

**BORDER PETROLEUM CORP.**  
(formerly Border Petroleum Inc.)

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

February 27, 2012

SUITE 2000, 840 – 7 AVENUE S.W.  
CALGARY, ALBERTA T2P 3G2

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Border Petroleum Corp.

### Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

*The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS"). Throughout this discussion, percentage changes are calculated using numbers rounded to the decimal to which they appear.*

*The following discussion and analysis of financial results and related data has been prepared by management, is reported in Canadian dollars and should be read in conjunction with the audited financial statements for the year ended March 31, 2011, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This Management's Discussion and Analysis is dated as of February 27, 2012.*

**BOE presentation – For the purposes of calculating unit costs, natural gas is converted to a barrel of oil equivalent (boe) using six thousand cubic feet equal to one boe unless otherwise stated. A boe is a very approximate comparative measure that, in some cases, could be misleading, particularly if used in isolation.**

#### **FORWARD-LOOKING STATEMENTS**

*The information herein contains forward-looking statements and assumptions. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and other similar expressions. Such statements and assumptions also include those relating to guidance, results of operations and financial condition, capital spending, financing sources, commodity prices, cost of production and the magnitude of oil and gas reserves. By their nature, forward-looking statements are subject to numerous known and unknown risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, actual results may differ materially from those predicted. Border Petroleum Corp. is exposed to numerous operation, technical, financial and regulatory risks and uncertainties, many of which are beyond its control and may significantly affect anticipated future results.*

*Operations may be unsuccessful or delayed as a result of competition for services, supplies and equipment, mechanical and technical difficulties, ability to attract and retain employees on a cost-effective basis, commodity and marketing risk and seasonality. Border Petroleum Corp. is subject to significant drill risks and uncertainties including the ability to find oil and natural gas reserves on an economic basis and the potential for technical problems that could lead to well blowouts and environmental damage. Border Petroleum Corp. is also exposed to risks relating to the inability to obtain timely regulatory approvals, surface access, access to third party gathering and processing facilities, transportation and other third party related operation risks. Furthermore, there are numerous uncertainties in estimating Border Petroleum Corp.'s reserve base due to the complexities in estimated future production, costs and timing of expenses and future capital. The financial risks Border Petroleum Corp. is exposed to include, but not limited to, access to debt or equity markets and fluctuations in commodity prices, interest rates and the Canadian/US dollar exchange rate. Border Petroleum Corp. is subject to regulatory legislation, the compliance with which may require significant expenditures and non-compliance with which may result in fines, penalties or production restrictions.*

*Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time preparation of, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Border Petroleum Corp. does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

#### **SPECIAL NOTE REGARDING NON-IFRS MEASURES**

*This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "net petroleum and natural gas revenue" (petroleum and natural gas sales less royalties, production expenses and transportation costs) and "funds from operations" (net loss for the period adjusted for non-cash items in the statement of operations) are not IFRS measures and do not have standardized meanings prescribed by IFRS.*

*Border Petroleum Corp. also uses "operating netbacks" as a key performance indicator of field results by commodity. "Operating netbacks" do not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures by other companies. Operating netbacks are determined by deducting royalties, operating, processing and transportation expenses from petroleum and natural gas sales.*

*Funds from operations and operating netbacks are not intended to represent operating profits, nor should they be viewed as an alternative to cash flow provided by operating activities, net loss or other measures of financial performance calculated in accordance with IFRS.*

## **Border Petroleum Corp.**

### **Management's Discussion & Analysis**

For the three and nine months ended December 31, 2011

#### **CORPORATION OVERVIEW**

The primary business of Border Petroleum Corp. ("Border" or the "Corporation") is the acquisition, development and production of crude oil, natural gas and natural gas liquids from properties located in the province of Alberta. The Corporation's shares are posted on the TSX Venture Exchange (the "TSXV") under the symbol "BOR". The Corporation changed its name from Border Petroleum Inc. to Border Petroleum Corp. on September 14, 2010. The Corporation changed its fiscal year end from April 30 to March 31 during 2010.

#### **HIGHLIGHTS**

- On November 30, 2011, the Corporation closed a bought deal financing (the "Offering") with a syndicate of Underwriters for the issuance of 81,000,000 common shares of the Corporation at a price of \$0.21 per common share and 24,000,000 flow-through shares of the Corporation at a price of \$0.25 per flow-through share for aggregate gross proceeds of \$23,010,000. The Underwriters were paid a cash and were granted broker warrants entitling the Underwriters to purchase 2,100,000 common shares of the Corporation equaling 2% of the number of common shares and flow-through shares sold under the Offering at an exercise price of \$0.21 per share for a period of 12 months from the closing of the Offering.
- On November 30, 2011, Indian Oil & Gas Canada ("IOGC"), with the approval of the Loon River Cree Nation (the "Nation"), issued an IOGC permit covering 29 sections (18,560 acres) of the Nation's Lands in the Red Earth area of northeastern Alberta, including rights in the Slave Point formation.
- On December 14, 2011, the Underwriters exercised the full Over-Allotment Option that they were granted pursuant to the Offering, and purchased an additional 12,150,000 common shares of the Corporation at a price of \$0.21 per common share for additional gross proceeds of up to \$2,551,500. The Underwriters received a cash commission, as well as broker warrants entitling the Underwriters to purchase 243,000 common shares at an exercise price of \$0.21 per share for a period of 12 months from the closing of the Over-Allotment Option.

#### **OUTLOOK**

On November 30, 2011, Border achieved two major objectives in its continuing efforts to grow the Corporation. Firstly, the Corporation closed a \$25.5 million bought deal financing (through a syndicate of Underwriters led by Canaccord Genuity Corp. and including Macquarie Capital Markets Canada Ltd., National Bank Financial Inc., Dundee Securities Ltd., Haywood Securities Inc. and Fraser Mackenzie Limited). Secondly, the Corporation secured an Indian Oil and Gas Canada Permit (the "Permit") covering 29 sections of virtually contiguous Slave Point rights on Loon River Cree Nation Lands.

These achievements allowed Border to commence the next phase of its development at Red Earth with operations commencing on Border's first Slave Point horizontal well on February 23, 2012. Border also anticipates commencing the drilling of a second well in March 2012, which has now been licensed. Subject to weather and the availability of services, the Corporation plans to have both wells completed and on test in March 2012. For the balance of the year, Border plans to drill and fracture stimulate additional Slave Point horizontal wells at Red Earth.

## **Border Petroleum Corp.**

### **Management's Discussion & Analysis**

For the three and nine months ended December 31, 2011

#### **OPERATIONS**

During the three and nine month periods ended December 31, 2011, the Corporation's average net daily production was 371 boe/d and 213 boe/d, respectively.

#### **Producing Properties**

##### ***Red Earth/Dawson, Alberta***

The Corporation has working interest in 22,053 gross acres (22,012 net) in the Red Earth and Dawson area of north central Alberta ("Non-Reserve Lands"). The Corporation re-entered five wells on these lands in its fiscal year ended March 31, 2011.

In the Red Earth area, Border has a 100% working interest in the wells 100/11-06-87-11W5M, 00/9-06-86-10W5M, 00/13-36-85-11W5M, 100/4-15-88-12W5M and 00/08-28-88-11W5M. Four of the wells have been fracture stimulated and put on production to date. The Corporation has a well in the Dawson field located at 6-23-80-17W5M. On November 30, 2011, IOGC, with the approval of the Nation, issued an IOGC permit now covering more than 29 sections (18,693 acres) of the Nation's Lands in the Red Earth area of northeastern Alberta including rights in the Slave Point formation. Red Earth/Dawson production during the three and nine month periods ended December 31, 2011, averaged 33 bbls/d and 24 bbls/d respectively.

