Frontera Resources Corporation

Condensed Consolidated Financial Statements
Six Months Ended June 30, 2017 and 2016

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Condensed Consolidated Financial Statements *(Unaudited)*

Frontera Resources Corporation

Condensed Consolidated Balance Sheets *(Unaudited)*

	6/30/2017	12/31/2016	6/30/2016
Cash and cash equivalents	$74,535	$41,443	$50,811
Restricted cash	-	471,137	-
Accounts receivable, net	597,514	442,087	1,341,801
Inventory	4,754,773	4,937,764	4,853,805
Prepaid expenses and other current assets	2,249,133	3,992,789	1,618,514
Total current assets	7,675,955	9,885,220	7,864,931
Property and equipment, net	3,430,483	3,793,271	4,185,115
Properties being depleted	131,575,419	131,557,411	129,264,403
Less: Accumulated depletion	(130,372,821)	(130,252,466)	(127,741,913)
Net oil and gas properties	1,202,598	1,304,945	1,522,490
Total assets	$12,309,036	$14,983,436	$13,572,536
Accounts payable	$4,087,287	$3,661,935	$2,991,084
Accrued liabilities	10,116,611	17,052,788	10,131,063
Long term debt - current	-	22,144,117	51,725,936
Capital lease - current	6,193	5,990	5,790
Total current liabilities	14,210,091	42,864,830	64,853,873
Long term debt	33,500,743	30,125,514	300,000
Capital lease	8,929	12,079	15,123
Total liabilities	47,719,763	73,002,423	65,168,996
Preferred stock	7,200,000	-	-
Common stock	447,105	353,634	171,223
Additional paid in capital	447,691,760	420,959,005	414,854,380
Accumulated deficit	(490,749,592)	(479,331,626)	(466,622,063)
Total stockholders’ deficit	(42,610,727)	(58,018,987)	(51,596,460)
Total liabilities and stockholders' deficit	$12,309,036	$14,983,436	$13,572,536

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

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

	For the 6 month period ended 6/30/2017	For the 6 month period ended 6/30/2016
Revenue - crude oil & natural gas sales	$1,486,771	$2,028,953
Field operating and project costs	3,425,080	2,953,821
General and administrative	3,258,195	3,429,287
Depreciation, depletion and amortization	483,143	632,707
Impairment of oil & natural gas properties	-	731,187
Total operating expenses	7,166,418	7,747,002
Loss from operations	(5,679,647)	(5,718,049)
Interest income	8,659	8,930
Interest expense	(5,704,184)	(5,116,972)
Other, net	(42,794)	(70,775)
Total other income (expense)	(5,738,319)	(5,178,817)
Net comprehensive loss	$(11,417,966)	$(10,896,866)
Loss per Share		
Basic and diluted	$(0.001)	$(0.003)
Number of shares used in calculating loss per share		
Basic and diluted	8,881,329,000	3,778,947,148

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

Frontera Resources Corporation
Condensed Consolidated Statement of Stockholders' Deficit *(Unaudited)*

		Stockholders' Deficit			
	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balances at December 31, 2016	$ -	$ 353,634	$ 420,959,005	$ (479,331,626)	$ (58,018,987)
Issuance of common stock		93,471	26,732,755	-	26,826,226
Issuance of preferred stock in exchange for debt extinguishment	7,200,000	-	-	-	-
Net loss for the six-month period ended June 30,2017	-	-	-	(11,417,966)	(11,417,966)
Balances at June 30, 2017	$ 7,200,000	$ 447,105	$ 447,691,760	$ (490,749,592)	$ (42,610,727)

