Frontera Resources Corporation

Consolidated Financial Statements
December 31, 2016 and 2015

Frontera Resources Corporation and Subsidiaries
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December 31, 2016 and 2015

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Report of Independent Auditors

To the Management and Board of Directors of
Frontera Resources Corporation

We have audited the accompanying consolidated financial statements of Frontera Resources Corporation and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive loss, stockholders' deficit and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 our 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, we consider internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frontera Resources Corporation and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

June 28, 2017

Frontera Resources Corporation
Consolidated Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 41,443	$ 116,213
Restricted cash	471,137	-
Accounts receivable, net	442,087	327,810
Inventory	4,937,764	5,430,979
Prepaid expenses and other current assets	3,992,789	1,038,252
Total current assets	9,885,220	6,913,254
Property and equipment, net	3,793,271	4,487,276
Oil and natural gas properties, full cost method		
Properties being depleted	131,557,411	129,280,065
Less: Accumulated depletion	(130,252,466)	(126,760,180)
Net oil and gas properties	1,304,945	2,519,885
Total assets	$ 14,983,436	$ 13,920,415
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	$ 3,661,935	$ 3,093,678
Accrued liabilities	17,052,788	10,630,918
Long term debt - current	22,144,117	38,149,797
Capital lease - current	5,990	5,595
Total current liabilities	42,864,830	51,879,988
Long term debt	30,125,514	8,170,000
Capital lease	12,079	18,068
Total liabilities	73,002,423	60,068,056
Commitments and contingencies (Note 7)		
Stockholders' deficit		
Common stock	353,634	132,176
Additional paid-in capital	420,959,005	409,445,380
Accumulated deficit	(479,331,626)	(455,725,197)
Total stockholders' deficit	(58,018,987)	(46,147,641)
Total liabilities and stockholders' deficit	$ 14,983,436	$ 13,920,415

The accompanying notes are an integral part of these consolidated financial statements.

Frontera Resources Corporation
Consolidated Statements of Comprehensive Loss
Years Ended December 31, 2016 and 2015

	2016	2015
Revenue - crude oil & natural gas sales	$ 3,116,970	$ 3,712,058
Operating expenses		
Field operating and project costs	6,117,724	4,348,530
General and administrative	7,146,484	7,790,005
Depreciation, depletion and amortization	1,624,993	2,429,461
Impairment of oil & natural gas properties	2,626,047	4,111,068
Total operating expenses	17,515,248	18,679,064
Loss from operations	(14,398,278)	(14,967,006)
Other income (expense)		
Interest income	18,273	22,642
Interest expense	(9,234,609)	(5,640,538)
Other, net	8,184	65,241
Total other income (expense)	(9,208,152)	(5,552,655)
Loss before income taxes	(23,606,430)	(20,519,661)
Provision for income taxes	-	-
Net loss and comprehensive loss	$(23,606,430)	$(20,519,661)
Loss per share		
Basic and diluted	$ (0.004)	$ (0.007)
Number of shares used in calculating loss per share		
Basic and diluted	5,567,251,530	3,110,946,742

The accompanying notes are an integral part of these consolidated financial statements.

Frontera Resources Corporation
Consolidated Statements of Stockholders' Deficit
Years Ended December 31, 2016 and 2015

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balances at December 31, 2014	$ 112,788	$ 403,792,344	$(435,205,536)	$ (31,300,404)
Issuance of common stock	19,388	5,653,036	-	5,672,424
Net loss	-	-	(20,519,661)	(20,519,661)
Balances at December 31, 2015	132,176	409,445,380	(455,725,197)	(46,147,641)
Issuance of common stock	221,458	11,513,625	-	11,735,083
Net loss	-	-	(23,606,429)	(23,606,429)
Balances at December 31, 2016	$ 353,634	$ 420,959,005	$(479,331,626)	$ (58,018,987)

The accompanying notes are an integral part of these consolidated financial statements.

Frontera Resources Corporation
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Net loss	$ (23,606,429)	$ (20,519,661)
Adjustments to reconcile net loss to net cash used in		
Operating activities:		
Depreciation and depletion	1,624,993	2,429,461
Loss on impairment of oil & gas properties	2,626,047	4,111,068
Noncash interest expense	5,721,065	5,076,140
Debt issuance cost amortization	264,840	476,359
Non-cash issuance of shares for services	2,499,145	-
Changes in operating assets and liabilities:		
Account receivable	(114,277)	220,500
Inventory	117,485	9,201
Prepaid expenses	1,146,109	(815,266)
Accounts payable	953,809	558,274
Accrued liabilities	683,155	508,998
Net cash used in operating activities	(8,084,058)	(7,944,926)
Investing activities:		
Investment in oil and gas properties	(2,238,407)	(1,039,962)
Investment in property and equipment	(95,855)	(411,165)
Change in restricted cash	(471,137)	-
Net cash used in investing activities	(2,805,399)	(1,451,127)
Financing activities:		
Proceeds from related party notes payable	3,980,441	2,665,000
Repayments from related party notes payable	-	(7,000)
Proceeds from other notes payable	4,888,768	3,600,000
Repayments of other notes payable	-	(705,452)
Payments on capital lease	(5,595)	(5,236)
Proceeds from issuance of common stock	2,430,771	2,870,332
Cost of debt issuance	(479,696)	(276,000)
Net cash provided by financing activities	10,814,689	8,141,644
Net decrease in cash and cash equivalents	(74,768)	(1,254,410)
Cash and cash equivalents - beginning of year	116,213	1,370,623
Cash and cash equivalents - end of year	$ 41,443	$ 116,213
Supplemental cash flow information		
Cash paid for interest	$ 39,795	$ 88,039
Change in accrued investment in oil & gas properties	38,937	632,508
Change in accrued investment in property and equipment	(31,109)	22,516
Issuance of convertible notes in lieu of interest payments	-	2,700,800
Capital lease equipment reductions	(5,595)	-
Non-cash payment of debt & interest through share issuance	2,704,520	2,802,092
Issuance of shares for services by 3rd party	6,599,792	-