##### ***Leduc, Alberta***

The Corporation has a 100% working interest in the wells 15-19-49-26W4M, 10-29-49-26W4M, 8-32-49-26W4M, 14-32-49-26W4M and 13-33-49-26W4M and 60% in 11-33-49-26W4M. The Corporation has an interest in 6,549 gross acres (6,254 net) in the Leduc area of central Alberta. Leduc production for the nine months ended December 31, 2011, averaged 132 boe/d and 241 boe/d for the third quarter.

##### ***Norris, Alberta***

The Corporation has various working interests varying from 57.5% to 100% in 452 net acres in the Norris area of central Alberta which also consists of five producing oil wells and one water disposal well. The Corporation has a 57.5% working interest in the well 100/16-21-53-18W4 and 100.0% working interest in wells 102/16-21-53-18W4, 00/01-28-53-18W4, 102/01-28-53-18W4 and 100/04-27-053-18W4 which all produce from the Mannville formation. Several Norris wells were down for pump service work during the quarter. This resulted in Norris production during the nine months ended December 31, 2011 to average 14 bbls/d and 31 bbls/d for the third quarter. The optimization work has increased production from the 102-16-21-53-18W4M well and management is evaluating further optimization work on the remaining Norris wells.

##### ***Cherhill/Majeau, Alberta***

Border has a 100% working interest in 3,200 acres (2,560 net acres) in the Cherhill area of southwestern Alberta. The wells, 100/03-25-56-04W5 and the 6-26-56-04W5M, produce from the Glauconite formation. Cherhill/Majeau production during the nine months ended December 31, 2011, averaged 8 boe/d and 10 boe/d for the third quarter.

##### ***Cardiff, Alberta***

The Corporation has a 100% working interest in 160 acres in the Cardiff area of central Alberta which consists of one Mannville oil well located at 100/14-34-55-01W5. Cardiff had no production during the six months ended September 30, 2011, however the third quarter production averaged 5 bbls/d.

##### ***Pembina/Brazeau, Alberta***

Pembina shallow gas production was acquired as part of the Canflame merger commencing July 14, 2011, averaging 49 boe/d to December 31, 2011, and 51 boe/d during the third quarter. The Corporation holds 2.5% in the 3-25-46-15W5M well which is producing approximately 2 mmcf/d gas from the Nisku formation.

## Border Petroleum Corp. Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

### Non-Producing Properties

#### *Phat City, Montana, USA*

The Corporation entered into a sub-participation agreement with Triangle USA Petroleum Corporation Ltd. ("Triangle"), which assigned Triangle's rights in an exploration agreement between Triangle and Hunter Energy LLC ("Hunter"). The agreement requires the Corporation to pay 33 1/3% of the cost to drill one vertical test well on certain joint participation lands consisting of a 33,831 gross acre land position in Montana, United States to earn a 25% non-operating working interest. Hunter has issued a notice of termination of the exploration agreement to Border dated July 25, 2011, with respect to a cash call regarding the drilling of the initial vertical test well under the exploration agreement. By correspondence dated August 2, 2011, the Corporation has contested the notice on grounds that the cash call is improper and does not comply with the exploration agreement. This is an exploration project for Nisku and Bakken oil on the west side of Williston Basin.

### PRODUCTION SUMMARY

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	DECEMBER 31		%	DECEMBER 31		%
	2011	2010	CHANGE	2011	2010	CHANGE
Total Production						
Oil - bbls	9,021	2,296	293	17,651	7,843	125
Natural gas liquids - bbls	3,063	106	2,790	4,538	130	3,391
Natural Gas - Mcf	132,040	2,525	5,129	217,764	9,436	2,208
Total boe	34,091	2,822	1,108	58,483	9,545	513
Daily Production						
Oil - bbls per day	98	25	292	64	29	121
Natural gas liquids - bbls per day	33	1	n/a	17	-	n/a
Natural Gas - Mcf per day	1,435	27	5,215	792	34	2,229
Total boe per day	371	31	1,097	213	35	509

For the nine months ended December 31, 2011, oil production increased 125% to 17,651 bbls compared to 7,843 bbls for the same period last year. Natural gas production for the nine months ended December 31, 2011, was up 2,208% to 217,764 mcf compared to 9,436 mcf for the comparable period last year. Natural gas liquids ("NGLs") increased to 4,538 bbls during this nine month period from 130 bbls last year. Total boe produced for the nine months ended December 31, 2011, increased 513% to 58,483 compared to 9,545 boe last year.

### PRICING SUMMARY

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	DECEMBER 31		%	DECEMBER 31		%
	2011	2010	CHANGE	2011	2010	CHANGE
Oil - \$ per bbl	\$ 94.23	\$ 71.70	31	\$ 88.09	\$ 68.27	29
Natural gas liquids - \$ per bbl	\$ 68.60	\$ 50.23	37	\$ 65.67	\$ 52.60	25
Natural Gas - \$ per Mcf	\$ 3.34	\$ 4.08	(18)	\$ 3.51	\$ 4.16	(16)
\$ per boe	\$ 44.04	\$ 63.87	(31)	\$ 44.75	\$ 60.93	(27)

During the nine months ended December 31, 2011, and the comparable period last year, Border sold all its oil, natural gas and natural gas liquids at spot prices and did not enter into any long-term, fixed price marketing contracts or derivative financial instruments. The Corporation's oil production is currently comprised of three different densities, classified as light, medium and heavy (844.2 to 949.1 kg/m<sup>3</sup>) and as such receives average prices that are lower than the light WTI spot price that is the most common oil reference price. During the nine months ended December 31, 2011, the average boe price was \$44.75 compared to \$60.93 during the same period last year. The boe price will vary due to two key components, the first is the current market price of the products and the second is the Corporation's mix of products. With natural gas prices as low as \$2.00 per mcf and oil prices often above \$100 per barrel, Border's future drilling targets are all light oil wells.

## Border Petroleum Corp.

6

### Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

#### REVENUE

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	DECEMBER 31		%	DECEMBER 31		%
	2011	2010	CHANGE	2011	2010	CHANGE
Oil	\$ 850,094	\$ 164,622	416	\$ 1,554,881	\$ 535,433	190
Natural gas liquids	210,136	5,324	3,847	298,030	6,838	4,258
Natural Gas	441,222	10,301	4,183	764,132	39,288	1,845
Total Working Interest Revenue	\$ 1,501,452	\$ 180,247	733	\$ 2,617,043	\$ 581,559	350
\$ per boe	\$ 44.04	\$ 63.87	(33.0)	\$ 44.75	\$ 60.93	(26.6)

Total revenue for the nine months ended December 31, 2011, increased 350% totaling \$2,617,043 compared to \$581,558 for the comparable period in 2010. This increase was due primarily to the production acquired in the Canflame merger July 13, 2011. Total revenue when expressed as dollars per boe fell during the nine months and the three months ended December 31, 2011, due to the ratio of natural gas production versus oil and natural gas liquids ("NGLs"). During the nine months and three months ended December 31, 2011, natural gas sales volumes accounted for 62% and 65% respectively, of the total sales. Natural gas prices have been low since late 2008 and have averaged \$3.51 per mcf during the nine months ended December 31, 2011. In this Management's Discussion and Analysis, a barrel of equivalent ("boe") equals six mcf per boe. With natural gas prices averaging \$3.51 per mcf, this equates to \$21.06 per boe. Currently the Corporation has greater natural gas sales than oil and NGLs that drive the average price per boe downwards. Future drilling plans target light oil production.

