Border Petroleum Corp.

Consolidated Financial Statements

March 31, 2012 and 2011

Collins Barrow
Chartered Accountants & Consultants

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Independent Auditors' Report

To the Shareholders
Border Petroleum Corp.

We have audited the accompanying consolidated financial statements of Border Petroleum Corp. and its subsidiary, which comprise the consolidated balance sheets as at March 31, 2012, March 31, 2011 and April 1, 2010, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 auditors' 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Border Petroleum Corp. and its subsidiary as at March 31, 2012, March 31, 2011 and April 1, 2010, and their financial performance and their cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with International Financial Reporting Standards.

(signed) “Collins Barrow Calgary LLP”

CHARTERED ACCOUNTANTS

Calgary, Canada
July 10, 2012

Border Petroleum Corp.
Consolidated Balance Sheets
(amounts in Canadian dollars)

	Notes	March 31, 2012	March 31, 2011	April 1, 2010
Assets				
Current assets				
Cash and cash equivalents		$ 12,972,419	$ 3,811,333	$ -
Accounts receivable	5(c)	1,500,909	361,414	124,315
Deposits and prepaid expenses		56,703	13,546	12,819
Investment in secured debt	15	762,929	-	-
Total current assets		15,292,960	4,186,293	137,134
Investment in secured debt	15	-	576,109	-
Lease reclamation deposits		173,033	67,427	67,105
Exploration and evaluation assets	7	5,573,557	1,185,451	1,004,064
Property and equipment	8	21,494,092	2,989,191	29,615
Total assets		$ 42,533,642	$ 9,004,471	$ 1,237,918
Liabilities				
Current liabilities				
Bank overdraft		$ -	$ -	$ 20,483
Accounts payable and accrued liabilities	5(d)	9,075,357	813,749	567,150
Flow-through share premium		-	34,415	-
Total current liabilities		9,075,357	848,164	587,633
Decommissioning provisions	10	1,923,376	487,834	292,541
Note payable	16	1,570,273	-	-
Total liabilities		12,569,006	1,335,998	880,174
Shareholders' Equity				
Share capital	11(b)	50,352,701	15,965,618	8,188,840
Warrants	11(c)	819,209	695,426	-
Contributed surplus		712,693	302,379	162,366
Conversion feature on note payable	16	211,141	-	-
Deficit		(22,131,108)	(9,294,950)	(7,993,462)
Total shareholders' equity		29,964,636	7,668,473	357,744
Total liabilities and shareholders' equity		$ 42,533,642	$ 9,004,471	$ 1,237,918

Commitments and contingencies 21

Per: "*Al Kroontje*"
Director

Per: "*Kelly Kimbley*"
Director

See accompanying notes to the consolidated financial statements.

Border Petroleum Corp.
Consolidated Statements of Loss and Comprehensive Loss
(amounts in Canadian dollars)

	Notes	Year ended March 31, 2012	Year ended March 31, 2011
Revenue			
Oil and natural gas revenue		$ 3,324,944	$ 858,750
Royalties		(268,209)	(112,016)
		3,056,735	746,734
Expenses			
Production and operating		2,706,771	792,967
General and administrative		1,840,242	843,574
Transaction costs	4	394,604	-
Stock-based compensation	12(a)	410,314	140,013
Depletion and depreciation	8	1,666,676	253,864
Impairment	8	9,817,656	-
		16,836,263	2,030,418
		(13,779,528)	(1,283,684)
Finance expense	13	(51,045)	(205,529)
Loss before income taxes		(13,830,573)	(1,489,213)
Deferred tax expense (recovery)	18	(994,415)	(187,725)
Net loss and comprehensive loss		$ (12,836,158)	$ (1,301,488)
Loss per share - basic and diluted	14	$ (0.09)	$ (0.05)

See accompanying notes to the consolidated financial statements.

Border Petroleum Corp.

