Frontier Rare Earths Limited
(formerly Frontier Minerals Limited)

Consolidated Financial Statements
for the year ended 31 December 2010

Contents

Independent Auditors' Report

To the Members of Frontier Rare Earths Limited (Formerly Frontier Minerals Limited)

We have audited the accompanying consolidated financial statements of Frontier Rare Earths Limited (formerly Frontier Minerals Limited) and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 consolidated financial statements 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 management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Frontier Rare Earths Limited and its subsidiaries as of 31 December 2010 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

"Grant Thornton Limited"

Grant Thornton Limited
Chartered Accountants
St Peter Port, Guernsey, Channel Islands
Date: 31 March 2011

To the Directors of Frontier Rare Earths Limited (Formerly Frontier Minerals Limited) In Respect of Compatibility with Canadian GAAS

In accordance with the requirement contained in National Instrument 52-107 we report below on the compatibility of Canadian Generally Accepted Auditing Standards ("Canadian GAAS") and International Standards on Auditing.

We conducted our audit for the year ended 31 December 2010 in accordance with International Standards on Auditing. There are no material differences in the form or content of our audit report as compared to an auditors' report prepared in accordance with Canadian GAAS.

"Grant Thornton Limited"

Grant Thornton Limited
Chartered Accountants
St Peter Port, Guernsey, Channel Islands
Date: 31 March 2011

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010

	Notes	2010 $000	2009 $000
Revenue	3	2	162
Employee costs	6	1,069	37
Depreciation	12	4	6
Other operating expenses		1,016	596
Loss on loan conversion	18	1,940	-
Foreign exchange gains		(1,059)	(254)
Operating loss	5	(2,968)	(223)
Finance expenses	8	(8)	(69)
Finance income	8	63	-
Loss before tax		(2,913)	(292)
Tax income	9	39	60
Net Loss		(2,874)	(232)
Other Comprehensive income			
- Cumulative translation adjustment (net of tax)		(17)	(21)
Loss after tax for the year attributable to equity shareholders		(2,891)	(253)
Non-controlling interests		-	-
Losses attributable to shareholders		(2,891)	(253)
Basic loss per share (in cents)	10	(4.00)	(0.36)
Diluted loss per share (in cents)	10	(4.00)	(0.36)

The notes on pages 6 to 20 form part of these financial statements.

Consolidated Statement of Financial Position
As at 31 December 2010

Assets	Notes	2010 $000	2009 $000
Non-current assets			
Intangible mining assets	11	3,361	1,510
Property, plant and equipment	12	313	113
Deferred tax assets	19	119	68
Assets held for distribution	21	35	-
Other assets		237	61
		4,065	1,752
Current assets			
Trade and other receivables	14	60	39
Cash and cash equivalents	15	57,049	11
Other assets		21	-
		57,130	50
Total assets		61,195	1,802
Equity and liabilities			
Equity			
Share capital	16	90	-
Share premium		59,879	-
Share based payments reserve		2,139	-
Translation reserve		(30)	(13)
Deficit		(3,085)	(176)
Total interest attributable to equity shareholders		58,993	(189)
Non-controlling interest		(1)	(1)
Total equity		58,992	(190)
Current liabilities			
Trade and other payables	21	2,203	267
		2,203	267
Non-Current liabilities			
Shareholder, related party and other loans	18	-	1,725
Total liabilities		2,203	1,992
Total equity and liabilities		61,195	1,802

The notes on pages 6 to 20 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 31 March 2011

"James Kenny"

James Kenny (Chief Executive Officer)

"Paul McGuinness"

Paul McGuinness (Chief Financial Officer)

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share Capital $000	Share Premium $000	Share Based Payments Reserve $000	Deficit $000	Translation Reserve $000	Equity attributable to Company shareholders $000	Non-Controlling Interests $000	Total Equity $000
At 1 January 2009	-	-	-	56	8	64	(1)	63
Loss for the year	-	-	-	(232)	(21)	(253)	-	(253)
At 31 December 2009	-	-	-	(176)	(13)	(189)	(1)	(190)
At 1 January 2010	-	-	-	(176)	(13)	(189)	(1)	(190)
Loss for the year	-	-	-	(2,874)	(17)	(2,891)	-	(2,891)
Proposed distribution	-	-	-	(35)	-	(35)	-	(35)
Issue of share capital	90	65,807	-	-	-	65,897	-	65,897
Share based payments	-	-	2,139	-	-	2,139		2,139
Equity issue costs	-	(5,928)	-	-	-	(5,928)	-	(5,928)
At 31 December 2010	90	59,879	2,139	(3,085)	(30)	58,993	(1)	58,992

