deepened and re-evaluated.

Frontier's former Joint Venture partner drilled one hole (KD005) on the gold in soil (maximum 0.62g/t gold)/ trench anomaly at Sirimu. Analysis of the drill assay data shows that 25% of the 2m long samples (37 of 150) graded >0.1 g/t gold, within about 8 anomalous zones. These results establish the existence of highly significant gold occurrences that are not part of the Kodu Deposit. The peak gold result from hole KD005 was **2m of 15.5 g/t gold**, in an epithermal vein/structural zone.

Best gold results are associated with strong pyritic argillic alteration along late (post porphyry) structures. The high grade result occurs adjacent to a lithological contact between carbonaceous shales and diorite porphyry. It is common for epithermal mineralisation to display irregular geometry controlled by favourable structural-lithological interaction and 'level' in the mineralising system. It appears evident in this case, that the tenor of both veining and mineralisation in surface trenches are not replicated in drill hole KD005, suggesting that the drill hole has not intersected the main mineralised zone.

It is important to note that the Sirimu mineralisation only contains low tenor silver and erratic higher lead and is unlikely therefore to be the source of the rocks reported for the SW Kodu area. This means that in the immediate area, there is likely to be another significant source of gold mineralisation that also

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

contains high tenor silver +/- lead. Follow up reconnaissance sampling and mapping was recommended on the north side of Ofi Creek.

SW Kodu Prospect

Reconnaissance mapping and sampling has confirmed the presence of a significant gold, silver and lead bearing epithermal target at SW Kodu. High-grade assays (see Table 1) were returned from gossanous epithermal rock samples forming a distinct float rock train between 1.2 and 1.7 km downstream of the southwest end of the Kodu copper-gold-molybdenum Deposit. Twenty three rock float samples were collected.

Twenty first pass soil samples were collected to locate a potential bedrock source for these high grade samples, where previously only very limited ridge and spur soil sampling existed. Frontier's soil sampling purposefully gridded across a radiometric anomaly located slightly upstream of the above rocks and discovered a coherent and coincident apparently north - south trending gold -silver-lead anomalous zone across a ridge, providing a viable bulldozer trench and perhaps drill target.

| Sample Number | Gold Equivalent* | Gold (g/t) | Silver (g/t) | Lead (%) |
|---------------|------------------|------------|--------------|----------|
| 364003 | 20.7 | 3.3 | 491 | 6.81 |
| 364026 | 5.9 | 3.94 | 97 | 0.18 |
| 364027 | 6.48 | 1.41 | 251 | 0.11 |
| 364029 | 15.46 | 5.73 | 19 | 8.49 |
| 364034 | 2.32 | 2.32 | 1 | 0.05 |
| 364035 | 13.34 | 2.87 | 83 | 7.99 |
| 364037 | 7.74 | 3.33 | 186 | 0.59 |
| 364038 | 7.17 | 5.59 | 39 | 0.72 |
| 364040 | 1.04 | 0.64 | 20 | 0.10 |
| 364041 | 2.33 | 1.57 | 10 | 0.51 |
| 364044 | 5.35 | 5.01 | 17 | 0.05 |

Peak gold in soil samples was 0.14g/t, with coincident lead grading 0.24%. The sample collected 30m south also contained anomalous gold (0.07g/t) with coincident silver (1.7g/t) and lead (0.10%) (see Figures 6a-c). The soil anomaly shows the same geochemical signature as the epithermal vein rock chip samples collected from Ofi Creek and reported above.

The soil anomalism is open to the north, south and east toward Sirimu, providing for possible significant strike extensions to the epithermal mineralisation.

NW Kodu Prospect

Visible gold has been panned in two prominent arcuate drainages that define a 700m diameter circular feature (about the same size as the prominent and round Kodu Hill), located 1,200m northwest of Kodu. The arcuate drainages could reflect a sub-surface potentially mineralised intrusion and/or associated epithermal vein mineralisation. Fracture orientations in 'unroofed' intrusives and vein sets often exhibit such concentric and linear patterns. Rock analyses have confirmed these structures are gold mineralised.

A copper/gold 'core' is evident in the interpretation of the soil geochemical anomalies from the 1km x 1km Kodu NW soil grid, weakening peripherally to a halo of molybdenum, lead and zinc geochemistry. The general tenor of the copper and gold in soils is weaker than observed at Kodu itself, however, the Kodu NW Prospect is located at a higher elevation and this result would be expected if the intrusive has not yet been 'unroofed'. Gold and copper values varied as expected from near or below detection on the edges of the grid, up to 0.223 g/t gold and 336 ppm copper in the core. Silver is distinctly anomalous in the SE of the grid and the copper and gold anomalous zones are relatively cohesive and coincident (about 800m long x 500m wide).

Previous limited rock sampling by the former JV partner was never reported and results included 4 grab diorite rock samples over 7m running 1.49g/t gold, 2m grading 1.03g/t gold in fault pug in andesite, grab rock of fault pug grading 2.22g/t gold, plus other lower tenor results from other faults. There is generally coincident arsenic anomalism with gold in rocks and a weak copper association in the southern sector of the grid.

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

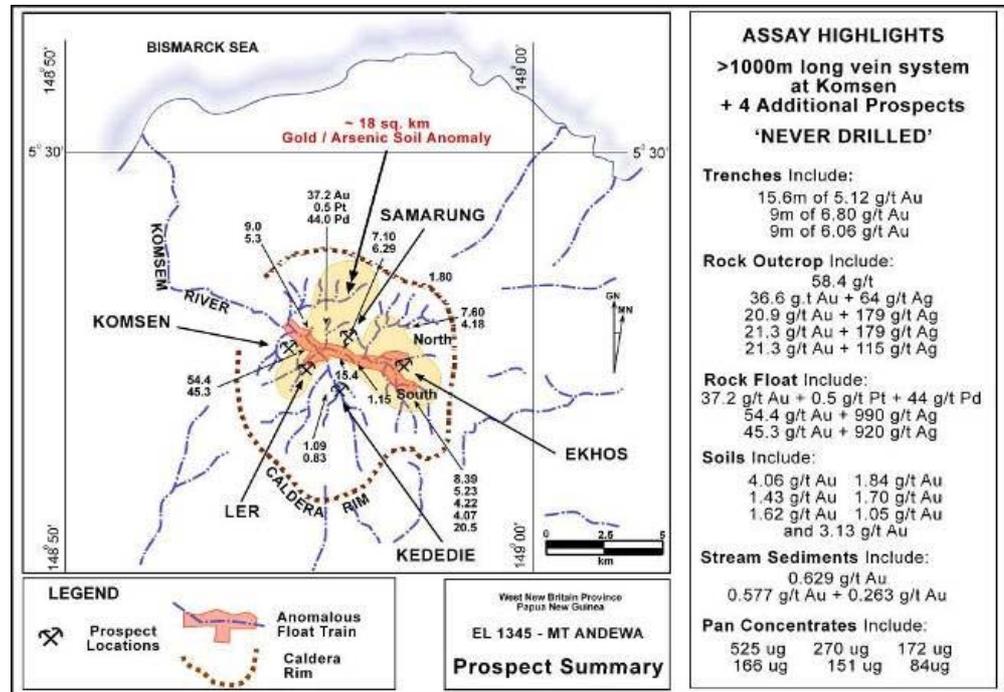
EL 1345 - ANDEWA (243km²) KOMSEN EPITHERMAL GOLD PROSPECT

This highly prospective extinct stratovolcano/caldera (approx. 9km wide, eroded, breached to the NW) has widespread and substantial hydrothermal alteration of the multi-phase, calc-alkaline rocks contained within a 7,000m x 2,500m NW trending fracture/structural zone.

There are five known high stratigraphic level, undrilled prospects requiring substantial evaluation and many additional areas of interest (Figure 6). The project area is well located for possible project development near the northern coast of West New Britain Province.

Gold/arsenic anomalous soil geochemistry covers an embayed triangular shaped area of approx. 18km². Assays include trenches to 3m of 14.26 g/t gold,

15.6m of 5.12 g/t gold, 5m of 8.61 g/t + 5.9m of 3.86 g/t gold + 5.1m of 3.27 g/t gold, 9m of 6.80 g/t gold and 9m of 6.06 g/t gold and outcrop rock to 58.4 g/t gold, often with high silver +/-lead/ zinc.



Results have documented a >1,000m long structural zone /vein system at the Komsen Prospect with higher grade veins/mineralisation and possible lower grade bulk mineable targets. Possible extensions to the vein system appear to be an additional 1,000m long.

It is Frontier's intent to fast track evaluation of the Andewa Prospects with the view to defining higher grade vat leachable resource for possible development in the near term.

Diamond drilling commenced at the Andewa Gold Project on July 28th, 2007, with a goal of trying to define an Indicated and Inferred gold Resource following the completion of the initial planned 3 month (up to approximately 3,800m) program.

Systematic 20m spaced hand trenching was completed over the central section of the vein system to assist future drill targeting and for incorporation into any Resource estimation. Assay results are expected forthwith.

A bulldozer was purchased to cut an access track and to undertake an extensive regional trenching program and it is now being mobilised to site.

The project area is well located for possible project development near the northern coast of West New Britain Province and includes Mt Schrader to the west, both in a similar general tectonic setting to the Lihir Deposit.

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

EL 1351 - LIKURUANGA (195km²)

BUKUAM PORPHYRY COPPER - GOLD - MOLYBDENUM PROSPECT

The Bukuam Prospect is located in a 5.5km long x 1km wide copper in stream sediment anomaly located adjacent to the eastern margin of the Esis-Sai intrusive granitoid complex in East New Britain. The prospect contains significant exploration potential and targets are World Class copper-molybdenum (+/-) gold deposits, zinc-silver-gold skarns and /or high-grade shear hosted gold.

Frontier's selective trench re-sampling of the Kapea Shear Zone returned 20m of 6.99g/t gold, plus 30.5m of 2.99g/t gold (incl. 2m of 19.6g/t gold) plus 12.5m of 4.04g/t gold, with historic sampling by Rio Tinto producing results of 205m (non-contiguous) grading 1.90g/t gold, including 55m grading 5.8g/t gold, 10m of 5.1g/t gold & 70m of 1.7g/t gold in different zones.

Only 3 holes were drilled historically into the zinc-silver-gold skarns, with results such as 6m of 2.2g/t gold + 9.5g/t silver + 1.2% zinc, 2m of 3.5g/t gold + 9.5g/t silver and 10m of 1.7g/t gold + 2.7g/t silver + 4.8% zinc (the 205m interval remains untested by drilling). According to the 'Rio Tinto' geologists who drilled it, "the gold grade in the skarn could increase towards the shear zone with a possible bonanza at the contact".

Soil sampling was initiated by Frontier in October 2006 to evaluate the area and it defined major gold and copper anomalies (+ jarosite alteration) to the north and east of historic trenches. Two follow-up grid based soil sampling programs were then undertaken to confirm then extend these anomalies, respectively.

Assays from the third grid based soil sampling program at the Bukuam Prospect (about 21 linear kilometres at 25m downline spacing) documented a major extension to the previously known mineralised zone. The entire soil anomaly is now 200 to 400m wide, cohesive and contiguous, with mostly coincident copper and molybdenum geochemistry along most of its >4,800m length.

The soil sample assays are still completely open to the north and the south, with some probable width extensions to the east and west. The grid still needs to be extended another kilometre to the SE to cover the remainder of the copper in drainage anomaly. Zinc, gold and silver also show very encouraging assays in soil in various parts of the grid. The soils assays returned from these programs have accurately reflected Frontier's original drainage anomaly interpretation.

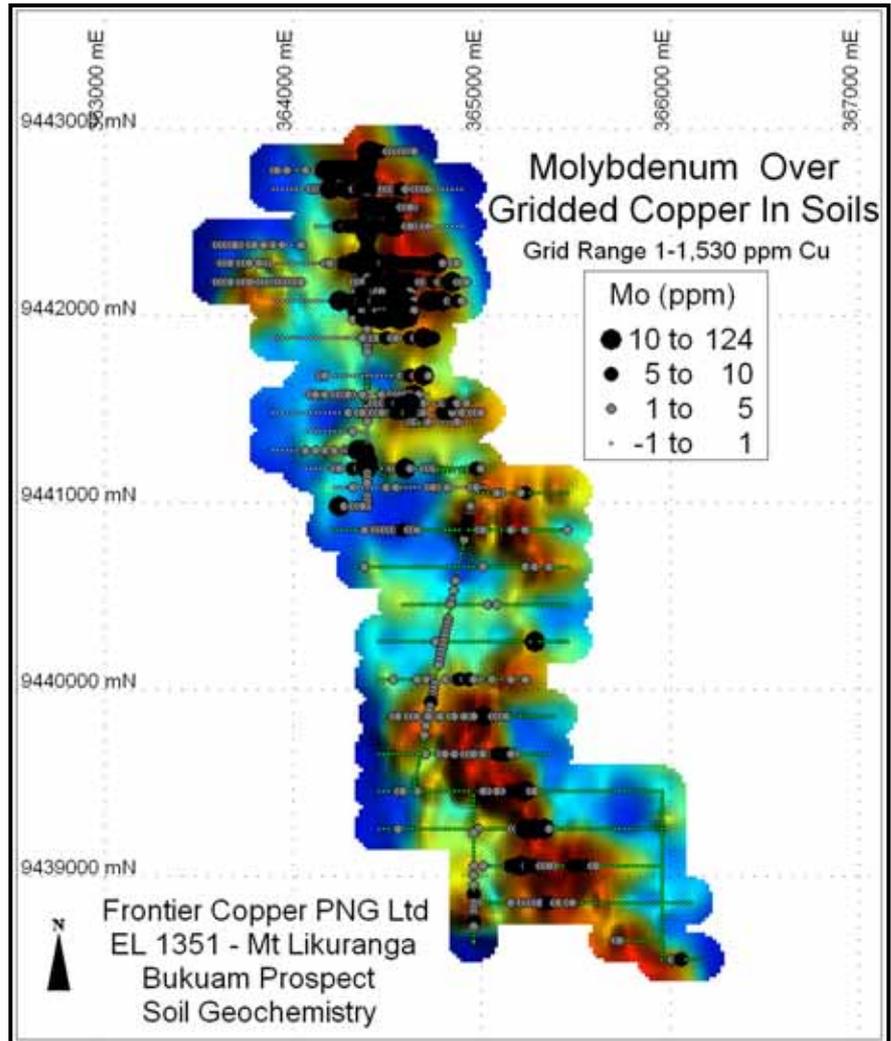
Figure 7 shows the soil sampling results, with circle assay plots of molybdenum overlying contoured copper.

The copper soil anomaly in the southern section of the grid is higher in overall tenor than in the northern section, with 10 assays reporting greater than 0.1% copper. In comparison, the molybdenum anomalism is not as wide as in the northern section, perhaps reflecting a greater depth to the inferred copper-molybdenum mineralised porphyry.

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

Seven geochemically anomalous zones were evaluated in January and February this year via focused pitting, hand trenching and composite rock chip sampling, plus geological mapping. Soil, trench and rock chip samples were despatched to the laboratory by sea freight and were short shipped and 'lost' resulting in the long time frame between sample collection and reporting. Assay results from these trenches and rocks have been returned and will be announced when fully compiled.

It is anticipated that the trenching, rock chip sampling and ground magnetic survey results will enable a thorough evaluation of the area and provide good targeting vectors to insitu mineralised zones. The large relative size of the Bukuam system, which is completely open to the north and the south, could reasonably reflect highly significant prospectivity for the discovery of a major mineral deposit. Drill testing is now tentatively scheduled to commence in Q1/Q2 2008, with one of Frontier's diamond drill rigs.