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Operations

Frontera Resources Corporation, a Houston, Texas based Cayman Islands exempted company, and its subsidiaries (collectively “Frontera” or the “Company”) are engaged in the development of oil and gas projects in emerging marketplaces. Frontera was founded in 1996 and is headquartered in Houston, Texas. The Company emphasizes development of reserves in known hydrocarbon–bearing basins, and is attracted to projects that have significant exploration opportunities. Since 2002, the Company has focused substantially all of its efforts on the exploration and development of oilfields in the Black Sea area, namely within Georgia, Moldova, and Ukraine.

<u>Georgia</u>

In June 1997, the Company entered into a 25–year production sharing agreement with the Ministry of Fuel and Energy of Georgia and State Company Georgian Oil (“Georgian Oil”), which gives the Company the exclusive right to explore, develop and produce crude oil and natural gas (“Petroleum”) in a 5500 square kilometer area in eastern Georgia known as Block 12, hereafter referred to as the “Block 12 PSA”. The Block 12 PSA can be extended if commercial production remains viable upon its expiration in June 2022.

Under the terms of the Block 12 PSA, the Company is entitled to conduct exploration and production activities and is entitled to recover its cumulative costs and expenses from the Petroleum produced from Block 12. Following recovery of cumulative costs and expenses from Block 12 production, the remaining Petroleum sales, referred to as “Profit Oil” or “Profit Natural Gas”, are allocated between Georgian Oil and Frontera in the proportion of 51% and 49%, respectively.

Under the terms of the Block 12 PSA, Frontera is exempt from all taxes imposed by the government of Georgia, and any taxes imposed on the Company are paid by Georgian Oil on behalf of the Company from Georgian Oil’s 51% share of Profit Oil. Taxes are defined by the Block 12 PSA to mean all levies, duties, payments, fees, taxes or contributions payable to or imposed by any government agency, subdivision, municipal or local authorities within the government of Georgia.

<u>Moldova</u>

In Moldova, Frontera operates pursuant to the Concession Agreement entered into on January 2, 2017, by and between Frontera Resources International LLC, a wholly-owned subsidiary of the Company, and the Government of Moldova (the “Concession Agreement”) regarding the exploration, production and development of hydrocarbon resources in Moldova. Pursuant to the terms of the Concession Agreement, Frontera has the exclusive right to explore for, produce and develop hydrocarbon resources within an area comprising approximately 3 million acres situated in the southern portion of the country. The overall term of the Concession Agreement is 50 years from the date of its execution, including an initial exploration phase of up to ten years.

Ukraine

In Ukraine, the Company continues focused efforts to secure a production sharing license in this country. Currently, the Company has two strategic memoranda of understanding with the government of Ukraine that serve as the basis for the Company's ongoing efforts. In July 2015, the Company signed a strategic Memorandum of Understanding ("MOU") with Ukraine's national energy company, National Joint Stock Company Naftogaz of Ukraine ("Naftogaz"). This MOU serves to establish a focused joint effort to work together in upstream exploration and production projects in Ukraine, as well as to study the possibility to bring liquefied natural gas (LNG) to Ukraine from the Company's ongoing work in Georgia. In February 2016, the Company signed a MOU with Ukraine's public joint stock company UkrGasVydobuvannya ("UGV"), a subsidiary of Naftogaz, which serves to create a more detailed framework of technical and commercial cooperation between the Company and UGV in order to move towards implementation of joint work in specifically targeted upstream exploration and production projects in Ukraine.

2. Liquidity and Capital Resources

The following selected financial measurements reflect the Company's financial position and capital resources as of December 31, 2016 and 2015:

	2016	2015
Cash and cash equivalents	$ 41,443	$ 116,213
Working capital (deficit)	(33,319,844)	(45,092,112)
Total debt	52,627,933	46,468,838

The Company has incurred net losses and negative cash flows from operations in most fiscal periods since inception. Management plans to continue to reduce costs and continue to raise additional financing in order to continue to facilitate the Company's 2016 operating plan. Additionally the Company has approximately $22.5 million of debt as of December 31, 2016 that is scheduled to mature in 2017.