Consolidated Statements of Changes in Shareholders' Equity

(amounts in Canadian dollars)

	Notes	Number of Common Shares	Share capital stated value	Warrants	Contributed surplus	Conversion feature on note payable	Conversion feature on convertible debt	Deficit	Total equity
Balance at April 1, 2010		74,464,263	$ 8,188,840	$ -	$ 162,366	$ -	$ -	$ (7,993,462)	$ 357,744
Reduced by way of 4:1 consolidation	11(b)(v)	(55,848,197)	-	-	-	-		-	-
Share issuances	11(b)(vi)(vii)(viii)	33,379,666	6,787,916	-	-	-		-	6,787,916
Conversion feature on convertible debt	17	-	-	-	-	-	105,857	-	105,857
Conversion of convertible debentures	11(b)(ix), 17	18,540,561	1,959,913	-	-	-	(105,857)	-	1,854,056
Exercise of stock options	12(a)	50,000	5,000	-	-	-		-	5,000
Flow-through share premium	11(b)(x)	-	(222,140)	-	-	-		-	(222,140)
Stock-based compensation related to stock options	12(a)	-	-	-	140,013	-		-	140,013
Valuation of broker warrants	11(b)(vi)(viii)	-	-	695,426	-	-		-	695,426
Share issuance costs			(753,911)	-	-	-		-	(753,911)
Net loss and comprehensive loss		-	-	-	-	-		(1,301,488)	(1,301,488)
Balance at March 31, 2011		**70,586,293**	**$ 15,965,618**	**$ 695,426**	**$ 302,379**	**$ -**	**$ -**	**$ (9,294,950)**	**$ 7,668,473**
Issuance to acquire Class A and B shares of Canflame	11(b)(i)	30,312,232	9,699,914	-	-	-	-	-	9,699,914
Issuance in exchange for Canflame debentures and related interest	11(b)(i)	6,225,594	1,992,190	-	-	-	-	-	1,992,190
Share issuance – common shares	11(b)(ii)(iii)	93,150,000	19,561,500	-	-	-	-	-	19,561,500
Share issuance – flow-through shares	11(b)(ii)	24,000,000	6,000,000	-	-	-	-	-	6,000,000
Flow-through share premium	11(b)(ii)	-	(960,000)	-	-	-	-	-	(960,000)
Exercise of warrants		263,834	50,675	-	-	-	-	-	50,675
Stock-based compensation related to stock options	12(a)	-	-	-	410,314	-	-	-	410,314
Valuation of broker warrants	11(b)(ii)	-	-	123,783	-	-	-	-	123,783
Share issuance costs	11(b)(iv)	-	(1,957,196)	-	-	-	-	-	(1,957,196)
Conversion feature on note payable	16	-	-	-	-	211,141	-	-	211,141
Net loss and comprehensive loss		-	-	-	-	-	-	(12,836,158)	(12,836,158)
Balance at March 31, 2012		**224,537,953**	**$ 50,352,701**	**$ 819,209**	**$ 712,693**	**$ 211,141**	**$ -**	**$ (22,131,108)**	**$ 29,964,636**

See accompanying notes to the consolidated financial statements.

Border Petroleum Corp.
Consolidated Statements of Cash Flows
(amounts in Canadian dollars)