The notes on pages 6 to 20 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 $000	2009 $000
Cash flow from operating activities			
Loss before interest and tax		(2,968)	(223)
Adjustments for:			
Day one loss	3	-	306
Depreciation and impairment		26	21
Effect of foreign exchange movements		(1,059)	(254)
Effect of loan conversion discount		1,940	-
Effect of share based payments		724	-
Net cash flow from operating activities before changes			
in working capital		(1,337)	(150)
Increase in trade and other receivables		(45)	(37)
Increase in trade and other payables		1,901	241
Net cash flow generated from operating activities		519	54
Investing activities			
Acquisition of property, plant and equipment		(213)	(1)
Additions to intangible assets		(805)	(611)
Deposit paid on the acquisition of land		(205)	-
Net cash flow used in investing activities		(1,223)	(612)
Financing activities			
Net proceeds from the issuance of equity		58,573	-
Proceeds from / (Repayment of) borrowings		(1,595)	566
Interest received		64	-
Interest paid and other finance charges		(8)	(7)
Net cash flow from financing activities		57,034	559
Net increase in cash and cash equivalents in the year		56,330	1
Cash and cash equivalents at the beginning of the year		11	7
Exchange gains or losses		708	3
Cash and cash equivalents at the end of the year	15	57,049	11

The notes on pages 6 to 20 form part of these financial statements.

Notes forming part of the Consolidated Financial Statements

For the year ended 31 December 2010

1. Basis of preparation and accounting policies

Frontier Rare Earths Limited and its subsidiaries (the "Group") are engaged in the exploration for and development of rare earth element ("REE") projects in Southern Africa. The Group is headed by a British Virgin Islands incorporated company with its registered office being PO Box 3483, Road Town, Tortola. The Group's place of effective management is 9 Allée Scheffer, Luxembourg- 2520, Luxembourg. On 14 June 2010 the Company changed its name from Frontier Minerals Limited to Frontier Rare Earths Limited.

Statement of compliance
These consolidated financial statements of Frontier Rare Earths Limited have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

Adoption of New Standards effective 1 January 2010.

The Group has adopted the following revisions and amendments to IFRS issued by the IASB, which are relevant to and effective for the annual period beginning 1 January 2010:

- IFRS 3 Business Combinations (Revised 2008)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008)
- Improvements to IFRSs 2009

There are no significant effects on the presentation, recognition or measurement of items in the Groups financial statements in respect of current, prior or future periods arising from the first time adoptions of these new requirements.

Standards, amendments and interpretations to published standards not yet effective.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but certain of which are not yet effective, and have not been adopted early by the Group. The standards below are expected to be relevant for the Group's financial statements:

- IFRS 9 Financial Instruments (effective from 1 January 2013)
- Annual Improvements 2010 (effective from 1 July 2010 and later)

The Directors anticipate that the adoption of these standards and interpretations will not have a material impact on the Group's financial statements in the period of initial adoption. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

Comparative Information
Balances as of and for the year ended 31 December 2009 are shown as comparatives for the equivalent 2010 balances.

Going Concern
The Group's ability to continue as a going concern is dependent on its ability to fund its exploration and development programs, and to manage and generate positive cash flows from operations in the future. These financial statements have been prepared on a going concern basis, which contemplates the realisation of the assets and settlement of liabilities in the normal course of business. In common with many exploration companies, the Group raises finance for its exploration and development activities, this funding may take the form of debt, equity or other hybrid financial instruments. Following an initial public offering on the Toronto Stock Exchange during 2010 the Group is now fully funded to continue its proposed exploration and development program through 2012.

Basis of consolidation
The consolidated financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. All subsidiaries have a reporting date of 31 December.

The consolidated financial statements present the results of the Group as if it formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group. Profits and losses attributable to the non-controlling interest are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from Company shareholders' equity. Losses attributable to the non-controlling interests are not included as part of shareholders' equity unless there is a binding agreement whereby the minority is obliged to make good its share of the losses incurred.

Intangible mining assets
Exploration and evaluation costs related to an area of interest are carried forward as an intangible asset in the statement of financial position where the rights of tenure of an area are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest, or alternatively by its sale. Where these conditions are not met, such costs are written off as incurred. This expenditure is carried at cost less impairment. Intangible mining assets are assumed to have an indefinite life until such time as production from the associated mining asset commences at which time the definite life of the mining assets will be assessed based on the estimated mine life.

