Frontera Resources Corporation and Subsidiaries

Condensed Consolidated Financial Statements
Six Months Ended June 30, 2011 and 2010

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

	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 279,515	$ 158,542
Accounts receivable	243,956	189,840
Inventory	5,276,841	5,044,047
Prepaid expenses and other current assets	32,638	180,377
Total current assets	5,832,950	5,572,806
Property and equipment, net	1,074,924	1,205,132
Oil and gas properties, full cost method		
Properties being depleted	124,083,941	123,929,621
Properties not subject to depletion	-	-
Less: Accumulated depletion	(116,603,379)	(116,020,061)
Net oil and gas properties	7,480,562	7,909,560
Other assets	1,578,495	2,321,438
Total assets	$ 15,966,931	$ 17,008,936
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	$ 3,725,423	$ 3,078,058
Accrued liabilities	5,510,713	3,766,449
Current derivative stock warrant liabilities	4,132	583,879
Current maturities of notes payable	89,175,688	-
Related party notes payable	7,784,918	5,304,918
Total current liabilities	106,200,874	12,733,304
Convertible notes payable, less current portion	31,587,757	114,944,386
Derivative stock warrant liabilities	152,958	257,788
Total liabilities	137,941,589	127,935,478
Commitments and contingencies		
Stockholders' deficit		
Common stock	5,366	5,366
Additional paid-in capital	172,504,155	172,338,018
Treasury stock, at cost	(567,832)	(567,832)
Accumulated deficit	(293,916,347)	(282,702,094)
Total stockholders' deficit	(121,974,658)	(110,926,542)
Total liabilities and stockholders' deficit	$ 15,966,931	$ 17,008,936

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

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenue - crude oil sales	$ 3,117,672	$ 2,304,467
Operating expenses		
Field operating and project costs	1,790,455	2,341,800
General and administrative	4,300,806	5,476,254
Depreciation, depletion and amortization	713,526	285,815
Total operating expenses	6,804,787	8,103,869
Loss from operations	(3,687,115)	(5,799,402)
Other income (expense)		
Interest income	2,363	18,079
Interest expense	(8,157,659)	(6,154,436)
Derivative income	684,577	2,755,467
Other, net	(56,419)	(3,541)
Total other income (expense)	(7,527,138)	(3,384,431)
Net loss	$ (11,214,253)	$ (9,183,833)
Loss per share		
Basic and diluted	$ (0.08)	$ (0.07)
Number of shares used in calculating loss per share		
Basic and diluted	135,318,282	131,793,282

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

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

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total Stockholders' Deficit
Balances at December 31, 2010	$ 5,366	$ 172,338,018	$ (567,832)	$ (282,702,094)	$ (110,926,542)
Stock-based compensation	–	166,137	–	–	166,137
Net loss	–	–	–	(11,214,253)	(11,214,253)
Balances at June 30, 2011	$ 5,366	$ 172,504,155	$ (567,832)	$ (293,916,347)	$ (121,974,658)

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, 2011	2010
Cash flows from operating activities		
Net loss	$ (11,214,253)	$ (9,183,833)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, depletion and amortization	713,526	285,815
Debt issuance cost amortization	742,943	742,944
Noncash interest expense	7,414,716	5,271,781
Stock based compensation	166,137	831,696
Derivative income	(684,577)	(2,755,467)
Changes in operating assets and liabilities:		
Accounts receivable	(54,116)	24,240
Inventory	(232,794)	480,989
Prepaid expenses and other current assets	147,739	33,421
Accounts payable	201,301	1,021,235
Accrued liabilities	524,979	3,336,016
Other long–term liabilities	–	(8,108)
Net cash provided by (used in) operating activities	(2,274,399)	80,729
Cash flows from investing activities		
Investment in oil and gas properties	(84,628)	(1,561,180)
Investment in property and equipment	–	(19,977)
Redemption of auction rate securities	–	8,080,000
Net cash provided by (used in) investing activities	(84,628)	6,498,843
Cash flows from financing activities		
Restricted cash	–	594,356
Repayment of borrowings	–	(8,698,249)
Advances from related party	2,480,000	1,865,000
Net cash provided by (used in) financing activities	2,480,000	(6,238,893)
Net increase in cash and cash equivalents	120,973	340,679
Cash and cash equivalents		
Beginning of year	158,542	813,500
End of period	$ 279,515	$ 1,154,179
Supplemental cash flow information		
Cash paid for interest	$ –	$ 1,256
Noncash investing and financing activities		
Issuance of convertible notes in lieu of interest payments	$ 5,819,059	$ 5,271,781
Change in accrued investment in oil and gas properties	69,692	1,026,589
Accrued interest	1,595,657	138,455