#### ROYALTY SUMMARY

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	DECEMBER 31		%	DECEMBER 31		%
	2011	2010	CHANGE	2011	2010	CHANGE
Crown	\$ 52,780	\$ 6,834	672	\$ 102,198	\$ 24,719	313
Overriding and Freehold	87,862	11,769	647	123,918	48,425	156
Total Royalty Expense	140,642	18,603	656	226,116	73,144	209
\$ per boe	\$ 4.13	\$ 6.59	(37)	\$ 3.87	\$ 7.66	(50)
Expense rate - % of total working interest revenue	9	10	(10)	9	13	(31)

Total royalties paid for the nine months ended December 31, 2011, increased by 209% to \$85,475 compared to \$54,541 for the comparable period last year. On a \$ per boe basis, total royalties fell by 50% to \$3.87 for the nine months ended December 31, 2011, compared to \$7.66 per boe for the comparable period last year. Royalties expressed as a percentage of total working interest revenue was 9% for the nine months ended December 31, 2011, compared to 13% for the same period last year. Natural gas currently accounts for 29% of the Corporation's revenue and due to the low prices and the sliding royalty scale and the gas cost allowance credits, gas Crown royalties remain low.

## Border Petroleum Corp.

7

### Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

#### OPERATING AND TRANSPORTATION EXPENSES

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	DECEMBER 31		%	DECEMBER 31		%
	2011	2010	CHANGE	2011	2010	CHANGE
Production expenses	\$ 780,880	\$ 82,453	847	\$ 1,533,013	\$ 302,491	407
Transportation and gathering	120,103	35,225	241	242,028	85,624	183
	<u>900,983</u>	<u>117,678</u>	<u>665.6</u>	<u>1,775,041</u>	<u>388,115</u>	<u>357.3</u>
Workover expenses	3,565	34,977	(90)	106,301	37,538	183
Total Production Expenses	\$ 904,548	\$ 152,655	492.5	\$ 1,881,342	\$ 425,653	342.0
\$ per boe Total production expenses	\$ 26.53	\$ 54.09	(51)	\$ 32.17	\$ 44.59	(28)
Production, transportation & gathering	\$ 26.43	\$ 41.70	(37)	\$ 30.35	\$ 40.66	(25)
Workover expenses	\$ 0.10	\$ 12.39	(99)	\$ 1.82	\$ 3.93	(54)
Expense rate - % of total working interest revenue	60	68	(11)	72	68	6

Production expenses, excluding workovers, for the nine months ended December 31, 2011, increased to total \$1,775,041 compared to \$388,115 for the comparable period last year. The transportation and gathering expense component of the production costs for the nine months ended December 31, 2011, increased 183% to \$242,028 compared to \$85,624 for the comparable period last year due to the closure of the Rainbow pipeline, which resulted in higher cost transportation arrangements. Workovers on the Norris wells during the first quarter of this year plus the second quarter upgrading of the Leduc central battery and wells, resulted in costs totalling \$106,301 versus the \$37,538 spent during the same period last year. Total production expenses for the nine months ended December 31, 2011, increased 342% to \$1,881,342 compared to \$426,653 for the same period last year. This increase is directly attributable to the 513% increase in production volumes and operational activities from the Canflame Energy Ltd. acquisition. Total production expenses, expressed as a \$ per boe during the nine months ended December 31, 2011, averaged \$32.17 per boe falling 28% from last year's average. Higher volumes in the three months ended December 31, 2011, resulted in a 51% decrease in cost to \$26.53 per boe.

#### GENERAL AND ADMINISTRATIVE EXPENSES

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	DECEMBER 31		%	DECEMBER 31		%
	2011	2010	CHANGE	2011	2010	CHANGE
General and administration	\$ 528,364	\$ 113,478	366	\$ 1,224,996	\$ 461,325	166
Transaction costs	142,799	-	n/a	294,603	-	n/a
	<u>671,163</u>	<u>113,478</u>	<u>491</u>	<u>1,519,599</u>	<u>461,325</u>	<u>229</u>
\$ per boe	\$ 19.69	\$ 40.21	(51)	\$ 25.98	\$ 48.33	(46)
Expense rate - % of total working interest revenue	45	63	(29)	58	79	(27)

General and administrative expenses for the nine months ended December 31, 2011, increased by 166% totaling \$1,224,996 compared to \$461,325 for the same period last year. During this nine months, total general and administration expense per boe fell 46% to \$25.98 per boe compared to \$48.33 for the comparable period last year. Since June 30, 2010, Border has implemented its strategy to acquire and grow two core producing areas. This increased activity and scope, along with the acquisition of Canflame has resulted in additional personnel, both salaried and part-time consulting in all disciplines. During the first two fiscal quarters of last year, the only salaried employee was the President/CEO.

Commencing in 2011, additional salaried employees have been added including a Chief Financial Officer, Chief Operating Officer, Vice President of Exploration and two accounting/administrative staff. Legal fees and associated costs totaling \$294,603 have also been incurred in the nine months ending December 31, 2011, related to the business combination with Canflame Energy Ltd. that closed on July 13, 2011.

Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

**FINANCE INCOME AND EXPENSES**

Finance income, consisting of interest income, is recognized as it accrues in the statement of income, using the effective interest method. Finance expense comprises interest expense on convertible debentures and note payable and accretion on the convertible note payable and of decommissioning provisions.

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	DECEMBER 31		% CHANGE	DECEMBER 31		% CHANGE
	2011	2010		2011	2010	
Finance income						
Interest income	\$ 40,740	\$ -	n/a	\$ 109,159	\$ -	n/a
	<b>40,740</b>	<b>-</b>	<b>n/a</b>	<b>109,159</b>	<b>-</b>	<b>n/a</b>
Finance expenses						
Interest expense	370	-	n/a	4,047	-	n/a
Interest expense on convertible debentures	-	43,580	(100)	-	108,615	(100)
Interest expense on note payable	27,741	-	n/a	79,604	-	n/a
Accretion on convertible note payable	26,610	17,643	51	76,358	44,107	73
Accretion of decommissioning provisions	10,697	(2,648)	(504)	17,441	5,894	196
	<b>65,418</b>	<b>58,575</b>	<b>12</b>	<b>177,450</b>	<b>158,616</b>	<b>12</b>
Finance income (expense) cash items	12,629	(43,580)	(129)	105,112	-	n/a
Finance expense non-cash items	(37,307)	(14,995)	149	(173,403)	158,616	(209)
Net finance income (expense)	<b>(24,678)</b>	<b>(58,575)</b>	<b>(58)</b>	<b>(68,291)</b>	<b>(158,616)</b>	<b>(57)</b>
\$ per boe - finance income (expense) cash items	\$ 0.37	\$ (15.44)	(102)	\$ 1.80	\$ -	n/a
\$ per boe - finance expense non-cash items	\$ (1.09)	\$ (5.31)	(79)	\$ (2.97)	\$ (16.62)	(82)

**DEPLETION AND DEPRECIATION**

	THREE MONTHS ENDED			NINE MONTHS ENDED		
	DECEMBER 31		% CHANGE	DECEMBER 31		% CHANGE
	2011	2010		2011	2010	
Depletion, depreciation	\$ 517,757	\$ 72,950	610	\$ 889,725	\$ 152,361	484
	<b>517,757</b>	<b>72,950</b>	<b>610</b>	<b>889,725</b>	<b>152,361</b>	<b>484</b>
\$ per boe	\$ 15.19	\$ 25.85	(41)	\$ 15.21	\$ 15.96	(5)
Expense rate - % of working interest revenue	34	40	(15)	34	26	30

Depletion and depreciation expense for the nine months ended December 31, 2011, totaled \$889,725 or \$15.21 per boe compared to \$152,361 for the comparable period last year. The change in depletion during this first nine months compared to the same period last year is primarily the result of the acquisition of Canflame Energy Ltd., the Leduc farm-in agreement and the drilling and completion of a horizontal well both within the Leduc area of Alberta.