Throughout 2015 and 2016, there has been volatility and disruption in the global commodity, capital and credit markets. While these market conditions persist, the Company's ability to access the capital and credit markets may be adversely affected. Notwithstanding management's plan to manage costs and raise additional financing, the Company's viability is dependent upon producing oil and gas in sufficient quantities and marketing such oil and gas at sufficient prices to provide positive operating cash flow to the Company. Commencement of production from its Mtsarekhavi gas field in second quarter of 2014, participation of farm-in partner in Taribani, together with periodic access to the standby equity distribution agreement ("SEDA") facility (see discussion in Note 5) could provide positive cash flows for the foreseeable future.

The Company is responsible for providing funding for the development of Block 12 in Georgia and will require additional funding in order to obtain certain levels of production and generate sufficient cash flows to meet future capital and operating spending requirements. This is dependent upon, among other factors, achieving significant increases in production, production of oil and gas at costs that provide acceptable margins, reasonable levels of taxation from local authorities, and the ability to market the oil and gas produced at or near world prices.

Management's plan for addressing the above uncertainties is partially based on forward looking events which have yet to occur, including the commencement of additional production and ability to access capital markets and, accordingly, there is no assurance that those events will transpire or succeed as initially contemplated.

At the end of 2016 and beginning of 2017 management's continued efforts succeeded in completion of series of transactions resulting in significant reduction of Company's debt and improving the financial position of the Company.

On December 20, 2016 the convertible notes were restructured and note holders exchanged $30.1 million of notes due in 2016 into new secured notes due August 2020 (the "2020 Notes"). The 2020 notes are not convertible into ordinary shares of the Company, and bear an interest rate of 10 percent if paid in cash or 12 percent if paid in-kind with additional notes at the Company's election.

On June 5, 2017, the shareholders approved the increase of the Company's authorized share capital to 17,250,000,000 shares.

Simultaneously on June 5, 2017, the Company reached an agreement with YA II PN, Ltd (formerly, YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors LLC), whereby the entire amount of debt provided to the Company by YA II PN, Ltd. under the previously announced SEDA-Backed Loan Agreement in the total amount of approximately $6.2 million was eliminated by way of conversion into equity via the issuance of 7,200 Series A convertible, preferred, redeemable shares in the Company with a par value of $0.00004 and a liquidation amount of $1,000 per share. All other terms relating to the SEDA remain the same.

In May 2017, the Company approved the conversion of the related party notes payable into equity. Directors of the Company, Mr. Steve Nicandros (via an entity controlled by him) and Mr. Zaza Mamulaishvili, entered into note exchange agreements to eliminate approximately $26 million related to loans by the executives' advances to the Company. These loans were previously provided to the Company to support the Company's on-going operational and working capital requirements. The conversion is agreed at a fixed conversion price of 1 pence per share. In accordance with Market Abuse Regulation ("MAR") requirements, the conversion will occur only after publication of the 2016 full year financials. Pursuant to the terms of the note exchange, there will be a 12-month lock-in period on the sale of the new ordinary shares that Mr. Nicandros and Mr. Mamulaishvili will receive at as a result of the conversion.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Frontera Resources Corporation and its wholly owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates of oil and natural gas reserves and their values, future production rates and future costs and expenses are inherently uncertain for numerous reasons, including many factors beyond the Company's control. Reservoir engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of data available and of engineering and geological interpretation and judgment. In addition, estimates of reserves may be revised based on actual production, results of subsequent exploitation and development activities, prevailing commodity prices, operating costs and other factors. These revisions may be material and could materially affect the Company's future depletion, depreciation and amortization expenses.

The Company's revenue, profitability, and future growth are substantially dependent upon the prevailing and future prices for oil and natural gas, which are dependent upon numerous factors beyond its control such as economic, regulatory developments and competition from other energy sources. The energy markets have historically been volatile and there can be no assurance that oil and natural gas prices will not be subject to wide fluctuations in the future. A substantial or extended decline in oil and natural gas prices could have a material adverse effect on the Company's financial position, results of operations, cash flows and quantities of oil and natural gas reserves that may be economically produced.

Foreign Currency Transactions
The financial statements of the foreign subsidiaries are prepared in United States dollars, and the majority of transactions are denominated in United States dollars. Gains and losses on foreign currency transactions are the result of changes in the exchange rate between the time a foreign currency–denominated invoice is recorded and when it is ultimately paid and are included in operations.

Cash and Cash Equivalents
Cash and cash equivalents include all cash balances, money market accounts and certificates of deposit, all of which have original maturities of three months or less when purchased.

Fair Value Measurements
Frontera's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and convertible notes payable. The fair value of cash, accounts receivable and accounts payable are estimated to approximate the carrying value due to the liquid nature of these instruments. The fair value of the notes payable was determined based upon discount rates which approximate variable interest rates for borrowings of a similar nature.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires fair value measurements be classified and disclosed in one of the following categories:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Measured based on prices or valuation models that required inputs that are both significant to the fair value measurement and less observable for objective sources (i.e., supported by little or no market activity).