	Notes	Year ended March 31, 2012	Year ended March 31, 2011
Cash and cash equivalents provided by (used in):			
Loss for the period		$ (12,836,158)	$ (1,301,488)
Adjustments for:			
Depletion and depreciation		1,666,676	253,864
Impairment		9,817,656	-
Stock-based compensation		410,314	140,013
Interest on convertible debentures		-	125,056
Interest on note payable		106,751	-
Interest income on secured debt		(136,510)	(26,109)
Accretion on convertible debentures		-	50,308
Loss on conversion of convertible debentures		-	55,549
Accretion on convertible note payable		102,398	-
Accretion of decommissioning provisions		21,940	1,048
Deferred income tax expense (recovery)		(994,415)	(187,725)
Operating cash flow before changes in non-cash working capital		(1,841,348)	(889,484)
Changes in non-cash working capital	6	3,428,620	(96,585)
Net cash from (used in) operating activities		1,587,272	(986,069)
Cash flows from investing activities			
Additions to exploration and evaluation assets		(4,782,584)	(181,387)
Additions to property and equipment		(12,836,930)	(3,019,196)
Cash acquired in business combination		1,922	-
Investment in secured debt		(50,310)	(550,000)
Changes in non-cash working capital	6	2,805,312	105,037
Net cash used in investing activities		(14,862,590)	(3,645,546)
Cash flows from financing activities			
Repayment of bank debt acquired in business combination		(1,460,000)	-
Proceeds from convertible debenture		-	1,729,000
Proceeds from common shares		19,561,500	6,372,642
Proceeds from flow-through shares		6,000,000	1,110,700
Proceeds from exercise of stock options		-	5,000
Proceeds from exercise of warrants		50,675	-
Share issuance costs		(1,833,413)	(753,911)
Changes in non-cash working capital	6	117,642	-
Net cash from financing activities		22,436,404	8,463,431
Change in cash and cash equivalents		9,161,086	3,831,816
Cash and cash equivalents (bank overdraft), beginning of year		3,811,333	(20,483)
Cash and cash equivalents, end of year		$ 12,972,419	$ 3,811,333
Cash and cash equivalents is comprised of:			
Bank balances, end of year		$ 1,468,202	$ 3,811,333
Term deposits, end of year		11,504,217	-
Cash and cash equivalents, end of year		$ 12,972,419	$ 3,811,333

See accompanying notes to the consolidated financial statements.

1. General business description

Border Petroleum Corp. ("Border" or the "Corporation") is engaged in the exploration for, development of and production of oil and natural gas in Western Canada and Montana. Border Petroleum Corp. is a publicly traded company, incorporated and domiciled in Canada. The address of business of the Corporation is Suite 2000, 840 – 7 Avenue SW, Calgary, Alberta, Canada, T2P 3G2. These consolidated financial statements were approved and authorized for issuance by the Board of Directors on July 10, 2012.

2. Basis of preparation

(a) Statement of compliance

These financial statements present Border's financial results as at and for the year ended March 31, 2012, including 2011 comparative periods. These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Prior to April 1, 2011, the Company prepared its interim and annual financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

The preparation of these financial statements resulted in selected changes to Border's accounting policies as compared to those disclosed in the Corporation's annual financial statements for the year ended March 31, 2011. A summary of Border's accounting policies is disclosed in note 3, along with reconciliations presenting the impact of the transition to IFRS as at April 1, 2011, and for the comparative period as at and for the year ended March 31, 2011, which are disclosed in note 22.

A summary of Border's significant accounting policies under IFRS is presented in note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1, as disclosed in note 22.

(b) Early stages of development

The Corporation is in the early stages of development of its oil and natural gas properties and will be dependent upon its ability to raise debt and/or equity capital in the future to develop these properties. The Corporation will also need to achieve positive income and cash flow from operating activities to secure its long term viability. As at March 31, 2012, the Corporation had positive working capital of $6,217,603.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair value.

(d) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity:

Depletion and valuation of property and equipment exploration and evaluation assets

The amounts recorded for depletion and depreciation of property and equipment and the valuation of property and equipment are based on estimates. These estimates include proved and probable reserves, production rates, future oil and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Corporation's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under *National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities.*

The valuation of exploration and evaluation assets are dependent upon the discovery of economically recoverable reserves which in turn is dependent on future oil and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

The decision to transfer assets from exploration and evaluation to property and equipment is based on the estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

For impairment testing, property and equipment and exploration and evaluation assets are aggregated into Cash Generating Units ("CGUs"), based on management's judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

Decommissioning provisions

The value of decommissioning provisions depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Corporation utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities.

Stock-based compensation

The amounts recorded relating to the fair value of stock options and warrants issued are based on estimates of the future volatility of the Corporation's share price, expected lives of the options, expected forfeiture rates, expected dividends and other relevant assumptions.

Investment in secured debt

The amount recorded for investment in secured debt and the valuation thereof is based on management's assessment of the value of the underlying assets held as security. The classification of investment in secured debt as a current or non-current asset is based on management's estimate on timing of collection of amounts outstanding.

