Frontera Resources Corporation and Subsidiaries

Condensed Consolidated Financial Statements
Six Months Ended June 30, 2013 and 2012

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Frontera Resources Corporation and Subsidiaries
Condensed Consolidated Balance Sheets *(Unaudited)*

	June 30, 2013	December 31, 2012	June 30, 2012
Assets			
Current assets			
Cash and cash equivalents	$ 628,337	$ 712,447	$ 1,593,541
Accounts receivable, net	1,366,310	226,145	209,994
Inventory	5,526,091	5,649,408	5,262,163
Prepaid expenses and other current assets	1,274,776	1,124,935	711,436
Total current assets	8,795,514	7,712,935	7,777,134
Property and equipment, net	1,122,746	1,195,198	1,062,445
Oil and gas properties, full cost method			
Properties being depleted	126,232,319	125,982,861	125,826,045
Less: Accumulated depletion	(119,469,624)	(118,805,439)	(118,168,040)
Net oil and gas properties	6,762,695	7,177,422	7,658,005
Other assets	131,378	247,698	173,988
Total assets	$ 16,812,333	$ 16,333,253	$ 16,671,572
Liabilities and Stockholders' Deficit			
Current liabilities			
Accounts payable	$ 1,288,807	$ 971,189	$ 511,203
Accrued liabilities	4,444,532	3,275,530	3,439,163
Current derivative stock warrant liabilities	16,115	–	–
Related party notes payable (Note 4)	7,205,000	3,720,000	1,470,000
Current maturities of notes payable	175,000	1,290,835	2,193,969
Total current liabilities	13,129,454	9,257,554	7,614,335
Convertible notes payable, less current portion	21,759,757	20,652,119	19,592,826
Derivative stock warrant liabilities	364	4,191	23,622
Total liabilities	34,889,575	29,913,864	27,230,783
Commitments and contingencies (Note 7)			
Stockholders' deficit			
Common stock	98,130	93,810	85,773
Additional paid-in capital	398,997,145	397,852,106	396,441,477
Accumulated deficit	(417,172,517)	(411,526,527)	(407,086,461)
Total stockholders' deficit	(18,077,242)	(13,580,611)	(10,559,211)
Total liabilities and stockholders' deficit	$ 16,812,333	$ 16,333,253	$ 16,671,572

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

Frontera Resources Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Loss *(Unaudited)*

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenue - crude oil sales	$ 3,146,390	$ 3,275,346
Operating expenses		
Field operating and project costs	2,435,286	2,158,563
General and administrative	3,692,991	3,658,510
Depreciation, depletion and amortization	760,611	883,100
Total operating expenses	6,888,888	6,700,173
Loss from operations	(3,742,498)	(3,424,827)
Other income (expense)		
Interest expense, net	(1,859,847)	(1,147,744)
Derivative income (loss)	(12,288)	168,368
Other expense, net	(31,357)	(32,809)
Total other income (expense)	(1,903,492)	(1,012,185)
Net loss	(5,645,990)	(4,437,012)
Other comprehensive loss	-	-
Total comprehensive loss	$ (5,645,990)	$ (4,437,012)
Loss per share		
Basic and diluted	$ (0.00)	$ (0.00)
Number of shares used in calculating loss per share		
Basic and diluted	2,348,796,503	2,128,012,905

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

Frontera Resources Corporation and Subsidiaries
Condensed Consolidated Statements of Stockholders' Deficit *(Unaudited)*

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balances at December 31, 2012	$ 93,810	$ 397,852,106	$ (411,526,527)	$ (13,580,611)
Issuance of common stock	4,320	1,136,424	–	1,140,744
Stock based compensation expense	–	8,615	–	8,615
Net loss	–	–	(5,645,990)	(5, 645,990)
Balances at June 30, 2013	$ 98,130	$ 398,997,145	$ (417,172,517)	$ (18,077,242)

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

Frontera Resources Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows *(Unaudited)*