## Border Petroleum Corp. Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

### SHARE CAPITAL

#### Issued and Outstanding Common Shares

The following table states the issued and outstanding share capital of the Corporation:

	December 31, 2011	
	Number	Stated Value
Balance, beginning of period	70,586,293	\$ 15,965,617
Reduced by way of 4:1 consolidation of common shares		
Issuance to acquire Canflame A&B shares (1)	30,312,232	9,699,914
Issuance for Canflame debentures & accrued interest (1)	6,225,594	1,992,190
Issuance of common shares (2)	81,000,000	17,010,000
Issuance of flow-through shares (2)	24,000,000	6,000,000
Issuance of common shares (3)	12,150,000	2,551,500
Tax effect of flow-through shares		(960,000)
Exercise of warrants	208,334	31,250
Share issue costs		(1,938,196)
Balance, end of period	<b>224,482,453</b>	<b>\$ 50,352,275</b>

- (1) On July 13, 2011, the Corporation closed a business combination between a private, Alberta based oil and natural gas exploration and production company, Canflame Energy Ltd. ("Canflame") and a newly incorporated, wholly owned subsidiary of Border by way of an amalgamation (the "Transaction"). Pursuant to the Transaction: (i) the holders of debentures of Canflame ("Canflame Debentures") received 6,225,594 common shares of the Corporation; and (ii) the holders of common shares of Canflame ("Canflame Shares") received four common shares for each Canflame Share, resulting in the issuance of 30,312,232 common shares of the Corporation for a total of 36,537,826 common shares of Border to the holders of Canflame Debentures and Canflame Shares combined. All other existing options, warrants or securities convertible into Canflame Shares were cancelled. Seventy five percent (75%) of the Border Shares issued to the shareholders of Canflame are subject to a voluntary hold period of four months from the date of closing of the Transaction. As part of the acquisition of Canflame, 6,062,446 Border common shares have been placed into escrow, and will be released only upon the resolution of a pre-existing legal action of which Canflame has been named as the defendant. If there is any loss suffered as a result of the legal actions, one Border common share will be cancelled and returned to treasury for each \$0.30 of loss. These Border common shares are contingently issuable based on the outcome of the legal actions and management has determined that the likelihood of any loss occurring as being remote. Transaction costs of \$294,603 related to this transaction were incurred and have been charged against income during the nine months ending December 31, 2011.
- (2) On November 30, 2011, the Corporation closed a bought deal offering with a syndicate of Underwriters for the issuance of 81,000,000 common shares of the Corporation at a price of \$0.21 per common share and 24,000,000 flow-through shares of the Corporation at a price of \$0.25 per flow-through share for aggregate gross proceeds of \$23,010,000. The Underwriters were paid a cash commission of 6% of the gross proceeds of the offering and were granted broker warrants entitling the Underwriters to purchase 2,100,000 common shares of the Corporation equaling 2% of the number of common shares and flow-through shares sold under the offering at an exercise price of \$0.21 per share for a period of 12 months from the closing of the offering.
- (3) On December 14, 2011, the Underwriters exercised the full Over-Allotment Option that they were granted with the offering, and purchased an additional 12,150,000 common shares at a price of \$0.21 per common share for additional gross proceeds of up to \$2,551,500. The Over-Allotment Option was issued on the same terms and conditions as the offering. The Underwriters received a fee of 6% of the gross proceeds of the Over-Allotment Option and compensation options entitling the Underwriters to purchase 243,000 Common Shares at an exercise price of \$0.21 per share for a period of 12 months from the closing of the Over-Allotment Option.

## Border Petroleum Corp.

### Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

#### Warrants

	December 31, 2011		March 31, 2011	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	14,427,500	\$ 0.33	8,250,000	\$ 0.10
Reduced by way of 4:1 consolidation	-	-	(6,187,500)	0.10
	14,427,500	0.33	2,062,500	0.40
Issued (1 & 2)	2,343,000	0.21	14,427,500	0.33
Exercised	(208,334)	0.15	-	-
Expired	-	-	(2,062,500)	0.10
Outstanding and exercisable, end of period	16,562,166	\$ 0.31	14,427,500	\$ 0.33

- Upon the closing November 30, 2011 of the bought deal offering, the Underwriters were paid a cash commission of 6% of the gross proceeds of the offering and were granted broker warrants entitling the Underwriters to purchase 2,100,000 common shares of the Corporation equaling 2% of the number of common shares and flow-through shares sold under the offering at an exercise price of \$0.21 per share for a period of 12 months from the closing of the offering. On December 14, 2011, the Underwriters received a fee of 6% of the gross proceeds of the Over-Allotment Option and compensation options entitling the Underwriters to purchase 243,000 Common Shares at an exercise price of \$0.21 per share for a period of 12 months from the closing of the Over-Allotment Option.
- As part of the common shares issued in December 2010, the Corporation issued 987,500 warrants to purchase common shares of the Corporation at a price of \$0.15 for a period of 2 years. The fair value ascribed to the warrants was \$38,094. In addition, as part of the February 2, 2011 financing, the Corporation issued 12,000,000 warrants to purchase common shares of the Corporation at a price of \$0.35 for a period of 18 months. The fair value ascribed to the warrants was \$521,690. The Agent for the offering was granted broker options to purchase 1,440,000 units, with each broker option entitling the holder to acquire one unit at a price of \$0.25 per unit for a period of 18 months from the closing date. Each unit consists of one common share and one half of one common share purchase warrant with each warrant entitling the holder thereof to purchase one common share at a price of \$0.35 per share for a period of 18 months from the option grant. In addition, the warrants will expire and be of no further force and effect if not exercised within 10 days of receipt of notice from the Corporation that the 20 day volume weighted average price of the common shares is greater than \$0.55. The value ascribed to the broker's options and embedded warrants was calculated to be \$135,642 and is included as part of warrants.

#### STOCK BASED COMPENSATION

The Corporation has an established stock option plan (the "Plan") which is administered by the Board of Directors, allowing the Board of Directors to grant stock options. The Corporation adopted a 10% Rolling Stock Option Plan, which allows for the purchase of up to 10% of the outstanding common shares of the Corporation.

Additionally, options may not be granted to any one person, any one consultant or any persons performing investor relations duties in any twelve month period which could, when exercised, result in the issuance of shares exceeding 5%, 2% or 2% respectively of the issued and outstanding common shares of the Corporation. All options granted under the Plan shall expire as determined by the Board of Directors not later than the tenth anniversary of the date the options were granted.

The exercise price of the options is to be determined by the Board of Directors, but shall not be less than the market price of the common shares of the Corporation on the TSXV on the last business day before the date on which the options are granted, less any discount permitted by the rules of the TSXV. Vesting of the options is at the discretion of the Board of Directors but generally will occur no earlier than 33.33% to 50% at grant date and 33.33% to 25% at each of twelve and twenty-four months following the grant date. The options granted on December 7, 2011, vest 33.33% at each of one, two and three years following the grant date.

