

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Frontera Investment, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Frontera Investment, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year ended December 31, 2012 and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

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

Opinion

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the financial position of Frontera Investment, Inc. and Subsidiaries as of December 31, 2012, and the results of its operations and cash flows for the year ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 of the consolidated financial statements, the 2011 consolidated financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP

A handwritten signature in black ink that reads "Squar Milner Peterson Miranda & Williamson, LLP". The signature is written in a cursive, flowing style.

San Diego, California
May 17, 2013

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2012

	2012
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 616,260
Restricted cash	50,000
Pawn loan receivables and payday advances	2,684,314
Inventories	103,183
Other current assets	578,943
Total current assets	4,032,700
Fixed Assets, net	1,098,729
Other assets	
Deposit and other assets	307,975
Goodwill	2,087,075
Total other assets	2,395,050
Total assets	\$ 7,526,479
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	\$ 117,488
Accrued expenses	231,007
ACH clearing	391,512
Notes payable – current portion	312,800
Capital lease obligation – current portion	72,000
Total current liabilities	1,124,807
Notes payable – net of current portion	3,100,104
Convertible debt	458,000
Capital lease obligation – net of current portion	116,331
Deferred revenue	87,500
Total liabilities	4,886,742
Stockholders' Equity	
Preferred stock, \$0.001 par value; 7,500,000 shares authorized; 4,072,917 shares issued and outstanding	4,073
Common stock, \$0.001 par value; 100,000,000 shares authorized; 5,955,590 shares issued and outstanding	5,956
Additional paid in capital	17,303,594
Accumulated deficit	(14,673,886)
Total stockholders' equity	2,639,737
Total liabilities and stockholders' equity	\$ 7,526,479

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2012

Revenues:	
Proceeds from sale of gold and precious stones	\$ 2,520,467
Fees and commissions	2,413,652
Proceeds from sale of merchandise	<u>58,779</u>
Total revenues	4,992,898
Cost of Revenues:	
Cost of gold sold	2,014,182
Cost of merchandise sold	51,038
Direct cost of services	<u>45,347</u>
Total cost of revenues	<u>2,110,567</u>
Net revenues	2,882,331
Operating Expenses:	
Store operating expenses	1,893,171
Corporate expenses	859,893
Bad debts	94,554
Depreciation and amortization	318,158
Store acquisition, pre-opening and other	134,433
Stock based compensation	<u>151,402</u>
	<u>3,451,611</u>
Operating loss	(569,280)
Other Expenses:	
Interest expense	<u>(666,557)</u>
Net loss before income taxes and noncontrolling interest	(1,235,836)
Income tax expense	<u>(2,400)</u>
Net loss	(1,238,237)
Net loss attributable to the noncontrolling interest	<u>163,422</u>
Net loss attributable to Frontera	<u>\$ (1,074,815)</u>
Preferred stock dividend	<u>(120,097)</u>
Net loss attributable to Frontera common shareholders	<u>(1,194,912)</u>
Net loss attributable to Frontera per common share - Basic and diluted	<u>\$ (0.020)</u>
Weighted average number of shares outstanding – Basic and diluted	<u>5,955,590</u>

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2012

	Common Stock		Preferred Stock		Additional Paid in Capital	Accumulated Deficit	Total Frontera Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2011	5,955,590	5,956	–	\$ –	\$ 14,241,310	\$ (11,821,814)	\$ 2,425,452	\$ 454,276	\$ 2,879,728
Prior period adjustments (Note 2)	–	–	–	–	245,259	(1,777,257)	(1,531,998)	–	(1,531,998)
Balance at December 31, 2011 (Restated)	5,595,590	5,956	–	–	14,486,569	(13,599,071)	893,454	454,276	1,347,730
Issuance of preferred stock	–	–	4,072,917	4,073	3,905,927	–	3,910,000	–	3,910,000
Issuance costs on preferred stock	–	–	–	–	(428,561)	–	(428,561)	–	(428,561)
8% preferred dividends paid	–	–	–	–	(120,097)	–	(120,097)	–	(120,097)
Acquisition of minority interest	–	–	–	–	(609,146)	–	(609,146)	–	(609,146)
Cancellation of common stock issued as deposit	–	–	–	–	(82,500)	–	(82,500)	–	(82,500)
Stock based compensation	–	–	–	–	151,402	–	151,402	–	151,402
Purchase of noncontrolling interest	–	–	–	–	–	–	–	(290,854)	(290,854)
Net loss	–	–	–	–	–	(1,074,815)	(1,074,815)	(163,422)	(1,238,237)
Balance at December 31, 2012	<u>5,595,590</u>	<u>\$ 5,956</u>	<u>4,072,917</u>	<u>\$ 4,073</u>	<u>\$ 17,303,594</u>	<u>\$ (14,673,886)</u>	<u>\$ 2,639,737</u>	<u>\$ –</u>	<u>\$ 2,639,737</u>