ESIS PORPHYRY COPPER PROSPECT

The Esis porphyry copper Deposit is situated on a north-north-west trending ridgeline, on the western flanks of the 20km long x 6km wide Esis-Sai granitoid complex and 14km SW of Bukuam. Mineralisation is in quartz-diorite and magnetite breccias and a resource was never estimated.

The mineralised zone from soil and rock sampling is >1,300m x 700m, with weighted copper average of 0.18%. A higher grade internal core was also noted grading approx. 0.4% copper. Winkie holes (averaged over their entire length) included 21.6m of 0.50% copper and 30.3m of 0.41% copper, at opposite ends of the ridgeline, leaving the mineralised zone open to the north and south. One of the best results from the costeans was 90m of 0.40% copper with 20ppm molybdenum. Four diamond holes (152.5m each) were drilled, with best results being 152.6m grading 0.39% copper + 24ppm molybdenum and 152.6m of 0.28% copper + 12ppm molybdenum. Little or no substantive work has been done at Esis for about 33 years.

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

TASMANIAN PROPERTIES

No field work was conducted at the Tasmanian properties during the year, however, general descriptions are appended for completeness.

SMRV

The target at the Wart Hill Prospect in the SMRV in south-west Tasmania is a major volcanic hosted massive sulphide deposit such as the Rosebery Deposit/Mine, which is located approx. 125km to the north in the same Mount Read Volcanic sequence. Rosebery (owned by Zinifex) contains >32 million tonnes at 14.6% zinc, 4.5% lead, 146g/t silver and 2.3g/t gold.

Frontier's first drill hole at the Wart Hill Prospect in 2004 returned 3.9m of 20% combined base metals and highly significant precious metal credits (12.6% zinc + 7.2% lead + 123g/t silver + 0.6g/t gold). Trenches have included 3m of 21.9% zinc + 13.9% lead + 680g/t silver + 0.84g/t gold + 0.2% copper.

A 38 line km 3D-IP (Induced Polarisation) survey was then completed over the Wart Hill and Aldebaran Prospects, providing 3 data sets and a large amount of information to assist drill hole targeting and understanding of the system.

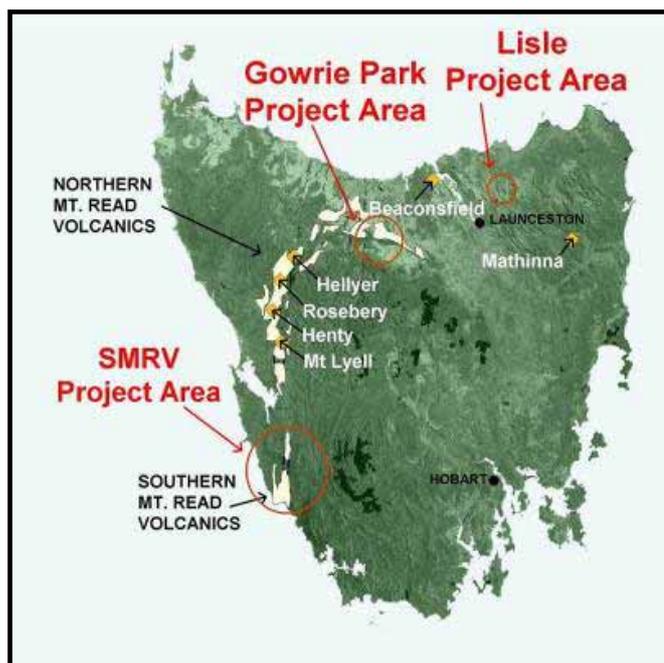
Aldebaran is located about 1,700m east of Wart Hill in a zone of extensive zinc and lead soil anomalies in a major alteration zone, perhaps peripheral to a mineralised system. The area has prospective geology, alteration and geochemistry associated with an intrusive related, major aeromagnetic structure. Relatively short diamond core holes were used at Aldebaran to test a variety of geophysical /geochemical anomalies.

Strong volcanic hosted massive sulphide (VHMS) related alteration was intersected in these holes, indicating relative proximity to a mineralised fluid source and provides strong encouragement and targeting vectors for future drilling.

A combination of mapping and drilling has delineated extensive chlorite alteration with significant sulphide within footwall units, as well as widespread pervasive sericite, basemetal-bearing pervasive silicification and carbonate alteration. Further encouragement comes from the tenor of the footwall chlorite alteration at Aldebaran, which is commonly stronger than that at the nearby Wart Hill Prospect.

Interpretation of the IP survey results in conjunction with the mapped geology has provided significant insights into processes forming VHMS related mineralisation. A key feature of the mineralisation in the Wart Hill/Aldebaran area is the interplay between mineralisation and alteration processes in relation to the active volcanic setting. The periodic influx of significant volumes of mass flow turbidite forming crystal-rich volcanic facies has apparently swamped the VHMS forming system at various stages, resulting in re-migration and focusing of hydrothermal fluids at progressively higher stratigraphic levels. Such processes are reflected in the chargeability data, with anomalous zones (plumes) interpreted to extend between the original footwall, relatively feldspar-rich volcanoclastics, upward through the crystal-rich mass flows. Further, resistive zones have been correlated with pervasive silica+/-basemetal zones, interpreted to originate via sub seafloor replacement.

Two main horizons with potential to bear exhalative VHMS were identified. The deepest horizon lies at the top of the relatively feldspar-rich volcanics with CVC (Mount Read Volcanics - Central Volcanic Complex) affinities. The top of this unit likely represents a disconformity surface, coincident with a



THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

period of relative quiescence, during which time seafloor VHMS formation is likely. The occurrence of extrusive basalt, shale and significant sericite, silica and carbonate alteration within the crystal-rich volcanoclastics is indicative of one of the VHMS-exhalative horizons, located mid-level within the volcanics and spatially associated with porphyry. This horizon is closely analogous to that hosting the base and precious metal mineralisation at the nearby Wart Hill Prospect.

The Company intends to undertake ground geological, geochemical and geophysical evaluation of the "NE Lewis" Prospect, to assess the probability that this large airborne electromagnetic anomaly (AEM) could reflect significant subsurface mineralisation. The surface evaluation will be followed with drilling if warranted.

The SMRV Project has very good mineralisation potential and offers 'company maker' sized targets warranting substantial exploration and drilling.

GOWRIE PARK

The 2 Retention Licences are located in easily/moderately accessible north central Tasmania and cover two existing bodies of gold mineralisation that previously had Inferred Resources estimated. These resources are not JORC compliant and cannot be stated herein. A consultant has been engaged to re-estimate these resources and the results of these studies will be released when available later in 2007.

Targets are gold and base metal mineralisation within part of the Dolcoath Granite aureole and surrounding rocks. Results in drill holes from the Narrawa /Higgs Deposit such as: 9m of 135g/t silver + 1.49g/t gold + 9.74% lead + 5.90% zinc, plus 1.5m of 25.5g/t gold, plus 4m of 10.5g/t gold plus 25.4m of 4.33g/t gold (including 1.3m of 23.1g/t gold and 1m of 14.21g/t gold) show additional exploration is strongly warranted.

Exploration has previously focused upon resource definition to the south-east of the Higgs Deposit. Both the Higgs and sub-parallel 666 Lode are open in terms of resource potential, which remains to be tested by further drilling. Significant potential exists to delineate additional substantial resources in the surrounding area. Other untested potential includes:-

- Untested anomalous gold in soils upslope from the Higgs workings to 2.97g/t Au.
- West Higgs where channel sampling returned values to 58.67g/t Au.
- South eastern VLFEM anomaly highlighted by an untested 0.97g/t Au in soil.

An interval of 42m of 9.56g/t gold in trench and 36.5g/t gold at the end of development work in a short adit show more work is warranted.

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

KODU DEPOSIT AND KOKODA TRACK

The Kodu Deposit is situated close to and east of the 100% privately/clan owned, 96km long Kokoda Track, that was made famous by the gallantry and selflessness of a small number of Australian troops and the associated tenacity of the Japanese during World War 2.

The main battlefields in the district are mostly 10's of kilometres to the north of Kodu, with most life actually lost far to the north of the Kokoda Track, on the northern beaches. In addition, there are several other major battlefields in PNG that warrant more recognition, such as Milne Bay (to name one), where the Japanese suffered their first ever land defeat during WW2 at the hands of the Australians.

There are NO battlefields or sites of any military /historic significance within several kilometres in every direction from Kodu. Track detours are already common and virtually all trekkers do NOT walk past perhaps the major point of historical significance, being where the Japanese advance on Port Moresby was turned back.

It has been ignored that the Kokoda Track actually started life at the turn of the 19th century as a mail / supply route to service the Yodda Goldfields on the northern slopes of the Owen Stanley Range. The Track had a proud 40 year long association with mining prior to WW2 and that is important to recognise also.

Kodu landowners own about 10% of the Kokoda Track and have indicated privately to me that they will close the Track down if any government interferes with their right to improve the lives of their people through the possible development of the Kodu Deposit.

The economic contribution that a large mine can make to the GDP of PNG should not be under-estimated. Taxes + royalties from the Ok Tedi copper mine in PNG in 2006 paid about K800M in taxes and royalties to the PNG government, which is more than all projected 2007/08 Australian aid and totally neglects all other mine related contributions from payroll, purchasing etc.

The possible future development of the Kodu Deposit is an issue for the sovereign nation of Papua New Guinea to determine with all stakeholders' legal rights, commercial aspirations and moral outcomes/ desires taken into consideration.

Notes:

- Assaying was carried out at ALS Chemex in Townsville using the ICP technique with analysis for Ag, As, Cu, Mo, Pb, S, Sb and Zn and 25 gram fire assays for Au.
- Drill core was sampled as 2m half core composites for the entire length of the hole. Quality control was assessed via submission of known standards every 10 samples (~20m downhole). Laboratory quality control reported good repeatability for in-house standards, as well as for duplicate drill core analysis undertaken every ~35th sample.
- *Copper Equivalent is the contained copper, gold, silver and molybdenum that are converted to an equal amount of pure copper and summed (based on assays of mineralised rock and actual metal prices). It is used to allow interpretation of the possible theoretical 'value' of mineralised rock, without consideration of the ultimate extractability any of the metals.
- Copper Equivalent is based upon metal prices of US\$3.32/lb Cu, US\$654/oz Au, US\$32/lb Mo (57% MoO₃ conc.) and US\$13.20/oz Ag (12/6/2007). The formula used is $Cu\ Equivale nt^* \% = Cu(\%) + Au(g/t) \times 0.28728 + Mo(ppm) \times 0.00115 + Ag(g/t) \times 0.00580$.
- Island Arc porphyry copper-gold-molybdenum deposits such as Kodu, typically recover contained Cu, Au, Mo and Ag (subject to metallurgical characteristics and prevailing metal prices).

THE MANAGING DIRECTOR'S REVIEW OF OPERATIONS & ACTIVITIES

- The ASX requires a metallurgical recovery be specified for each metal, however, no testwork has ever been undertaken at Kodu and recoveries can only be assumed to be typical for Island Arc porphyry copper-gold-molybdenum-silver deposits.
- It is the Company's opinion that each of the elements included in the metal equivalents calculation have a reasonable potential to be recovered if the project proceeds to mining.
- *Gold Equivalent is the contained gold, silver and lead that are converted to an equal amount of pure gold and summed (based on assays of mineralised rock and actual metal prices). It is used to allow interpretation of the possible theoretical 'value' of mineralised rock, without consideration of the ultimate extractability any of the metals.
- Gold Equivalent is based upon metal prices of US\$654/oz Au, US\$13.20/oz Ag and US\$1.05/lb Pb (12/6/2007). In terms of value at those prices, 1g/t Au = 49.55 g/t Ag and 1g/t Au = 0.908%Pb. The formula used to calculate Au Equivalent* g/t = $Au(g/t) + (Ag(g/t)/49.55) + (Pb(\%) / 0.908)$.
- Island Arc epithermal gold-silver-basemetal deposits such as are apparent at SW Kodu, Sirimu and NW Kodu typically recover contained Au, Ag and basemetals if in sufficient quantities (subject to metallurgical characteristics and prevailing metal prices).
- The ASX requires a metallurgical recovery be specified for each metal, however, no testwork has ever been undertaken at SW Kodu and recoveries can only be assumed to be typical for Island Arc epithermal gold- silver -basemetal deposits.
- It is the Company's opinion that each of the elements included in the metal equivalents calculation have a reasonable potential to be recovered if the project proceeds to mining.

Management believe Frontier's properties could yield major orebodies with ongoing exploration, however, shareholders are cautioned that exploration is uncertain, high risk and success is not guaranteed.

For additional information and plans on the Company's properties, please review the announcements to the Australian Securities Exchange.

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Frontier Resources Ltd and the entities it controlled at the end of, or during, the year ended 30 June 2007.

DIRECTORS

The following persons were Directors of Frontier Resources Ltd during the whole of the financial year and up to the date of this report:

R.D. McNeil
P.A. McNeil
G.J. Fish
W.J. Staude

PRINCIPAL ACTIVITIES

The principal activities during the financial year of entities within the consolidated entity were exploration and evaluation of gold, silver and other base metal projects.

RESULTS AND DIVIDENDS

The consolidated entity loss from operating activities after tax for the financial year is \$1,656,190 (2006: Loss \$2,844,203). There is no dividend paid or recommended.

The result of the consolidated entity was significantly affected by exploration expenditure of \$1,007,268 (2006: \$1,515,568) expensed in accordance with the Company's accounting policy regarding the capitalisation of exploration expenditure as outlined in note 1 to the Financial Statements.

REVIEW OF OPERATIONS

During the financial year;

- (i) The Company funded ongoing exploration and evaluation work on its exploration areas in Tasmania and Papua New Guinea.
- (ii) The Company raised \$7,445,376 before costs, from the issue of shares and options as detailed in note 17 to the Financial Statements.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year not otherwise disclosed in this report or the consolidated financial report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Apart from the matters disclosed in note 26 of the financial report there were no significant events occurring after the balance date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely future developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial years are:-

- Continued assessment and evaluation of the Papua New Guinea and Tasmanian exploration licences.

The Directors are pleased with exploration results during the financial year, however, they are conscious that additional funding through equity, joint ventures or borrowings will be required to pursue the potential of existing projects in the future.

DIRECTORS' REPORT

ENVIRONMENTAL REGULATIONS

The consolidated entity is subject to significant environmental regulation in respect of its mineral exploration activities.