## Border Petroleum Corp.

11

### Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

	December 31, 2011		March 31, 2011	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of period	2,923,750	\$ 0.24	7,295,000	\$ 0.10
Cancelled or expired	-	-	(4,200,000)	\$ 0.10
	2,923,750	\$ 0.24	3,095,000	\$ 0.10
Adjust for 4:1 consolidation (*)	-	-	(2,321,250)	-
	2,923,750	\$ 0.24	773,750	\$ 0.40
Granted	12,550,000	0.23	2,200,000	\$ 0.19
Forfeited	(537,500)	0.25	(50,000)	\$ 0.10
Outstanding, end of period	14,936,250	\$ 0.23	2,923,750	\$ 0.25
Exercisable, end of period	1,627,917	\$ 0.24	1,496,979	\$ 0.29

(\*) As a result of the 4:1 consolidation of the Corporation's outstanding shares, the stock options were also consolidated on a 4:1 basis and repriced at \$0.40 per common share.

	THREE MONTHS ENDED DECEMBER 31			NINE MONTHS ENDED DECEMBER 31		
	2011	2010	% CHANGE	2011	2010	% CHANGE
	Stock based compensation	\$ 102,074	\$ 6,897	1,380	\$ 144,277	\$ 12,244
\$ per boe	\$ 2.99	\$ 2.44	23	\$ 2.47	\$ 1.28	93
Expense rate - % of working interest revenue	7	4	78	6	2	161

Stock-based compensation for the nine months ended December 31, 2011, was \$144,277 or \$2.47 per boe compared to \$12,244 or \$1.28 per boe for the same period last year. The Corporation calculates the stock based compensation using the Black-Scholes option-pricing model. For the nine months ended December 31, 2011, 12,550,000 new options were granted and 537,500 options were forfeited. At December 31, 2011, there were 1,627,917 options that were exercisable.

### AVERAGE SHARES OUTSTANDING

The weighted average number of shares outstanding ended December 31, 2011, totaled 105,911,056 compared to 19,554,032 (post 4:1 share consolidation) at December 31, 2010. On September 14, 2010, the TSX Venture Exchange provided final acceptance of the consolidation of the Corporation's shares on a basis of one common share for each four pre-consolidation common shares.

	THREE MONTHS ENDED DECEMBER 31			NINE MONTHS ENDED DECEMBER 31		
	2011	2010	% CHANGE	2011	2010	% CHANGE
	Basic and diluted	19,464,937	937,964	1,975	105,911,056	

**Border Petroleum Corp.**  
**Management's Discussion & Analysis**

For the three and nine months ended December 31, 2011

Common shares and other equity instruments outstanding as at the date of this MD&A is as follows:

Common shares	224,482,453
Stock options	14,936,250
Warrants	16,562,166

**NET LOSS AND COMPREHENSIVE LOSS**

	THREE MONTHS ENDED DECEMBER 31			NINE MONTHS ENDED DECEMBER 31		
	2011	2010	% CHANGE	2011	2010	% CHANGE
Net income (loss) for period	\$ (859,410)	\$ (125,453)	585	\$ (2,077,892)	\$ (584,326)	256
Income (Loss) per share	\$ (0.00)	\$ (0.01)	(62)	\$ (0.01)	\$ (0.02)	(54)

A net loss and comprehensive loss of \$2,077,892 was recorded for the nine months ending December 31, 2011, compared to a net loss and comprehensive loss of \$584,326 for the same period last year. This was due primarily to higher operating costs, general and administrative costs and an increase in depletion expense.

**NET PETROLEUM AND NATURAL GAS REVENUE**

	THREE MONTHS ENDED DECEMBER 31			NINE MONTHS ENDED DECEMBER 31		
	2011	2010	% CHANGE	2011	2010	% CHANGE
Petroleum & Natural Gas Revenue	\$ 1,501,452	\$ 180,247	733	\$ 2,617,043	\$ 581,559	350
Less:						
Royalties	140,642	18,603	656	226,116	73,144	209
Production expenses	900,983	117,678	666	1,775,041	388,115	357
Workover expenses	3,565	34,977	(90)	106,301	37,538	183
Net Petroleum & Natural Gas Revenue	\$ 456,262	\$ 8,989	4,976	\$ 509,585	\$ 82,762	516
\$ per boe	\$ 13.38	\$ 3.19	320	\$ 8.71	\$ 8.67	-
Net revenue - per share	\$ (0.00)	\$ (0.00)	533	\$ (0.00)	\$ (0.00)	(23)

Gross revenue from petroleum and natural gas increased 350% to total \$2,617,043 for the nine months ended December 31, 2011, compared to \$581,559 for the same period last year. Net revenue after royalties, production and workover expenses increased 516% for the nine months ended December 31, 2011, to \$509,585 compared to \$82,762 for the same period last year.

Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

**NETBACKS**

	THREE MONTHS ENDED DECEMBER 31			NINE MONTHS ENDED DECEMBER 31		
	2011	2010	% CHANGE	2011	2010	% CHANGE
<b>\$ per boe</b>						
Working Interest Revenue	\$ 44.04	\$ 63.87	(31)	\$ 44.75	\$ 60.93	(27)
Royalties	4.13	6.59	(37)	3.87	7.66	(49)
Production expenses	26.43	41.70	(37)	30.35	40.66	(25)
Workover expenses	0.10	12.39	(99)	1.82	3.94	(54)
Total after royalties and production expenses	\$ 13.38	\$ 3.19	320	\$ 8.71	\$ 8.67	-
General and administration	19.69	40.21	(51)	25.98	48.33	(46)
Finance income cash items	0.37	(15.44)	n/a	1.80	-	n/a
Total Corporate Netbacks	\$ (5.94)	\$ (52.46)	(89)	\$ (15.47)	\$ (39.66)	(61)
Non-Cash Items						
Depletion, depreciation and accretion	15.19	25.85	(41)	15.21	15.96	(5)
Stock based compensation	2.99	2.44	23	2.47	1.28	93
Finance expense non-cash items	1.09	5.31	(79)	2.97	(16.62)	(118)
Total Netbacks after non-cash items	\$ (25.21)	\$ (86.06)	(71)	\$ (36.12)	\$ (40.28)	(10)

Field netbacks for the nine months ended December 31, 2011, were \$8.71 per boe compared to \$8.67 per boe for the same period last year. Total netbacks after non-cash items for the nine months ended December 31, 2011, were losses of (\$36.12) per boe compared to (\$40.28) per boe for the same period last year.

**CAPITAL ADDITIONS**

	THREE MONTHS ENDED DECEMBER 31			NINE MONTHS ENDED DECEMBER 31		
	2011	2010	% CHANGE	2011	2010	% CHANGE
Exploration and evaluation assets	\$ 4,319,355	\$ 70,209	6,052	\$ 4,673,005	\$ 108,778	4,196
Property and equipment						
Drilling and completions	180,010	806,739	(78)	2,832,357	1,741,570	63
Production equipment and facilities	114,960	195,179	(41)	729,610	706,692	3
Property acquisitions	-	-	n/a	17,326,419	-	n/a
Asset retirement	3,109	85,613	(96)	129,658	88,164	47
Furniture and equipment	22,158	-	n/a	24,304	26,339	(8)
Total	\$ 4,639,592	\$ 1,157,740	301	\$ 25,715,353	\$ 2,671,543	863

Total asset additions were \$25,715,353 for the nine months ended December 31, 2011, compared to \$2,671,543 for the same period ended December 31, 2010. These additions included \$ 129,658 of non-cash decommissioning adjustments. The additions to capital expenditures this year related to acquisitions are as follows: (for more details regarding these acquisitions, see note 4 in the Border Petroleum Corp. Condensed Interim Financial Statements, December 31, 2011 and December 31, 2010)

a) Canflame Energy Ltd.	\$14,880,908
b) Leduc farm-in purchase	<u>2,572,265</u>
	<u>\$17,453,173</u>

## Border Petroleum Corp.

### Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

During the nine months ended December 31, 2011 Border established a new core area in Leduc, Alberta by acquiring the farm-in agreement from a private company and merging with Canflame Energy Ltd. and spending \$2,436,313 drilling and completing a horizontal well. Expenditures in the comparable period last year focused on establishing the Red Earth area which was also in Alberta.