1. Basis of preparation and accounting policies (continued)

Development expenditure incurred by or on behalf of the Group or acquired from a third party is also classified as an intangible asset and is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises acquisition cost and other incurred cost directly attributable to the construction of a mine and the related infrastructure. This expenditure is carried at cost less impairment.

Exploration, evaluation and development expenditure is categorised under Intangible mining assets in the Statement of Financial Position. Exploration and development costs include all directly attributable expenditure together with the relevant depreciation on plant and equipment utilised within the project.

Once a development decision has been taken, the carrying amount of the exploration, evaluation and development expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as 'mining property' with property, plant and equipment.

No amortisation is recognised in respect of exploration, evaluation and development expenditure until it is reclassified as a 'mining property".

Exploration, evaluation and development expenditure and mining property is tested for impairment annually if facts and circumstances indicate that impairment may exist. Exploration, evaluation and development expenditure is also tested for impairment once commercial reserves are found, before the assets are transferred to mining property.

Identifiable exploration, evaluation and development assets acquired as part of a business combination are recognised as assets at their fair value, as determined by the requirements of IFRS3, Business Combinations. Exploration and evaluation expenditure incurred subsequent to the acquisition is accounted for in accordance with the policy outlined above.

Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset was already of the age and in the condition expected at the end of its useful life.

Office equipment	– 3 to 10 years
Motor vehicles	– 3 to 5 years
Mining plant & equipment	– 3 to 10 years
Other assets	– 3 to 10 years.

The carrying value of tangible fixed assets is assessed annually and any impairment is charged to the of Statement of Comprehensive Income. The expected useful economic life of tangible fixed assets is reviewed annually.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is derecognized.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset (or cash-generating unit), unless the asset (or cash-generating unit) does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset (or cash-generating unit). For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's (or cash-generating unit's), recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset (or cash-generating unit) is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

Notes forming part of the Consolidated Financial Statements (continued)
For the year ended 31 December 2010

1. Basis of preparation and accounting policies (continued)

Financial assets
Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss, trade and other receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Trade and other receivables
Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents
These include cash in hand, deposits held at call with banks, and bank overdrafts. Bank overdrafts are shown within current liabilities on the statement of financial position.

Financial liabilities
Financial liabilities are recognised when the Company becomes a party to the contractual terms of the instrument. Financial liabilities are derecognised when they are extinguished, discharged, cancelled or expire.

The Group classifies its financial liabilities as:

Non-interest bearing loans
Non-interest bearing loans are accounted for initially at fair value and subsequently at amortised cost using the effective interest method.

Interest- bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Trade and other payables
These are initially recognised at invoiced value. These arise principally from the receipt of goods and services. There is no material difference between the invoiced value and the value calculated on an amortised cost basis.

Provisions
A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. In situations where a possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised.

Foreign currency
The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in U.S. Dollars which is the presentation currency for the Group financial statements and the functional currency of the Company.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the yearly average rates of exchange. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing at the reporting date. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and not re-translated.

Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in the statement of comprehensive income for the period.

1. **Basis of preparation and accounting policies** (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in U.S. Dollars using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are charged to other comprehensive income and, recognised in the translation reserve in Equity.

Foreign currency movements arising from the Group's net investment in subsidiary companies whose functional currency is not U.S. Dollars are recognised in the translation reserve, included within equity until such time as the relevant subsidiary company is sold, whereupon the net difference relating to this disposal is transferred to profit and loss.

Taxation
Income tax expense or taxation recoverable represents the sum of the tax currently payable or recoverable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company or different Group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Expense Recognition
Cost and expenses are recognized in the statement of comprehensive income upon utilization of the service or at the date they are incurred. All finance costs are reported on an accrual basis.

Equity
Share Capital is determined using the nominal value of shares that have been issued.

Share Premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from Share Premium, net of any related income tax benefit.

Foreign currency translation differences arising in the translation of the Group's foreign entities are included in the Translation Reserve.

Dividend distributions payable to equity shareholders are included in Trade and Other Payables when dividends have been approved in a general meeting prior to the reporting date.

Deficit include all current and prior period results as disclosed in the Statement of Comprehensive Income.

Share based payments
Certain Group employees, consultants and underwriters are rewarded with share based instruments. These are stated at fair value at the date of grant and either expensed to the Statement of Comprehensive Income, capitalised to intangible mining assets or included in the costs of equity issuance, based on the activity of the employee, consultant, or underwriters as appropriate over the vesting period of the instrument.