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cash flows from operating activities		
Net loss	$ (5,645,990)	$ (4,437,012)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, depletion and amortization	760,611	883,100
Debt issuance cost amortization	116,320	22,746
Noncash interest expense	1,720,548	1,097,935
Stock based compensation	8,615	–
Derivative expense (income)	12,288	(168,368)
Changes in operating assets and liabilities:		
Accounts receivable	(131,291)	19,247
Inventory	123,317	(131,119)
Prepaid expenses and other current assets	(149,841)	(539,476)
Accounts payable	436,534	(1,095,668)
Accrued liabilities	557,123	733,189
Net cash used in operating activities	(2,191,766)	(3,615,426)
Cash flows from investing activities		
Investment in oil and gas properties	(194,372)	(936,325)
Investment in property and equipment	(197,974)	(129,451)
Net cash used in investing activities	(392,346)	(1,065,776)
Cash flows from financing activities		
Proceeds from notes payable	–	3,195,000
Repayment of borrowings	(984,998)	(1,362,320)
Purchase of company common stock	–	(93,454)
Proceeds from issuance of common stock and warrants	–	1,347,107
Proceeds from related party notes payable	3,485,000	1,470,000
Net cash provided by financing activities	2,500,002	4,556,333
Net decrease in cash and cash equivalents	(84,110)	(124,869)
Cash and cash equivalents		
Beginning of year	712,447	1,718,410
End of period	$ 628,337	$ 1,593,541
Supplemental cash flow information		
Cash paid for interest	$ 36,212	$ 31,248
Non-cash investing and financing activities		
Issuance of convertible notes in lieu of interest payments	$ 1,068,998	$ 974,004
Issuance of stock in lieu of interest payments	1,032	–
Change in accrued investment in oil and gas properties	55,084	(521,917)

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

1. Nature of Operations

Frontera Resources Corporation, a Cayman Islands corporation, 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 upside. Since 2002, the Company has focused substantially all of its efforts on the exploration and development of oilfields within the Republic of Georgia ("Georgia"), a member of the Former Soviet Union.

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 in a 5,500 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 crude oil produced from Block 12. Following recovery of cumulative costs and expenses from Block 12 production, the remaining crude oil sales, referred to as Profit Oil, 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.

On August 2, 2011, the Company completed a merger with and into a new Cayman Islands exempted company ("Frontera Cayman"), with Frontera Cayman being the surviving entity (the "Merger"). By operation of the Merger, all assets, liabilities, properties, corporate acts, plans, policies, contracts, approvals and authorizations of each of the Company and Frontera Cayman and their respective shareholders, boards of directors, committees elected or appointed thereby, officers and agents, which were effective immediately before the Merger, were vested in, assumed by or taken, as applicable, for all purposes as the acts, plans, policies, contracts, approvals and authorizations of Frontera Cayman and are effective and binding on Frontera Cayman in the same manner as they were with respect to the Company or Frontera Cayman, as the case may be, before the Merger.

Simultaneously with the Merger, Frontera Cayman entered into a Standby Equity Distribution Agreement with YA Global Master SPV, Ltd. ("YAGM"), pursuant to which YAGM has agreed (subject to certain conditions) to make available a facility of up to £21.6 million ($35.0 million) in consideration for the issue of Frontera Cayman Shares. As of June 30, 2013 approximately $30.0 million was available to drawdown upon.

Events occurring after June 30, 2013 were evaluated as of September 26, 2013, the date this report was issued, to ensure that any subsequent events the met the criteria for recognition and/or disclosures in this report have been included.

2. Liquidity and Capital Resources

The following key financial measurements reflect the Company's financial position and capital resources as of June 30, 2013, December 31, 2012 and June 30, 2012 (USD in thousands):

	June 30, 2013	December 31, 2012	June 30, 2012
Cash and cash equivalents	$ 628	$ 712	$ 1,594
Working capital	(4,334)	(1,545)	163
Total debt	29,140	25,663	23,257

Frontera's future revenues depend on operating results from its operations in Georgia. The success of Frontera's operations is subject to various contingencies beyond management 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 Georgia 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.

The Company has incurred net losses and negative cash flows from operations in most fiscal periods since inception. Management plans to continue to mitigate costs and raise additional financing to continue to facilitate the Company's 2013 and 2014 operating plan. Management expects to commence production from its Mtsarekhavi gas field in fourth quarter of 2013 rather than July 2013 due to operational delays related to installation logistics, which together with periodic access to the SEDA facility should provide positive cash flows for the foreseeable future.

Notwithstanding management's plan to reduce 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.

The Company is solely responsible for providing all of the 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 successful completion of its development program, and accordingly, there is no assurance that those events will transpire as initially contemplated.

3. Basis of Presentation and Summary of Significant Accounting Policies

The condensed consolidated balance sheet of the Company at December 31, 2012 was derived from the Company's audited consolidated financial statements as of that date, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The condensed consolidated balance sheet at June 30, 2013 and June 30, 2012, the condensed consolidated statements of operations for the six month periods ended June 30, 2013 and 2012, the condensed consolidated statement of changes in stockholders' deficit for the six month period ended June 30, 2013, and the condensed consolidated statements of cash flows for the six month periods ended June 30, 2013 and 2012 were prepared by the Company.