Contingent acquisition costs

The amount accrued for contingent consideration payable under a land acquisition (note 21) is based upon estimates of proved reserves and future oil and natural gas prices and related transportation and processing costs.

Business combination

The values assigned to the common shares issued in the corporate acquisition completed in 2011 and the allocation of the purchase price to the net assets in the acquisitions are based on numerous estimates that affect the valuation of certain assets and liabilities acquired including discount rates, estimates of proved and probable reserves, estimates of fair values of exploration and evaluation assets, future oil and natural gas prices and other factors.

The number of common shares issued on the business combination and the associated consideration paid are dependent upon management's best estimate of the resolution of the pre-existing legal action.

Convertible note payable

The allocation between the debt and equity components of the convertible note payable is based on estimates of the interest rate the Corporation would pay on a non-convertible note payable with similar terms.

3. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary, Border Acquisition Corp. Intercompany balances and transactions are eliminated upon consolidation.

(b) Business combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

(c) Jointly controlled assets

Many of the Corporation's oil and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The consolidated financial statements include the Corporation's share of these jointly controlled assets, the relevant revenue and related costs.

(d) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue. Bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management are included as a component of cash and cash equivalents.

(e) Exploration and evaluation expenditures and property and equipment

(i) Exploration and evaluation assets

Pre-licence expenditures incurred before the Corporation has obtained legal rights to explore an area are expensed.

Exploration and evaluation costs include the costs of acquiring licences, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting oil and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are also assessed for impairment upon their reclassification to property and equipment. The impairment of exploration and evaluation assets and any eventual reversal thereof is recognized in the statement of income.

Exchanges or swaps that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the divestiture of exploration and evaluation assets are recognized in net earnings.

(ii) Property and equipment

All costs directly associated with the development of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests and are measured at cost less accumulated depletion and depreciation and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning provisions and transfers from exploration and evaluation assets.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income as incurred.

Exchanges or swaps of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in net income.

(iii) Depletion and depreciation

Oil and natural gas interests are depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Processing facilities and well equipment will be depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

Other assets, referred to as corporate and other, are depreciated on a declining balance basis at rates of 20% to 45% approximating their estimated useful lives.

(f) Impairment of non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purposes of assessing impairment, exploration and evaluation assets and property and equipment are grouped into cash-generating units ("CGUs"), defined as the lowest levels for which there are separately identifiable independent cash inflows. Exploration and evaluation assets are tested with the producing CGU for which the activity can be attributed or separately where a producing CGU does not exist for the exploration and evaluation activity.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recognized in net earnings.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(g) Provisions and contingent liabilities

Provisions are recognized by the Corporation when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(i) *Decommissioning provisions*

Decommissioning provisions are recognized for decommissioning and restoration obligations associated with the Corporation's exploration and evaluation assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the balance sheet date is recorded on a discounted basis using the pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property and equipment asset and is depleted or amortized over the useful life of the asset. The provision is accreted over time through charges to Financing Expenses with actual expenditures charged against the accumulated obligation. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning provision and the related asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any difference between the recorded provision and the actual costs incurred is recorded as a gain or loss.

(h) Flow-through shares

From time to time, the Corporation finances a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. The stated capital recorded on flow-through share issuances is equal to the estimated fair value of the Common Shares, exclusive of the flow-through component, on the date of issue. The difference between the gross proceeds received and the stated capital recorded is a liability ("flow-through share premium") until qualifying expenditures are incurred. When the expenditures are incurred the resulting deferred tax liability is recorded through income tax expense less the reversal of the flow-through share premium previously reported.

(i) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(j) Compound instruments

The components of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the issue date, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability based on amortized cost until the instrument is converted or the instrument matures. The liability component accretes up to the principal balance at maturity. The equity component is determined by deducting the liability component from the total fair value of the compound instrument and is recognized as equity, net of income tax effects, with no subsequent re-measurement. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

(k) Revenue

Revenue from the production of oil and natural gas is recognized when title passes from the Corporation to the customer. Transportation costs are reported as a separate expense and are not netted against revenue.