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW
For the Year Ended December 31, 2012

NET LOSS:	\$ (1,238,237)
Adjustments to reconcile net loss to net cash provided by operations:	
Deferred income	(50,000)
Stock based compensation	151,402
Amortization of debt discount	67,842
Depreciation and amortization	318,158
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Pawn receivables and payday advances	(490,646)
Inventories	13,001
Other current assets	(406,827)
Deposit and other assets	(240,786)
Accounts payable	104,046
Accrued expenses	178,488
ACH clearing	72,509
Net cash used in operating activities	<u>(1,521,050)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid store acquisitions	(1,039,980)
Purchase of fixed assets	(352,655)
Net cash used in investing activities	<u>(1,392,635)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from notes payable	3,870,904
Payments of notes payable	(3,072,200)
Proceeds from sale of preferred stock	3,010,000
Preferred stock issuance cost	(428,561)
Payment of preferred dividends	(120,097)
Payments on capitalized lease obligations	(70,485)
Net cash provided by financing activities	<u>3,189,561</u>
Net change in cash and cash equivalents	275,876
Cash and cash equivalents at beginning of period	<u>340,384</u>
Cash and cash equivalents at end of period year	<u><u>\$ 616,260</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:	
Interest paid	<u>\$ 571,040</u>
Income taxes paid	<u>\$ 2,400</u>
Noncash investing and financing activities:	
Purchase of minority interest with preferred stock	<u>\$ 900,000</u>
Fixed assets acquired pursuant to capital leases	<u>\$ 56,702</u>

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Frontera Investment, Inc. and its subsidiaries (collectively, the “Company”) provides various financial services to individuals, through its retail locations, including check cashing, non-recourse loans to individuals secured by gold jewelry (“pawn loans”), gold buying, unsecured cash advances, money transfer services as an agent for Western Union and other related financial services. The gold secured loan portfolio generates finance and service charges revenue. A related activity of the gold jewelry secured pawn lending operation is the disposition of gold jewelry, primarily from collateral from defaulted pawn loans and gold buying, which is sold on a wholesale basis to gold refiners.

As of December 31, 2012 the Company operated a total of 13 full service stores, of which 11 are located in California and 2 or located in Florida. In February and March 2013, the Company completed the acquisition of 5 new stores located in California, and in March 2013, one store location in California was closed.

The Company moved its state of domicile from Arizona to Nevada effective June 7, 2011 and merged the former Arizona Corporation (formerly Bidnow.com, Inc.) into Frontera Investment, Inc., a Nevada corporation.

Basis of Presentation

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”).

See Note 11 for discussion of liquidity matters.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Frontera International Financial Services, Inc., Frontera Financial Services, Inc., and Frontera FL, LLC. All intercompany accounts and transactions have been eliminated in consolidation.

On June 19, 2012, the Company acquired the remaining 50% interest in Frontera FL, LLC (“Florida”). Prior to June 19, 2012, all losses from the Florida operations were allocated to the minority partner under the terms of the operating agreement

Cash and Cash Equivalents

Cash and cash equivalents represent cash at the Company’s stores and in bank accounts. Restricted cash represents a certificate of deposit of \$50,000 that is held at a bank that is restricted for use under an agreement with Merchants Bank of CA.

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pawn Loan Receivables and Pay Day Advances

Pawn loan receivables are secured by gold jewelry. The Company does not record an allowance for losses on pawn loans as the gold held as security has historically exceeded the principal and fees outstanding. Payday advance receivables represent payday advances less reserve for losses.

Inventories

Inventories are stated at the lower of cost or market, and represent gold and precious stones held for resale.

Revenue Recognition

Check Cashing Fees and Other

The Company records check cashing fees in the period in which the check cashing service is provided. Fees derived from other financial services such as money transfer and money order commissions are recognized in the period the transaction is completed.

Pawn Lending

Pawn loans are made on the pledge of gold jewelry. The Company accrues finance and service charge revenue only on those pawn loans that the Company deems collectible through either an excess of collateral and historical loan redemption statistics.

Gold and Precious Stones Sales

Sale proceeds from the disposition of gold and precious stones that were purchased or acquired from defaulted pawn loans is sold periodically to a refiner. The Company also buys gold directly from its customers and also sells this gold to a refiner after meeting certain holding periods required by its license, which is typically 30 days. The net proceeds received from the refiner are reported as gold sales and the cost basis of the gold is reported as Cost of Gold Sold in the period in which such gold sales are reported.