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

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net loss	$ (11,417,966)	$ (10,896,866)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, depletion and amortization	483,143	632,707
Loss on impairment of oil & gas properties	-	731,187
Loss on debt to equity conversion	144,735	-
Debt issuance cost amortization	340,234	199,502
Non-Cash interest expense	2,468,282	4,898,765
Non-Cash interest expense eliminated on debt conversion	1,749,036	-
Non-Cash issuance of shares for services	-	13,700
Non-Cash payroll expense	534,945	255,240
Non-Cash expense on debt conversion (Note 4)	999,723	-
Changes in operating assets and liabilities:		
Accounts receivable	(155,427)	(1,013,991)
Inventory	182,991	577,174
Prepaid expenses and other current assets	1,849,970	949,738
Accounts payable	459,728	96,249
Accrued liabilities	1,152,666	2,213,623
Net cash used in operating activities	(1,207,940)	(1,342,972)
Cash flows from investing activities		
Investment in oil and gas properties	(48,095)	(147,333)
Investment in property and equipment	(6,413)	(103,348)
Change in restricted cash	471,137	-
Net cash provided by (used in) investing activities	416,629	(250,681)
Cash flows from financing activities		
Proceeds from notes payable	594,350	1,150,000
Cost of debt issuance	-	(69,000)
Payments on capital lease, net	(2,947)	(2,750)
Proceeds from related party notes payable	233,000	450,000
Net cash provided by financing activities	824,403	1,528,250
Net increase (decrease) in cash and cash equivalents	33,092	(65,402)
Cash and cash equivalents		
Beginning of year	41,443	116,213
End of period	$ 74,535	$ 50,811

The accompanying notes are an integral part of these condensed 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.

Georgia

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.

Moldova

On January 2, 2017, Frontera entered into an agreement 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. 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 key financial measurements reflect the Company's financial position and capital resources as of June 30, 2017, December 31, 2016, and June 30, 2016 (USD):

	June 30, 2017	December 31, 2016	June 30, 2016
Cash and cash equivalents	$ 74,535	$ 41,443	$ 50,811
Working capital (deficit)	$ (6,534,136)	$ (33,319,844)	$ (57,064,254)
Total debt	$ 33,500,743	$ 52,627,933	$ 52,122,161

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 raise additional financing in order to continue to facilitate the Company's 2017 operating plan. As of June 30, 2017 the Company does not have any debt that is scheduled to mature in fiscal 2017.

Throughout 2017 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 the second quarter of 2014, participation of a farm-in partner in Taribani, together with periodic access to the SEDA facility (see discussion in Note 4) 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 the completion of a series of transactions resulting in the significant reduction of Company’s debt and improvement of 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 and SEDA-Backed Loan Agreement in the total amount of approximately $6.2 million was eliminated by way of conversion into equity through 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. The Series A convertible, preferred, redeemable shares are convertible into a maximum of 1,300,000,000 ordinary shares of the Company using the conversion price which, in respect of each conversion, means the lesser of (i) the Fixed Conversion Price, or (ii) the Variable Conversion Price, where "Fixed Conversion Price" means (a) up to and including December 31, 2017, 1.0 pence per share, and (b) after December 31, 2017, the lower of 1.0 pence per share or the closing bid price per share of the ordinary shares of the Company as of December 31, 2017, and "Variable Conversion Price" means 90% of the lowest daily volume weighted average price of the ordinary shares of the Company (as reported by Bloomberg) over the five consecutive trading days expiring on the trading day immediately prior to the date of delivery of the relevant conversion notice. Pursuant to the terms of the agreement with YA II PN, Ltd, there is a a limitation on number of ordinary shares that YA II PN, Ltd is entitled to convert each month whereby the value of such number of shares may not exceed $400,000 each month. Additionally, there is a limitation of a maximum of 1,300,000,000 ordinary shares that YA II PN, Ltd is entitled to convert over the 12-month period following the issuance of Series A convertible preferred shares. Consequent to the conversion, the entire amount of debt owed to YA II PN, Ltd was eliminated from the Company's balance sheet. All other terms relating to the SEDA remain the same and as of June 30, 2017, approximately $19 million of commitment was still available for drawdown.

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 was agreed at a fixed conversion price of 1 pence per share. The conversion was completed on June 30, 2017. Pursuant to the terms of the note exchange, there is a 12-month lock-in period on the sale of the new ordinary shares that Mr. Nicandros and Mr. Mamulaishvili received as a result of the conversion.