The entity has exploration and mining tenements in Papua New Guinea and in Tasmania, Australia. The entity is not aware of any breach of environmental regulations during or since the end of the financial year.

| INFORMATION ON DIRECTORS | Particulars of Directors' interest in shares and options of Frontier Resources Ltd | | |
|--------------------------|---|--------------------|---------|
| Director and Experience | Special Responsibilities | Ordinary Shares | Options |

Director and Experience

| Special Responsibilities | Ordinary Shares | Options |
|-----------------------------|--------------------|---------|
|-----------------------------|--------------------|---------|

Robert D. McNeil

Chairman for 6 years.

| | | |
|--|-----------|---------------------|
| | 4,477,083 | 1,181,000 Listed |
|--|-----------|---------------------|

Age 68, B.Sc., M.Sc. He has 46 years industry experience in Australia, Papua New Guinea, U.S.A., Indonesia, Thailand and other countries. He was formerly General Manager of Esso Papua New Guinea Inc. where he was based in Lae, Papua New Guinea for 5½ years. Before this assignment he resided in the U.S.A. for 5 years and prior to that worked for several major and minor companies mainly in Australia. He has been associated with the discovery of several orebodies, specifically the Juno and Warrego orebodies at Tennant Creek by Peko in the 1960's. He is Executive Chairman of Macmin Silver Ltd, and Chairman, CEO and President of New Guinea Gold Corporation, a Yukon company listed on the TSX Venture Exchange (Canada), and non-executive Chairman and Director of Golden Tiger NL. He has not held any former Directorships within the last 3 years.

| | |
|--|---------------------|
| | 400,000 Unlisted |
|--|---------------------|

Peter A. McNeil

Managing Director for 6 years.

| | | |
|--|-----------|---------------------|
| | 8,179,869 | 1,879,578 Listed |
|--|-----------|---------------------|

Age 46. B.Sc., M.Sc. He has 25 years exploration experience in Papua New Guinea, U.S.A. and Australia, including programs at the Lihir gold deposit and in the Goldfields and Kimberley regions of Western Australia and Tasmania. He has been associated with the discovery of a number of orebodies including Nimary and Sunrise Dam in Western Australia. Peter McNeil is also a non-executive Director of Macmin Silver Ltd (ASX) and New Guinea Gold Corporation (TSX-Venture). He also held former Directorships within the last 3 years in Vangold Resources Ltd and South Pacific Minerals Corp. (both TSX-Venture).

| | |
|--|---------------------|
| | 400,000 Unlisted |
|--|---------------------|

DIRECTORS' REPORT

| INFORMATION ON DIRECTORS | Particulars of Directors' interest in shares and options of Frontier Resources Ltd | | |
|---|--|-----------------|------------------|
| | Special Responsibilities | Ordinary Shares | Options |
| Director and Experience | | | |
| <i>Graham J. Fish</i> | | | |
| Executive Director for 1 year and Independent Non-Executive Director for 3½ years. Age 68. He graduated B.Sc. (Geology, Chemistry) in 1958, Dip. Ed. in 1961 and M.Ed. in 1980 from the University of Tasmania. He worked as a teacher of Geology and Chemistry in Tasmanian Education Department Colleges before promotion into administrative roles from 1973. | Member of Planning & Operations Committee | 25,071 | 20,829 Listed |
| He has 33 years of management skills and has extensive experience in administration and education development in Tasmania. He has a background in geology and has chaired committees on both national and State school curriculum and assessment boards. | Member of Audit Committee | | 400,000 Unlisted |
| He has delivered papers and written science and education reports for UNESCO in Bangkok in 1983, and in Korea in 1988, for the South Pacific in Fiji in 1995, for International Conferences in Sydney in 1993 and New Zealand in 1994. He has not held any former Directorships within the last 3 years. | | | |
| <i>Warren J. Staude</i> | | | |
| Non-Executive Director for 4½ years. Age 64. He is a graduate of the University of Sydney (B.Sc., Geology), Macquarie University (M.Sc., Mineral Economics) and holds a Graduate Diploma from the Securities Institute of Australia. | Member of Audit Committee | 50,000 | 50,000 Listed |
| Mr Staude has 43 years professional experience in mining, exploration and resource finance industries. He has worked in Government, as a private consultant, and on the academic staff of Macquarie University. He has worked for the AMP Society's resource investment division, then in the stockbroking industry, before joining GIO Australia Asset Management. | | | 400,000 Unlisted |
| He is currently a non-executive director of Malachite Resources N.L., Eagle Eye Metals Ltd, Stonehenge Metals Ltd and Central West Gold N.L. He also held former Directorships within the last 3 years in Mount Conqueror Minerals NL and Jupiter Mines Ltd. | | | |
| Mr Staude currently sits on the Joint Ore Reserves Committee (JORC) and the Valmin Committee and brings your Company a wealth of experience in the Australian financial markets. | | | |

DIRECTORS' REPORT

COMPANY SECRETARY - QUALIFICATIONS & EXPERIENCE

Garry M. Edwards

Company Secretary for 6 years.

Garry Edwards holds a Master of Business Administration and is a Fellow of the Australian Institute of Company Directors and the National Institute of Accountants.

Prior to joining Frontier Resources, Mr Edwards spent 15 years working in Papua New Guinea, the last 11 for KPMG and antecedent firms. From 1987 to 1995 he managed KPMG's Arawa and Rabaul offices. Mr Edwards is also Company Secretary for Macmin Silver Ltd (ASX).

DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year (and the number each Director was entitled to attend):-

| | Directors' Meetings | | Audit Committee Meetings | | Planning & Operations Committee Meetings | |
|-------------|---------------------|------|--------------------------|------|--|------|
| | Attended | Held | Attended | Held | Attended | Held |
| R.D. McNeil | 5 | 5 | * | * | * | * |
| P.A. McNeil | 5 | 5 | * | * | 4 | 4 |
| G.J. Fish | 5 | 5 | 2 | 2 | 4 | 4 |
| W.J. Staude | 5 | 5 | 2 | 2 | * | * |

* not a member of the relevant committee

REMUNERATION REPORT

(a) Principles used to determine the nature and amount of remuneration (audited)

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The Board ensures that director and executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency
- capital management

The Company has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in share price and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to shareholder growth
- provides a clear structure for earning rewards
- provides recognition for contribution

Relationship between remuneration and Company performance

During the past year and since listing on 9 April 2003 the Company (and the consolidated entity) have generated losses because it is still involved in mineral exploration, not in production.

In the past year the market price of the Company's ordinary shares has increased from 10 cents to 17 cents (an increase of 70%).

Ordinary shares in the Company first traded on 9 April 2003 at 17 cents after listing on the ASX. On 30 June 2007 the market price of the shares was also 17 cents. There have been no dividends or return of capital during that period.

Given that the remuneration is commercially reasonable / appropriate / benchmarked, the link between remuneration, company performance and shareholder wealth generation is tenuous, particularly in the exploration stage of a minerals company. Share prices are subject to the influence of international metal prices and market sentiment toward the sector, and increases or decreases may occur quite independent of executive performance or remuneration.

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Board seeks to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market.

Directors' fees

The current base remuneration was last reviewed with effect from March 2005. Directors' fees are inclusive of committee fees.

Non-Executive Directors' fees are determined within the Non-Executive Directors' fee pool limit, which is periodically recommended for approval by shareholders. The pool currently stands at \$100,000 per annum for Non-Executive Directors.

Retirement allowances for Directors

The Company provides no retirement allowances for Non-Executive Directors.

Executive pay

The executive pay and reward framework has three components:

- base pay and benefits
- long-term incentives through Directors options (refer note 22), and
- other remuneration such as superannuation

The combination of these comprises the executive's total remuneration.

Base pay

Structured as a total employment cost package which may be delivered as a mix of cash and prescribed non-financial benefits at the executives' discretion.

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases fixed in any senior executives' contracts.

Benefits

Executives receive no benefits outside of the base pay, options and superannuation disclosed in this report.

Retirement benefits

Other than statutory superannuation contributions, no retirement benefits are provided for executives except statutory entitlements.

Frontier Resources Ltd Employee Option Plan

Information on the Frontier Resources Ltd Employee Option Plan is set out on page 64. Directors may not participate in the Employee Option Plan.

(b) Details of remuneration (audited)

Details of the nature and amount of each element of the emoluments of each of the key management personnel of the Company and the consolidated entity for the year ended 30 June 2007 are set out in the following tables:

| 2007 | Short-term employee benefits | | | Post-employment benefits | | Share-based payment | Total |
|---------------------------------------|------------------------------|------------|-----------------------|--------------------------|---------------------|---------------------|---------|
| | Cash salary and fees | Cash Bonus | Non-Monetary benefits | Super-annuation | Retirement benefits | Options* | |
| Name | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Directors</i> | | | | | | | |
| R.D. McNeil | 15,000 | - | - | 1,350 | - | - | 16,350 |
| P.A. McNeil [^] | 228,631 | - | - | - | - | - | 228,631 |
| G.J. Fish [^] | 30,000 | - | - | 2,700 | - | - | 32,700 |
| W.J. Staude | 26,000 | - | - | 1,350 | - | - | 27,350 |
| <i>Other key management personnel</i> | | | | | | | |
| R. Reid [^] | 111,663 | - | - | 10,050 | - | 12,754 | 134,467 |
| T. Grigson [^] | 103,669 | - | - | 9,330 | - | 12,754 | 125,753 |
| J. McDougall [^] | 80,544 | - | - | 7,249 | - | 6,377 | 94,170 |
| Total | 595,507 | - | - | 32,029 | - | 31,885 | 659,421 |

[^]These executives are the 5 highest paid executives of the group.

*Option value calculation using Black-Scholes Model

It is noted that P.A. McNeil's listed remuneration is for 279 days worked (relative to a normal standard salary of about 225 days per annum). This represents about ¼ extra time worked over a normal salaried role. P.A. McNeil's consulting rate is based on a daily charge rate equivalent to a salary of \$150,000 plus all statutory oncosts up to February 2007 and \$178,500 per annum plus all statutory oncosts from February 2007 to the present time.

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

| 2006 | Short-term employee benefits | | | Post-employment benefits | | Share-based payment | Total |
|---------------------------------------|------------------------------|------------------|-----------------------------|--------------------------|---------------------------|---------------------|---------|
| | Cash salary and fees \$ | Cash Bonus \$ | Non-Monetary benefits \$ | Super-annuation \$ | Retirement benefits \$ | Options* \$ | |
| Name | | | | | | | |
| <i>Directors</i> | | | | | | | |
| R.D. McNeil | 15,000 | - | - | 1,350 | - | - | 16,350 |
| P.A. McNeil | **150,304 | - | - | - | - | - | 150,304 |
| G.J. Fish | 30,000 | - | - | 2,700 | - | - | 32,700 |
| W.J. Staude | 15,000 | - | - | 1,350 | - | - | 16,350 |
| <i>Other key management personnel</i> | | | | | | | |
| R. Reid | 87,000 | - | - | 7,830 | - | 17,360 | 112,190 |
| Total | 297,304 | - | - | 13,230 | - | 17,360 | 327,894 |

*Option value calculation using Black-Scholes Model

** Including \$26,200 for provision of office and motor vehicle

(c) Service agreements (audited)

There are no service agreements in place for Directors.

The current specified executives have contracts of service with the following conditions:

Exploration Manager, R. Reid

- term - unspecified
- annual salary of \$120,750 p.a. with no specified review period
- occasional personal use of company vehicle subject to approval by Managing Director.

Logistics & Drilling Manager, T. Grigson

- term - unspecified
- annual salary of \$115,000 p.a. with no specified review period
- occasional personal use of company vehicle subject to approval by Managing Director.

Exploration Geologist, J. McDougall

- term - unspecified
- annual salary of \$75,000 p.a. with no specified review period
- occasional personal use of company vehicle subject to approval by Managing Director.

(d) Share-based Compensation (audited)

Options

Options are granted to key management personnel (other than directors) under the Frontier Resources Ltd Employee Option Plan and are subject to the terms of the Frontier Resources Ltd Employee Option Plan as outlined in note 23 to the Financial Statements.

Options are granted under the Plan for no consideration. Options are granted for a period not exceeding five years.

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

| Type of Options | Grant date | Expiry date | Exercise price | Value per option at grant date | Date exercisable |
|-----------------|-------------|-------------|----------------|--------------------------------|-------------------------------------|
| Employee | 28 Sep 2004 | 31 Dec 2007 | \$0.20 | \$0.08 | Between 29 Sep 2004 and 31 Dec 2007 |
| Employee | 16 Mar 2006 | 01 Dec 2008 | \$0.10 | \$0.0434 | Between 16 Mar 2006 and 01 Dec 2008 |
| Employee | 20 Oct 2006 | 20 Oct 2011 | \$0.14 | \$0.0911 | Between 20 Oct 2006 and 20 Oct 2011 |

Options granted under the Plan carry no dividend or voting rights.

Details of options over ordinary shares in the Company provided as remuneration to each Director of Frontier Resources Ltd and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Frontier Resources Ltd. Further information on the options is set out in note 23 to the Financial Statements.

| Name | Number of options granted during the year | | Number of options vested during the year | |
|--|---|---------|--|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Other key management personnel of the Group | | | | |
| R. Reid | 140,000 | 400,000 | 140,000 | 400,000 |
| T. Grigson | 140,000 | 400,000 | 140,000 | 400,000 |
| J. McDougall | 70,000 | 175,000 | 70,000 | 175,000 |

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2007 included:

- (a) options are granted for no consideration
- (b) exercise price: \$0.14 (2006: \$0.10)
- (c) grant date: 20 October 2006 (2006: 16 March 2006)
- (d) expiry date: 20 October 2011 (2006: 1 December 2008)
- (e) share price at grant date: \$0.12 (2006: \$0.077)
- (f) expected price volatility of the Company's shares: 205% (2006: 94%)
- (g) expected dividend yield: 0% (2006: 0%)
- (h) risk-free interest rate: 5.97% (2006: 5.4%)

Shares provided on exercise of remuneration options

There were no ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of Frontier Resources Ltd and other key management personnel of the Group.

Employee incentive option plan

None of the Directors of Frontier Resources Ltd are eligible to participate in the Company's employee incentive option plan.

DIRECTORS' REPORT

REMUNERATION REPORT (continued)

(e) Additional information - unaudited

Share-based compensation: Options

Further details relating to options are set out below.

| Name | A Remuneration consisting of options | B Value at grant date \$ | C Value at exercise date \$ | D Value at lapse date \$ | E Total of columns B-D \$ |
|--------------|---|-----------------------------------|--------------------------------------|-----------------------------------|------------------------------------|
| R. Reid | 9.5% | 12,754 | 9,500 | - | 22,254 |
| T. Grigson | 10% | 12,754 | 3,850 | - | 16,604 |
| J. McDougall | 6.5% | 6,377 | 6,825 | - | 13,202 |

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

LOANS TO DIRECTORS AND EXECUTIVES

No loans have been made to Directors of Frontier Resources Ltd and the specified executives of the consolidated entity, including their personally-related entities.

SHARES UNDER OPTION

Unissued ordinary shares of Frontier Resources Ltd under option at the date of this report are as follows:

| Date options granted | Expiry date | Issue price of shares | Number under option |
|---------------------------|-------------|-----------------------|---------------------|
| Listed: | | | |
| 29 Jan 2002 - 29 May 2007 | 30 Nov 2007 | \$0.20 | 83,054,359 |
| Unlisted: | | | |
| 03 Dec 2003 | 31 Dec 2007 | \$0.20 | 1,600,000 |
| 16 Mar 2006 | 01 Dec 2008 | \$0.10 | 1,555,000 |
| 20 Oct 2006 | 20 Oct 2011 | \$0.14 | 1,560,000 |
| | | | <u>87,769,359</u> |

No optionholder has any right under the options to participate in any other share issue of the Company or of any other entity.

DIRECTORS' REPORT

SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of Frontier Resources Ltd were issued during the year ended 30 June 2007 on the exercise of options. 198,461 further shares have been issued since that date. No amounts are unpaid on any of the shares.

| Date options granted | Issue price of shares | Number of shares issued |
|----------------------|-----------------------|-------------------------|
| Listed: | | |
| 28 Nov 2006 | 0.20 | 10,000 |
| Unlisted: | | |
| 20 Jul 2006 | 0.10 | 525,000 |
| 11 Aug 2006 | 0.10 | 50,000 |
| 04 Jan 2007 | 0.10 | 90,000 |
| 05 Feb 2007 | 0.10 | 100,000 |
| 27 Jun 2007 | 0.10 | 330,000 |

INSURANCE OF OFFICERS

Since the end of the previous financial year the consolidated entity has paid insurance premiums in respect of directors' and officers' legal expenses and liability insurance. The policies prohibit disclosure of details of the policies or the premiums paid.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Consolidated Entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor;
- None of the services undermine the general principles relating to the auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

DIRECTORS' REPORT

NON-AUDIT SERVICES (continued)

CONSOLIDATED

2007

2006

\$

\$

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.