Merchandise Sales

All stores sell some limited merchandise for the convenience of its customers, all of which is carried at the lower of cost or market, and revenue relating to such sales is recognized when sold.

Cash Advances

Cash advances provide customers with cash in exchange for a promissory note supported by that customer's post-dated personal check or authorization to debit that customer's account via an Automated Clearing House ("ACH") transaction for the aggregate amount

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Advances (continued)

of the payment due. The customer may repay the cash advance either in cash, or, as applicable, by allowing the check to be presented for collection on the agreed upon date, or by allowing the customer's checking account to be debited through an ACH for the amount due. The Company accrues fees and interest on cash advances when the loan is paid, which is typically two weeks. The Company records loan losses relating to returned checks when incurred and records subsequent collections of returned checks as a reduction to loan losses in the period subsequent collection is made.

Deferred Revenue

The Company received \$250,000 in September 2009 as payment in connection with execution of a five-year agreement to process money transfers exclusively. The Company is amortizing the fee over the five year period on a straight-line basis and reporting the amortized portion under fees and commission revenues. The remaining unamortized balance of deferred revenue at is \$87,500.

Property and Equipment

Property and equipment is recorded at cost. The cost of property retired or sold and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the consolidated statement of income under Other Income. Depreciation expense is generally provided on a straight-line basis using estimated useful lives of five to seven years.

Goodwill

The Company accounts for goodwill in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, "Business Combinations." Under this guidance, the Company records goodwill based on the excess of the consideration paid in connection with the Company's acquisition of new stores over the estimated fair value of the net assets acquired. Due to the nature of the businesses acquired by the Company, generally all, or a majority of consideration paid is recorded as goodwill. In accordance with FASB ASC 350, "Intangibles, Goodwill and Other," the Company reviews goodwill for potential impairment annually, or on an interim basis if events occur or circumstances change that indicate that it is more likely than not a goodwill impairment exists.

Costs Associated with Store Acquisitions and Store Closings

Store acquisition costs, pre-opening and closing costs are charged to expense as incurred and totaled \$87,155 for the year ended December 31, 2012.

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740 "Income Taxes." This statement requires an asset and liability approach for accounting for income taxes.

Loss Per Share

The Company calculates loss per share in accordance with FASB ASC 260 "Earnings Per Share". Basic loss per common share is calculated using the weighted average number of common shares outstanding during each period. Diluted loss per common share is calculated using the weighted average number of common shares outstanding plus dilutive potential common shares. Potential common shares include common shares underlying outstanding stock options, warrants and other convertible securities. A total of 4,923,151 potential common shares were excluded in the calculation of diluted weighted average shares outstanding for the year ended December 31, 2012 as their inclusion would be anti-dilutive, and accordingly, there are no differences in the basic and dilutive weighted average shares outstanding or the resulting basic and dilutive loss per share during this period.

Stock Based Compensation

The Company accounts for the stock options issued in accordance with FASB ASC 718, "Compensation - Stock Compensation." Accordingly, the estimated grant date fair value of options issued is recognized over the vesting period of the underlying options.

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates in the Company's consolidated financial statements include the grant date fair value of stock options and warrants the estimated fair value of assets acquired and liabilities assumed in connection with new store acquisitions and valuation allowances relating to receivables, deferred tax asset and goodwill. Actual results could differ from those estimates.

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, pawn receivables and payday advance, accounts payable, notes payable and capital leases. The recorded values of these instruments approximate their fair values either based on their short-term nature or as their interest rates approximate market interest rates. There are no financial instruments that are required to be measured at fair value on a recurring basis.

New Accounting Pronouncements

In September 2011, the FASB issued Accounting Standards Update ("ASU") 2011-08, *Intangibles - Goodwill and Other*, which allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 is effective for the Company beginning July 1, 2012. The impact of adopting this ASU was not material to the Company's financial position or results of operations.

The Company reviews new accounting standards as issued. There have been no recently issued accounting standards, or changes in accounting standards, that have had or are expected to have, a material impact on our consolidated financial statements.

Reclassifications

Certain prior-year balances have been reclassified to conform with the current year presentation.

2. PRIOR PERIOD ADJUSTMENT

The Company's 2011 financial statements have been restated to correct certain errors relating to the incorrect application of GAAP noted in the beginning account balances as of January 1, 2012. The required adjustments include the following:

- a) Deferred tax assets - adjustments totaling \$1,502,723 to record a full valuation allowance against the previously recorded amount as of December 31, 2011.
- b) Goodwill and intangible assets – adjustments totaling \$72,119 to write off amounts previously incorrectly capitalized in connection with store acquisition and organization costs.