The Company classifies financial assets and liabilities based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

Inventory
Inventory consists primarily of materials to be used in the Company's foreign oilfield operations and crude oil held in stock tanks. Inventory is valued using the first–in, first–out method and is stated at the lower of cost or market. Inventory consists of the following:

	2016	**2015**
Materials and supplies	$ 4,754,803	$ 4,697,691
Crude oil	182,962	733,288
	$ 4,937,764	$ 5,430,979

Property and Equipment
Property and equipment are stated at cost. Expenditures for major renewals and betterments, which extend the original estimated economic useful lives of applicable assets, are capitalized. Expenditures for normal repairs and maintenance are charged to expense as incurred. The costs and related accumulated depreciation of assets sold or retired are removed from the accounts, and any gain or loss thereon is reflected in operations. Depreciation of property and equipment is computed using the straight–line method over the estimated useful lives of the assets, ranging from three to seven years. Leasehold improvements are depreciated over the shorter of the life of the lease or five years.

	2016	2015
Field equipment (7 years)	$ 9,003,543	$ 8,938,794
Automobiles (5 years)	541,296	541,296
Telecommunication equipment (7 years)	407,831	407,831
Furniture, fixtures, and computers (7 years)	2,092,126	2,092,126
Leasehold improvements (5 years or life of lease)	79,099	79,099
Less: Accumulated depreciation and amortization	(8,330,624)	(7,571,870)
Property and equipment, net	$ 3,793,271	$ 4,487,276

Oil and Gas Properties
The Company follows the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration and development of oil and gas reserves, including directly related overhead costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are depleted on the unit–of–production method using estimates of proved reserves. Investments in unproved properties and major development projects are not depleted until proved reserves associated with the projects can be determined or until impairment occurs. In addition, the capitalized costs are subject to a "ceiling test," which limits such costs to the aggregate of the future net revenues from proved reserves, based on current economic and operating conditions, discounted at a 10% interest rate, plus the lower of cost or fair market value of unproved properties. A ceiling test calculation is performed at each year–end. For the year ended December 31, 2016 and 2015, the ceiling test calculation used a first day of month trailing 12-month natural gas and oil average, as adjusted for basis or location differentials using a 12-month average, and held constant over the life of the reserves. The future cash outflows associated with future development or abandonment of wells are included in the computation of the discounted present value of future net revenues for purposes of the ceiling test calculation. For the year ended December 31, 2016, the Company recorded an impairment of $2.6 million to the carrying value of the oil & natural gas properties in Georgia. The lower ceiling value resulted primarily from significant decreases in the trailing 12 month average prices for oil & natural gas, which significantly reduced proved reserves. For year ended December 31, 2015, the Company recorded $4.1 million impairment related to its fields in Georgia.

Sales or other dispositions of oil and gas properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in earnings.

Costs Excluded
The costs associated with unproved properties, initially excluded from the amortization base, relate to unproved leasehold acreage, wells and production facilities in progress and wells pending determination of the existence of proved reserves, together with capitalized interest costs for these projects. Unproved leasehold costs are transferred to the amortization base with the costs of drilling the related well once a determination of the existence of proved reserves has been made or

upon impairment of a lease. Costs of seismic data are allocated to various unproved leaseholds and transferred to the amortization base with the associated leasehold costs on a specific project basis.

Costs associated with wells in progress and completed wells that have yet to be evaluated are transferred to the amortization base once a determination is made whether or not proved reserves can be assigned to the property. Costs of dry wells are transferred to the amortization base immediately upon determination that the well is unsuccessful.

There were no costs associated with unproved properties related to continuing exploration at December 31, 2016 and 2015 due to changes in the Company's development strategy and management's plans to reduce capital spending in certain oil and gas properties.

Income Taxes
The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and the tax bases of assets and liabilities using enacted rates in effect for the years in which the differences are expected to reverse. Valuation allowances are established, when appropriate, to reduce deferred tax assets to the amount expected to be realized.

The Company accounts for uncertain tax positions by reporting a liability for tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to tax benefits in income tax expense.

Revenue Recognition
Oil and natural gas revenues are recorded when title passes to the customer, net of royalties, discounts and allowances, as applicable. Oil and natural gas sold is not significantly different from the Company's share of production.

Allowance for Doubtful Accounts
The Company has established an allowance for doubtful accounts that is based on the Company's review of the collectability of the receivables in light of historical experience, the nature and volume of the receivables and other subjective factors. Accounts receivable are charged against the allowance when they are deemed uncollectible. The allowance for doubtful accounts balance was $0 at December 31, 2016 and 2015.

Concentrations of Credit Risk
Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company maintains its cash in bank deposits with various major financial institutions. These accounts, at times, may exceed federally insured limits. Deposits in the United States are guaranteed by the Federal Deposit Insurance Corporation up to $250,000. The Company monitors the financial condition of the financial institutions and does not anticipate any losses on such accounts.

For the years ended December 31, 2016 and 2015, 100% of the Company's crude oil sales were to one unrelated customer.

The Company's future revenues depend on operating results from its operations on the exploration and development of oilfields in the Black sea area. The success of Frontera's operations is subject to various contingencies beyond management's control. These contingencies include general and regional economic and political conditions, prices for crude oil, competition and changes in regulation. Frontera is subject to various additional political and economic uncertainties in the countries the Company operates in which could include restrictions on transfer of funds, import and export duties, quotas and embargoes, domestic and international customs and tariffs, and changing taxation policies, foreign exchange restrictions, political conditions and regulations.