Assurance services

1. Audit Services

PricewaterhouseCoopers Australian firm:

32,641

20,840

Total remuneration for audit services

32,641

20,840

2. Other Assurance Services

PricewaterhouseCoopers Australian firm:

8,761

2,000

Total remuneration for other assurance services

8,761

2,000

Total remuneration for assurance services

41,402

22,840

Taxation Services

PricewaterhouseCoopers Australian firm:

6,417

5,100

Total remuneration for taxation services

6,417

5,100

ROUNDING OF AMOUNTS

Amounts in the financial report have been rounded to the nearest dollar.

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



P.A. McNeil

Managing Director

Bundall, Queensland

17 September 2007

AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the audit of Frontier Resources Ltd for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Frontier Resources Ltd and the entities it controlled during the period.



Stephen R Snook
Partner

Brisbane
17 September 2007

CORPORATE GOVERNANCE STATEMENT

The Board of Frontier Resources Ltd (the Company) is committed to maintaining high standards of Corporate Governance. This statement outlines the main Corporate Governance practices that were adopted or in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Principle 1: Lay Solid Foundations for Management and Oversight

Recommendation 1.1: *Formalise and disclose the functions reserved to the Board and those delegated to management.*

The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of shareholders.

Its functions and responsibilities include:

- Determining strategic and policy direction and monitoring performance against strategy.
- Establishing goals and monitoring performance.
- Identifying risk and opportunities for ensuring risk management systems are established and reviewed.
- Approving and monitoring financial reports, capital management, and compliance.
- Ensuring that policies and compliance systems consistent with the Company's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly.
- Appointing senior management and monitoring performance, remuneration and succession.

The Board is also governed by the Company's constitution. The day to day management of the Company's affairs and implementation of corporate strategies and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

Principle 2: Structure the Board to Add Value

Recommendation 2.1: *A majority of the Board should be Independent Directors.*

Given the company's background, nature and size of its business and the current stage of its development, the Board is comprised of four directors, three of whom are non-executive. The Board believes that this is both appropriate and acceptable at this stage of the company's development.

Recommendation 2.2: *The Chairperson should be an Independent Director.*

The Chairperson, Mr R.D McNeil is not independent, as set out above, but due to his experience and expertise in areas the Company operates in, the Board considers he is suitably skilled to perform the role.

Recommendation 2.3: *The roles of the chairperson and chief executive officer should not be exercised by the same individual.*

The positions of Chairman and Managing Director are held by separate persons.

Recommendation 2.4: *The Board should establish a nomination committee.*

The Board has not established a nomination committee due to the company's background, nature and size of its business and the current stage of its development. The Board undertakes the process of determining the need for, screening and appointing new directors.

Recommendation 2.5: *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 2.*

The skills and experience for the directors are set out in the company's Annual Report and on its website.

The Company has not included on its website, information on procedures for the selection and appointment of new Directors as these procedures are not formalised.

CORPORATE GOVERNANCE STATEMENT

Principle 3: Promote Ethical and Responsible Decision Making.

Recommendation 3.1: *Establish a code of conduct to guide Directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:*

3.1.1- the practices necessary to maintain confidence in the Company's integrity

3.1.2- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The company has adopted a Code of Conduct setting standards expected of directors, officers, employees and contractors and demonstrate the Company's commitment to conducting business in an ethical and accountable manner. Directors, officers, employees and contractors are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Adherence to the code of conduct is expected at all times and the Board actively promotes a culture of quality and integrity.

The Board monitors the implementation of the Code. Breaches are reported by employees or contractors to the Managing Director or Company Secretary.

Recommendation 3.2: *Disclose the policy concerning trading in company securities by directors, officers and employees*

The Company has in place a trading policy, "Dealings in Company Securities Policy". A copy of the policy is provided to all directors, officers, employees and contractors.

The policy imposes basic trading restrictions on all employees of the Company with 'inside information', and additional trading restrictions on the directors of the Company.

'Inside information' is information that:

- is not generally available; and
- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

If an employee possesses inside information, the person must not:

- trade in the Company's securities (including the exercise of employee options);
- advise others or procure others to trade in the Company's securities; or
- pass on the inside information to others - including colleagues, family or friends - knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information (e.g. even if the employee or Director overhears it or is told in a social setting).

In addition to the above, Directors must not acquire or sell, directly or indirectly any securities (shares or options) in the Company except later than an hour after and within the period of 1 month after the release of any of the quarterly, half-yearly and yearly reports and any announcements to the ASX which may or are likely to effect the value of the company's assets in a material way, or, 1 month after the holding of the Annual General Meeting.

A Director who intends to trade in Company securities must firstly notify the Managing Director or Company Secretary so that any potential embarrassment/market misconception may be avoided if an announcement is imminent. In the event of a significant trade, all Directors should be notified as soon as possible. If the Managing Director or Company Secretary intend to trade in Company securities they must firstly notify the Chairman.

The Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

The trading policy is reviewed annually.

CORPORATE GOVERNANCE STATEMENT

Recommendation 3.3: *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 3.*

A summary of both the Company's Code of Conduct and its Share Trading Policy were included on the Company's website in April 2007.

Principle 4: Safeguard Integrity in Financial Reporting

Recommendation 4.1: *Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.*

The Company's Managing Director and Chief Financial Officer provide this statement.

Recommendation 4.2: *The Board should establish an audit committee.*

An audit committee was established by the Board prior to the 2003-2004 year.

Recommendation 4.3: *Structure the Audit Committee so that it consists of:*

- *Only non-executive directors*
- *A majority of independent directors*
- *An independent chairperson, who is not chairperson of the Board*
- *At least 3 members*

The Company's Audit Committee comprises Mr Fish, Mr Edwards and Mr Staude, who currently acts as chairperson. The Audit Committee does not currently consist of all non-executive directors; it does have a majority of directors who are independent and an independent chairperson. The Board considers this to be acceptable due to the size of both the Company and the Board. Information on the qualifications of the Directors on the Audit Committee and attendance at Audit Committee meetings are contained in the Directors' report.

Recommendation 4.4: *The Audit Committee should have a formal charter.*

The Audit Committee operates in accordance with a formal written charter. The main responsibilities of the committee are to:

- Review reports prepared by the external auditors and other consultants to ensure that, should a major deficiencies or breakdowns in controls or procedures be identified, appropriate and prompt remedial action is taken by management.
- Liaising with the external auditors and ensuring that the annual statutory audit, half-year review are conducted in an effective manner.
- Reviewing internal controls and recommending enhancements
- Monitoring compliance with the Corporations Act 2001, Australian Securities Exchange Listing Rules and any matters outstanding with auditors, taxation and other regulatory authorities and financial institutions.

Principle 5: Make Timely and Balanced Disclosure

Recommendation 5.1: *Establish written policies and procedure designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior management level for that compliance.*

The Company has a formal continuous disclosure policy. The policy requires all executives and Directors to inform the Managing Director or in his absence the Company Secretary of any potentially material information as soon as practical after they become aware of that information.

Information is material if it is likely that the information would influence investors who commonly acquire securities on the ASX in deciding whether to buy, sell or hold the Company's securities.

Information need not be disclosed only if the ASX listing rules provide for non-disclosure.

The Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

CORPORATE GOVERNANCE STATEMENT

Recommendation 5.2: *Provide the information indicated in the ASX Corporate Governance Councils' Guide to Reporting on Principle 5.*

Disclosure is reviewed as a routine agenda item at each Board meeting.

Principle 6: Respect the Rights of Shareholders

Recommendation 6.1: *Design and disclose a communications strategy to promote effectively communication with shareholders and encourage effective participation at general meetings.*

The Company is committed to dealing fairly, transparently and promptly with shareholders. The Board aims to ensure that the shareholders are informed of all major developments.

The annual report is distributed to all shareholders who have specifically requested the document. In addition, the Company makes all ASX announcements, details of shareholder meetings and financial reports available of the Company's website.

Half-year financial reports prepared in accordance with the requirements of Accounting Standards and the Corporations Act 2001 are lodged with the Australian Securities and Investments Commission and the Australian Securities Exchange. The financial reports are sent to any shareholder who requests them and quarterly reports are submitted to the ASX under the requirements of the Exchange relating to mining companies. Copies of the quarterly reports are sent to shareholders whenever sufficient new information in the report warrants distribution.

Recommendation 6.2: *Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.*

The Company's practice is to request that its external auditor attends its annual general meeting.

Principle 7: Recognise and Manage Risk

Recommendation 7.1: *The Board or appropriate committee should establish policies on risk oversight and management.*

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level. The Risk Management Policy is reviewed annually.

Recommendation 7.2: *The chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state to the Board in writing that:*

7.2.1 - the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and

7.2.2 - the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Company's Managing Director and Chief Financial Officer provide this statement.

Recommendation 7.3: *Provide the information indicated in the ASX Corporate Governance Council's Guide to reporting on Principle 7.*

A description of the Company's risk oversight and management policy and internal compliance and control system is not included on the Company's website.

CORPORATE GOVERNANCE STATEMENT

Principle 8: Encourage Enhanced Performance

Recommendation 8.1: *Disclose the process for performance evaluation of the Board, its committees and individual Directors, and key executives.*

The Company has adopted self evaluation processes to manage Board performance. An annual review is undertaken in relation to the composition and skills mix of the Directors of the Company.

Evaluation of Committees is conducted on a similar basis.

Evaluation of key executives is conducted via annual performance appraisal meetings incorporating analysis of key performance indicators with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made.

Principle 9 Remunerate Fairly and Responsibly

Recommendation 9.1: *Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to Directors and key executives and corporate performance.*

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and executives with a remuneration package consisting of fixed components and incentives that reflect the person's responsibilities, duties and personal performance.

The remuneration of Non-Executive Directors is determined by the Board as a whole having regard to the level of fees paid to Non-Executive Directors by other companies of similar size in the industry.

Principle 9.2: *The Board should establish a remuneration committee*

Since the Company listed in April 2003 the Company has not had a Remuneration Committee and it is not intended at this stage to establish one unless there is a significant increase in the number of executives.

Recommendation 9.3: *Clearly distinguish the structure of non-executive Directors' remuneration from that of executives.*

The aggregate remuneration to the Non-Executive Directors will not exceed the maximum amount approved by the Company's shareholders in the annual general meeting.

Recommendation 9.4: *Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.*

Equity-based executive remuneration is made in accordance with the equity scheme approved by shareholders.

Recommendation 9.5: *Provide the information indicated in the ASX Corporate Governance Council's Guide to Reporting on Principle 9*

Since the Company listed in April 2003 the Company has not had a Remuneration Committee and it is not intended at this stage to establish one unless there is a significant increase in the number of executives.

Principle 10: Recognise the Legitimate Interests of Stakeholders

Recommendation 10.1: *Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.*

As set out in relation to best practice recommendation 3.1, the Company has adopted a Code of Conduct setting standards expected of directors, officers, employees and contractors. The Code is available on the Company's website.

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This financial report covers both Frontier Resources Ltd as an individual entity and the consolidated entity consisting of Frontier Resources Ltd and its subsidiaries. The financial report is presented in the Australian currency.

Frontier Resources Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Frontier Resources Ltd
Level 1
94 Bundall Road
Bundall Qld 4217

A description of the nature of the consolidated entity's operations and its principal activities is included in the Managing Director's letter to shareholders, Highlights 2007 and Review of Operations & Activities on pages 6 to 20 and in the Directors' report on pages 21 to 31, which are not part of the financial report.

The financial report was authorised for issue by the Directors on 17 September 2007. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available on our website: www.frontierresources.com.au.

For queries in relation to our reporting please call +61 7 5592 2274 or email info@frontierresources.com.au.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 INCOME STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|--|-------|--------------------|--------------------|--------------------|--------------------|
| | | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Revenue from continuing operations | 4 | 147,870 | 83,573 | 147,870 | 83,573 |
| Other income | 5 | 45,550 | 377,894 | 45,550 | 50,378 |
| Exploration expenditure | 14 | (1,007,268) | (1,515,568) | (280,098) | (1,497,217) |
| Net loss on sale of Available-For-Sale Financial Asset | | - | (1,043,670) | - | (1,043,670) |
| Administration and insurance expenses | | (339,941) | (259,278) | (319,925) | (259,278) |
| Gross employee benefit expense | | (380,002) | (166,483) | (337,865) | (166,483) |
| Employee benefits expense capitalised to exploration | | 201,031 | - | 155,163 | - |
| Depreciation | | (131,458) | (84,241) | (63,566) | (84,241) |
| Repairs and maintenance | | (2,009) | (48,831) | (2,009) | (48,830) |
| Consultancy | | (26,906) | (26,589) | (11,651) | (21,770) |
| Promotional expenses | | (33,211) | (17,865) | (33,211) | (17,865) |
| Other expenses from ordinary activities | | (129,846) | (143,145) | (109,900) | (143,047) |
| Provision for non recovery of loan | | - | - | (770,723) | (23,269) |
| Loss before income tax | | (1,656,190) | (2,844,203) | (1,580,365) | (3,171,719) |
| Income tax expense | 6 | - | - | - | - |
| Net Profit / (Loss) for the year | | (1,656,190) | (2,844,203) | (1,580,365) | (3,171,719) |
| | | Cents | Cents | | |
| Basic and diluted earnings/(loss) per share | 25 | (1.8) | (4.4) | | |

The above income statements should be read in conjunction with the accompanying notes.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
BALANCE SHEETS
AS AT 30 JUNE 2007

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|--|-------|------------------|------------------|------------------|------------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | 7 | 4,153,726 | 300,195 | 4,049,781 | 300,152 |
| Inventory/work in progress | 8 | 483,242 | - | 483,242 | - |
| Trade and other receivables | 9 | 189,250 | 233,945 | 169,831 | 230,934 |
| Total Current Assets | | 4,826,218 | 534,140 | 4,702,854 | 531,086 |
| Non-Current Assets | | | | | |
| Trade and other receivables | 10 | 83,943 | 84,474 | 1,936,512 | 102,617 |
| Other financial assets | 12 | - | - | 10,622 | 10,622 |
| Property, plant and equipment | 13 | 810,713 | 682,491 | 511,638 | 309,712 |
| Mineral exploration and evaluation expenditure | 14 | 3,088,506 | 1,582,976 | 1,564,819 | 1,528,351 |
| Total Non-Current Assets | | 3,983,162 | 2,349,941 | 4,023,591 | 1,951,302 |
| Total Assets | | 8,809,380 | 2,884,081 | 8,726,445 | 2,482,388 |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Trade and other payables | 15 | 594,096 | 302,489 | 501,303 | 228,312 |
| Total Current Liabilities | | 594,096 | 302,489 | 501,303 | 228,312 |
| Non-Current Liabilities | | | | | |
| Provisions | 16 | 9,157 | - | 5,086 | - |
| Total Non-Current Liabilities | | 9,157 | - | 5,086 | - |
| Total Liabilities | | 603,253 | 302,489 | 506,389 | 228,312 |
| Net Assets | | 8,206,127 | 2,581,592 | 8,220,056 | 2,254,076 |
| EQUITY | | | | | |
| Contributed equity | 17 | 14,584,590 | 7,139,214 | 14,584,590 | 7,139,214 |
| Reserves | 18 | (29,501) | 135,150 | 236,119 | 135,150 |
| Accumulated losses | 18 | (6,348,962) | (4,692,772) | (6,600,653) | (5,020,288) |
| Total Equity | | 8,206,127 | 2,581,592 | 8,220,056 | 2,254,076 |

The above balance sheets should be read in conjunction with the accompanying notes.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 STATEMENTS OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2007