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

2. PRIOR PERIOD ADJUSTMENT (continued)

- c) Stock based compensation – adjustments totaling \$89,770 to record stock based compensation expense relating to stock options issued by the Company in 2011.
- d) Notes payable – adjustments totaling \$155,489 to record debt discount for the estimated fair value of warrants issued in 2010 and 2011 in connection with notes payable.
- e) Interest expense – adjustments totaling \$87,647 to record the amortization of debt discount during 2010 and 2011.

The effect of the restatement adjustments on the previously reported 2011 financial statements are summarized as follows:

	Previously Reported	Restatement Adjustments	As Restated
Accumulated deficit – beginning (January 1, 2011)	\$ 11,664,669	\$ 1,512,580	\$ 13,177,249
2011 Balances/Activity:			
Assets	\$ 6,704,416	\$ (1,627,750)	\$ 5,076,666
Liabilities	\$ 3,780,688	\$ (51,211)	\$ 3,729,477
Net loss	\$ 157,144	\$ 264,679	\$ 421,823
Additional paid in capital	\$ 14,241,310	\$ 245,259	\$ 14,486,569
Accumulated deficit – ending (December 31, 2011)	\$ 11,821,814	\$ 1,777,257	\$ 13,599,071

3. PAWN RECEIVABLE AND PAYDAY ADVANCES

The major components of receivables as of December 31, 2012 were as follows:

Pawn loan outstanding	\$ 2,437,126
Payday advances	247,188
Total	<u>\$ 2,684,314</u>

4. FIXED ASSETS, NET

Fixed assets, net at December 31, 2012 consist of the following:

Description	Amount
Computers and equipment	\$ 1,587,555
Leasehold improvements	653,016
	<u>2,240,571</u>
Accumulated depreciation	(1,141,842)
	<u>\$ 1,098,729</u>

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

4. FIXED ASSETS, NET (continued)

(1) Includes \$140,761 as of December 31, 2012 of capitalized costs associated with the development of a new software platform that will replace its existing point of sale software through a 3rd party software company. Through December 31, 2012 there has been no depreciation recognized as the asset had not yet placed in service. Expected completion date is at the end of 2013 at an estimated total investment of \$610,000.

Depreciation expense was \$318,158 for the year ended December 31, 2012.

5. GOODWILL

During 2012, the Company recorded an aggregate of \$1,039,979 of additional goodwill in connection with new store acquisitions. This represents the total consideration paid, as there were no net assets recorded in connection with such acquisitions. As of December 31, 2012 total goodwill amounted to \$2,087,076. During 2012, the Company determined that there was no impairment of goodwill.

6. NOTES PAYABLE AND CONVERTIBLE DEBT

The Company's note payable and convertible debt instruments and balances outstanding at December 31, 2012 are as follows:

\$4,500,000, secured revolving line of credit. Due June 19, 2015. (1)	\$ 3,100,104
\$358,000, 15% per annum unsecured convertible note payable. interest payable quarterly, due April 1, 2014. (2)	358,000
\$50,000, 15% per annum, unsecured convertible note payable. Interest quarterly, due April 1, 2013. (2)	50,000
\$50,000, 12% per annum, unsecured convertible note payable. Interest quarterly, due April 1, 2013. (2)	50,000
\$312,800, 0.21% per annum, unsecured note payable to related party due December 31, 2013 (3)	312,800
Total notes payable and convertible debt	<u>3,870,904</u>
Less current portion	<u>(312,800)</u>
Notes payable and convertible debt – net of current portion	<u>\$ 3,558,104</u>

(1) On June 19, 2012, Salus Capital Partners, LLC (“Salus”) and the Company entered into a three year revolving credit facility up to \$3.0 million secured by all assets of the Company. The facility provides for increasing the maximum to \$5.0 million. Interest on the outstanding principal amount is payable monthly based on an annual rate equal to the greater prime rate plus 4% or 7.25%. As of December 31, 2012 the applicable annual interest rate was 7.25%. In addition, the agreement provides for a monthly asset monitoring fee of \$5,000. At closing, a total of \$1,066,096 was advanced on the facility of which \$909,519 was used to pay existing loan obligations plus accrued interest and

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

6. NOTES PAYABLE AND CONVERTIBLE DEBT (continued)

\$156,578 was used to pay transaction related expenses which are being amortized over the three year loan period to depreciation and amortization.

On June 19, 2012, an investment affiliate of Metropolitan Retail Capital (“MRC”), a private equity firm that is deemed to be a related party due to its ownership of 100% of the Company’s Series A Preferred Stock as of December 31, 2012, and due to its Managing Director being a member of the Company’s board of directors, agreed to subordinate their collateral interest in the assets of the Company to Salus in exchange for an increase in the interest rate from 15% to 16% per annum, a pay down of their existing loan from \$2.0 million to \$1.5 million, extended the loan maturity date from April 30, 2013 to June 19, 2015 and repriced existing warrants to purchase up to 15% of the fully diluted common shares at prices ranging from \$0.96 to \$1.20 into one warrant of 1,390,000 shares at \$.096 per share.