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

1. Nature of Operations

Frontera Resources Corporation, a Delaware 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 completed a private equity fundraising pursuant to which Frontera Cayman received aggregate gross proceeds (before deduction of placing agent commissions, corporate finance fees and offering expenses) of approximately £6.8 million ($11.0 million), through (i) the issue of 115,678,351 new Frontera Cayman ordinary shares ("Frontera Cayman Shares") under a Placing Agreement with Strand Hanson Limited (as nominated advisor), and Arbuthnot Securities Limited and Old Park Lane Capital plc as Placing Agents, and (ii) subscription agreements with an affiliate of one of the Company's directors and a member of senior management for the purchase of 53,959,053 new Frontera Cayman Shares (the "Equity Fundraising"). Frontera Cayman also 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 over a 36-month period, a facility of up to £21.6 million ($35.0 million) in consideration for the issue of Frontera Cayman Shares.

Frontera Cayman simultaneously exchanged $120.1 million aggregate principal amount of the Company's 10% convertible notes due 2012 and 10% convertible notes due 2013, plus accrued interest, for (i) 1,593,853,570 Frontera Cayman Shares, and (ii) $18.2 million aggregate principal amount of new 10% convertible notes due 2016 issued by Frontera Resources Holdings, LLC, a Delaware limited liability company and a wholly-owned subsidiary of Frontera Cayman. Frontera Cayman also exchanged $9.2 million principal amount plus accrued interest of loans to the Company by a director and a member of senior management for 141,515,879 newly issued Frontera Cayman Shares pursuant to note exchange agreements.

By operation of the Merger, each share of common stock of the Company has been converted into and represents the right to receive either (i) one Frontera Cayman Share (the "Stock Consideration") or (ii) £0.04 ($US0.065) (the "Cash Consideration"). All stockholders of the Company will receive the Stock Consideration, except for US stockholders who are not "accredited investors" as defined in Rule 501 under the US Securities Act of 1933, who will receive the Cash Consideration.

Events occurring after June 30, 2011 were evaluated as of September 30, 2011, 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, 2011 and December 31, 2010 (dollars in thousands):

	June 30, 2011	December 31, 2010
Cash and cash equivalents	$ 280	$ 159
Working capital	(100,368)	(7,160)
Total debt	128,548	120,249

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 reduce costs and raise additional financing to continue to facilitate the Company's 2011 operating plan.

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, 2010 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, 2011, the condensed consolidated statements of operations for the six month periods ended June 30, 2011 and 2010, the condensed consolidated statement of changes in stockholders' deficit for the six month period ended June 30, 2011, and the condensed consolidated statements of cash flows for the six month periods ended June 30, 2011 and 2010 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, 2011 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, 2010.

For a description of the Company's accounting policies, refer to Note 3 of the 2010 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. For the year ended December 31, 2010, the Company reduced the carrying value of its natural gas and crude oil properties by approximately $44.6 million due to the full cost ceiling limitation. As the full cost ceiling exceeded the net capitalized costs at and June 30, 2011 and at June 30, 2010, 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, 2011 and 2010.

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, trade payables and long-term debt to be representative of their respective fair values. 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, 2011 was $157,090, within Level 2 of the fair value hierarchy. The Company does not have any assets or liabilities classified within Level 3 of the fair value hierarchy.