#### **BANK DEBT**

The Corporation has no bank debt outstanding under a demand revolving operating loan at December 31, 2011, (March 31, 2011 - \$Nil). This facility provides that advances be made by way of prime-based loans and letters of credit to an aggregate maximum of \$3,500,000. The facility bears interest of prime plus 1.25% per annum on prime-based loans and 2.00% per annum plus a minimum fee of \$200 for letters of credit. There is also a non-refundable facility fee calculated at a rate of 0.25% per annum, payable monthly, calculated on the unused portion of the authorized amount of this facility. The credit facility is secured by a general security agreement and a guarantee of a subsidiary corporation that was formed to complete the merger with Canflame Energy Ltd.

Under the terms of the credit facility, the Corporation must maintain a working capital ratio no less than 1:1 adjusted for any un-drawn portion of the revolving facility and excluding the mark to market impact of forward commodity contracts, if applicable.

#### **LIQUIDITY AND CAPITAL RESOURCES**

At December 31, 2011, Border had working capital (current assets minus current liabilities) of \$14,544,104 compared to working capital of \$3,372,544 at March 31, 2011.

Pursuant to its joint venture with the Loon River Cree Nation, as well as its current land holdings at its Red Earth and Leduc core areas, Border has a significant drilling portfolio. In this regard, Border plans to undertake new capital projects at Red Earth and Leduc over the next 12 months. Consequently, the timing of anticipated cash from operating activities will not provide the funds to reduce the working capital deficiency and to satisfy the Corporation's forecasted capital requirements for the year. In order for the Corporation to fund its capital expenditure budget, the Corporation completed a debt and an equity financing.

In July 2011, the Corporation entered into a credit facility agreement for a demand revolving operating loan of \$3,500,000. At December 31, 2011, the Corporation had not drawn from the Credit Facility.

On November 30, 2011, the Corporation closed a bought deal offering of common shares (the "Common Shares") and flow-through common shares ("Flow-Through Shares"), the Corporation and the syndicate of underwriters led by Canaccord Genuity Corp. and including Macquarie Capital Markets Canada Ltd., National Bank Financial Inc., Dundee Securities Ltd., Haywood Securities Inc. and Fraser Mackenzie Limited (collectively the "Underwriters") have agreed to increase the size of the offering to an aggregate of 81,000,000 Common Shares at a price of \$0.21 per Common Share and 24,000,000 Flow-Through Shares at a price of \$0.25 per Flow-Through Share for aggregate gross proceeds of \$23,010,000 (the "Offering").

On December 14, 2011, the Underwriters exercised the full Over-Allotment Option that they were granted with the November 30, 2011 offering and purchased an additional 12,150,000 common shares at a price of \$0.21 per common share for additional gross proceeds of up to \$2,551,500. The Over-Allotment Option was issued on the same terms and conditions as the offering. The Underwriters received a fee of 6% of the gross proceeds of the Over-Allotment Option and compensation options entitling the Underwriters to purchase 243,000 Common Shares at an exercise price of \$0.21 per share for a period of 12 months from the closing of the Over-Allotment Option.

	<b>DECEMBER 31</b>	<b>MARCH 31</b>	<b>%</b>
	<b>2011</b>	<b>2011</b>	<b>CHANGE</b>
Cash	<b>\$15,158,322</b>	\$ 3,811,333	298
Accounts receivable and prepaid expenses	<b>1,328,240</b>	374,960	254
Accounts payable and accrued liabilities	<b>(1,676,136)</b>	(813,749)	106
Flow-through share premium liability	<b>(960,000)</b>	-	n/a
Investment in secured debt	<b>693,678</b>	-	n/a
Bank debt	-	-	n/a
	<b><u>\$14,544,104</u></b>	<b><u>\$ 3,372,544</u></b>	<b><u>331</u></b>

## **Border Petroleum Corp.**

### **Management's Discussion & Analysis**

For the three and nine months ended December 31, 2011

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation has no off-balance sheet arrangements.

#### **TRANSACTIONS WITH RELATED PARTIES**

The Corporation utilizes the services of a law firm in which a Director of the Corporation is a Partner. During the nine months ended December 31, 2011, the Corporation incurred \$314,578 (December 31, 2011 - \$NIL) on legal services, all of which is included in general and administrative expense or transaction costs, and accounts payable and accrued liabilities at December 31, 2011.

During the nine months ended December 31, 2010, \$102,699 in remuneration, fees and rent which is included in general and administrative expenses was paid to former officers and or companies controlled by former officers and former directors of the Corporation.

During the nine months ended December 31, 2010, current officers and directors of the Corporation participated in the private placement of secured convertible debentures and purchased \$1,089,000 of the debentures. As part of the terms of a private placement in February 2011, all amounts outstanding (including accrued interest) of the convertible debentures were converted into common shares of the Corporation as per the original conversion terms. Officers and directors also purchased \$68,000 of the flow-through shares sold in December, 2010. There was no similar financing completed during the nine months ended December 31, 2011.

#### **SUBSEQUENT EVENTS**

On February 23, 2012, the Corporation commenced drilling operations on its initial Slave Point horizontal well in the Red Earth area of northwestern Alberta under a permit covering 18,560 acres of Loon River Cree Nation Lands.

#### **RISK FACTORS**

The following are certain risk factors that relate to Border that the reader should consider. If any event arising from these factors occurs, the Corporation's business could be materially affected.

- Fluctuations in the prices of oil and gas will affect Border's revenue, cash flows and earnings and the value of the Corporation's oil and gas properties. These fluctuations could also affect the Corporation's ability to raise capital. These fluctuations in prices could be due to global economic and market conditions, weather conditions, the level of consumer and industrial demand, and governmental regulations.
- Drilling activities are subject to risks such as the possibility that commercially productive reservoirs will not be encountered, weather conditions, the ability to obtain regulatory approvals and shortages or delays in equipment and services.
- Estimates of oil and natural gas reserves involve a great measure of uncertainty as they depend on the reliability of available data, the costs to recover said reserves, and the ability to transport the product to market.
- There are operating risks that could affect the business of the Corporation. These include blowouts, equipment failures, spills or leaks, accidents and weather conditions.
- Compliance with and changes to environmental laws and regulations.
- The oil and gas industry is extremely competitive.
- The value of the Corporation's oil and gas properties.

## Border Petroleum Corp.

### Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

#### **FINANCIAL AND OTHER INSTRUMENTS (RISK MANAGEMENT)**

The Corporation has not entered into any marketing arrangements related to the selling of oil or natural gas production.

##### Fair values

The fair values of cash, accounts receivable, deposits, investment in secured debt, bank debt, accounts payable and accrued liabilities, and note payable approximate their carrying value.

At December 31, 2011, the Corporation does not have any financial derivatives, including commodity contracts. Consequently, the Corporation's financial instruments were recorded at fair value on the balance sheet with changes to fair value being reported in the statement of loss and comprehensive loss.

The fair value of transactions are classified according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs are other than quoted prices in Level 1 that are either directly or indirectly observable for the asset or liability.
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The Corporation's cash has been valued using Level 1 inputs.