On September 18, 2012, the Company and Salus increased the existing credit facility from \$3.0 million to \$4.5 million and used the proceeds to repay the \$1.5 million promissory note due MRC with same terms and conditions (see note 1 above), but extending the due date to June 19, 2015 (to coincide with the due date of the existing Salus note). During the year ended December 31, 2012 the Company incurred interest expense totaling \$203,000 in connection with the MRC loan agreement prior to note repayment.

(2) Unsecured notes include convertible notes payable with principal balances outstanding at December 31, 2012 of \$358,000 and \$50,000 from a former and current member, respectively, of the Company’s board of directors. These notes and one other unsecured note payable with a principal balance outstanding of \$50,000 at December 31, 2012 were converted to Series A Preferred stock subsequent to December 31, 2012 at \$0.96 per share, or 477,083 shares (See Note 13). Based on the conversion subsequent to year end, all of these notes, including the two notes with maturity dates of April 1, 2013 were classified as non-current convertible debt as of December 31, 2012 on the accompanying consolidated balance sheet.

(3) In December 2012 the Company borrowed \$312,800 from MRC pursuant to an unsecured promissory note. The note matures on December 31, 2013 and requires monthly principal payments, commencing January 31, 2013 of \$26,066.67. Proceeds of this note were used to prepaid the 2013 dividend on the Series A Preferred Stock.

As noted above, during 2012 note payable repayments to MRC totaled \$2.0 million. In addition during the 2012, additional unsecured notes payable in the aggregate amount of \$1,072,098 were repaid in full.

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

6. NOTES PAYABLE AND CONVERTIBLE DEBT (continued)

As of December 31, 2012, annual maturities of the outstanding convertible debt and notes payable for each of the years after December 31, 2012 are as follows:

2013	\$ 412,800
2014	358,000
2015	<u>3,100,104</u>
Total	<u>\$ 3,870,904</u>

The Company is in compliance with all debt covenants as of December 31, 2012. In February 2013 the Company was notified by Salus that it was out of compliance with certain covenants, and in March 2013 an amendment to the covenants was agreed to by the parties which corrected the covenant violation. Based on subsequent additional covenant non-compliance, in May 2013 a further amendment as agreed to which cured the covenant violations (See Note 13).

Capitalized Lease Obligations

The Company leases Teller Cash Recycles (TCR) under capital leases, which are included in property and equipment. These assets were capitalized at their original cost values totaling \$299,253.

Accumulated amortization and amortization expense related to capitalized lease obligations were \$130,925 and \$40,072 as of and for the twelve months ended December 31, 2012, respectively and are included in amortization and accumulated depreciation totals noted above. Minimum future lease payments required under capital leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

2013	\$ 125,894
2014	97,683
2015	58,169
2016	<u>5,901</u>
Total minimum lease payments	\$ 287,647
Less: Amount representing estimated executor cost such as maintenance included in total minimum lease payment	<u>(75,945)</u>
Net minimum lease payment	211,702
Less: amount representing interest	<u>(23,371)</u>
Present value of net minimum lease payment	188,331
Less: Current portion	<u>(72,000)</u>
Long term portion	<u>\$ 116,331</u>

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

7. NONCONTROLLING IN SUBSIDIARY

On October 7, 2010, the Company and an investor, who is an investment affiliate of MRC, formed Frontera FL, LLC, a Florida limited liability company with the intention of opening three stores in Florida. In connection with the subsidiary formation, the investor contributed \$900,000 in exchange for 50% ownership and 50% of the profits, provided, however that the investor is allocated 100% of all losses and will receive 100% of the profits until losses are absorbed. The first full service Frontera store opened in Davie, Florida on January 17, 2011.

On June 19, 2012, the Company acquired the remaining 50% interest in Frontera FL, LLC for \$900,000 through the issuance of 937,500 shares of Series A Preferred stock to the 50% owner. Upon acquisition of the noncontrolling interest in the subsidiary by the Company, the excess of consideration paid over the carrying value of the noncontrolling interest of \$609,146 was recorded as a charge to additional paid in capital. During the period January 1, 2012 through June 18, 2012 a total of \$163,422 in losses incurred in Frontera FL, LLC were allocated to the noncontrolling interest.

8. STOCK BASED COMPENSATION

The 2012 Stock Option Plan provides for the issuance of non-qualified options to directors, officers, employees and consultants of the Company. The maximum number of common shares reserved for issuance under the Plan is 2,175,000 shares. In addition, through December 31, 2012 the Company has granted a total 458,333 stock options at an exercise price of \$0.42 per share outside of the 2012 Stock Option Plan. The Company's Board of Directors establishes the terms and conditions of all option grants, subject to the terms of the Plan and applicable provisions of the Internal Revenue Service.