In the opinion of Company management, all adjustments, consisting of normal recurring adjustments, necessary to state fairly the consolidated financial position, results of operations and cash flows were recorded. The results of operations for the six month period ended June 30, 2013 are not necessarily indicative of the operating results for a full year or of future operations.

Certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company's consolidated financial statements for the year ended December 31, 2012.

For a description of the Company's accounting policies, refer to Note 3 of the Company's 2012 consolidated financial statements.

Use of Estimates

The preparation of the condensed 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.

Impairment

Under the full cost method of accounting, the net book value of natural gas and crude oil properties may not exceed a calculated "ceiling." The ceiling limitation is the discounted estimated future net revenue from proved natural gas and crude oil properties plus the cost of properties not subject to amortization. In calculating future net revenues, costs used are those as of the end of the appropriate period. The prices used are the unweighted average first-day-of-the-month commodity prices for the prior twelve months. These prices are not changed except where different prices are fixed and determinable from applicable contracts for the remaining term of those contracts.

The net book value is compared to the ceiling limitation on both a quarterly and annual basis. Any excess of the net book value is written off as impairment expense. Impairment expense recorded in one period may not be reversed in a subsequent period even though higher natural gas and crude oil prices may have increased the ceiling limitation in the subsequent period. As the full cost ceiling exceeded the net capitalized costs at June 30, 2013, December 31, 2012 and June 30, 2012, there was no such reduction of the Company's carrying value of its natural gas and crude oil properties during the six month periods ended June 30, 2013 and 2012.

Fair Value Measurements

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, trade payables, long-term debt and derivative stock warrant liabilities. Management considers the carrying values of cash and cash equivalents, trade receivables and trade payables to be representative of their respective fair values. The fair value of the fixed rate notes payable outstanding under the Company's convertible note payables was approximately $22.7 million as of June 30, 2013, reflecting the application of current interest rates offered for debt with similar remaining terms and maturities. As such, the measurement was categorized as a Level 3 measurement per the fair value hierarchy. Additionally, the derivative warrant liabilities are recorded at fair value in the accompanying balance sheets.

The authoritative guidance related to fair value defines a hierarchy of inputs to valuation techniques based upon whether those inputs reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The Company performed an analysis on its derivative warrant liabilities as of the balance sheet date. The fair value of the combined derivative stock warrant liabilities on June 30, 2013 was $16,479, within Level 2 of the fair value hierarchy.

4. Convertible Notes Payable

During May 2007, the Company raised approximately $67.0 million through a private placement of convertible unsecured notes due May 2012 ("2012 Notes"). The 2012 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 2012 Notes are convertible into shares of common stock at conversion price of $1.67 per share. The 2012 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 common stock and another 14.6% were exchanged for the 2016 Notes (as defined below).

On July 3, 2008, the Company raised $23.5 million through a private placement of convertible unsecured notes due July 2013 ("2013 Notes"). 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 common stock and another 16.0% were exchanged for the 2016 Notes (as defined below).

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 2016 ("2016 Notes"). The 2016 Notes accrue interest at the rate of 10% per annum, mature five years from the date of issuance and are convertible into Frontera Cayman Shares, at the option of the holder, at a conversion rate of $0.25 per share.

During the six month periods ended June 30, 2013 and 2012, the Company elected to pay the quarterly interest payments in kind and issued approximately $1.1 million and $1.0 million, respectively, in additional convertible notes in accordance with terms of the note purchase agreements.

6. Derivative Stock Warrant Liabilities

In July 2008, the Company solicited consents from holders of its 10% convertible notes due May 2012 to amend the note purchase agreements governing such notes to permit the issuance of the new notes and to release escrowed proceeds of $5.0 million from the May 2007 private placement. In connection with the solicitation, each consenting holder received a warrant exercisable into shares of common stock in an amount equal to 7.5% of the number of shares of common stock into which such consenting holder's existing notes were convertible. The warrants are exercisable for 3,151,000 shares in the aggregate. Each warrant entitled the holder to purchase one share of common stock at a price of $3.50 per share. Due to anti-dilution provisions contained in the warrant agreements, as of June 30, 2013 the warrants became exercisable into 77,557,078 shares in the aggregate at an exercise price of £0.089per share. The warrants have a five–year term and include a cashless exercise provision along with other customary terms and provisions. The issuance date fair value of these warrants was estimated to be $0.9 million and was recorded as a derivative stock warrant liability. The warrants were valued on the issuance date using the following assumptions: risk-free interest rate of 3.42%, expected volatility of 146.3%, no expected dividend yield and a term of 5 years. All of these warrants expired on July 3, 2013.