4. Detail of Certain Balance Sheet Accounts

Accounts Receivable
Accounts receivable consists of the following:

	June 30, 2011	December 31, 2010
Trade receivables	$ –	$ –
Other receivables	243,956	189,840
Total accounts receivable	$ 243,956	$ 189,840

Inventory
Inventory consists of the following:

	June 30, 2011	December 31, 2010
Materials and supplies	$ 4,573,728	$ 4,670,688
Crude oil	703,113	373,359
Total inventory	$ 5,276,841	$ 5,044,047

Accrued Liabilities
Accrued liabilities consist of the following:

	June 30, 2011	December 31, 2010
Accrued payables	$ 3,252,961	$ 3,299,918
Accrued benefits	1,407,237	140,342
Accrued interest	850,515	326,189
Total accrued liabilities	$ 5,510,713	$ 3,766,449

5. Related Party Notes Payable

During 2010, the Company entered into two series of unsecured short-term notes payable with two of the Company's officers totaling $5.3 million. During the six months ended June 30, 2011, the Company entered into additional unsecured short-term notes payable with the two officers totaling $2.5 million. These notes were extinguished in August 2011 in exchange for Frontera Cayman Shares. See Note 1.

6. Convertible Notes Payable

During May 2007, the Company raised approximately $67.0 million through a private placement of convertible unsecured notes due May 2012 ("May 2007 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 shares of common stock at 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 July 3, 2008, the Company raised $23.5 million through a private placement of convertible unsecured notes due July 2013 ("July 2008 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 $2.14 per share.

During 2009, noteholders of the Company's convertible notes elected to convert $0.1 million of convertible notes into approximately 32,000 shares of common stock. No such elections were made in 2010 or 2011.

During the six month periods ended June 30, 2011 and 2010, the Company elected to pay the quarterly interest payments in kind and issued approximately $5.8 million and $5.3 million, respectively, in additional convertible notes in accordance with terms of the note purchase agreements. In August 2011 the Company exchanged $120.1 million of the Company's convertible notes payable for Frontera Cayman Shares and $18.2 million of new 10% convertible notes due 2016. See Note 1.

7. 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 a prior 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 6,593,037 shares in the aggregate at an exercise price of $1.69 per 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.

In September 2009, the Company issued 45,186,536 units, each comprised of one Common Share and one Common Share purchase warrant at an issue price of $0.1684 per unit, for gross proceeds of approximately $7.6 million. Each warrant entitles the holder the ability to purchase from the Company one Common Share for a period of two years following the transaction closing date at an exercise price of 15 pence per Common Share. An additional 1,355,596 units were issued to an advisor in exchange for issuance fees. These additional units have the same provisions, with the exception that the term for these warrants is 18 months versus 2 years for those related to the offering. The issuance date fair value of these warrants was estimated to be $3.8 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 rates of 0.58% and 0.82%, expected volatilities of 103.5% and 110.3%, no expected dividend yield and terms ranging from 1.5 years and 2 years.

The change in the aggregate fair value of the warrants resulted in derivative income of $0.7 million and $2.8 million for the six months ended June 30, 2011 and 2010, respectively.

8. 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 is required to make a series of payments to FEGL through December 2009. The settlement resolves 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 remains in default on payments due August - December 2009. The Company applied to the arbitration panel for entry of an agreed award pursuant to the settlement agreement. The panel held a hearing on the Company's application in March 2010, and in April 2010, entered a final, binding award in the amount of $1.4 million in favor of FEGL.

In April 2010, FEGL filed an action in the U.S. District Court for the Southern District of Texas seeking confirmation of the final arbitration 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 award. On August 15, 2011, the U.S. District Court for the Southern District of Texas entered final judgment ("Final Judgment") confirming the final arbitration award and granting FEGL total amount of $1.6 million, which includes total amount of the arbitration 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.

In July 2010, FEGL filed an enforcement action in the 4th Commercial Court in Ankara, Turkey, seeking to enforce the final award against assets of ARAR located in Turkey. In parallel, an affiliate of ARAR initiated a lawsuit against FEGL in the 7th Commercial Court in Ankara, Turkey in July 2010 claiming damages of $0.3 million in connection with the exportation of the rig from Georgia. The Company believes the claims made by ARAR in the Turkish lawsuit are subject to the arbitration clause of the contract, were resolved by the December 2008 settlement, and in any event are completely without merit, and intends to vigorously defend itself.