Fair value is estimated using a standard option pricing model. The estimated life of the instrument used in the model is adjusted for management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Segment Reporting
A segment is a distinguishable component of the Group using the measures reported to the chief operating decision maker. Details of segmental analysis are provided in note 4 to the financial statements.

Notes forming part of the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

2. Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(i) Valuation of intangible mining assets, mining property and mining equipment.
The value of the Group's exploration, evaluation and development expenditure and mining property is dependent upon the success of the Group in discovering economic and recoverable mineral resources. The estimation of future revenue flows relating to these assets is uncertain and will also be affected by competition, relative exchange rates between the U.S. dollar and the South African Rand and potential new legislation and related environmental requirements.

(ii) Rehabilitation provisions
The Group makes estimates of future site rehabilitation costs (rehabilitation provisions) based upon current legislation in South Africa (or elsewhere as appropriate), technical reports and estimates provided by the Group's senior employees and consultants. These estimates will be affected by actual legislation in place, actual exploration and/or mining activity to be performed and actual conditions of the relevant sites when the rehabilitation activity is to be performed in future periods.

(iii) Impairment testing
The recoverable amounts of cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may impact our estimates and may then require a material adjustment to the carrying value of goodwill, tangible assets and intangible assets.

The Group reviews and tests the carrying value of tangible and intangible assets when events or changes in circumstances suggest that the carrying amount many not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

The carrying values of both tangible and intangible assets that are supported through a contract with a single customer are at risk in the event of termination. In the event of termination of that contract there may be an impairment on either the tangible or intangible level, or both, as the cash flows that are recoverable through the capital repayment as noted in the contract may not support the full recovery of these assets.

Expected future cash flows used to determine the value in use of tangible and intangible assets are inherently uncertain and could materially change over time.

(iv) Useful Life of Property, Plant and Equipment
The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment would increase recorded operating expenses and decrease non-current assets.

(v) Realizable Amount of Deferred Tax Assets
The Group reviews its deferred tax assets at each statement of financial position date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

3. Revenue

The Group is involved in exploration and evaluation and generated no material revenues in the year ended 31 December 2010. The revenue recognised in prior years pertains to a day-one gain when the non-interest bearing liabilities were recognised using the effective interest rate method.

4. Segmental Analysis

Management is of the opinion that the Group operated in the year in one segment, exploration for and evaluation of mineral deposits, and in one principal geographic area – South Africa. As such, the management feels that no segmental analysis is required.

The Group does have activities in other geographical areas including the ad hoc raising of funds and incurring of expenditure in relation to the Company's activities as a holding company. None of this activity is considered to be significantly different to the principal activity of the Group within South Africa.

5. Operating (loss)

	2010 $000	2009 $000
Operating (loss) for the year is stated after charging:		
Depreciation of property, plant and equipment (note 12)	4	6
Employee costs (note 6)	1,069	37
Foreign exchange gains	(1,059)	(253)
Auditors' remuneration (note 7)	178	49

6. Staff numbers and costs

The average number of persons employed during the year, including executive directors, was:

	2010 Number	2009 Number
Executive Directors	1	-
Operations	12	12
	13	12

Staff costs included in the Statement of Comprehensive Income:

	2010 $000	2009 $000
Wages and salaries	527	196
Other costs	9	4
Pension costs	6	12
Share based payments	1,511	-
Total staff costs	2,053	212
Capitalised during the period	984	175
Total staff costs included in expenses (note 5)	1,069	37

Directors' remuneration in 2010 totalled $1.32m (2009: Nil). The total remuneration comprised $1.03m in share based payments, $23k in Directors' Fees and $268k in salary. Share based payments includes the value of the options that vested to all Directors at the date of the initial public offering and the portion of the unvested options that had been earned by 31 December 2010.

7. Auditors' remuneration

	2010 $000	2009 $000
Fees payable for the audit of the Group's financial statements	76	49
Fees payable to the auditors in respect of the initial public offering	102	-
	178	49

Notes forming part of the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

8. Finance income and expenses

	2010 $000	2009 $000
Deposit interest income	63	-
Finance Income	63	-
Interest payable on loans	-	4
Other finance expenses	8	65
Finance Expenses	8	69

9. Taxation

The components of tax income as reported in the statement of comprehensive income are as follows:

	2010 $000	2009 $000
Reported in comprehensive income		
Deferred tax credit of overseas subsidiary	39	60
Total tax for the year	39	60
Reported in other comprehensive income		
Deferred tax credit of overseas subsidiary	12	8
Total tax for the year	12	8

Factors affecting tax charge for the year

	2010 $000	2009 $000
Loss before tax	(2,913)	(292)
Tax on Loss at standard rate	-	-
Effects of:		
Deferred tax credit of overseas subsidiaries	39	60
	39	60
Total tax analysed as:		
Income statement credit	39	60
Total tax credit	39	60

10. Loss per share

The calculation of the basic loss per share is based upon the net loss after tax attributable to the ordinary shareholders of $2,891,000 (2009 - loss of $253,000) and a weighted average number of shares in issue for the year of 72,358,253 (2009 – 70,000,000).