On February 8, 2011 the Company issued a warrant instrument entitling Arbuthnot, broker of Company, to purchase 500,000 Shares of Common Stock at an exercise price of £0.06 per share. These warrants expired on February 8, 2013.

On August 2, 2011 as part of the fees and commissions payable to Arbuthnot, OPL and Strand Hanson for their respective roles in the Placing, Company has issued 12,558,307 warrants with an

exercise price of £0.04 per share with terms ranging from 2 to 3 years. Of these warrants, 11,870,807 expired on August 2, 2013 and 687,500 expire on August 2, 2014.

Under the terms of SEDA-backed Loan Agreement in respect of Initial Advance in January 2012 Yorkville has been granted 15,000,000 warrants exercisable within 2 years with an exercise price of £0.018 per share. These warrants expire on January 31, 2014.

The change in the aggregate fair value of the warrants resulted in derivative expense of $0.01 million and income of $0.2 million for the six months ended June 30, 2013 and 2012, respectively.

7. Commitments and Contingencies

ARAR Arbitration

In January 2008, Frontera Eastern Georgia Limited ("FEGL") served a notice of arbitration and claim on ARAR, Inc. (“ARAR"), for breach of contract under a drilling services contract dated May 2007, specifically for, among other things, failure to commence work by the time specified in the contract, failure of the drilling rig to meet required specifications and failure to reconcile advance payments made by FEGL with work actually performed. FEGL terminated the contract after ARAR failed to mobilize the rig to the required location and failed to commence work as otherwise required under the contract. FEGL claimed damages of approximately $7.0 million in the arbitration. ARAR denied FEGL's claims and filed counterclaims against FEGL, seeking payments of approximately $7.1 million for, among other things, standby charges for the period of time the rig was undergoing inspection and repairs to bring it into contract specification, early termination fees and demobilization fees. The parties entered into a settlement agreement in December 2008 pursuant to which ARAR was required to make a series of payments to FEGL through December 2009 in the aggregate amount of $1.25 million. The settlement resolved all outstanding claims and counterclaims between Frontera and ARAR arising out of the drilling services contract. Beginning in August 2009, ARAR defaulted on its 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. The panel held a hearing on FEGL’s application in March 2010, and in April 2010 entered a final, binding award in the amount of $1.43 million in favor of FEGL (“Final Award”).

In April 2010, FEGL filed an action in the U.S. District Court for the Southern District of Texas (“District Court”) seeking confirmation of the Final Award pursuant to the Convention on Recognition and Enforcement of Foreign Arbitral Awards of June 10, 1958 as a precursor to further enforcement action in the U.S. In May 2010, ARAR filed a counterclaim in the District Court seeking to deny confirmation and to vacate the Final Award. On August 15, 2011, the District Court entered final judgment (“Final Judgment”) confirming the Final Award and granting FEGL total amount of $1,552,707.01, which include total amount of the Final Award and FEGL's attorney's fees and expenses. On September 13, 2011, ARAR appealed the Final Judgment with the United States Court of Appeals for the Fifth Circuit ("Court of Appeals"). On July 16, 2012, Court of Appeals dismissed ARAR's appeal and affirmed District Court's Judgment in its entirety. ARAR attempted to further appeal Court of Appeal's decision via "motion for rehearing"; on August 16, 2012, Court of Appeals denied ARAR's motion and affirmed its earlier decision.

In order to enforce the Final Award against assets of ARAR located in Turkey, in July 2010 FEGL filed an enforcement action in the 4th Commercial Court in Ankara, Turkey. 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, and expects that the appeals court will reverse the lower court order. Appeals court's decision is expected sometime during the third quarter of 2013. In parallel, in July 2010 an affiliate of ARAR filed a lawsuit against FEGL in the 7th Commercial Court in Ankara, Turkey claiming damages of $0.3 million in connection with the exportation of the drilling rig from Georgia. On July 5, 2012, 7th Commercial Court dismissed ARAR's lawsuit in its entirety.

In parallel to the enforcement action in Turkey, on January 13, 2012, FEGL filed a petition in the High Court of Justice, Queens Bench Division, in London, UK ("London High Court"), seeking enforcement of the Final Award in the UK against the defendants' assets located in the UK. Additionally, FELG sought an injunction prohibiting the defendants to dispose of any assets in the UK while the enforcement action is pending. On January 31, 2012, the London High Court entered an order granting FEGL's both petition for enforcement and motion for injunction. Defendants vigorously contested the court order and filed a response requesting to vacate it. On January 23, 2013, the London High Court issued its Final Charging Order affirming its earlier decision and dismissing defendants' contentions.