3. Basis of Presentation and Summary of Significant Accounting Policies

The condensed consolidated balance sheet of the Company at December 31, 2016 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 ("US GAAP"). The condensed consolidated balance sheets at June 30, 2017 and June 30, 2016, the condensed consolidated statements of operations for the six month periods ended June 30, 2017 and 2016, the condensed consolidated statement of changes in stockholders' deficit for the six month period ended June 30, 2017, and the condensed consolidated statements of cash flows for the six month periods ended June 30, 2017 and 2016 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, 2017 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 US GAAP 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, 2016.

For a description of the Company's accounting policies, refer to Note 3 of the Company's 2016 consolidated financial statements.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with US GAAP 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. For the six-month period ended June 30, 2016, the Company recorded an impairment charge of $0.7 to the carrying value of the oil & natural gas properties in Georgia. There was no impairment charge recorded for the six-month period ended June 30, 2017. 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.

Fair Value Measurements

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, trade payables and long-term debt. Management considers the carrying values of cash and cash equivalents, trade receivables and trade payables to be representative of their respective fair values. As such, the measurement was categorized as a Level 1 measurement per the fair value hierarchy.

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). Refer to the fair value of debt disclosed in Note 4. The Company does not have any assets or liabilities classified within Level 3 of the fair value hierarchy.

4. Debt

Debt consists of the following:

	June 30,	
	2017	**2016**
Related party notes payable	$ -	$ 19,191,508
Convertible notes payable	33,500,743	29,798,401
Other notes payable	-	3,111,339
Capital lease	15,122	20,913
Total debt	33,515,865	52,122,161
Less: Current notes payable	6,193	51,807,038
Total long-term debt	$ 33,508,672	$ 315,123

Related Party Notes Payable

On January 11, 2011, a revolving credit facility (“Credit Facility”) was put in place by and between the Company, Steve C. Nicandros, a Director of the Company, and Zaza Mamulaishvili, then a member of the Company’s senior management team and now a Director of the Company (together, the “Lenders”) in the amount of $2,000,000. The $2,000,000 borrowing limit pursuant to the Credit Facility was removed on October 30, 2012. These notes have a one-year term, bear interest of 15%, and are classified within Related Party Notes Payable on the consolidated Balance Sheet. As of June 30, 2016 the Company had $19.2 million total related party notes outstanding. Through the period ended June 30, 2017, the Company entered into a series of further notes payable governed by this Credit Facility with the Lenders in the aggregate amounts of $2.5 million.

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 was agreed at a fixed conversion price of 1 pence per share. The conversion has been completed on June 30, 2017. Pursuant to the terms of the note exchange, there is a 12-month lock-in period on the sale of the new ordinary shares that Mr. Nicandros and Mr. Mamulaishvili received at as a result of the conversion.

2020 Secured Unconvertible 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 bore interest at 10% per annum, payable quarterly in arrears in cash or in kind at the Company's discretion. The notes were convertible into shares of common stock at a conversion price of $1.67 per share. The notes were automatically convertible into common stock at the conversion price if the stock price exceeded two times the conversion price for at least 20 consecutive trading days. On August 2, 2011, 85% of the 2012 Notes were converted into the common stock and another 15% 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. The notes were issued at par and bore interest at 10% per annum, payable quarterly in arrears in cash or in kind at the Company's discretion. The notes were 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 $18,220,312 of 2012 and 2013 Notes into new notes issued under the 2016 Note Purchase Agreement due August 2016 (the "2016 Notes"). As of June 30, 2016, the Company had $29.8 million total convertible notes payable. The 2016 Notes accrued interest at the rate of 10% per annum, matured five years from the date of issuance and were convertible into Frontera Cayman Shares, at the option of the holder, at a conversion rate of $0.25 per share. During the six month period ended June 30, 2016 the Company elected to pay the quarterly interest payments in kind and issued approximately $1.5 million in additional convertible notes in accordance with the terms of the note purchase agreements.