Loss Per Share

Basic and diluted loss per share amounts is calculated based on the weighted average number of common stock outstanding during the year. Diluted loss per share is calculated using the weighted average number of shares of common stock outstanding during the year, including the dilutive effect of stock options, warrants and convertible notes. Basic and diluted loss per share for the years ended December 31, 2016 and 2015 are the same since the effect of all common stock equivalents would be antidilutive to the Company's net loss per share.

Due to the Company's net operating loss position; there are no anticipated windfall tax benefits upon exercise of options.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") No.2016-02, *Leases*. Under this new guidance, lessees will be required to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than twelve months. The standard will take effect for nonpublic companies for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of the adoption of this guidance.

In April 2015, the FASB issued ASU No. 2015-03 *Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of debt discount. The new standard will be effective for fiscal years beginning after December 15, 2015. The adoption of the new accounting guidance resulted in a reclassification of debt issuance costs associated with our debt from "Prepaid expenses and other current assets" to "Long term debt – current" on the consolidated balance sheets for the current and prior periods. There was no impact to the results of operations or cash flows.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, which requires companies to measure inventory at the lower of cost or net realizable value rather than at the lower of cost or market. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new standard will be effective for the Company for the fiscal year beginning after December 15, 2016. The Company is currently evaluating the impact of adopting this guidance.

In November 2016, the FASB issued ASU No. 2016-18 *Statement of Cash Flows (Topic 230)-Restricted Cash a consensus of the FASB Emerging Issues Task Force*. This new guidance requires that a statement of cash flows explain the change during the period in the total of cash,

cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019 and is not expected to have a material impact on the consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15 *Cash Flow Statement (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*. This new guidance addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice, including: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018 and is not expected to have a material impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern*. The new standard requires management to evaluate whether there are conditions or events that raise substantial doubt as to an entity's ability to continue as a going concern for both annual and interim reporting periods. The guidance was effective for the Company for the annual period ending after December 15, 2016. The guidance did not have a material impact on the consolidated financial statements. Refer to Note 2 for further discussion.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption of the new rules could affect the timing of revenue recognition for certain transactions. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The FASB issued several subsequent standards in 2016 containing implementation guidance related to the new standard. These standards provide additional guidance related to principal versus agent considerations, licensing, and identifying performance obligations. Additionally, these standards provide narrow-scope improvements and practical expedients as well as technical corrections and improvements. Overall, the new guidance is to be effective for the fiscal year beginning after December 15, 2018. Companies are able to early adopt the pronouncement, however not before fiscal years beginning after December 15, 2017. The Company is assessing the impact on the Company's consolidated financial statements.

4. Accrued Liabilities

Accrued liabilities consist of the following:

	2016	2015
Accrued payables	$ 6,043,685	$ 5,330,047
Accrued interest	11,009,103	5,288,038
Accrued benefits	-	12,833
	$ 17,052,788	$ 10,630,918

5. Debt

Debt consists of the following:

	2016	2015
Related party notes payable	$ 17,530,441	$ 13,550,000
Convertible notes payable	-	28,266,745
Notes payable	30,125,514	-
Other notes payable	4,953,910	4,628,430
Capital lease	18,069	23,663
Total debt	52,627,934	46,468,838
Less: Current portion	22,484,351	38,275,175
Less: Current portion - capital lease	5,990	5,595
Less: Debt issuance costs	340,234	125,378
Current portion, net of issuance costs	22,144,117	38,149,797
Total long-term debt	$ 30,137,593	$ 8,188,068

Related Party Notes Payable

On January 11, 2011 a revolving credit facility ("Credit Facility") was issued by and between the Company, Steve C. Nicandros, a Director of the Company, and Zaza Mamulaishvili, then a member of Company's senior management team and now a Director of the Company (together, the "Lenders") in the amount of $2 million. The $2 million borrowing limit pursuant to the Credit Facility was removed on October 30, 2012. Accordingly, during 2016 and 2015, the Company entered into a series of further notes payable governed by this Credit Facility with the Lenders in the aggregate amounts of $4.0 million and $2.7 million, respectively. These notes have one-term, bear interest of 15%, may be converted, at the discretion of the Lenders, into common stock of the Company at a market-based price, and are classified within Related Party Notes Payable on the Consolidated Balance Sheet. The notes are scheduled to mature in 2017 and 2018. As of December 31, 2016, the fair value of the related party notes was approximately $14.2 million. The notes were converted subsequent to December 31, 2016 into shares of the Company at a fixed price of 1 pence per ordinary share as described further in Note 10.

The further drawdowns under the Credit Facility as noted above, may constitute related party transactions pursuant to the AIM Rules for Companies as the Lenders are directors or applicable employees of the Company, as the case may be.

Convertible Notes Payable

During May 2007, the Company raised approximately $67.0 million through a private placement of convertible unsecured notes due May 2012. The notes were issued at par and bear interest at 10% per annum, payable quarterly in arrears in cash or in kind at the Company's discretion. The notes are convertible into shares of common stock at a conversion price of $1.67 per share. The notes will be automatically converted into common stock at the conversion price if the stock price exceeds two times the conversion price for at least 20 consecutive trading days. On August 2, 2011, 85.1% of the 2012 Notes were converted into the common stock and another 14.9% were exchanged for the 2016 Notes.