(l) 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 is comprised of interest expense on borrowings, accretion of discounts on notes payable, accretion of the discount on decommissioning provisions and impairment losses recognized on financial assets.

Borrowing costs incurred for the acquisition or construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. A qualifying asset is one that takes a substantial period of time to get ready for use or sale.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Corporation during the period.

All other borrowing costs are recognized in the statement of income in the period in which they are incurred using the effective interest method.

(m) Stock-based compensation

The Corporation has a Stock Option Plan as described in note 12 and stock options and warrants granted to directors, officers, employees and consultants of the Corporation are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(n) Earnings (loss) per share

Earnings (loss) per share are calculated by dividing net and comprehensive income or loss by the weighted average number of common shares outstanding during the period. The Corporation computes the dilutive impact of common shares assuming the proceeds received from the pro forma exercise of in-the-money share options and warrants are used to purchase common shares at average market prices.

(o) Financial instruments

(i) *Classification and measurement*

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through the statement of income”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “financial liabilities measured at amortized cost” as defined by IAS 39, “Financial Instruments: Recognition and Measurement”.

Financial assets and financial liabilities at “fair value through the statement of income” are either classified as “held for trading” or “designated at fair value through the statement of income” and are measured at fair value with changes in fair value recognized in the income statement. Transaction costs are expensed when incurred. The Corporation has designated cash and cash equivalents as “held for trading”.

Financial assets and financial liabilities classified as “loans and receivables”, “held-to-maturity”, or “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method of amortization. “Loans and receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. “Held-to-maturity” financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. “Financial liabilities measured at amortized cost” are those financial liabilities that are not designated as “fair value through the statement of income” and that are not derivatives. The Corporation has designated accounts receivable and investment in secured debt as “loans and receivables” and bank debt, accounts payable and accrued liabilities and notes payable as “financial liabilities measured at amortized cost”.

Financial assets classified as "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Corporation has no assets classified as "available for sale".

(ii) *Derivative financial instruments*

The Corporation may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. The Corporation's policy is not to utilize derivative financial instruments for speculative purposes. All financial derivative contracts are classified as "fair value through the statement of income".

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through the statement of income.

Changes in the fair value of separable embedded derivatives are recognized immediately in the income statement. The Corporation has not identified any embedded derivatives.

(iii) *Equity instruments*

Common shares, warrants and conversion feature on note payable are classified as equity. Incremental costs directly attributable to the issue of common shares, warrants and stock options are recognized as a deduction from equity, net of any tax effects.

(iv) *Impairment*

The Corporation assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as "fair value through the statement of income" are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

(p) Future accounting pronouncements

IFRS 9 Financial Instruments

The IASB intends to replace IAS 39, "Financial Instruments: Recognition and Measurements" ("IAS 39") with IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9 will be published in three phases, of which the first phase has been published. For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. For financial liabilities, the approach to the fair value option may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, but is available for early adoption. The Corporation has yet to assess the full impact of IFRS 9.

IFRS 10, Consolidation

IFRS 10 was issued on May 12, 2011. This standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, "Consolidation-Special Purpose Entities", and parts of IAS 27, "Consolidated and Separate Financial Statements". The standard is effective for fiscal periods beginning on or after January 1, 2013, but is available for early adoption. The Corporation has yet to assess the full impact of IFRS 10.

IFRS 11, Joint Arrangements

IFRS 11 was issued on May 12, 2011. This standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supercedes IAS 31, "Interests in Joint Ventures", and SIC-13, "Jointly Controlled Entities-Non-monetary Contributions by Venturers". The standard is effective for fiscal periods beginning on or after January 1, 2013, but is available for early adoption. The Corporation has yet to assess the full impact of IFRS 11.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 was issued on May 12, 2011. This standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is effective for fiscal periods beginning on or after until January 1, 2013, but is available for early adoption. The Corporation has yet to assess the full impact of IFRS 12.