During the year ended December 31, 2012 a total of 1,915,000 stock options with an exercise price of \$0.96 per share were granted. As of December 31, 2012, a total of 2,373,333 stock options were outstanding. There were no exercises or cancellations of options during 2012.

The fair value of stock options at date of grant is estimated using the Black- Scholes model for options granted in 2012, assumptions used in the grant date fair value determination were as follows. The risk free interest rate of 0.39% based on the U.S. Treasury constant maturity for the expected life of the stock options; expected volatility of 35%, based on the historical volatilities of the common stock of group of selected peer public companies 35% and dividend yield of 0%.

Stock based compensation expense recognized during the year ended December 31, 2012 was \$151,402. As of December 31, 2012 there is a total of \$106,091 of stock based compensation expense relating to options granted but not yet vested. This cost is expected to be recognized over the weighted average period of 1.1 years.

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9. INCOME TAXES

The components of the Company's deferred tax assets and liabilities as of December 31, 2012 are as follows:

Deferred tax assets:	
Net operating losses	\$ 1,694,632
Deferred state assets	287,035
Stock based compensation and deferred revenue	111,136
Total deferred tax assets	<u>2,092,803</u>
Deferred tax liabilities:	
Depreciation, amortization and other	94,765
Total deferred tax liabilities	<u>94,765</u>
Net deferred tax assets	1,998,038
valuation allowance	<u>(1,998,038)</u>
Deferred taxes assets	<u><u>\$ —</u></u>

The components of the provision for income tax benefit and the income to which it relates for the year ended December 31, 2012 are shown below:

Current provision (benefit):	
Federal	\$ —
State	2,400
	<u>2,400</u>
Deferred provision (benefit):	
Federal	371,092
State	55,939
Deferred provision (benefit) before reserve	<u>427,031</u>
Change in valuation allowance	427,031
Total net provision (benefit)	<u><u>\$ 2,400</u></u>

The Company has net operating loss carryforwards for federal and state purposes of approximately \$5,000,000 and \$5,000,000 respectively. The losses will begin expiring in 2023 and 2013 respectively. Internal Revenue Code Section 382 and similar California rules place a limitation on the amount of taxable income that can be offset by carryforwards after a change in control (generally greater than a 50% change in ownership). As a result of these provisions, the utilization of the net operating loss carryforwards may be limited.

In assessing the possible realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In

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9. INCOME TAXES (continued)

making this assessment, management believes that it is more likely than not that the Company will not fully realize the benefits of the net deferred tax assets as of December 31, 2012. The Company has established a full valuation allowance for its deferred tax assets due to uncertainties that preclude it from determining that it is more likely than not that the Company will be able to generate sufficient taxable income to realize such assets. The Company monitors positive and negative factors that may arise in the future as it assesses the need for a valuation allowance against its deferred tax assets. At the year ended December 31, 2012, the Company has a valuation allowance of approximately \$2,000,000 against its deferred tax assets.

The Company adopted guidance issued by the FASB relating to uncertain tax positions as of April 1, 2009. Upon adoption, the Company had no unrecognized tax benefits, and there were no material changes for the year ended December 31, 2012. The Company recognizes interest and/or penalties related to uncertain tax positions in income tax expenses. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. There was no interest or penalties related to income tax matters for the year ended December 31, 2012. The Company is subject to taxation in the United States and various state jurisdictions. The Company's tax years from inception are subject to examination by the United States and California authorities due to the carryforward of unutilized net operating losses.

10. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases all of its store facilities under operating leases with terms ranging from one to five years and certain rights to extend for additional periods. Future minimum rentals due under non-cancellable leases are as follows for each of the years ending December 31:

2013	405,970
2014	345,176
2015	253,974
2016	145,533
2017 and thereafter	124,271
Total	<u>\$ 1,274,924</u>

Total rents paid under these lease agreements totaled \$338,673 for 2012.

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10. COMMITMENTS AND CONTINGENCIES (continued)

Other contingencies

From time to time, the Company may be involved with various claims arising in the normal course of business. Management does not believe the final outcome of any such claims will have a material effect on the Company's results of operations, liquidity or financial position.

11. LIQUIDITY

The accompanying consolidated financial statements of the Company have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. As of December 31, 2012, the Company had approximately \$616,000 in cash and cash equivalents and a working capital balance of approximately \$2.9 million. For the year ended December 31, 2012 the Company incurred a net loss and negative cash flow from operating activities of approximately \$1.2 million and \$1.5 million, respectively, and as of December 31, 2012 the Company has incurred an accumulated deficit of approximately \$15.0 million.