The Corporation is exposed to financial risks arising from its financial assets and liabilities. The Corporation manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Corporation are as follows:

##### Credit risk

Credit risk is primarily related to the Corporation's receivables from oil and natural gas marketers and joint venture partners and the risk of financial loss if a customer, partner, or counterparty to a financial instrument fails to meet its contractual obligations. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. To mitigate credit risk associated with the sale of its production to oil and gas marketers, the Corporation maintains marketing relationships with large credit-worthy purchasers. The Corporation historically has not experienced any collection issues with its oil and natural gas marketers. Joint venture receivables are typically collected within one to three-months of the joint venture bill being issued to the partner. The Corporation attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Corporation does not typically obtain collateral from joint venture partners; however, in certain circumstances, it may cash-call a partner in advance of the work and as well the Corporation has the ability in most cases to withhold production from joint venture partners in the event of non-payment. The Corporation establishes an allowance for doubtful accounts as determined by management based on their assessed collectability; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. The Corporation believes that its counterparties currently have the financial capacity to settle outstanding obligations in the normal course of business. There were no receivables allowed for or written off during the period ended December 31, 2011 and there is \$300,503 in accounts receivable outstanding greater than 90 days at December 31, 2011, which the Corporation would consider past due under normal conditions.

Cash balances consist of amounts on deposit with banks where bank overdraft consists of outstanding cheques issued in excess of cash. The Corporation manages the credit exposure of cash by selecting financial institutions with high credit ratings.

Total credit risk at December 31, 2011 is comprised of \$1,254,030 in accounts receivable, \$74,210 in deposits and prepaid expenses, \$173,033 in lease reclamation deposits, \$693,678 in investment in secured debt and \$15,158,322 in cash and cash equivalents.

##### Market risk

Market risk consists of commodity price, foreign exchange and interest rate risk, that may affect the value of the Corporation's financial instruments.



## Border Petroleum Corp.

### Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

#### Commodity price risk

Commodity price risk is the risk that the future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. The Corporation has not attempted to mitigate commodity price risk through the use of financial derivative contracts. The Corporation had no financial derivative sales contracts or working capital items denominated in foreign currencies as at or during the period ended December 31, 2011.

#### Foreign currency exchange risk

Foreign currency exchange risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. Although all the Corporation's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollars. The Corporation had no forward exchange rate contracts in place as at or during the period ended December 31, 2011.

#### Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate price risk to the extent that the note payable and investment in secured debt both bear interest at a fixed rate and interest rate cash flow risk to the extent that bank debt bears interest at a floating rate.

#### Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Corporation's reputation. The Corporation prepares capital expenditure budgets which are regularly monitored and updated as considered necessary. As well, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. Also see below for a discussion on the Corporation's capital management policy.

#### Capital management

The Corporation's policy is to maintain a strong capital base with the following objectives:

- Maintaining financial flexibility
- Maintaining creditor and investor confidence, and
- Sustaining the future development of the business.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. Working capital and debt instruments (if any) are the components of the Corporation's capital structure to be managed. The most significant alternatives available for the management of the capital structure include adjusting capital spending to manage projected debt levels or to issue common shares or debentures when management and the Board of Directors feel the timing is appropriate. Management continually monitors the Corporation's projected capital spending and its net debt to maintain a sound capital position. Refer to the above section "Liquidity and Capital Resources".

### **APPLICATION OF CRITICAL ACCOUNTING ESTIMATES**

The significant accounting policies used by Border are disclosed in Notes 2 and 3 to the Financial Statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimate amounts that differ materially from current estimates. The following discussion helps to assess the critical accounting policies and practices of the Corporation and the likelihood of materially different results from those reported.

#### Proved Reserves

Under National Instrument 51-101 "Proved" reserves are defined as those reserves that can be estimated with a high degree of certainty to be recoverable. The level of certainty should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved reserves.

## Border Petroleum Corp.

### Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

It does not mean that there is a 90 percent probability that the Proved reserves will be recovered – it means there must be at least a 90 percent probability that the given amount or more will be recovered.

“Proved plus Probable” reserves are the most likely case and are based on a 50 percent certainty that they will equal or exceed the reserves estimated. The standard provides for a conservative evaluation of proved and probable reserves, particularly on new wells where production history has not yet been established.

These oil and gas reserve estimates are made using all available geological and reservoir data, as well as historical production data. Estimates are reviewed on a quarterly basis and revised as appropriate. Revisions occur as a result of various factors including: actual reservoir performance, changes in price and cost forecasts or a change in the Corporation's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs. Reserve changes also affect other Non-IFRS measures such as finding and development costs; recycle ratios and net asset value calculations.

#### Future Accounting Pronouncements

The following pronouncements from the IASB will be effective for financial reporting periods beginning on or after January 1, 2013 and have not yet been adopted by the Corporation. All of these new or revised standards permit early adoption with transitional arrangements depending on the date of initial application.

*IFRS 9 – Financial Instruments* – addresses the classification and measurement of financial assets.

*IFRS 10 – Consolidated Financial Statements* – builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Corporation.

*IFRS 11 – Joint Arrangements* – establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

*IFRS 12 – Disclosure of Interest in Other Entities* – provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.

*IFRS 13 – Fair Value Measurement* – defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

*IAS 27 – Separate Financial Statements* – revises the existing standard which addresses the presentation of parent Corporation financial statements that are not consolidated financial statements.

*IAS 28 – Investments in Associates and Joint Ventures* – revises the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The IASB also issued “Presentation of Items of Other Comprehensive Income”, an amendment to IAS 1 “Financial Statement Presentation”. The amendment addresses the presentation of other comprehensive income and requires the grouping of items within other comprehensive income that might eventually be reclassified to the profit and loss section of the income statement. The change becomes effective for financial years after July 1, 2012 with earlier adoption permitted.

The Corporation has not completed its evaluation of the impact of adopting these standards on its financial statements.

#### **BUSINESS RISKS AND UNCERTAINTIES**

Border Petroleum Corp. advises readers that this Report may contain a number of forward-looking statements that involve a number of risks and uncertainties. Such information, although considered reasonable by Border Petroleum Corp. at the time, may ultimately prove incorrect, too optimistic or too pessimistic, and actual results may differ materially from those anticipated in the statements. For this purpose, any statements contained within this Report that are not statements of historical fact may be deemed forward looking.

In common with all public oil and gas companies, and especially smaller companies, Border Petroleum Corp., is subject to considerable market volatility affecting the prices received for its production, foreign exchange and interest rates, the availability and cost of capital financing, and market liquidity for its common shares. Furthermore, high energy prices can lead to increased energy supplies, reduced economic activity, and increased conservation efforts, which then sow the seeds for lower energy prices. Border

## Border Petroleum Corp.

### Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

Petroleum Corp. does not participate in hedging of oil and gas prices, foreign exchange or interest rates, as it considers such activities to be highly risky and a distraction from its primary areas of focus.

The oil and gas business is also subject to a number of operational risks and uncertainties relating to such matters as exploration and development success, technical drilling and production performance and equipment failure including blowouts and fires, reserve recovery rates and timing, availability of third-party natural gas transportation, environmental damage and competition with much larger and better-financed companies for scarce land, people and financial resources. To manage these risks and uncertainties, Border Petroleum Corp. relies upon the expertise and creativity of its human resources, the development of strategic relationships with industry partners, modern exploration, engineering and business technology, professional environmental sensitivity assessments, and public liability, property damage and business interruption insurance.

Furthermore, the oil and gas industry is subject to extensive regulatory environments and fiscal regimes, both in Canada and internationally, which are subject to changes and beyond the control of the Corporation. The Corporation takes a proactive approach with respect to environment and safety. An operational emergency and response plan and safety policy are in place and the Corporation is in compliance with current environmental legislation.

#### **DATE**

This Management Discussion and Analysis is dated February 27, 2011.