On December 20, 2016, Frontera International Corporation, a wholly owned subsidiary, issued new secured unconvertible notes maturing on August 1, 2020 to the holders of 2016 as substitute to the 2016 Notes, whereby the holders of 2016 notes exchanged $30.1 million of principal in the original notes into new secured notes due August 2020 ("2020 Notes") and the 2016 Notes were cancelled. There was $1.9 million in associated interest expense recognized during the six-month period ended June 30, 2017 on the 2020 Notes. The 2020 Notes are secured and are not convertible into ordinary shares of the Company. The 2020 Notes bear an interest rate of 10 percent if paid in cash or 12 percent if paid in-kind.

As of June 30, 2017, the fair value of 2020 Notes was approximately $17.0 million.

Other Notes Payable

On June 28, 2011 the Company entered into the SEDA facility with YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors LLC providing for up to approximately £21.6 million ($35 million) of additional equity investment, through the issue of the new shares in the Company. As of June 30, 2017 approximately £14.6 million ($19.0 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 (formerly YA Global Master SPV Ltd). Under these drawdowns, $3.1 million remained outstanding as of June 30 2016. Through the six-month period ended June 30, 2017, the Company additionally borrowed with a series of further drawdowns from YA II PN, Ltd in the aggregate amount of about $1.9 million.

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 and 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 par value of $0.00004 and with Liquidation Amount of $1,000 per share, which resulted in an approximately $1.0 million charge. The Series A convertible, preferred, redeemable shares are convertible into a maximum of 1,300,000,000 ordinary shares of the Company using the conversion price which, in respect of each conversion, means the lesser of (i) the Fixed Conversion Price, or (ii) the Variable Conversion Price, where “Fixed Conversion Price” means (a) up to and including December 31, 2017, 1.0 pence per share, and (b) after December 31, 2017, the lower of 1.0 pence per share or the closing bid price per share of the ordinary shares of the Company as of December 31, 2017, and “Variable Conversion Price” means 90% of the lowest daily volume weighted average price of the ordinary shares of the Company (as reported by Bloomberg) over the five consecutive trading days expiring on the trading day immediately prior to the date of delivery of the relevant conversion notice. Pursuant to the terms of the agreement with YA II PN, Ltd, there is a limitation on number of ordinary shares that YA II PN, Ltd is entitled to convert each month whereby the value of such number of shares may not exceed $400,000 each month. Additionally, there is a limitation of a maximum of 1,300,000,000 ordinary shares that YA II PN, Ltd is entitled to convert over the 12-month period following the issuance of Series A convertible preferred shares. Consequent to the conversion, the entire amount of debt owed to YA II PN, Ltd was eliminated from the Company’s balance sheet.

On May 15, 2017 the Company entered into a convertible loan in the amount of $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 the issuance of 323,529,412 ordinary shares and 25,000,000 warrants to the lender. The warrants were issued for one year at an exercise price of 1 pence per share.

Future principal maturities as of June 30, 2017 for long-term debt obligations are as follows:

2017	$ 3,043
2018	6,405
2019	5,674
2020	33,500,743
2021	-
Total future principal payments on debt	$ 33,515,865

5. Commitments and Contingencies

ARAR Arbitration

On January 9, 2008, Frontera Eastern Georgia Limited ("FEGL") served a notice of arbitration and claim on ARAR, Inc., for breach of contract under 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 the Defendants in the amount of $1.43 million (“Final Award”). Following a 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 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 by its order dated November 23, 2012, rejected FEGL's request for enforcement. FEGL filed its appeal with the Appeals Court in Ankara on June 7, 2013. On June 20, 2014, the Appeals Court granted FEGL's appeal, overturned the 4th Commercial Court's decision and remanded the case back to the 4th Commercial Court with instruction to adopt a new decision in line with the Appeals Court's ruling. On December 20, 2015, the 4th Commercial Court adopted new decision granting FEGL enforcement of the Final Award. The Defendants appealed this decision with the Appeals Court in Ankara. On January 16, 2017, the Appeals court affirmed decision of the 4th Commercial Court. On February 15 the Defendants requested another hearing on the Appeals' Courts' decision by way of "motion to correct the court decision", and that motion is currently pending with the court. Decision on the motion is expected in the fourth quarter of 2017.