On July 3, 2008, the Company raised $23.5 million through a private placement of convertible unsecured notes due July 2013. The notes were issued at par and bear interest at 10% per annum, payable quarterly in arrears in cash or in kind at the Company's discretion. The notes are convertible into common stock at a conversion price of $1.71 per share. On August 2, 2011, 84.0% of the 2013 Notes were converted into the common stock and another 16.0% were exchanged for the 2016 Notes.

On August 2, 2011, note holders exchanged $18.2 million of 2012 and 2013 Notes into new notes issued under the 2016 Note Purchase Agreement due August 2016 (the "2016 Notes"). The 2016 Notes accrued interest at the rate of 10% per annum, mature five years from the date of issuance (August 1 2016) and were convertible into Frontera Cayman Shares, at the option of the holder, at a conversion rate of $0.25 per share.

During 2015 and 2016, the Company elected to pay the quarterly interest payments in kind on the convertible notes and issued approximately $2.7 million and $1.8 million, respectively, in additional convertible notes in accordance with the terms of the note purchase agreement.

On July 21, 2016, Frontera Resources Holdings, LLC ("FRH"), a wholly owned subsidiary of the Company, initiated liquidation proceedings pursuant to Chapter 7 of the United States Bankruptcy Code (the "Chapter 7 Proceeding"). This Chapter 7 Proceeding related to a series of 10% 2016 Notes that were issued by FRH on August 2, 2011, and that matured and became payable by FRH on August 1, 2016. The Company was not a debtor in the Chapter 7 proceeding; however, in order to seek a declaration and confirmation that it was not a surety or guarantor of the Notes or otherwise liable to repay them as parent of FRH, the Company initiated adversary proceeding in the United States Bankruptcy Court (the "Adversary Proceeding"). On October 19, 2016, a Mediation Settlement Agreement was entered into between Frontera and the holders of the largest outstanding group of the 2016 Notes, Outrider Master Fund, LP and Outrider Management, LLC (collectively "Outrider"). The Mediation Settlement Agreement envisaged the exchange of the 2016 Notes for new secured unconvertible notes maturing on August 1, 2020, and that both the Adversary Proceeding and the Chapter 7 Proceeding were to be dismissed following the exchange. On December 20, 2016, in accordance with the agreed Mediation Settlement Agreement, Frontera International Corporation, a wholly owned subsidiary, issued new secured unconvertible notes maturing on August 1, 2020 to Outrider. This was followed by the issuance of new notes on the same terms to other holders of the 2016 Notes. On December 20, 2016 the notes were restructured and the note holders exchanged $30.1 million of principal in the original notes into new secured notes due August 2020. There was $1.5 million in associated interest expense recognized during the current year on the 2020 Notes. The 2020 Notes are not convertible into ordinary shares of the Company and bear an interest rate of 10 percent if paid in cash or 12 percent if paid in-kind with additional notes at the Company's election. Following the issue of the 2020 Notes, the 2016 Notes were re-assigned back to the Company and cancelled. Thereafter, upon filing of a joint dismissal petition, both the Adversary Proceeding and Chapter 7 Proceeding were dismissed by the court on May 16, 2017.

As of December 31, 2016, the fair value of 2020 Notes was approximately $15.3 million.

Other Notes Payable

On June 28, 2011 the Company entered into a standby equity distribution agreement (the "SEDA") with YA II PN, Ltd. providing for up to approximately £21.6 million ($35.0 million) of additional equity investment, through the issue of the new shares in the Company. As of December 31, 2016 approximately £14.6 million ($18.0 million) of commitment amount was still available for drawdown. This agreement was extended in April 2015 through December 31, 2018.

The Company drew down from their SEDA-backed loan agreements with YA II PN, Ltd. Under these drawdowns, $5.0 million and $4.6 million were remaining outstanding as of December 31, 2016 and 2015, respectively. As of December 31, 2016, the fair value of the other notes payable was approximately $4.4 million.

Future principal maturities as of December 31, 2016 for long-term debt obligations are as follows:

2017	$	22,490,341
2018		6,405
2019		5,674
2020		30,125,514
Total future principal payments on debt	$	52,627,934

6. Income Taxes

The Company has incurred losses since inception and, therefore, has not been required to pay federal income taxes. As of December 31, 2016, the Company has generated net operating loss ("NOL") carryforwards of approximately $53 million that may be available to reduce future income taxes. Several factors may limit the Company's ability to utilize these carryforwards, including a lack of future taxable income, a change of Company ownership (as defined by federal income tax regulations) or the expiration of the utilization period allowed by federal income tax regulations. The federal loss carryforwards begin to expire in 2017 through 2035.