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|-------|--------------|-------------|---------------|-------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| Total equity at the beginning of the year | | 2,581,592 | 4,145,302 | 2,254,076 | 4,145,302 |
| Changes in the fair value of Available-For-Sale financial assets | | - | (1,043,670) | - | (1,043,670) |
| Transfer to income statement | | - | 1,043,670 | - | 1,043,670 |
| Net income recognised directly in equity | | - | - | - | - |
| (Loss)/Profit for the year | | (1,656,190) | (2,844,203) | (1,580,365) | (3,171,719) |
| Total recognised income and expense for the year | | (1,656,190) | (2,844,203) | (1,580,365) | (3,171,719) |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Contributions of equity, net of transaction costs | 17 | 7,445,376 | 1,145,343 | 7,445,376 | 1,145,343 |
| Employee share options | 18 | 100,969 | 135,150 | 100,969 | 135,150 |
| Foreign currency translations | 18 | (265,620) | - | - | - |
| Dividends provided for or paid | | - | - | - | - |
| Total equity at the end of the year | | 8,206,127 | 2,581,592 | 8,220,056 | 2,254,076 |

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

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| | Notes | CONSOLIDATED | | PARENT ENTITY | |
|---|--------|--------------------|--------------------|--------------------|--------------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| Cash Flows from Operating Activities | | | | | |
| Cash receipts in the course of operations (incl. GST) | | 423,172 | - | 423,172 | - |
| Interest received | | 60,340 | 21,103 | 60,340 | 21,103 |
| Payments to suppliers and employees not included as part of exploration and evaluation activities below (incl. GST) | | (1,503,213) | (148,143) | (1,181,766) | (143,225) |
| Goods and Services Tax refunded | | 218,169 | 203,389 | 218,863 | 203,389 |
| Net Cash (Outflow) from Operating Activities | 28 (a) | (801,532) | 76,349 | (479,391) | 81,267 |
| Cash Flows From Investing Activities | | | | | |
| Exploration and evaluation activities | 28 (b) | (2,449,822) | (1,624,320) | (387,926) | (1,605,969) |
| Security deposits recovered / (paid) | | (660) | - | (660) | - |
| Purchase of property, plant and equipment | | (553,057) | (67,616) | (323,227) | (67,616) |
| Purchase of additional shares in subsidiary | | - | - | (3,393) | (41) |
| Proceeds from sale of property, plant and equipment | | 236,926 | 254,545 | 50,455 | 254,545 |
| Proceeds from sale of available for sale financial assets | | - | 216,555 | - | 216,555 |
| Funding activities of subsidiaries | | - | - | (2,527,889) | (23,269) |
| Net Cash (Outflow) From Investing Activities | | (2,766,613) | (1,220,836) | (3,192,640) | (1,225,795) |
| Cash Flows From Financing Activities | | | | | |
| Net cash proceeds from the issue of shares | | 7,421,660 | 1,145,343 | 7,421,660 | 1,145,343 |
| Net Cash Inflow From Financing Activities | | 7,421,660 | 1,145,343 | 7,421,660 | 1,145,343 |
| Net Increase (Decrease) in Cash and Cash Equivalents | | 3,853,530 | 856 | 3,749,629 | 815 |
| Cash and Cash Equivalents at the beginning of the financial year | | 300,195 | 299,339 | 300,152 | 299,337 |
| Effects of exchange rate changes on cash and cash equivalents | | 16 | - | - | - |
| Cash and Cash Equivalents at the End of Year | 7 | 4,153,726 | 300,195 | 4,049,781 | 300,152 |
| Non-cash financing and investing activities | 30 | | | | |

The above cash flow statements should be read in conjunction with the accompanying notes.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Frontier Resources Ltd as an individual entity and the consolidated entity consisting of Frontier Resources Ltd and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Frontier Resources Ltd comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect to certain disclosure requirements contained in AASB 132 *Financial Instruments: Disclosure and Presentation*.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, certain classes of property, and plant and equipment.

Critical accounting estimates

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

(b) Principles of consolidation

(i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Frontier Resources Ltd ("company" or "parent entity") as at 30 June 2007 and the results of all subsidiaries for the year then ended. Frontier Resources Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) *Joint ventures*

Joint venture operations

The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements under the appropriate headings.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Frontier Resources Ltd's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(e) **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

(i) *Interest income*

Interest income is recognised on a time proportion basis using the effective interest method, see note 1(l). When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(f) **Income tax**

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

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

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

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

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

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(h) Impairment of assets

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

(i) Cash and cash equivalents

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

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of raw material and consumables inventories is based on the average cost basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost includes variable costs and where applicable direct fixed costs of production including an appropriate share of overheads based on normal operating capacity.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Obsolete or damaged inventories have been valued at net realisable value. A regular and ongoing review is undertaken to establish the extent of surplus items, and a provision is made for any potential loss on their disposal.

(l) Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 9 and 10).

(ii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the group establishes fair value by using a variety of valuation techniques. Where the fair value of a financial asset cannot be reliably measured, it will be measured at cost.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

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

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Property, plant and equipment

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

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

Items of property, plant and equipment are depreciated over their estimated useful lives. The diminishing balance method is used. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Estimates of useful lives are made at the time of acquisition and varied as required. Expected useful lives are: Plant and Equipment between 4 years and 7 years.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Trade and other payables

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

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(r) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

(s) Employee benefits

(i) *Wages and salaries, annual leave and sick leave*

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

(ii) *Long service leave*

Any liability for employee benefits relating to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) *Share-based payments*

Share-based compensation benefits are provided to employees via the Frontier Resources Ltd Employee Option Plan. Information relating to this Plan is set out in note 23.

The fair value of options granted under the Frontier Resources Ltd Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity (share-based payments reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

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

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

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

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(t) **Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(u) **Earnings per share**

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) *Diluted earnings per share*

Potential shares as a result of options outstanding at the end of the year are not dilutive and therefore have not been included in the calculation of diluted earnings per share.

(v) **Exploration and evaluation expenditure**

The Company has adopted a policy of writing off exploration and evaluation expenditure at the end of the period in which it is incurred, unless a mineral resource has been estimated for the area of interest.

The Directors believe that this policy results in the carrying value of exploration expenditure more appropriately reflecting the definition of an asset, being future benefits controlled by the consolidated entity.

Costs arising from exploration and evaluation activities are carried forward where these activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. All costs carried forward are in respect of areas of interest in the exploration and evaluation phases and accordingly, production has not commenced.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, in particular when exploration for and evaluation of mineral resource in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the company has decided to discontinue such activities in the specific area.

(w) New accounting standards and interpretations

Certain new accounting standards and Australian interpretations have been published that are not mandatory for 30 June 2007 reporting periods. Frontier Resources' assessment of the impact of these new standards and interpretations is set out below.

(a) *Early adoption of standards*

Frontier Resources has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2006:

- revised AASB 101 *Presentation of Financial Statements* (issued October 2006)
- The revision does not have an impact on Frontier Resources' financial statements.

(b) *AASB 2007-4 Australian Additions to, and Deletions from, International Financial Reporting Standards.*

The amendments introduce a number of options that existed under IFRS but had not been included in the original Australian equivalents to IFRS and remove many of the additional Australian disclosure requirements. The application will not effect the amounts recognised in the financial statements, with the exception of employee benefits. On adoption of the amendment, an assessment will be made as to whether there is an active market for corporate bonds in Australia and if so, a corporate bond rate should be used in the valuation of all employee benefits.

The application includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures will no longer be required.

(c) *AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Frontier Resources has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to Frontier Resources' financial instruments.

(d) *AASB-I 10 Interim Financial Reporting and Impairment*

AASB-I 10 is applicable to financial reporting periods commencing on or after 1 November 2006. Frontier Resources has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the Annual Report. Application of the interpretation will therefore have no impact on the financial statements.

(e) *AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. Frontier Resources has not adopted the standard early. AASB 8 may result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The timing of the adoption of the has not been determined. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123

Revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. This will not impact Frontier Resources because the current accounting policy is for all borrowing costs relating to qualifying assets to be capitalised.

(g) AASB Interpretation 12 Service Concession Arrangements; Revised UIG 4 Determining whether an Arrangement contains a Lease and AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12

AASB Interpretation 12 is effective for annual reporting periods commencing on or after 1 January 2008. It provides guidance on the accounting by operators for public-to private service concession arrangements under which private sector entities participate in the development, financing, operation and maintenance of infrastructure for the provision of public services, such as transport, water and energy facilities.

Revised UIG 4 is effective for annual reporting periods commencing on or after 1 January 2008. It has been amended to exclude public-to private service concession arrangements from its scope.

(x) Goods and Services Tax (GST)

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

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

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

NOTE 2 FINANCIAL RISK MANAGEMENT

Risk management has focused on limiting liabilities to a level which could be extinguished by sale of assets if necessary.

The Group's activities expose it to a variety of financial risks; market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group is engaged in mineral exploration and evaluation, and does not currently sell product and derives only limited revenue from interest earned and the manufacture of equipment.

Risk management is carried out by the board as a whole and no formal risk management policy has been adopted but is in the process of development.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

NOTE 2 FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the PNG kina.

(ii) Price risk

The Group is not currently exposed to equity securities or commodity price risk.

(iii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

The Group has no significant concentrations of credit risk. Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the lack of material revenue, the Group aims at maintaining flexibility in funding by maintaining adequate reserves of liquidity.

(d) Cash flow and fair value interest rate risk

From time to time the Group has significant interest bearing assets, but they are as a result of the timing of equity raising and capital expenditure rather than a reliance on interest income. The Group's income and operating cash flows are not expected to be materially exposed to changes in market interest rates in the future.

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no critical estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(b) Critical judgements in applying the entity's accounting policies

No judgements made in applying the entity's accounting policies are considered critical to the extent that they would be likely to cause a material adjustment within the next financial year.

| NOTE 4 | REVENUE | CONSOLIDATED | | PARENT ENTITY | |
|----------------------------|--------------------------|----------------|---------------|----------------|---------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| From continuing operations | | | | | |
| | Drilling contract income | 87,530 | 62,470 | 87,530 | 62,470 |
| Other revenue | | | | | |
| | Interest | 60,340 | 21,103 | 60,340 | 21,103 |
| | Total Revenue | 147,870 | 83,573 | 147,870 | 83,573 |

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| NOTE 5 | OTHER INCOME | CONSOLIDATED | | PARENT ENTITY | |
|--------|---|---------------|----------------|---------------|---------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| | Net gain on disposal of property, plant and equipment | 45,550 | 50,378 | 45,550 | 50,378 |
| | Discount on acquisition of other financial asset | - | 327,516 | - | - |
| | Total Other Income | 45,550 | 377,894 | 45,550 | 50,378 |

| NOTE 6 | INCOME TAX | CONSOLIDATED | | PARENT ENTITY | |
|--------|--|--------------|-------------|---------------|-------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| (a) | Numerical reconciliation of income tax expense to prima facie tax payable / (tax loss) | | | | |
| | Profit (loss) from continuing operations before income tax expense | (1,656,190) | (2,844,203) | (1,580,365) | (3,171,719) |
| | Tax at Australian tax rate of 30% (2006: 30%) and Papua New Guinea tax rate of 30% (2006: 30%) | (496,857) | (853,260) | (474,110) | (951,516) |
| | Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| | Sundry | 255 | - | 255 | - |
| | Share based payments expense | 44,548 | 40,545 | 44,548 | 40,545 |
| | Discount on acquisition of subsidiary | - | (98,256) | - | - |
| | Deferred tax asset not brought to account | 452,054 | 910,971 | 219,172 | 910,971 |
| | Income tax expense | - | - | - | - |

(b) Tax losses

| | | | | |
|---|------------|-----------|-----------|-----------|
| Unused tax losses for which no deferred tax asset has been recognised | 10,241,268 | 7,091,767 | 7,822,338 | 7,091,767 |
| Potential tax benefit @ 30% | 3,072,380 | 2,127,530 | 2,346,701 | 2,127,530 |

This benefit for tax losses will only be obtained if:

- assessable income of a nature and of an amount sufficient to enable the benefit to be realised is derived; and
- conditions for deductibility imposed by law continue to be complied with; and
- no changes in tax legislation adversely affect the ability in realising the benefit.

(c) Deferred tax liabilities/(assets) not recognised

Amounts recognised in profit or loss

| | | | | |
|---|------------------|------------------|----------------|------------------|
| Exploration and evaluation costs | 3,088,506 | 1,528,351 | 1,564,819 | 1,528,351 |
| Sundry | (93,044) | (185,020) | (945,204) | (208,289) |
| | 2,995,462 | 1,343,331 | 619,615 | 1,320,062 |
| Potential tax benefit @ 30% | 898,639 | 402,999 | 185,885 | 396,019 |
| Set-off deferred tax assets associated with carried forward losses not recognised | (898,639) | (402,999) | (185,885) | (396,019) |
| Net deferred tax liability | - | - | - | - |

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

| NOTE 7 | CURRENT ASSETS - CASH AND CASH EQUIVALENTS | CONSOLIDATED | | PARENT ENTITY | |
|--------------------------|--|--------------|---------|---------------|---------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| Cash at bank and on hand | | 4,153,726 | 300,195 | 4,049,781 | 300,152 |
| | | 4,153,726 | 300,195 | 4,049,781 | 300,152 |

(a) Cash at bank

The cash at bank earns floating interest at 6.1% (2006: 5% - 5.65%).

(b) Deposits at call

There are no deposits in 2007, there were no deposits in 2006.

(c) Subsidiary cash

Cash balances of \$103,945 (2006: \$43) of the Papua New Guinea subsidiaries are subject to exchange control restrictions and are not available for group use.

| NOTE 8 | CURRENT ASSETS - INVENTORIES/ WORK IN PROGRESS | CONSOLIDATED | | PARENT ENTITY | |
|-------------------------------|--|--------------|------|---------------|------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| Drill rigs under construction | | 483,242 | - | 483,242 | - |
| | | 483,242 | - | 483,242 | - |

| NOTE 9 | CURRENT ASSETS - TRADE AND OTHER RECEIVABLES | CONSOLIDATED | | PARENT ENTITY | |
|-------------------|--|--------------|---------|---------------|---------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| Trade receivables | | - | 68,717 | - | 68,717 |
| Other receivables | | 61,534 | 83,264 | 42,115 | 80,254 |
| Prepayments | | 127,716 | 81,963 | 127,716 | 81,963 |
| | | 189,250 | 233,945 | 169,831 | 230,934 |

| NOTE 10 | NON-CURRENT ASSETS - TRADE AND OTHER RECEIVABLES | CONSOLIDATED | | PARENT ENTITY | |
|-----------------------------------|--|--------------|--------|---------------|----------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| Deposits - tenements and premises | | 83,943 | 84,474 | 76,940 | 76,280 |
| Loans to subsidiaries | | - | - | 2,712,799 | 108,842 |
| Less provision for non-recovery | | - | - | (853,227) | (82,505) |
| | | 83,943 | 84,474 | 1,936,512 | 102,617 |

| NOTE 11 | NON CURRENT ASSETS - AVAILABLE-FOR-SALE FINANCIAL ASSETS | CONSOLIDATED | | PARENT ENTITY | |
|---|--|--------------|-------------|---------------|-------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| At beginning of year | | - | - | - | - |
| Adjustment on adoption of ASSB 132 and AASB 139 | | - | 1,260,225 | - | 1,260,225 |
| Revaluation loss transfer to equity | | - | (1,043,670) | - | (1,043,670) |
| Disposals (sale and redemption) | | - | (216,555) | - | (216,555) |
| At end of year | | - | - | - | - |

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

| NOTE 12 | NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS | CONSOLIDATED | | PARENT ENTITY | |
|---------|--|--------------|------|---------------|--------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| | Shares in subsidiaries (note 29) | - | - | 10,622 | 10,622 |
| | | - | - | 10,622 | 10,622 |

These financial assets are carried at cost.

| NOTE 13 | NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT | CONSOLIDATED | | PARENT ENTITY | |
|---------|---|--------------|-----------|---------------|-----------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| | Plant and Equipment | | | | |
| | Plant and equipment at cost | 1,252,420 | 949,560 | 832,322 | 576,781 |
| | Less accumulated depreciation | (441,707) | (267,069) | (320,684) | (267,069) |
| | | 810,713 | 682,491 | 511,638 | 309,712 |

Reconciliation

Reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the financial year are set out below:

| | | | | |
|--|-----------|-----------|----------|-----------|
| Carrying amount at the beginning of the financial year | 682,491 | 588,152 | 309,712 | 588,152 |
| Acquisition of subsidiary | - | 372,779 | - | - |
| Additions | 554,452 | 67,616 | 323,226 | 67,616 |
| Disposals | (218,135) | (204,167) | (31,137) | (204,167) |
| Depreciation expense | (104,861) | (84,241) | (63,566) | (84,241) |
| Depreciation capitalised to exploration and evaluation expenditure | (26,597) | (57,648) | (26,597) | (57,648) |
| Foreign currency exchange differences | (76,637) | - | - | - |
| Carrying amount at the end of the financial year | 810,713 | 682,491 | 511,638 | 309,712 |

| NOTE 14 | NON-CURRENT ASSETS - MINERAL EXPLORATION AND EVALUATION | CONSOLIDATED | | PARENT ENTITY | |
|---------|--|--------------|-------------|---------------|-------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| | Balance at the beginning of the financial year | 1,582,976 | 1,420,301 | 1,528,351 | 1,420,301 |
| | Expenditure capitalised* | 61,775 | 200,634 | 61,775 | 200,634 |
| | Employee benefits expenditure during the year | 729,475 | 658,887 | 127,574 | 640,822 |
| | Other expenditure during the year | 1,685,382 | 764,097 | 127,217 | 763,811 |
| | Amounts written off during the year | (1,007,268) | (1,515,568) | (280,098) | (1,497,217) |
| | Acquisition/(Disposal) of subsidiary | - | 54,625 | - | - |
| | Foreign currency exchange differences | 36,166 | - | - | - |
| | Balance at the end of the financial year | 3,088,506 | 1,582,976 | 1,564,819 | 1,528,351 |

* Capitalised expenditure is in relation to equipment used for exploration & evaluation. It includes depreciation of \$26,597, insurance of \$2,989, and repairs & maintenance of \$32,189 (2006: depreciation of \$57,648, insurance of \$4,368, and repairs & maintenance of \$138,618).