Diluted loss per share
The diluted loss per share in 2010 is the same as the basic loss per share as the losses have an anti-dilutive effect. (2009 – diluted loss per share is the same as the basic loss per share)

11. Intangible mining assets

Deferred exploration and evaluation

	2010 $000	2009 $000
Cost		
At 1 January	1,510	704
Capitalised during the period	1,676	611
Exchange difference	175	195
At 31 December	3,361	1,510

The Group's projects are at the exploration and evaluation stages, and production together with the related amortisation of these assets has not yet commenced.

Intangible assets are subject to annual impairment testing and whenever there is an indication of impairment. No impairment losses were recognized during the year as the carrying values of the intangible assets are lower than their recoverable amounts.

12. Property, plant and equipment

	Mining equipment $000	Mining Plant $000	Other equipment $000	Motor vehicles $000	Total $000
Cost					
At 1 January 2009	9	50	-	68	127
Additions	-	1	-	-	1
Exchange difference	2	11	-	16	29
At 31 December 2009	11	62	-	84	157
At 1 January 2010	11	62	-	84	157
Additions	5	-	10	190	205
Disposals	-	-	-	(10)	(10)
Exchange difference	2	4	-	25	31
At 31 December 2010	18	66	10	289	383
Depreciation					
At 1 January 2009	(2)	(10)	-	(11)	(23)
Charged to Income for the year	-	(1)	-	(5)	(6)
Capitalised to intangibles	(2)	(7)	-	(6)	(15)
Exchange difference	-	-	-	-	-
At 31 December 2009	(4)	(18)	-	(22)	(44)
At 1 January 2010	(4)	(18)	-	(22)	(44)
Depreciation on disposals	-	-	-	6	6
Charged to Income for the year	-	-	-	(4)	(4)
Capitalised to intangibles	(2)	(8)	-	(18)	(28)
At 31 December 2010	(6)	(26)	-	(38)	(70)
Net book value at 31 December 2009	7	44	-	62	113
Net book value at 31 December 2010	12	40	10	251	313

Note that some of the assets were also used in mining operations and therefore some of the depreciation has been capitalised. As at 31 December 2010 $61,000 of accumulated depreciation has been capitalised (2009:$33,000).

Notes forming part of the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

13. Subsidiary companies

At 31 December 2010 the Company had the following subsidiary undertakings:

Name	2010 Holding	2009 Holding	Business activities	Country of incorporation
Sedex Minerals (Proprietary) Limited	74%	74%	Exploration and mining	South Africa
Namaqualand Minerals* (Proprietary) Limited	74%	74%	Exploration and mining	South Africa
JPL Minerals* (Proprietary) Limited	74%	74%	Exploration and mining	South Africa
HJC Minerals* (Proprietary) Limited	74%	74%	Exploration and mining	South Africa
Bushmanland Minerals* (Proprietary) Limited	74%	74%	Exploration and mining	South Africa
GEO Minerals* (Proprietary) Limited	74%	74%	Exploration and mining	South Africa
Victor Minerals (Proprietary) Limited	74%	74%	Exploration and mining	South Africa
SAAM Minerals (Proprietary) Limited	74%	74%	Exploration and mining	South Africa
Yolani Minerals (Proprietary) Limited	100%	100%	Exploration and mining	South Africa
Frontier Exploration Limited	100%	100%	Holding Company	British Virgin Islands
Frontier Corporate Services Limited	100%	100%	Group Services Company	Ireland

Each subsidiary had a 31 December period end.

* In May 2010 in advance of the initial public offering the Board resolved to distribute the Group's interest in these subsidiaries to the then shareholders subject to the relevant approvals required in South Africa to give effect to such distribution. As at the date of these accounts approvals for the distribution are still pending and these subsidiaries are recorded as Assets held for distribution to owners in the Statement of Financial Position.

Distributions by the Group's South African subsidiaries are subject to South African exchange control approval.

14. Trade and other receivables

	2010 $000	2009 $000
Trade receivables	9	2
Sales tax	51	37
	60	39

There were no trade and other receivables that were past due or considered to be impaired. There is no significant difference between the fair value of the trade and other receivables and the values stated above.