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 June 30, 2017 the amount of refund due to the Company was $5.8 million.

The Company has not recognized a receivable as of June 30, 2017 or 2016 or December 31, 2016 for these ongoing proceedings.

6. Supplemental Disclosures of Cash Flow Information

Supplemental cash flow information	**Six Months Ended June 30, 2017**	**Six Months Ended June 30, 2016**
Cash paid for interest expense	$ 2,175	$ 3,362
Non-cash investing and financing activities		
Issuance of convertible notes in lieu of interest payments	$ -	$ 1,451,219
Issuance of notes in lieu of interest payments	3,375,229	-
Issuance of related party promissory notes in lieu of salary payments	-	3,901,067
Non-Cash payroll expense	534,945	
Change in AP and Accrued investment in oil and gas properties	(30,087)	(162,995)
Change in AP and Accrued investment in non-oil and gas properties	(6,413)	(23,348)
Non-cash payment of debt & interest via share issuance	-	2,956,048
Non-Cash proceeds from issuance of common stock from debt conversion	26,681,491	-
Non-Cash proceeds from issuance of preferred stock from debt conversion	6,200,277	-
Non-Cash expense on debt conversion	999,723	-
Issuance of shares for oil field services performed by 3rd party	-	2,492,000
Issuance of related party promissory notes for oil field services performed by 3rd party	-	1,290,441

7. Subsequent Events

On July 7, 2017 the Company has issued 204,052,980 new ordinary shares of $0.00004 each in the Company in accordance with conversion notice received from YA II PN, Ltd to convert 400 Series A Preferred Convertible Shares out of its outstanding total of 7,200 Convertible Shares.

On August 2, 2017 the Company has issued 245,903,225 new ordinary shares of $0.00004 each in the Company in accordance with conversion notice received from YA II PN, Ltd to convert 400 Series A Preferred Convertible Shares out of its outstanding total of 6,800 Convertible Shares.

Simultaneously on August 2, 2017 pursuant to the Shareholder Circular of May 18, 2017 and in accordance with the resolutions passed at the Company's Annual General Meeting held on June 5, 2017, the Company has eliminated debt in the amount of $2,130,000 of principal plus interest, owed to various unrelated oil field and supporting services providers for oil field and supporting services, by issuing 1,041,055,718 new ordinary shares in the Company.

On August 25, 2017 the Company has raised (before expenses) £500,000 (about $640,000) by way of a placing ("Placing") of 512,820,512 new ordinary shares of $0.00004 each ("Placing Shares") with various investors at a fixed price of 0.0975 pence per Placing Share. Cornhill Capital Limited has acted as placing agent. Concurrently with the Placing, directors of the Company, Mr Steve C Nicandros and Mr Zaza Mamulaishvili ("Directors"), have subscribed for £250,000 (about $320,000) in total comprising 40,207,166 and 216,203,090 new ordinary shares of $0.00004 each respectively, ("Subscription Shares") at a fixed price of 0.0975 pence per share ("Directors' Subscriptions"). The Directors' Subscriptions are classified as related party transactions in accordance with the AIM Rules. Accordingly, with the exception of Mr Nicandros and Mr Mamulaishvili, the Company's directors considered, having consulted with its nominated adviser, Cairn Financial Advisers LLP, that the terms of the transaction were fair and reasonable insofar as its shareholders are concerned.

On September 19, 2017 the Company issued 337,377,777 new ordinary shares of $0.00004 each in the Company in accordance with conversion notice received from YA II PN, Ltd to convert 400 Series A Preferred Convertible Shares out of its outstanding total of 6,400 Convertible Shares.

Events occurring after June 30, 2017 were evaluated through September 28, 2017, the date these financial statements were available to be issued, to ensure that any subsequent events meeting the criteria for recognition or disclosure were included.