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

| NOTE 15 | CURRENT LIABILITIES - TRADE AND OTHER PAYABLES | CONSOLIDATED | | PARENT ENTITY | |
|---------|---|----------------|----------------|----------------|----------------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| | Trade creditors | 354,039 | 265,508 | 277,267 | 191,331 |
| | Deposit held pending sale of drill rig under construction | 175,000 | - | 175,000 | - |
| | Aggregate employee benefit and related on-costs liabilities | 65,057 | 36,981 | 49,036 | 36,981 |
| | | <u>594,096</u> | <u>302,489</u> | <u>501,303</u> | <u>228,312</u> |

| NOTE 16 | NON-CURRENT LIABILITIES - PROVISIONS | CONSOLIDATED | | PARENT ENTITY | |
|---------|--------------------------------------|--------------|------|---------------|------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| | Employee benefit Long Service Leave | 9,157 | - | 5,086 | - |

| Employee numbers | 2007 | 2006 | 2007 | 2006 |
|---|--------|------|--------|------|
| | Number | | Number | |
| Average number of employees during the financial year | 40 | 18 | 7 | 18 |

| NOTE 17 | CONTRIBUTED EQUITY | PARENT ENTITY | | PARENT ENTITY | |
|---------|--------------------|---------------|--------|---------------|------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | Shares | Shares | \$ | \$ |

(a) Paid Up Capital

| | | | | |
|--|-------------|------------|------------|-----------|
| Ordinary shares - fully paid of no par value | 132,732,912 | 71,170,055 | 14,584,590 | 7,139,214 |
|--|-------------|------------|------------|-----------|

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and in a poll each share is entitled to one vote.

(b) Movements in ordinary share capital of the Company:

| Date | Details | Notes | Number of Shares | Issue Price \$ | \$ |
|-------------|---|-------|-------------------|----------------|------------------|
| 01 Jul 2005 | Opening Balance | | 58,226,293 | | 5,993,871 |
| 25 Nov 2005 | Exercise of listed options | | 20,000 | 0.20 | 4,000 |
| 13 Dec 2005 | Rights Issue | | 12,209,477 | 0.09 | 1,098,853 |
| 15 May 2006 | Placement | | 714,285 | 0.14 | 100,000 |
| | Less transaction costs arising on issues | | | | (57,510) |
| 30 Jun 2006 | Sub-total | | <u>12,943,762</u> | | <u>1,145,343</u> |
| 30 Jun 2006 | Balance | | 71,170,055 | | 7,139,214 |
| 20 Jul 2006 | Exercise of unlisted options for shares | | | | |
| | Proceeds received | | 525,000 | 0.10 | 52,500 |
| | Transferred from share-based payments reserve | | | | 22,785 |
| 11 Aug 2006 | Exercise of unlisted options for shares | | | | |
| | Proceeds received | | 50,000 | 0.10 | 5,000 |
| | Transferred from share-based payments reserve | | | | 2,170 |
| 13 Sep 2006 | Placement | | 9,198,380 | 0.12 | 1,103,806 |
| 28 Nov 2006 | Exercise of listed options | | 10,000 | 0.20 | 2,000 |
| 14 Dec 2006 | Placement | | 7,125,173 | 0.12 | 855,021 |
| 04 Jan 2007 | Exercise of unlisted options for shares | | | | |
| | Proceeds received | | 90,000 | 0.10 | 9,000 |
| | Transferred from share-based payments reserve | | | | 3,906 |

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
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NOTE 17 CONTRIBUTED EQUITY (continued)

| Date | Details | Notes | Number of Shares | Issue Price \$ | \$ |
|-------------|---|-------|--------------------|----------------|-------------------|
| 05 Feb 2007 | Exercise of unlisted options for shares | | | | |
| | Proceeds received | | 100,000 | 0.10 | 10,000 |
| | Transferred from share-based payments reserve | | | | 4,340 |
| 04 Apr 2007 | Rights Issue dated 22 Feb 2007 | | 9,813,046 | 0.13 | 1,275,696 |
| 20 Apr 2007 | Rights Issue dated 22 Feb 2007 | | 4,350,000 | 0.13 | 565,500 |
| 23 Apr 2007 | Rights Issue dated 22 Feb 2007 | | 4,200,000 | 0.13 | 546,000 |
| 27 Apr 2007 | Rights Issue dated 22 Feb 2007 | | 750,000 | 0.13 | 97,500 |
| 29 May 2007 | Rights Issue dated 22 Feb 2007 | | 25,021,258 | 0.13 | 3,252,764 |
| 27 Jun 2007 | Exercise of unlisted options for shares | | | | |
| | Proceeds received | | 330,000 | 0.10 | 33,000 |
| | Transferred from share-based payments reserve | | | | 14,322 |
| | Less transaction costs arising on issues | | | | (409,934) |
| 30 Jun 2007 | Sub-total | | <u>61,562,857</u> | | <u>7,445,376</u> |
| 30 Jun 2007 | Balance | | <u>132,732,912</u> | | <u>14,584,590</u> |

(c) Options

| | No. of Options | |
|---|-------------------|-------------------|
| | 2007 | 2006 |
| The number of unissued ordinary shares relating to options not exercised at year end: | | |
| - Options exercisable on or before 30 November 2007 at 20 cents | 83,092,820 | 38,968,516 |
| - Non-transferable Options exercisable on or before 31 December 2007 at 20 cents | 1,600,000 | 1,600,000 |
| - Non-transferable Options exercisable on or before 01 December 2008 at 10 cents | 1,645,000 | 3,115,000 |
| - Non-transferable Options exercisable on or before 20 October 2011 at 14 cents | 1,630,000 | - |
| | <u>87,967,820</u> | <u>43,683,516</u> |

(d) Option Issues

During the financial year the Company made the following options issues:

| Date | Details | Number of Options | Exercise Price | Expiry Date |
|-------------|---|-------------------|----------------|-------------|
| 20 Oct 2006 | Non-transferable options issued under the terms of the Employee Option Plan | 1,630,000 | \$0.14 | 20 Oct 2011 |
| 04 Apr 2007 | Pursuant to Rights Issue dated 22 Feb 2007 | 9,813,046 | \$0.20 | 30 Nov 2007 |
| 20 Apr 2007 | Pursuant to Rights Issue dated 22 Feb 2007 | 4,350,000 | \$0.20 | 30 Nov 2007 |
| 23 Apr 2007 | Pursuant to Rights Issue dated 22 Feb 2007 | 4,200,000 | \$0.20 | 30 Nov 2007 |
| 27 Apr 2007 | Pursuant to Rights Issue dated 22 Feb 2007 | 750,000 | \$0.20 | 30 Nov 2007 |
| 29 May 2007 | Pursuant to Rights Issue dated 22 Feb 2007 | 25,021,258 | \$0.20 | 30 Nov 2007 |

(e) Option Exercise

During the financial year a total of 1,095,000 options were exercised.

(f) Option Expiry

No options expired during the financial year.

(g) Option Cancellation

375,000 non transferable options to acquire shares in the Company under the terms of the Frontier Resources Ltd Employee Option Plan were cancelled.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

| NOTE 18 | RESERVES AND ACCUMULATED LOSSES | CONSOLIDATED | | PARENT ENTITY | |
|---------|---|--------------|---------|---------------|---------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ |
| (a) | Reserves | | | | |
| | Share-based payments reserve | 236,119 | 135,150 | 236,119 | 135,150 |
| | Foreign currency translation reserve | (265,620) | - | - | - |
| | | (29,501) | 135,150 | 236,119 | 135,150 |
| | Movements | | | | |
| | <i>Share-based payments reserve</i> | | | | |
| | Balance 1 July | 135,150 | - | 135,150 | - |
| | Option expense | 148,493 | 135,150 | 148,493 | 135,150 |
| | Transfer to share capital (options exercised) | (47,524) | - | (47,524) | - |
| | Balance 30 June | 236,119 | 135,150 | 236,119 | 135,150 |

Movements

Foreign currency translation reserve

| | | | | |
|--|-----------|---|---|---|
| Balance 1 July | - | - | - | - |
| Currency translation differences arising during the year | (265,620) | - | - | - |
| Balance 30 June | (265,620) | - | - | - |

(b) **Accumulated losses**

Movements in retained profits were as follows:

| | | | | |
|--------------------------------|-------------|-------------|-------------|-------------|
| Balance 1 July | (4,692,772) | (1,848,569) | (5,020,288) | (1,848,569) |
| Net profit/(loss) for the year | (1,656,190) | (2,844,203) | (1,580,365) | (3,171,719) |
| Balance 30 June | (6,348,962) | (4,692,772) | (6,600,653) | (5,020,288) |

(c) **Nature and purpose of reserves**

(i) *Share-based payments reserve* The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) *Foreign Exchange translation reserve*

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
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NOTE 19 COMMITMENTS

| Exploration Expenditure Commitments | CONSOLIDATED | | PARENT ENTITY | |
|---|------------------|------------------|----------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| In order to maintain rights of tenure to exploration tenements the Company and the consolidated entity are required to perform exploration work to meet the minimum expenditure requirements as specified by various governments. | | | | |
| Outstanding obligations are not provided for in the accounts and are payable: | | | | |
| Not later than 1 year | 964,000 | 1,020,000 | 781,000 | 748,000 |
| Later than 1 year but not later than 2 years | 216,000 | 443,000 | 200,000 | 220,000 |
| | <u>1,180,000</u> | <u>1,463,000</u> | <u>981,000</u> | <u>968,000</u> |

NOTE 20 RELATED PARTY TRANSACTIONS

Directors and specified executives

Disclosures relating to Directors and specified executives are set out in note 22.

Wholly-owned group

The wholly-owned group and the consolidated entity consist of Frontier Resources Ltd and its wholly-owned subsidiaries, Frontier Gold (PNG) Ltd and Frontier Copper (PNG) Ltd. Ownership interests in these subsidiaries are set out in note 29.

Frontier Gold (PNG) Ltd and Frontier Copper (PNG) Ltd are incorporated in, and operate in, Papua New Guinea.

Transactions between Frontier Resources Ltd and other entities in the wholly-owned group during the year ended 30 June 2007 consisted of loan funds advanced to Frontier Gold (PNG) Ltd of \$16,862 (2006: \$23,269) and loan funds advanced to Frontier Copper (PNG) Ltd of \$2,587,094 (2006: \$26,337).

As at 30 June 2007 Frontier Gold (PNG) Ltd owed Frontier Resources Ltd \$99,367 (2006: \$82,505) and Frontier Copper (PNG) Ltd owed Frontier Resources Ltd \$2,613,432 (2006: \$26,337) as shown in note 10.

The above transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of principal on loans advanced to Frontier Gold (PNG) Ltd and Frontier Copper (PNG) Ltd and no interest has been charged.

Controlling entities

The ultimate parent entity in the wholly-owned group and the consolidated entity is Frontier Resources Ltd, a public, listed company, incorporated and resident in Australia and having its registered address and principal place of business at Level 1, 94 Bundall Rd, Bundall, Queensland.

Ownership interests in related parties

Interests held in the following classes of related parties are set out in the following notes:

- (a) subsidiaries - note 29.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

NOTE 21 BUSINESS COMBINATION

There were no acquisitions in the year ended 30 June 2007.

(a) Summary of acquisition in 2006

On 30 June 2006 the parent entity acquired 100% of the issued share capital of South Pacific Minerals (PNG) Ltd (subsequently renamed Frontier Copper (PNG) Ltd) from Tribune Resources Corporation (formerly known as South Pacific Minerals Corp.) In a separate transaction the Group's securities in Tribune Resources Corporation were sold to the CEO of Tribune Resources Corporation which resulted in a loss on sale.

The acquired business did not contribute any revenues or net profit to the Group for the period to 30 June 2006.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

| | \$ |
|---|----------------|
| Purchase consideration (refer to (b) below): | |
| Cash payable | 12 |
| Direct costs relating to the acquisition | 10,567 |
| Total purchase consideration | <u>10,579</u> |
| Fair value of net identifiable assets acquired (refer to (c) below) | <u>338,095</u> |
| Discount on Acquisition (refer to (c) below) | <u>327,516</u> |

(b) Purchase consideration

| | Consolidated | | Parent entity | |
|---|--------------|------|---------------|------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Outflow of cash to acquire subsidiary, net of cash acquired | | | | |
| Cash consideration payable | - | 12 | - | 12 |
| Less: Balances acquired | | | | |
| Cash | - | - | - | - |
| | - | - | - | - |
| Outflow of cash (paid 12 July 2006) | - | 12 | - | 12 |

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

| | Acquiree's carrying amount | Fair value |
|--|----------------------------|----------------|
| | \$ | \$ |
| Other receivables | 11,205 | 11,205 |
| Plant and equipment | 459,282 | 372,779 |
| Mineral exploration and evaluation expenditure | 1,593,908 | 54,625 |
| Other payables | (100,514) | (100,514) |
| Net identifiable assets acquired | <u>1,963,881</u> | <u>338,095</u> |

(Deferred tax assets have been recognised to the extent of deferred tax liabilities. No further deferred tax assets have been recognised with respect to carried forward tax losses due to uncertainty of realisation.)

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
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NOTE 22 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were Directors of Frontier Resources Ltd during the financial year:

Chairman - Non-Executive

R.D. McNeil

Executive Director

P.A. McNeil, *Managing Director*

Executive Director

G.J. Fish

Non-Executive Director

W.J. Staude

(b) Other key management personnel

The following persons also had authority for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| Name | Position | Employer |
|--------------|------------------------------|------------------------|
| R. Reid | Exploration Manager | Frontier Resources Ltd |
| T. Grigson | Logistics & Drilling Manager | Frontier Resources Ltd |
| J. McDougall | Exploration Geologist | Frontier Resources Ltd |

All of the above persons except T. Grigson and J. McDougall were also key management personnel during the year ended 30 June 2006.