15. Cash and cash equivalents

	2010 $000	2009 $000
Deposits		
Canadian Dollars	56,309	-
Current Accounts		
Canadian Dollars	73	-
Euro	239	-
Sterling	163	-
US Dollars	2	5
Australian Dollars	2	-
Rand	261	6
Cash at bank and in hand	57,049	11

There is no significant difference between the fair value of the cash and cash equivalents and the values stated above.

Cash balances are principally held in Canadian dollar fixed deposit accounts. The interest rate at the year end was 0.9%. Interest earned on current account balances is negligible.

16. Share capital

Share capital consists of fully paid ordinary shares with a par value of $0.001. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders meeting.

	2010 Number '000	2010 $'000	2009 Number '000	2009 $'000
Authorised				
Ordinary shares of $0.001 each	350,000,000	350,000	50,000	50
	350,000,000	350,000	50,000	50
Allotted, called up and fully paid				
Ordinary shares of $0.001 each				
At the beginning of the period	10	-	-	-
Impact of 7000 for 1 share split	69,990	70	10	-
New shares issued in Initial Public Offering	18,133	18	-	-
Conversion of shareholder and related party and other loans	1,430	2	-	-
At the end of the period	89,563	90	10	-

In addition to the shares in issue as set out above, the Company has issued a total of 10,148,750 warrants over ordinary shares to investors in the initial public offering and 715,041 warrants over ordinary shares to the holders of loans that converted into equity at the time of the initial public offering. Each warrant entitles a holder to acquire one ordinary share at a price of CAD$4.60 at any time up to 16 November 2012.

The Company has also granted options on ordinary shares to certain key employees and directors and granted options on ordinary shares and warrants to the underwriters of the initial public offering. Details of these grants are provided in note 17.

Notes forming part of the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

17. Share based payments

The Group awarded options to certain directors, key management and staff during the period. Each option, once vested, gives the holder the right to acquire one ordinary share in the Company at a specified price. In addition the underwriters to the initial public offering received options as part of their compensation. The following table summarises the option grants during the period. The number of options outstanding at 31 December 2009 was Nil.

Options granted and in issue

	Number of options	Date of grant	Expiry date	Expected life (years)	Exercise price	Fair Value of options $
Directors (1)	874,258	20 Sept 2010	19 Sept 2017	7	$2.00	454,614
Directors (1)	2,895,103	17 Nov 2010	16 Nov 2017	7	CAD$3.29	2,142,376
Total Directors options	3,769,361					2,596,990
Employees (2)	1,092,823	20 Sept 2010	19 Sept 2017	7	$2.00	568,268
Total Employee options	1,092,823					568,268
Underwriters (2)	1,087,962	17 Nov 2010	16 Nov 2012	2	CAD$3.29	543,981
Total other options	1,087,962					543,981
Total	(3) 5,950,146					3,709,239

(1) Vesting 1/3rd on date of grant, 1/3rd on 17 November 2011 and 1/3rd on 17 November 2012
(2) Vesting on completion of the initial public offering
(3) As no options lapsed or were exercised during the period the total options granted equals the options outstanding at the end of the financial year

As part of their compensation the underwriters of the initial public offering also received options on 608,925 warrants at a price of CAD$0.22 per warrant. Each warrant which gives the holder the option to purchase one new ordinary share at a price of CAD$4.60 at any time up to 16 November 2012

Fair value of options granted
Fair Value of options granted were calculated using a binomial option pricing model. (Options provided to the underwriters have not been valued based on the value of services provided as the value of these services cannot be estimated). The principal assumptions used in the valuation were as follows:

	Directors' and Employees' options granted 20 Sept 2010	Directors' options granted 17 Nov 2010	Underwriter's options granted 17 Nov 2010
Share price at grant date	1.97	CAD$3.12	CAD$3.12
Exercise price	2.00	CAD$3.29	CAD$3.29
Vesting period	0 to 24 months	24 months	0 months
Expected Option Life	7	7	2
Volatility (1)	20%	20%	30%
Dividend yield	0%	0%	0%
Risk-free rate	1.7%	1.7%	1.7%

(1) As these options were granted at or prior to the date of commencement of trading of the Company's shares on the Toronto Stock Exchange, no trading history was available to estimate the volatility. The volatility has therefore been estimated based on market norms for the valuation of options in new issuers in the Canadian market. In addition a discount to this volatility has been applied to the valuation of longer dated options

Weighted average exercise price and contractual life
The weighted average exercise price of all options at the year end was $2.86 (2009: Nil), the weighted average exercise price of options held by Directors at the year end was $2.99 (2009: Nil). The weighted average contractual life of all options at the year end was 6.0 years. The weighted average contractual life of options held by Directors at the year end was 6.9 years.