Deferred tax assets are reduced by a valuation allowance when a determination is made that it is more likely than not that some or all of the deferred assets will not be realized based on the weight of all available evidence. The Company determined it was appropriate to record a full valuation allowance against its net deferred tax asset. The components of the Company's deferred tax assets at December 31, 2016 and 2015, are as follows:

	2016	2015
Deferred tax assets		
Net operating losses – U.S.	$ 52,747,172	$ 52,254,605
Depreciation and amortization	(80,145)	(66,933)
Realized loss on investments	280,435	280,435
Other	-	2,550
Deferred salary	1,437,605	825,700
Stock compensation	2,718,306	3,202,808
Accrued interest	3,298,931	1,089,336
	60,402,304	57,588,501
Valuation allowance	(60,402,304)	(57,588,501)
Net deferred tax assets	$ -	$ -

During 2015 and 2016, the valuation allowance increased $4.6 million and $2.8 million, respectively, primarily due to the Company's losses. The effective tax rate for 2016 and 2015 differs from the statutory tax rate due primarily to the valuation allowance. Profits derived from oil and gas operating activities are subject to a profits tax on taxable income as defined by Georgian law. However, under the terms of the Block 12 PSA, Georgian Oil is responsible for paying the Company's profit tax liabilities with respect to income derived from these activities. Although the Company has incurred operating losses in Georgia, no adjustment with respect to deferred tax assets or a potentially related valuation allowance has been made, as any future benefit related to these operating losses would serve to reduce Georgian Oil's liability.

The Company has determined that no uncertain tax positions exist where the Company would be required to make additional tax payments. As a result, the Company has not recorded any additional liabilities for any unrecognized tax benefits as of December 31, 2016. The Company and its subsidiaries file income tax returns in the US federal jurisdiction. The Company's accounting policy is to recognize penalties and interest related to unrecognized tax benefits as income tax expense. The Company does not have an accrued liability for the payment of penalties and interest at December 31, 2016 or 2015, respectively. The Company is subject to routine audits by taxing jurisdictions. In general, the statute of limitations for the federal jurisdiction is three years. In some cases, net operating losses can extend the time for which a taxing authority may make adjustments. The Company's earliest tax year with a net operating loss is 1997; consequently, all years since 1997 are open for audit.

7. Commitments and Contingencies

Operating Leases

The Company has noncancelable operating leases for office facilities and lodging. Approximate future minimum annual rental commitments under these operating leases are as follows:

Year Ending December 31,		
2017	$	510,197
2018		462,402
2019		460,839
2020		211,018
2021		155,240
Thereafter		28,500

Rental expense for the years ended December 31, 2016 and 2015 was approximately $406,000 and $448,000, respectively.

ARAR Arbitration

On January 9, 2008, Frontera Eastern Georgia Limited ("FEGL"), a wholly owned subsidiary, served a notice of arbitration and claim on ARAR, Inc., for breach of contract under a drilling services contract dated May 2, 2007. On December 16, 2008, FEGL entered into a settlement agreement with ARAR Inc, ARAR Petrol ve Gas Arama Uretim Paz A.S., and Mr. Fatih Alpay (collectively, "Defendants"), which was confirmed by the arbitration panel and pursuant to which Defendants were required to make a series of payments to FEGL through December 2009 in the aggregate amount of $1.25 million. In August 2009, the Defendants defaulted on monthly payments and remained in default on payments due August - December 2009. FEGL applied to the arbitration panel for entry of an agreed award pursuant to the settlement agreement and, on April 16, 2010, the arbitration panel entered a final, binding award in favor of FEGL against Defendants in the amount of $1.43 million ("Final Award"). Following series of subsequent court hearings in the US courts, on July 16, 2012, the US Court of Appeals for the Fifth Circuit confirmed the Final Award granting FEGL total amount of $1,552,707, which included total amount of the Final Award and FEGL's attorney's fees and expenses.

In order to enforce the Final Award against Defendants' assets located in in Turkey, in July 2010 FEGL filed an enforcement action in the 4th Commercial Court in Ankara, Turkey. The 4th Commercial Court conducted a series of hearings on the enforcement action, and by its order dated November 23, 2012, rejected FEGL's request for enforcement. FEGL filed its appeal of the court order with the appeals court in Ankara on June 7, 2013. On June 20, 2014, the appeals court granted Frontera's appeal, overturned the 4th Commercial Court's decision and remanded the case back to the 4th Commercial Court to adopt a new decision in line with the appeals court's instructions. On December 20, 2015, the 4th Commercial Court adopted new decision granting enforcement of the Final Award. The Defendants appealed the decision with the appeals court again. On December 28, 2016, appeals court rejected Defendants' appeal and upheld the 4th Commercial Court's decision granting enforcement of the Final Award. On February 2, 2017, the Defendants filed petition to the appeals court requesting "correction of the decision", and the case is currently pending at the appeals court awaiting adjudication.

Georgian Tax Refund

From the inception of operations in Georgia, the Company has incurred certain tax expenses which per the terms of the Production Sharing Agreement signed with the Georgian government are subject to reimbursement from the state. The Company has notified the appropriate authorities and is in the process of collecting a tax refund from the Georgian government. As of December 31, 2016 the amount of refund due to the Company was $5.6 million.

The Company has not recognized a receivable as of December 31, 2016 or 2015 for these ongoing proceedings.

8. Stockholders' Equity

Common Stock

As of December 31, 2016, the Company is authorized to issue 8,850,000,000 shares of common stock, par value $0.00004 per share. As of December 31, 2016 and 2015, the Company had 8,842,004,983 and 3,324,292,823 shares of common stock issued and outstanding, respectively. At December 31, 2016 and 2015, additional shares in the amount of 7,995,017 and 9,420,023 respectively, of common stock were reserved for the exercise of existing options and warrants.