#### **ADDITIONAL INFORMATION**

Additional information regarding Border Petroleum Corp. is available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **ABBREVIATIONS**

##### ***Oil and Natural Gas Liquids***

bbls	Barrels
Mbbls	thousand barrels
bbls/d	barrels of oil per day
boe/d	barrels of oil equivalent per day
NGLs	natural gas liquids (consisting of any one or more of propane, butane and condensate thousand stock tank barrels of oil
bpd	barrels of production per day

##### ***Natural Gas***

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
m <sup>3</sup>	cubic meters

#### ***Other***

boe means barrels of oil equivalent. A barrel of oil equivalent is determined by converting a volume of natural gas to barrels using the ration of six (6) mcf to one (1) barrel. "boe" may be misleading, particularly if used in isolation the boe conversion ration of six (6) mcf: one (1) bbl is based on an energy equivalency methods primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

GORR means gross overriding royalty

**Border Petroleum Corp.****Management's Discussion & Analysis**

For the three and nine months ended December 31, 2011

**CONVERSION**

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

<b><u>To Convert From</u></b>	<b><u>To</u></b>	<b><u>Multiply By</u></b>
Mcf	Cubic meters	28.174
cubic meters	Cubic feet	35.494
bbls	Cubic meters	0.159
feet	meters	0.305
acres	hectares	0.405

## Border Petroleum Corp. Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

### SUMMARY OF QUARTERLY RESULTS

The Corporation's results of operations for the eight most recent fiscal quarters are summarized as follows:

	THREE MONTHS ENDED DEC 31/2011	THREE MONTHS ENDED SEPT 30/2011	THREE MONTHS ENDED JUN 30/2011	THREE MONTHS ENDED MAR 31/2011
	Q3	Q2	Q1	Q4
Total Production Volumes				
Natural gas (Mcf)	132,040	83,296	2,428	2,222
Oil and NGL (bbl)	12,084	7,826	2,279	3,214
Combined (boe)	34,091	21,708	2,684	3,584
Daily Production				
Natural gas (Mcf per day)	1,435	905	27	25
Oil and NGL (bbl per day)	131	85	25	36
Combined (boe per day)	371	236	29	40
Gross Revenue				
Natural Gas	\$ 441,222	\$ 312,657	\$ 10,253	\$ 9,211
Oil and liquids	1,060,230	560,719	231,963	267,980
Total PNG Revenue	1,501,452	873,376	242,216	277,191
Royalty Expense				
Crown royalties	52,780	52,887	(3,468)	26,579
Freehold and overriding royalties	87,862	28,123	7,933	12,293
Total Royalty Expense	\$ 140,642	\$ 81,010	\$ 4,465	\$ 38,872
<b>Net Revenue after Royalties</b>	<b>\$ 1,360,810</b>	<b>\$ 792,366</b>	<b>\$ 237,751</b>	<b>\$ 238,319</b>
Operating and transportation	904,548	722,065	254,729	367,314
General and administrative	528,364	414,859	281,773	382,249
Transaction costs	142,799	61,426	90,378	-
Stock based compensation	102,074	23,443	18,759	127,769
Depletion and depreciation	517,757	315,062	56,906	101,502
Income (loss) before finance expense and income taxes	\$ (834,732)	\$ (744,489)	\$ (464,794)	\$ (740,515)
Net finance expense	\$ 24,678	\$ 27,744	\$ 15,869	\$ 46,911
Deferred income tax recovery	-	-	(34,415)	(70,267)
<b>Net and Comprehensive Loss</b>	<b>\$ (859,410)</b>	<b>\$ (772,233)</b>	<b>\$ (446,248)</b>	<b>\$ (717,159)</b>
Basic income (loss) per share	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)
Average Price				
Natural gas (\$ per Mcf)	\$ 3.34	\$ 3.75	\$ 4.22	\$ 4.15
Oil and NGL (\$ per bbl)	\$ 87.74	\$ 71.65	\$ 101.78	\$ 83.38
\$ per boe	\$ 44.04	\$ 40.23	\$ 90.24	\$ 77.34
<b>Total Assets</b>	<b>\$ 46,353,543</b>	<b>\$ 26,961,591</b>	<b>\$ 11,874,876</b>	<b>\$ 9,004,471</b>
<b>Total Liabilities</b>	<b>\$ 5,897,104</b>	<b>\$ 8,601,864</b>	<b>\$ 4,458,463</b>	<b>\$ 1,335,998</b>

## Border Petroleum Corp. Management's Discussion & Analysis

For the three and nine months ended December 31, 2011

### SUMMARY OF QUARTERLY RESULTS – continued

	THREE MONTHS ENDED DEC 31/2010	THREE MONTHS ENDED SEPT 30/2010	THREE MONTHS ENDED JUNE 30/2010	TWO MONTHS ENDED (1) MAR 31/2010
	Q3	Q2	Q1	Q4
Total Production Volumes				
Natural gas (Mcf)	2,525	3,365	3,546	2,291
Oil and NGL (bbl)	2,402	3,109	2,462	1,607
Combined (boe)	2,822	3,670	3,053	1,913
Daily Production				
Natural gas (Mcf per day)	27	37	39	39
Oil and NGL (bbl per day)	26	34	27	27
Combined (boe per day)	31	40	34	32
Gross Revenue				
Natural Gas	\$ 10,301	\$ 13,967	\$ 15,020	\$ 12,475
Oil and liquids	169,946	206,242	166,083	117,414
Total PNG Revenue	180,247	220,209	181,103	129,889
Royalty Expense				
Crown royalties	6,834	18,192	(307)	2,783
Freehold and overriding royalties	11,769	18,910	17,746	10,006
Total Royalty Expense	\$ 18,603	\$ 37,102	\$ 17,439	\$ 12,789
<b>Net Revenue after Royalties</b>	<b>\$ 161,644</b>	<b>\$ 183,107</b>	<b>\$ 163,664</b>	<b>\$ 117,100</b>
Operating and transportation	152,655	109,688	163,310	122,727
General and administrative	113,478	137,096	210,751	201,752
Transaction costs	-	-	-	-
Stock based compensation	6,897	7,414	(2,067)	104,522
Depletion, depreciation, accretion	72,951	75,699	3,712	41,167
Gain on settlement of accounts payable and accrued liabilities		-	-	(94,938)
Loss on disposal of property and equipment		-	-	1,328,501
Income (loss) before finance expense and income taxes	\$ (184,337)	\$ (146,790)	\$ (212,042)	\$ (1,586,631)
Net finance expense	\$ 58,575	\$ 73,961	\$ 26,082	\$ -
Deferred income tax recovery	(117,458)	-	-	-
<b>Net and Comprehensive loss</b>	<b>\$ (125,454)</b>	<b>\$ (220,751)</b>	<b>\$ (238,124)</b>	<b>\$ (1,586,631)</b>
Basic income (loss) per share	(\$0.01)	(\$0.01)	(\$0.00)	(\$0.09)
Average Price				
Natural gas (\$ per Mcf)	\$ 4.08	\$ 4.15	\$ 4.24	\$ 5.45
Oil and NGL (\$ per bbl)	\$ 70.75	\$ 66.34	\$ 67.46	\$ 162.37
\$ per boe	\$ 63.87	\$ 60.00	\$ 59.32	\$ 142.92
<b>Total Assets</b>	<b>\$ 4,275,573</b>	<b>\$ 2,842,948</b>	<b>\$ 3,204,658</b>	<b>\$ 1,237,918</b>
<b>Total Liabilities</b>	<b>\$ 3,515,574</b>	<b>\$ 2,832,875</b>	<b>\$ 2,981,248</b>	<b>\$ 833,747</b>

\*comparative per share amounts have been adjusted for 4:1 share consolidation

<sup>(1)</sup>quarterly amounts prior to IFRS adoption date of April 1, 2010 have not been restated