18. Shareholder, related party and other loans

	2010 Non-current $000	2009 Non-current $000
Shareholder loans	-	1,590
Related Party loans	-	135
	-	1,725

All outstanding Shareholder, Related Party and other loans converted into Units in the initial public offering. Each unit consisted of one ordinary share and one half warrant (see note 16 for detail of the warrant). At the time of the initial public offering a total of $1,957,000 shareholder and related party loans were converted and a total of $952,000 of other loans. The conversion took place at a price of CAD$2.04 per unit, a 40% discount to the price per unit at the time of the initial public offering.

The discount equates to a value of $1,940,000 based on the initial public offering price. In accordance with IAS 39 this discount has been recorded as loss on loan conversion expense in the Consolidated Statement of Comprehensive Income.

19. Deferred tax

The deferred tax included in statement of financial position:

	2010 $000	2009 $000
Included in non-current assets	119	68
Included in non-current liabilities	-	-
	119	68

	31 December 2009 $000	Movement in year $000	31 December 2010 $000
Tax losses	498	329	827
Other temporary differences	(7)	(4)	(11)
Deferred exploration costs/ Intangibles	(423)	(274)	(697)
	68	51	119

20. Provisions

No provisions have been made for the rehabilitation of land related to exploration and evaluation of projects as the Directors believe these amounts are immaterial at this stage in the project evaluation process. The Group will provide for rehabilitation work required on sites when, in the opinion of the Directors, the work being undertaken by the Group on the relevant site is sufficient to warrant such a provision.

21. Trade and other payables

	2010 $000	2009 $000
Trade payables	266	67
Accruals	1,902	200
Proposed Distribution	35	-
	2,203	267

The directors consider that there is no material difference between the book values and fair values of trade and other payables.

In May 2010 the Board approved the distribution of various non-core (non-REE) subsidiaries to the Company's shareholders at that time. As transferring ownership of prospecting rights in South Africa requires governmental approval the assets remain included in these financial statements as a Proposed Distribution pending receipt of the relevant approval.

Notes forming part of the Consolidated Financial Statements (continued)
For the year ended 31 December 2010

22. Financial instruments

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in Note 1 and the critical accounting estimates and judgements are set out in Note 2.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

	2010 $000	2009 $000
Trade and other receivables	60	39
Cash and cash equivalents	57,049	11
Trade and other payables	2,203	267
Shareholder and related party loans	-	1,725

General objectives, policies and processes
The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated part of the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives reports from financial personnel through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The main types of risk are credit risk, liquidity risk and market risk (commodity price risk, interest rate risk and currency risk).

The overall objective of the Board is to set policies that seek to reduce ongoing risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk
Credit risk arises principally from the Group's trade and other receivables and cash and cash equivalents. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements as shown below.

	2010 $000	2009 $000
Trade and other receivables	60	39
Cash and cash equivalents	57,049	11
	57,109	50

Credit risk with cash and cash equivalents is reduced by placing funds with banks with acceptable credit ratings and government support where applicable. As the Company is currently at a pre-revenue stage in its development, trade and other receivables are typically amounts related to items such as recoverable VAT. These amounts are typically small and low risk.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the amount of funding committed to its exploration, evaluation and mine development programmes. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group arise in respect of the ongoing exploration, evaluation and development programmes, trade and other payables.

Outstanding financial liabilities consist of trade and other payables all of which are current liabilities with maturities of less than twelve months.

Following the successful initial public offering of the Group's shares on the Toronto Stock Exchange on 17 November 2010, the Group has sufficient capital to execute its business plan for at least the next two years.

22. Financial instruments (continued)

Commodity price risk
The Group's success will in part be driven by the value of the rare earth elements that are contained in the Zandkopsdrift deposit that the Group is developing. As the Group is a number of years from production and there is no liquid market for these elements it is not possible for the Group to hedge this risk using derivative instruments. In the future it may be possible to enter into off-take agreements with users of these elements that may reduce this risk over time.

Interest rate risk
The Group is not exposed to material interest rate risk in respect of interest-bearing loans and other borrowings as all outstanding loans were converted into equity during 2010.

The Group is exposed to interest rate risk in respect of surplus funds held on deposit and will seek to manage this by matching deposit terms on funds to expected cashflow requirements in order to maximise the deposit interest in a way consistent with maintaining sufficient flexibility to support operations.