As described more fully in Note 16, in June 2012, the Company obtained a commitment from MRC to purchase up to \$5.9 million of Series A Preferred Stock. During 2012, the Company sold MRC \$3.9 million of preferred stock pursuant to the agreement with MRC, and as of December 31, 2012 there is an additional \$2.0 million commitment remaining under the agreement. Through April 2013 a total of \$662,840 cash was received from the issuance of 690,460 shares of Series A Preferred stock under the MRC agreement. In addition, as more fully described in Note 6, the Company has a \$4.5 million asset based line of credit facility with Salus which matures on June 19, 2015. and has borrowed on its asset based line of credit a total of \$3.1 million (which approximated the maximum amount allowed based upon existing collateral formula).

In November 2012 and through March 31, 2013, the Company acquired six new store locations that in the aggregate are forecast by management to produce over \$500,000 in cash flows annually (based on historical financials and current trends). In addition, management is forecasting improved operating results and operating cash flows during the year ended December 31, 2013 from existing stores. In May 2013, management negotiated an amendment to the loan agreement with Salus under which the borrowing base formula was revised creating an increase in the collateral amount used to determine availability under the loan agreement by approximately \$450,000, of which \$300,000 was necessary for the Company to be in compliance with the loan agreement covenants, and the balance was available for future working capital purposes. In addition, in May 2013 the Company reached an agreement with Western Union that provides for an upfront in the amount of \$275,000 in connection with a new five year exclusive agreement.

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
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11. LIQUIDITY (continued)

In the opinion of management, existing cash resources at December 31, 2012, combined with projected improvements in operating results and cash flows from operations during 2013; additional proceeds from issuance of preferred stock and the increased availability under its line of credit will provide sufficient liquidity for the Company to meet its continuing obligations for the next twelve months and beyond. However, there can be no assurances that projected improvements in operating results or operating cash flows will be realized or if additional proceeds from preferred stock will be received.

12. STOCKHOLDERS' EQUITY

Common Stock

The Company is authorized to issue 100,000,000 shares of \$0.001 par value common stock, of which there are 5,955,590 shares issued and outstanding as of December 31, 2012. The Company completed a 12 for 1 reverse stock split effective June 22, 2011. Total outstanding shares prior to the reverse split were 70,458,064 and 5,872,256 shares outstanding after the reverse split. All share information has been adjusted to reflect the reverse split including rounding of all shares to the next whole share.

Series A Preferred Stock

The Company is authorized to issue 7,500,000 shares of Series A Preferred Stock. As of December 31, 2012, pursuant to the agreement described in the following paragraph, Metropolitan Retail Capital (collectively "MRC") contributed \$3,910,000 to the Company in exchange for 4,072,917 shares of Series A Preferred Stock (at \$0.96 per share). The Company has paid dividends on the Preferred Stock through December 31, 2012 totaling \$120,097 representing all dividends due for 2012. In addition, in December 2012, the Company paid preferred dividends for 2013 on the existing Series A Preferred Stock totaling \$312,800. The preferred dividends for 2012 are recorded as a charge to additional paid in capital and the 2013 dividend paid in 2012 is recorded as a prepaid assets, and will be recognized as a charge to additional paid in capital on a monthly basis during 2013. The Company borrowed \$312,800 to pay these dividends from MRC with payments due in 12 equal monthly installments (See Note 6).

On June 19, 2012, two investment affiliates of MRC purchased 1,155,921 shares of Series A Preferred Stock at a purchase price of \$0.96 per share, or \$1,109,684. Concurrent with the closing, MRC contributed and assigned one hundred percent (100%) of its membership interests in Frontera FL, LLC to the Company in consideration for the issuance of 937,500 shares of Series A Preferred Stock valued at \$900,000. In total, at closing, 2,093,421 shares of Series A Preferred Stock was issued in exchange for

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
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12. STOCKHOLDERS' EQUITY (continued)

\$2,009,684. Proceeds from the issuance of the Series A Preferred Stock are recorded net of expenses related to this transaction totaling \$428,561. Other key parts of this transaction are as follows:

- After the Initial Closing, the Company shall sell, and MRC shall purchase at \$0.96 per share, up to 4,052,414 additional shares of Series A Preferred Stock, proceeds of which shall be used primarily for new store acquisitions. MRC shall not be obligated to consummate any subsequent closing after the five year anniversary of the Initial Closing.
- In addition to a \$125,000 fee paid to MRC in connection with this transaction, the Company also pays a monthly monitoring fee based upon the total amount of Preferred Stock acquired by MRC. This fee, which totaled \$22,338 during the year ended December 31, 2012 is classified as interest expense.
- MRC may terminate its obligation under this Agreement to subscribe for the additional shares by written notice to the Company upon the occurrence of any of the following: (a) if the Company has breached any of its material obligations under this Agreement or any Transaction Agreement, (b) in the event of the insolvency, bankruptcy, reorganization under bankruptcy or assignment for the benefit of creditors of the Company, or (c) if the Company has defaulted in the due observance or performance of any covenant, representation, warranty, condition or agreement on the part of the Company.
- As of the Initial Closing, the authorized size of the Board was set to five (5), and the Board shall be comprised in the manner set forth in a Stockholders' Agreement, pursuant to which MRC holds 3 of the 5 board seats.