(c) Key management personnel compensation

| | CONSOLIDATED | | PARENT ENTITY | |
|--|----------------|----------------|----------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Short-term employee benefits and consultancy | 595,507 | 297,304 | 595,507 | 297,304 |
| Post-employment benefits | 32,029 | 13,230 | 32,029 | 13,230 |
| Share-based payments | 31,885 | 17,360 | 31,885 | 17,360 |
| | <u>659,421</u> | <u>327,894</u> | <u>659,421</u> | <u>327,894</u> |

The Company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections (a) to (d) of the remuneration report on pages 24 to 28.

(d) Equity Instrument disclosures relating to key management personnel

(i) *Options provided as remuneration and shares issued on exercise of such options*

Details of options over ordinary shares in the Company provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section (d) of the remuneration report on pages 27 to 28.

(ii) *Option holdings*

The numbers of options over ordinary shares in the Company held during the financial year by each Director of Frontier Resources Ltd and the specified executive of the consolidated entity, including their personally-related entities, are set out below.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

NOTE 22 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

| 2007 Name | Balance at the start of the year | Granted during the year as remuneration | Exercised during the year | Other changes during the year** | Balance at the end of the year | Vested and exercisable at the end of the year |
|--|--|--|---------------------------------|--|--------------------------------------|--|
| <i>Directors of Frontier Resources Ltd</i> | | | | | | |
| R.D. McNeil | 2,437,000 | - | - | (100,000) | 2,337,000 | 2,337,000 |
| P.A. McNeil | 2,367,578 | - | - | 540,000 | 2,907,578 | 2,907,578 |
| G.J. Fish | 416,829 | - | - | 4,000 | 420,829 | 420,829 |
| W.J. Staude | 450,000 | - | - | - | 450,000 | 450,000 |
| <i>Specified executives of the consolidated entity</i> | | | | | | |
| R. Reid | 400,000 | 140,000 | (200,000) | - | 340,000 | 340,000 |
| T. Grigson | 400,000 | 140,000 | (50,000) | - | 490,000 | 490,000 |
| J. McDougall | 175,000 | 70,000 | (115,000) | - | 130,000 | 130,000 |

| 2006 Name | Balance at the start of the year | Granted during the year as remuneration | Exercised during the year | Other changes during the year** | Balance at the end of the year | Vested and exercisable at the end of the year |
|--|--|--|---------------------------------|--|--------------------------------------|--|
| <i>Directors of Frontier Resources Ltd</i> | | | | | | |
| R.D. McNeil | 1,851,000 | - | - | 586,000 | 2,437,000 | 2,437,000 |
| P.A. McNeil | 1,677,000 | - | - | 690,578 | 2,367,578 | 2,367,578 |
| G.J. Fish | 416,829 | - | - | - | 416,829 | 416,829 |
| W.J. Staude | 450,000 | - | - | - | 450,000 | 450,000 |
| <i>Specified executives of the consolidated entity</i> | | | | | | |
| R. Reid | 400,000 | 400,000 | - | (400,000) | 400,000 | 400,000 |

(iii) Share holdings

The numbers of shares in the Company held during the financial year by each Director of Frontier Resources Ltd and the specified executive of the consolidated entity, including their personally-related entities, are set out below.

| 2007 Name | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year** | Balance at the end of the year |
|--|-------------------------------------|---|------------------------------------|-----------------------------------|
| <i>Directors of Frontier Resources Ltd</i> | | | | |
| R.D. McNeil | 5,394,520 | - | (829,966) | 4,564,554 |
| P.A. McNeil | 8,489,047 | - | 700,000 | 9,189,047 |
| G.J. Fish | 20,829 | - | 4,000 | 25,071 |
| W.J. Staude | 50,000 | - | 50,000 | 100,000 |
| <i>Specified executives of the consolidated entity</i> | | | | |
| R. Reid | - | 200,000 | (100,000) | 100,000 |
| T. Grigson | - | 50,000 | (20,000) | 30,000 |
| J. McDougall | - | 115,000 | (65,000) | 50,000 |

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

NOTE 22 KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

| 2006 Name | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year** | Balance at the end of the year |
|--|-------------------------------------|---|------------------------------------|-----------------------------------|
| <i>Directors of Frontier Resources Ltd</i> | | | | |
| R.D. McNeil | 4,858,520 | - | 536,000 | 5,394,520 |
| P.A. McNeil | 7,909,819 | - | 579,228 | 8,489,047 |
| G.J. Fish | 20,829 | - | 20,829 | 20,829 |
| W.J. Staude | 50,000 | - | 50,000 | 50,000 |

Specified executives of the consolidated entity

| | | | | |
|---------|---|---|---|---|
| R. Reid | - | - | - | - |
|---------|---|---|---|---|

** Other changes during the year include other acquisitions and disposals for directors and their related parties.

(e) Loans to Directors and executives

No loans were made to Directors of Frontier Resources Ltd or the specified executives of the consolidated entity, including their personally-related entities (2006: Nil).

(f) Other transactions with Directors and specified executives

Directors of Frontier Resources Ltd

A Director, P.A. McNeil, has a Consulting arrangement in place for the provision of geological and management services to the consolidated entity.

Directors R.D. McNeil and P.A. McNeil are parties to a joint venture agreement for the Company to sole fund exploration on the related parties interest of 10% in two exploration tenements controlled by the Company.

Aggregate amounts of each of the above types of other transactions with Directors of Frontier Resources Ltd:

| | 2007 \$ | 2006 \$ |
|--------------------------------------|------------|------------|
| Amounts recognised as expense | | |
| Consulting fees: | | |
| Administration* | 11,940 | 15,568 |
| Exploration* | 166,666 | 108,649 |
| Exploration Expenditure (JV) | 3,814 | 48,535 |
| Amounts Capitalised | | |
| Consulting fees: | | |
| Exploration* | 80,813 | 26,087 |
| Exploration Expenditure (JV) | 3,647 | 44,251 |

*includes the provision of office and motor vehicle (see pages 26 and 27)

Specified executives of the consolidated entity

No other transactions occurred between the Company and specified executives except for the reimbursement at cost of expenditure incurred on behalf of the Company.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

NOTE 23 SHARE-BASED PAYMENTS

(a) Frontier Resources Ltd Employee Option Plan

The Directors of the Company may, upon the recommendation of the Managing Director, issue options to subscribe for shares in the Company to employees and consultants of the Company, a company related to the Company ("Related Company") and any joint venture in which the Company or a Related Company participates. However, no options are to be issued to Directors of the Company pursuant to the Plan.

- Each option entitles the holder to subscribe for one fully paid ordinary share in the capital of the Company.
- The options are exercisable at any time prior to 5.00 p.m. eastern standard time, on the first business day five (5) years after the date of issue of the options ("expiry date" or at an earlier date specified at the time the options are granted). Options may only be exercised in multiples of 5,000. Any options not exercised by the expiry date shall lapse.
- The exercise price of each option will be 110% of the average of the market closing price for Company ordinary shares over the 5 business days prior to the day on which options are issued (rounded up to the nearest full cent) or a greater price determined by the Directors. The amount calculated by that average is to be advised to the recipient at the time of issue of the options.
- Exercise of the options is effected by delivery of a Notice of Exercise to the registered office of the Company together with payment of the exercise price of the options. Shares will be issued pursuant to the exercise of the options not more than 14 days after receipt by the Company from the option holder of the Notice and the exercise price in respect of the options.
- Options may not be exercised if the effect of such exercise and subsequent allotment of shares would be to create a holding of less than a marketable parcel of ordinary shares unless the allottee is already a shareholder of the Company at the time of exercise.
- Options are not transferable. Application will not be made to ASX for their Official Quotation.
- All shares issued upon exercise of the options and payment of the exercise price will rank pari passu in all respects with the Company's then existing ordinary fully paid shares. The Company will apply for Official Quotation by ASX of all shares issued upon exercise of the options.
- There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the books closing date will be at least 7 business days after the issue is announced. This will give optionholders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue.
- In the event of any reconstruction, including a consolidation, sub-division, reduction or return of the issued capital of the Company prior to the expiry date, the number of options to which each holder is entitled or the exercise price of the options or both will be reconstructed as appropriate in a manner which is in accordance with the Listing Rules then applying and which will not result in any benefits being conferred on optionholders which are not conferred on shareholders, subject to such provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of shareholders approving the reconstruction of capital, but in all other respects the terms of exercise of the options will remain unchanged.
- If an optionholder under this Plan ceases to be substantially involved with the Company, the Directors, at their discretion may cancel all or part of the holder's options obtained under this plan after giving the holder 60 days notice of their intention to do so.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
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NOTE 23 SHARE-BASED PAYMENTS (continued)

Set out below are summaries of options granted under the plan.

| Grant Date | Expiry Date | Exercise Price | Balance at start of the year Number | Issued during the year Number | Exercised during the year Number | Lapsed during the year Number | Balance at end of the year Number |
|--|-------------|----------------|-------------------------------------|-------------------------------|----------------------------------|-------------------------------|-----------------------------------|
| Consolidated and parent entity - 2007 | | | | | | | |
| 03 Dec 2003 | 31 Dec 2007 | \$0.20 | 1,600,000 | - | - | - | 1,600,000 |
| 16 Mar 2006 | 01 Dec 2008 | \$0.10 | 3,115,000 | - | (1,095,000) | (375,000) | 1,645,000 |
| 20 Oct 2006 | 20 Oct 2011 | \$0.14 | - | 1,630,000 | - | - | 1,630,000 |
| | | | <u>4,715,000</u> | <u>1,630,000</u> | <u>(1,095,000)</u> | <u>(375,000)</u> | <u>4,875,000</u> |
| Weighted average exercise price | | | \$0.134 | \$0.14 | \$0.10 | \$0.10 | \$0.146 |

Options granted at the end of the year were all vested.

Consolidated and parent entity - 2006

| | | | | | | | |
|---------------------------------|-------------|--------|------------------|------------------|----------|--------------------|------------------|
| 07 Nov 2003 | 31 Dec 2007 | \$0.20 | 1,070,000 | - | - | (1,070,000) | - |
| 03 Dec 2003 | 31 Dec 2007 | \$0.20 | 1,600,000 | - | - | - | 1,600,000 |
| 05 Feb 2004 | 31 Dec 2007 | \$0.20 | 128,500 | - | - | (128,500) | - |
| 28 Sep 2004 | 31 Dec 2007 | \$0.20 | 681,500 | - | - | (681,500) | - |
| 16 Mar 2006 | 01 Dec 2008 | \$0.10 | - | 3,115,000 | - | - | 3,115,000 |
| | | | <u>3,480,000</u> | <u>3,115,000</u> | <u>-</u> | <u>(1,880,000)</u> | <u>4,715,000</u> |
| Weighted average exercise price | | | \$0.20 | \$0.10 | - | \$0.20 | \$0.134 |

Options granted at the end of the year were all vested.

Options exercised during the financial year and number of shares issued to employees on the exercise of options.

| Exercise date | Fair value of shares at issue date | 2007 Number | 2006 Number |
|---------------|------------------------------------|------------------|-------------|
| 20 Jul 2006 | \$0.180 | 525,000 | - |
| 11 Aug 2006 | \$0.165 | 50,000 | - |
| 04 Jan 2007 | \$0.135 | 90,000 | - |
| 05 Feb 2007 | \$0.120 | 100,000 | - |
| 27 Jun 2007 | \$0.175 | 330,000 | - |
| | | <u>1,095,000</u> | <u>-</u> |

The fair value of shares issued on the exercise of options is the weighted average price at which the Company's shares were traded on the Australian Securities Exchange on the day prior to the exercise of the options.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
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NOTE 23 SHARE-BASED PAYMENTS (continued)

| | 2007 \$ | 2006 \$ |
|--|------------|------------|
| Aggregate proceeds received from employees on the exercise of options and recognised as issued capital | 109,500 | - |
| Fair value of shares issued to employees on the exercise of options as at their issue date | 184,650 | - |

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

The model inputs for options granted during the year ended 30 June 2007 included:

- (a) options are granted for no consideration
- (b) exercise price: \$0.14 (2006: \$0.10)
- (c) grant date: 20 October 2006 (2006: 16 March 2006)
- (d) expiry date: 20 October 2011 (2006: 1 December 2008)
- (e) share price at grant date: \$0.12 (2006: \$0.077)
- (f) expected price volatility of the Company's shares: 205% (2006: 94%)
- (g) expected dividend yield: 0% (2006: 0%)
- (h) risk-free interest rate: 5.97% (2006: 5.4%)

(b) Frontier Resources Ltd Directors' Options

The terms and conditions for these options are set out below.

Each option entitles the holder to subscribe for one fully paid ordinary share in the capital of the Company.

The options are exercisable at any time from 1 January 2005 and prior to 5.00pm eastern standard time, 31 December 2007 ("expiry date"). Options may only be exercised in multiples of 50,000. Any options not exercised by the expiry date shall lapse.

The exercise price of each option will be 20 cents.

Exercise of the options is effected by delivery of a Notice of Exercise to the registered office of the Company together with payment of the exercise price of the options. Shares will be issued pursuant to the exercise of the options not more than 14 days after receipt by the Company from the optionholder of the Notice and the exercise price in respect of the options.

Options may not be exercised if the effect of such exercise and subsequent allotment of shares would be to create a holding of less than a marketable parcel of ordinary shares unless the allottee is already a shareholder of the Company at the time of exercise.

Options are not transferable. Application will not be made to Australian Securities Exchange Limited ("ASX") for their Official Quotation.

All shares issued upon exercise of the options and payment of the exercise price will rank pari passu in all respects with the Company's then existing ordinary fully paid shares. The Company will apply for Official Quotation by ASX Limited of all shares issued upon exercise of the options.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
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 FOR THE YEAR ENDED 30 JUNE 2007

NOTE 23 SHARE-BASED PAYMENTS (continued)

There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the books closing date will be at least 7 business days after the issue is announced. This will give optionholders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue.

In the event of any reconstruction, including a consolidation, sub-division, reduction or return of the issued capital of the Company prior to the expiry date, the number of options to which each holder is entitled or the exercise price of the options or both will be reconstructed as appropriate in a manner which is in accordance with the Listing Rules and will not result in any benefits being conferred on optionholders which are not conferred on shareholders, subject to such provisions with respect to the rounding of entitlements as may be sanctioned by the meeting of shareholders approving the reconstruction of capital, but in all other respects the terms of exercise of the options will remain unchanged.

The options can be issued to a Director or his nominee.

Set out below are summaries of options granted to Directors.

| Grant Date | Expiry Date | Exercise Price | Balance at start of the year Number | Issued during the year Number | Exercised during the year Number | Lapsed during the year Number | Balance at end of the year Number |
|--|-------------|----------------|--|----------------------------------|-------------------------------------|----------------------------------|--------------------------------------|
| Consolidated and parent entity - 2007 | | | | | | | |
| 31 Dec 2003 | 31 Dec 2007 | \$0.20 | 1,600,000 | - | - | - | 1,600,000 |
| | | | 1,600,000 | - | - | - | 1,600,000 |

Options granted at the end of the year were all vested.

Consolidated and parent entity - 2006

| | | | | | | | |
|-------------|-------------|--------|-----------|---|---|---|-----------|
| 31 Dec 2003 | 31 Dec 2007 | \$0.20 | 1,600,000 | - | - | - | 1,600,000 |
| | | | 1,600,000 | - | - | - | 1,600,000 |

Options granted at the end of the year were all vested.