Fair value of financial liabilities

	2010 $000	2009 $000
Shareholder and related party loans	-	1,725
Trade and other payables	2,203	267
	2,203	1,992

Currency risk
The Group did not have forward exchange contracts or otherwise hedge its potential foreign exchange exposure, however, the Board have been keeping the situation under review.

The policy for all Group companies is that they only trade in their principal operating currency, except in exceptional circumstances from time to time. Long-term Group loans to South African subsidiary companies are considered to be part of the net investment by the Group in those subsidiaries.

The Company is exposed to a number of different currency risks between the Rand, U.S. Dollar, Sterling, Canadian Dollar and Euro. The Group values its resources in U.S. Dollar and the Group reports in U.S. Dollars.

The Group holds substantial assets, comprising mining properties and property, plant and equipment in South Africa and substantial assets, principally deposits in Canadian Dollars. Accordingly, the Group is exposed directly or will benefit from exchange rate fluctuations between U.S. Dollars, the Canadian Dollar and the South African Rand in respect of these assets held by the Group.
The effect on the statement of comprehensive income from Rand movements is not significant as current ongoing expenditures are incurred in respect of the Group's exploration and evaluation activities and are capitalised as intangible assets. The effects of Canadian Dollar movements on the statement of comprehensive income are potentially significant

The effect of a significant movement in US Dollar exchange rate against all other currencies would have the following affect on the asset values of the group:

	2010 Intangible mining assets $000	2010 Property plant and equipment $000	2009 Intangible mining assets $000	2009 Property plant and equipment $000
Current balance sheet value	3,361	313	1,510	113
U.S. Dollar depreciates by 5%	3,538	329	1,589	119
U.S. Dollar depreciates by 10%	3,735	347	1,677	125
U.S. Dollar appreciates by 5%	3,201	299	1,437	107
U.S. Dollar appreciates by 10%	3,056	285	1,372	103

Notes forming part of the Consolidated Financial Statements (continued)

For the year ended 31 December 2010

22. Financial instruments (continued)

The re-translated amounts of the above actual asset values arising from potential currency movements would have a net affect on the Group's statement of comprehensive income and equity as follows:

	2010 Profit/(loss) for the year $000	2010 Equity $000	2009 Profit/(loss) for the year $000	2009 Equity $000
Current Values	2,891	58,991	(253)	(190)
Movements as a result of:				
U.S. Dollar depreciates by 5%	3,013	3,170	73	73
U.S. Dollar depreciates by 10%	6,361	6,693	154	154
U.S. Dollar appreciates by 5%	(2,726)	(2,869)	(66)	(66)
U.S. Dollar appreciates by 10%	(5,205)	(5,476)	(127)	(127)

Capital

The Group considers its capital and reserves (see Consolidated Statement of Changes in Equity) attributable to equity shareholders to be the Group's capital. In managing its capital, the Group's primary long term objective is to provide a return for its equity shareholders through capital growth. In the future the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital needs. The Group's mining exploration and development activities are at an early stage and management considers that no useful target debt to equity gearing ratio can be identified at this time. There are no externally imposed capital requirements on the Group.

23. Events after the Reporting Period

The Group has continued to progress the evaluation and development of Zandkopsdrift, its main project. The evaluation and development is progressing in line with expectations.

No other material events have occurred since the end of the reporting period.

24. Capital commitments

In December 2010 Sedex Minerals (Proprietary) Limited, a subsidiary of the Group, agreed to acquire land in the Namaqualand region of South Africa at a cost of approximately $1,200,000. The acquisition of the land was not complete at 31 December 2010. Frontier had no other material contractual obligations outstanding at the end of the period.

25. Related-party transactions

At the date of the initial public offering, all outstanding loans, including shareholder and related party loans converted into equity at a discount to the initial public offering price. A total of CAD$2,170,000 of shareholder and related party loans converted into 1,064,000 Units consisting of 1,064,000 ordinary shares and 532,000 warrants. Further details are available in note 18.

Directors' contracts were effective from 17 November 2010, the date of the initial public offering. Directors have received remuneration and options in the Company as set out in notes 6 and 17 respectively.

26. Ultimate controlling party

At the year end the ordinary shares in the Company held by Lambeth Nominees Limited, Westminster Nominees Limited, Blenheim Management Services Limited and Aurora Limited, representing 49.24% of the issued ordinary share capital are held on behalf of a discretionary trust controlled by Blenheim Trust Company Limited. As these shareholdings are controlled by the same trustees they are considered to be a controlling party.

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