2000 Nonqualified Stock Option and Stock Award Plan

In 2000, the Company's Board of Directors approved the 2000 Nonqualified Stock Option and Stock Award Plan (the "Stock Award Plan"), pursuant to which options may be granted to purchase up to 15% of the Company's common stock authorized to be issued by the Company, reduced by the total number of shares of stock subject to stock options and stock awards that have been granted under the Stock Award Plan and the Frontera Resources Corporation 1998 Employee Stock Incentive Plan. The Board of Directors has appointed Frontera's chief executive officer as administrator (the "Administrator") of the Stock Award Plan. In this capacity, the Administrator determines which employees will receive options, the number of shares covered by any option agreement, and the exercise price and other terms of each such option. The Board of Directors is responsible for administering the Stock Award Plan as it relates to options granted to the chief executive officer.

Under the terms of the Stock Award Plan, any issued options expire ten years after the date of grant or upon earlier of termination of employment or affiliation relationship between the grantee and the Company. Options granted vest over periods ranging from immediate vesting to vesting in equal increments over three years from the date of grant.

A summary of the Company's stock option activity and related information is as follows:

	Options	Weighted–Average Exercise Price
Options outstanding at December 31, 2014	10,303,714	$ 0.73
Granted	-	-
Exercised	-	-
Canceled	(883,691)	1.84
Options outstanding at December 31, 2015	9,420,023	0.62
Granted	-	-
Exercised	-	-
Canceled	(1,425,006)	0.46
Options outstanding at December 31, 2016	7,995,017	$ 0.65
Options exercisable at December 31, 2016	7,995,017	$ 0.65

The following table summarizes information about stock options outstanding at December 31, 2016:

Range of Exercise Prices	Number Outstanding at December 31, 2016	Weighted–Average Remaining Contractual Life (Years)	Weighted–Average Exercise Price	Number Exercisable at December 31, 2016	Weighted–Average Exercise Price
$0.00–1.99	6,845,017	2.35	$ 0.28	6,845,017	$ 0.28
$2.00–3.99	1,150,000	1.06	2.87	1,150,000	2.87
	7,995,017	2.17	$ 0.65	7,995,017	$ 0.65

There were no nonvested options for the year ended December 31, 2016. No options were granted in 2016 or 2015.

9. Directors' Remuneration and Related Party Transactions

No remuneration was received by each director in his capacity as director of the Company during the 2016 or 2015 financial year.

In conjunction with an ongoing consulting agreement, a director of the Company received consulting fees of $30,000 and $252,083, for the years ended December 31, 2016 and 2015, respectively.

As previously discussed in Note 5, the Company entered into a series of Notes Payable with two of the Company's officers. During 2015, the Company borrowed an additional $2.7 million in principal. During 2016, the Company borrowed an additional $4.0 million in principal. No amounts have been repaid in the current year.

10. Subsequent Events

On January 2, 2017, Frontera Resources International LLC, a wholly-owned subsidiary of the Company, signed a Concession Agreement with the Government of Moldova (the "Concession Agreement") regarding the exploration, production and development of hydrocarbon resources in Moldova. Pursuant to the terms of the Concession Agreement, Frontera has the exclusive right to explore for, produce and develop hydrocarbon resources within an area comprising approximately 3 million acres situated in the southern portion of the country. The overall term of the Concession Agreement is 50 years from the date of its execution, including an initial exploration phase of up to ten years.

On June 5, 2017, the Company's authorized share capital was increased to 17,250,000,000 shares.

Simultaneously on June 5, 2017, the Company reached an agreement with YA II PN, Ltd, whereby the entire amount of debt, provided to the Company by YA II PN, Ltd. under the previously announced SEDA-Backed Loan Agreement in the total amount of approximately US$6.2 million was eliminated by way of conversion into equity via the issuance of 7,200 Series A convertible, preferred, redeemable shares in the Company with par value of $0.00004 and with Liquidation Amount of $1,000 per share. All other terms relating to the SEDA remain the same.

In May 2017 the Company approved the conversion of the related party notes payable into equity. Directors of the Company, Mr. Steve Nicandros (through an entity controlled by him) and Mr. Zaza Mamulaishvili, have entered into note exchange agreements to eliminate approximately $26 million related to loans by the executives' advances to the Company. These loans were previously provided to the Company to support the Company's on-going operational and working capital requirements. The conversion is agreed at a fixed conversion price of 1 pence per share. In accordance with MAR requirements the conversion will occur only after publication of the 2016 full year financials. Pursuant to the terms of the note exchange, there will be a 12-month lock-in period on the sale of the new ordinary shares that Mr. Nicandros and Mr. Mamulaishvili will receive at as a result of the conversion.

On May 15, 2017 the Company entered into a convertible loan note in the amount of US $700,000 with a consortium of financial institutions. Per the terms of loan agreement on June 8, 2017, the notes have been redeemed via conversion and resulted in issuance of 323,529,412 ordinary shares and 25,000,000 warrants to the lender. The warrants were issued for 4 years at an exercise price of 1 pence per share.

Events occurring after December 31, 2016 were evaluated through June 28, 2017, the date the consolidated financial statements were available to be issued, to ensure that any subsequent events meeting the criteria for recognition or disclosure were included.