Warrants – Common Stock

- In connection with the MRC loan repayment (See Note 6), previously issued options to MRC to purchase a total of 952,460 with exercise prices ranging from \$0.96 - \$1.20, were replaced with an aggregate of 1,390,000 warrants to purchase common shares at \$0.96 per share. These warrants expire between April 30, 2015 and November 30, 2016. None of these warrants were exercised during 2012. In connection with the original warrants issued, the Company recorded debt discount totaling \$151,441, of which \$67,842 was amortized during 2012 and recorded as interest expense. As of December 31, 2012 there was no remaining unamortized debt discount.

During 2012, the Company issued a total of 425,000 warrants to purchase common stock at an exercise price of \$0.96 per share. These warrants expire April 1, 2014. None of these warrants were exercised as of December 31, 2012.

FRONTERA INVESTMENT, INC. AND SUBSIDIARIES
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12. STOCKHOLDERS' EQUITY (continued)

Warrants – Preferred Stock

During 2012, in connection with the MRC Preferred Stock financing described above, the Company issued warrants to Gil Partida, Allan Youngberg and Benjamin Yogel (CEO, CFO and Co-Chairman of the Company) aggregating 734,818 shares for the purchase of Series A Preferred Stock at \$0.96 per share. These warrants expire June 18, 2022. None of these warrants were exercised as of December 31, 2012. In connection with the issuance of these warrants, the Company recorded stock based compensation expense totaling \$71,277.

13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 17, 2013, the date the financial statements were available to be issued. Except as noted below, there were no events which require adjustments to, or disclosure in, the 2012 financial statements.

Line of Credit Amendment

On May 14, 2013 the \$4.5 million loan agreement with Salus (See note 6) was modified to allow for additional assets to be included in the borrowing base used to determine availability. Prior to this amendment, the Company was in an overadvance position due to the decline in the spot price of gold. Based on the amendment the overadvance position was corrected.

Issuance of Preferred Stock

Through March 31, 2013, the Company issued 690,458 of Series A Preferred shares for \$662,840 to an MRC affiliated entity (See Note 12). The funds were used to purchase the five stores new stores (see below), acquire equipment for these stores and provide working capital for operations.

New Store Acquisitions and Store Closure

On February 1, 2013, the Company acquired one store in San Marcos California from San Marcos Postal Center for \$125,000. The Company paid \$105,000 to the seller and financed the balance of \$20,000 on a note to the seller due in five years, but contingent upon certain events. Interest is due on the note at the rate of 5% per annum and is payable month until paid in full.

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13. SUBSEQUENT EVENTS (continued)

On March 15, 2013, the Company acquired four stores in Northern California from Check Max Plus, Inc. for \$895,000. The Company paid \$100,000 down and financed the balance on a note to the seller for \$795,000 with interest payable monthly at the rate of 10% per annum and monthly payments of \$50,000 commencing June 15, 2013 with the balance due in full on December 31, 2013. The note is secured by the assets of the four stores. In addition, the Company purchased the payday advances outstanding for a total of approximately \$66,000 with the balance due in full by April 15, 2013.

On March 4, 2013, the Company closed one store in Mecca, California. This store opened in 2008 and was embedded inside an AMPM supercenter. The cost to close the store totaled approximately \$25,000, including write-off of tenant improvements.

Conversion of Notes Payable

On April 3, 2013 convertible notes and notes payable with an aggregate principal balance of \$458,000 which were outstanding at December 31, 2012 were converted into a total of 477,083 shares of Series A Preferred stock based on a conversion price of \$0.96 per share (See Note 6).

Note Payable

In April 2013, the Company received proceeds of \$202,500 pursuant to a note payable with MRC. Under the terms of this agreement, the note is payable at maturity on April 10, 2014 with interest payable monthly at the rate of 20% per annum on the outstanding balance.

Purchase of Gold and Diamonds

In May 2013, the Company purchased gold and diamonds valued at \$200,018 from MRC. Based on the agreement with MRC relating to this purchase, payment for the gold and diamonds purchased may be deferred until sufficient cash flow is generated for the repayment.