There were no directors' options exercised during the financial years ended 30 June 2006 and 30 June 2007.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

| | Consolidated | | Parent Entity | |
|---|--------------|------------|---------------|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Options issued under employee option plan | 148,493 | 135,150 | 148,493 | 135,150 |

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

NOTE 24 SEGMENT INFORMATION

Primary reporting - geographical based on the location of assets

| | | Geographical Segments | | |
|--|------|------------------------|-----------------|--------------------|
| | | Papua New Guinea \$ | Australia \$ | Consolidated \$ |
| Revenue from continuing operations | 2007 | - | 147,870 | 147,870 |
| | 2006 | - | 83,573 | 83,573 |
| Other income | 2007 | - | 45,550 | 45,550 |
| | 2006 | - | 377,894 | 377,894 |
| Segment results | 2007 | (75,825) | (1,580,365) | (1,656,190) |
| | 2006 | (23,269) | (2,820,934) | (2,844,203) |
| Segment assets | 2007 | 82,936 | 8,726,444 | 8,809,380 |
| | 2006 | 438,652 | 2,445,429 | 2,884,081 |
| Segment liabilities | 2007 | 96,864 | 506,389 | 603,253 |
| | 2006 | 100,514 | 201,975 | 302,489 |
| Segment depreciation | 2007 | 67,892 | 63,566 | 131,458 |
| | 2006 | - | 141,888 | 141,888 |
| Segment write down of exploration assets | 2007 | 727,170 | 280,098 | 1,007,268 |
| | 2006 | 18,351 | 1,497,217 | 1,515,568 |

The consolidated entity operates predominantly in the mining industry. This comprises exploration and evaluation of gold, silver and base metals projects. Inter-segment transactions are priced at cost to the consolidated entity.

NOTE 25 EARNINGS PER SHARE ("EPS")

| | Consolidated | | Parent Entity | |
|--|--------------|-------------|---------------|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Basic and diluted earnings/(loss) per share (cents per share). | (1.8c) | (4.4c) | | |
| The profit/(loss) used in calculating basic earnings per share is the loss attributable to members of Frontier Resources Ltd | (1,656,190) | (2,844,203) | | |
| Weighted average number of shares used in the calculation of the basic EPS. | 90,008,522 | 64,984,877 | | |
| The number of potential ordinary shares relating to options not exercised at the end of the year. These potential ordinary shares are anti-dilutive in both years and so have not been included in the EPS calculations. | 87,967,820 | 43,683,516 | | |

NOTE 26 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Share issues: On 13 July 2007 the Company issued 198,461 fully paid ordinary shares pursuant to the exercise of 90,000 employee options at \$0.10 each and 70,000 employee options at \$0.14, and 38,461 listed options at \$0.20 each, raising \$26,492 before costs.

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

NOTE 27 REMUNERATION OF AUDITORS

CONSOLIDATED

2007

2006

\$

\$

During the year the following fees were paid or payable for services provided by the auditors of the parent entity and its controlled entities, their related practices and non-related audit firms.

Assurance services

1. Audit Services

| | | |
|--|---------------|---------------|
| PricewaterhouseCoopers Australian firm: | 32,641 | 20,840 |
| Sinton Spence PNG firm: | 13,214 | 332 |
| <i>Total remuneration for audit services</i> | <u>45,855</u> | <u>21,172</u> |

2. Other Assurance Services

| | | |
|--|---------------|--------------|
| PricewaterhouseCoopers Australian firm: | 8,761 | 2,000 |
| Sinton Spence PNG firm: | 1,264 | - |
| <i>Total remuneration for other assurance services</i> | <u>10,025</u> | <u>2,000</u> |

All Assurance Services

| | | |
|--|---------------|---------------|
| PricewaterhouseCoopers Australian firm: | 41,402 | 22,840 |
| Sinton Spence PNG firm: | 14,477 | 332 |
| <i>Total remuneration for other assurance services</i> | <u>55,879</u> | <u>23,172</u> |

Taxation Services

| | | |
|---|---------------|--------------|
| PricewaterhouseCoopers Australian firm: | 6,417 | 5,100 |
| Sinton Spence PNG firm: | 4,405 | 111 |
| <i>Total remuneration for taxation services</i> | <u>10,822</u> | <u>5,211</u> |

FRONTIER RESOURCES LTD & ITS CONTROLLED ENTITIES
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2007

| NOTE 28 | RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES | CONSOLIDATED | | PARENT ENTITY | |
|---------|--|--------------------|--------------------|------------------|--------------------|
| | | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| (a) | Reconciliation of operating loss after income tax to the net cash flow from operations: | | | | |
| | Operating profit / (loss) after income tax | (1,656,190) | (2,844,203) | (1,580,365) | (3,171,719) |
| | Adjustment for non cash items: | | | | |
| | - Exploration and evaluation costs written off (relates to investing activities) | 1,007,268 | 1,515,568 | 280,098 | 1,497,217 |
| | - Loss on disposal of available-for-sale financial assets | - | 1,043,670 | - | 1,043,670 |
| | - Gain on disposal of fixed assets | (18,792) | (50,378) | (19,318) | (50,378) |
| | - Gain on disposal of drill rigs | (19,807) | - | (19,807) | - |
| | - Depreciation and amortisation expense | 131,458 | 141,888 | 90,163 | 141,888 |
| | - Non-cash employee benefits expense - share-based payments | 148,493 | 135,150 | 148,493 | 135,150 |
| | - Provision for non-recovery of loan | - | - | 770,723 | 23,269 |
| | - Discount on acquisition of subsidiary | - | (327,516) | - | - |
| | - Net exchange differences | (187,793) | - | - | - |
| | Change in operating assets and liabilities: | | | | |
| | - Accounts payable and provisions | 192,951 | 52,484 | 249,048 | 52,484 |
| | - Accounts receivable and prepayments | 64,315 | 409,686 | 65,009 | 409,686 |
| | - Inventory/WIP | (463,435) | - | (463,435) | - |
| | Net cash inflow / (outflow) from operating activities | (801,532) | 76,349 | (479,391) | 81,267 |
| (b) | Reconciliation of the exploration and evaluation expenditure: | | | | |
| | Movement in Balance Sheet for the year | | | | |
| | - Exploration and evaluation | (1,505,530) | (162,675) | (36,468) | (108,050) |
| | Adjustment for Non Cash Items: | | | | |
| | - Exploration costs written off | (1,007,268) | (1,515,568) | (280,098) | (1,497,217) |
| | - Acquisition/(disposal) of subsidiary - exploration amount | - | 57,636 | - | - |
| | Change in assets and liabilities: | | | | |
| | - Accounts receivable and provisions | (19,620) | (2,597) | (3,907) | 414 |
| | - Accounts payable and provisions | 82,596 | (1,116) | (67,453) | (1,116) |
| | Net exploration and evaluation expenditure cashflow | (2,449,822) | (1,624,320) | (387,926) | (1,605,969) |

| NOTE 29 | SUBSIDIARIES | Country of Incorporation | Class of Shares | Equity Holding | |
|---------------------------|------------------|--------------------------|-----------------|----------------|-----------|
| | | | | 2007 % | 2006 % |
| Name of Entity | | | | | |
| Frontier Gold (PNG) Ltd | Papua New Guinea | Ordinary | 100 | 100 | |
| Frontier Copper (PNG) Ltd | Papua New Guinea | Ordinary | 100 | 100 | |

NOTE 30 NON-CASH FINANCING AND INVESTING ACTIVITIES

There were no such activities during the year (2006: Nil).

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 39 to 70 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 24 to 29 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



P.A. McNeil
Managing Director

Bundall, Queensland
17 September 2007

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF FRONTIER RESOURCES LTD

Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Frontier Resources Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Frontier Resources Limited and the Frontier Resources Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosure*, under the heading "remuneration report" in the directors' report and not in the financial report. These remuneration disclosures are identified in the directors' report as being subject to audit. The remuneration report contains other information for which an auditor's opinion is not required. As such these disclosures have been identified as being unaudited.

Directors' responsibility for the financial report and the AASB 124 Remunerations disclosures contained in the directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Liability limited by a scheme approved under Professional Standards Legislation

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF FRONTIER RESOURCES LTD

Independence

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

Auditor's opinion on the financial report

In our opinion:

- (a) the financial report of Frontier Resources Limited is in accordance with the *Corporation Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1 (a).

Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures contained in the directors' report and identified as being subject to audit, comply with Accounting Standard AASB 124.



PricewaterhouseCoopers



Stephen R Snook
Partner

Brisbane
18 September 2007

MINERAL RESOURCES STATEMENT

The Inferred Resource tonnage for the Kodu porphyry copper/gold/molybdenum Deposit was increased 88% during the year to 203 million tonnes grading 0.47% copper equivalent* (0.28% copper, 0.32g/t gold, 1.8g/t silver and 73ppm molybdenum (from 108 million tonnes grading 0.52% copper equivalent* (both using a 0.2% copper equivalent* cut-off). The recent estimation represents a 139% total tonnage increase from all of Frontier's exploration efforts.

The current resource equates to 570,000 tonnes of copper + 65 tonnes of gold + 15,000 tonnes of molybdenite, for 945,000 tonnes of copper equivalent (June 2007).

This upgraded Inferred Resource is considered technically superior to the previous estimate (dated August 2006), as additional drilling data has been incorporated.

The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Peter McNeil, who is a Member of the Australian Institute of Geoscientists.

Peter McNeil is employed by Exploration & Management Consultants Pty Ltd and consults to Frontier Resources Ltd in the capacity of Managing Director.

Peter McNeil has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Peter McNeil consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

SCHEDULE OF TENEMENTS

| EL No. | Tenement | Ownership |
|---|-------------------------------------|--|
| Frontier Copper (PNG) Ltd 100% owned PNG subsidiary | | |
| EL 1348 | Mt Bini (366km ²) | 100% Frontier Resources |
| EL 1345 | Mt Andewa (243km ²) | 100% Frontier Resources |
| EL 1351 | Likuruanga (195km ²) | 100% Frontier Resources |
| Frontier Resources Ltd Tasmanian EL's | | |
| EL 21/1999 | Wanderer River (44km ²) | 90% Frontier Resources/10% McNeil Associates/EMC |
| EL 20/1996 | Elliott Bay (11km ²) | 90% Frontier Resources/10% McNeil Associates/EMC |
| EL 2/1992 | Lisle (12km ²) | 100% Frontier Resources |
| RL 3/2005 | Narrawa Creek (3km ²) | 100% Frontier Resources |
| RL 4/2005 | River Lea (4km ²) | 100% Frontier Resources |
| EL 19/2006 | Innes Peak (65km ²) | 100% Frontier Resources |
| EL 20/2006 | Lewis (72km ²) | 100% Frontier Resources |

SHAREHOLDER INFORMATION

Information required by Australian Securities Exchange Limited and not shown elsewhere in this report is as follows:-

STATEMENT OF QUOTED SECURITIES AS AT 12 SEPTEMBER 2007

| a) Distribution of Shareholders | Number of Shareholders | Number of Optionholders |
|--|------------------------|-------------------------|
| Size of Holding | | |
| 1 - 1,000 | 944 | 126 |
| 1,001 - 5,000 | 634 | 189 |
| 5,001 - 10,000 | 405 | 161 |
| 10,001 - 100,000 | 1,088 | 367 |
| 100,001 and over | 202 | 142 |
| | <u>3,273</u> | <u>985</u> |
| b) Number of holders of less than marketable parcels | <u>1,442</u> | <u>686</u> |
| c) Percentage holding of 20 largest holders | <u>38.51%</u> | <u>41.32%</u> |
| d) There are no substantial shareholders listed in the Company's register as at 12 September 2007. | | |
| e) Twenty largest shareholders/optionholders (as at 12 September 2007) | | |

| Shareholder | | |
|--|-------------------|--------------------|
| Name | Quantity | % of Total Holding |
| ANZ Nominees Ltd <Cash Income A/C> | 20,487,047 | 15.41 |
| Macmin Silver Ltd | 5,425,000 | 4.08 |
| Exploration & Management Consultants Pty Ltd <Malalo Super Fund A/C> | 4,766,473 | 3.59 |
| McNeil Associates Pty Ltd <McNeil Super Fund A/C> | 4,258,461 | 3.20 |
| Paige Simone McNeil | 1,834,265 | 1.38 |
| James David Thorn & Suporn Limmanee | 1,790,214 | 1.35 |
| Mr Robert Cameron Galbraith | 1,454,050 | 1.09 |
| Bontown Pty Ltd | 1,304,058 | 0.98 |
| Peter Andrew McNeil | 1,270,139 | 0.96 |
| Exploration & Management Consultants Pty Ltd | 1,245,618 | 0.94 |
| National Nominees Limited | 1,167,690 | 0.88 |
| Mrs Karen Jayne Disney | 900,000 | 0.68 |
| Mr Alastair Archie Smith | 850,000 | 0.64 |
| HSBC Custody Nominees (Australia) Ltd | 751,940 | 0.57 |
| Restiff Pty Limited <Barnett & Assoc S/F A/C> | 750,001 | 0.56 |
| Mr Neil James Charman | 745,593 | 0.56 |
| Zoric & Co Pty Ltd | 565,000 | 0.43 |
| Mr Nick Konstantopoulos & Ms Sylvia Massara <Sogni D'Oro Super Fund A/C> | 560,817 | 0.42 |
| Mr Gang Zhao | 550,000 | 0.41 |
| Mr Richard John Hawkins | 500,000 | 0.38 |
| TOTAL | 51,176,366 | 38.51 |

| Optionholder (expiry date 30 November 2007) | | |
|---|-------------------|--------------------|
| Name | Quantity | % of Total Holding |
| Mr Michael David James | 4,000,000 | 4.82 |
| Zoric & Co Pty Ltd | 3,948,000 | 4.75 |
| Macmin Silver Ltd | 3,780,343 | 4.55 |
| ANZ Nominees Limited <Cash Income A/C> | 2,561,607 | 3.08 |
| National Nominees Limited | 1,915,766 | 2.31 |
| Mr Justin Peter Basham & Mrs Diana Rose Basham | 1,747,904 | 2.11 |
| Mr Rudolf Jaschinski | 1,550,000 | 1.87 |
| Mr Peter Andrew Dowell | 1,500,000 | 1.81 |
| Mr Stephen Spurrier | 1,470,000 | 1.77 |
| Kaw Consulting Services Pty Ltd | 1,309,730 | 1.58 |
| Paige Simone McNeil | 1,217,639 | 1.47 |
| McNeil Associates Pty Ltd <McNeil Super Fund A/C> | 1,161,000 | 1.40 |
| Mr Andrew David Macknamara | 1,100,000 | 1.32 |
| Toro De Plata Pty Ltd | 1,000,000 | 1.20 |
| Mr Simon David Steininger | 989,406 | 1.19 |
| Otto Enterprises Pty Ltd | 970,000 | 1.17 |
| Mr Robert Cameron Galbraith | 1,403,333 | 1.69 |
| Mr Colin Glanville Young | 935,500 | 1.13 |
| Ms Bei Yan | 900,000 | 1.08 |
| Mr Juan Jose Varela & Mrs Jennifer Kay Varela | 850,000 | 1.02 |
| TOTAL | 34,310,228 | 41.32 |

f) Voting Rights

Registered holders of ordinary shares in the capital of the Company may attend and vote at general meetings of the Company in person or by proxy and may exercise one vote for each share held. Every person present at a general meeting as an ordinary shareholder shall have one vote on a show of hands.

STATEMENT OF UNQUOTED SECURITIES (OPTIONS) AS AT 12 SEPTEMBER 2007

There are on issue the following unquoted securities:-

| | Quantity |
|--|-----------|
| Non transferable options expiring 31 December 2007 exercisable at 20 cents | 1,600,000 |
| Non transferable options expiring 01 December 2008 exercisable at 10 cents | 1,555,000 |
| Non transferable options expiring 20 October 2011 exercisable at 14 cents | 1,560,000 |

Contact

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