IFRS 13, Fair Value Measurement

IFRS 13 was issued on May 12, 2011. This is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The standard is effective for fiscal periods beginning on or after January 1, 2013 but is available for early adoption. The Corporation has yet to assess the full impact of IFRS 13.

IAS 1, Presentation of Financial Statements

In June 2011, the IASB issued an amendment to IAS 1 requiring companies to group items presented within other comprehensive income based on whether they may be subsequently reclassified to income or loss. Retrospective application of this amendment is effective for fiscal years beginning on or after July 1, 2012, with earlier adoption permitted. No significant impact to the Corporation's financial statements is anticipated upon implementation of the amended standard.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, "Consolidated and Separate Financial Statements", and IAS 28, "Investments in Associates". IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 12. These amended standards are effective for fiscal years beginning on or after January 1, 2013, but are available for early adoption. The Corporation has yet to assess the full impact of these amendments.

4. Business combination

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 (Border Acquisition Corp.) 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 at $0.32 per common share 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 common 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 (see note 21). 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 $394,604 related to this transaction have been charged to income during the year ended March 31, 2012.

Consideration:

Common shares issued to acquire Class A and B shares of Canflame	$	9,699,914
Common shares issued to Canflame debenture holders		1,992,190
	$	11,692,104

Fair value of assets and liabilities acquired:

Cash	$	1,922
Accounts receivable		411,085
Lease reclamation deposits		105,606
Exploration and evaluation assets		126,753
Property and equipment		14,754,154
Accounts payable and accrued liabilities		(1,138,467)
Bank debt		(1,460,000)
Decommissioning provisions		(1,108,949)
	$	11,692,104

The attributed values of the common shares have been excluded from the statement of cash flows as non-cash transactions. The accounts of the Corporation include the results of Canflame from July 13, 2011.

The Corporation did not record a deferred income tax asset on the acquisition of Canflame because the Corporation applied a full valuation allowance on the deferred income tax asset of Canflame.

The consolidated revenues and net income (loss) since the closing date of the Transaction, and pro forma consolidated revenue and net income (loss) giving effect to the Transaction as if it had occurred April 1, 2011, are not practicable to determine. The operations of Canflame are not managed as a separate business unit or division of Border and general business overhead and other costs of Border are not allocated or identified on a specific entity basis. Any such allocation would be arbitrary and would require significant assumptions and estimates about what management's intent would have been during those periods.

5. Financial instruments and risk management

(a) Risk management overview

The Corporation’s activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Corporation’s exposure to each of the above risks, the Corporation’s objectives, policies and processes for measuring and managing risk, and the Corporation’s management of capital. Further quantitative disclosures are included throughout these financial statements. The Corporation employs risk management strategies and polices to ensure that any exposure to risk are in compliance with the Corporation’s business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation’s risk management framework, Border's management has the responsibility to administer and monitor these risks.

(b) Fair value of financial instruments

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

At March 31, 2012, the Corporation does not have any financial derivatives, including commodity contracts.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, and are based on valuation models and techniques where the inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents are measured at fair value based on their Level 1 designation.

(c) 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. Currently the Corporation sells the majority of its production to one oil and gas marketer. 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.

As at March 31, 2012 and March 31, 2011, the Corporation's accounts receivable were comprised of the following:

	March 31, 2012	March 31, 2011
Oil and natural gas sales	$ 420,381	$ 217,045
Joint interest partners and other	657,026	34,006
GST	423,502	110,363
	1,500,909	361,414
Less: allowance for doubtful accounts	-	-
	$ 1,500,909	$ 361,414

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 year ended March 31, 2012, and there is $595,949 in accounts receivable outstanding greater than 90 days at March 31, 2012, which the Corporation would consider past due under normal conditions. Of this balance, $330,202 is due from one joint venture partner.

Cash and cash equivalent balances consist of amounts on deposit with banks and term deposits. The Corporation manages the credit exposure of cash by selecting financial institutions with high credit ratings. Total credit risk at March 31, 2012, is comprised of $1,500,909 in accounts receivable, $173,033 in lease reclamation deposits, $762,929 in investment in secured debt and $12,972,419 in cash and cash equivalents.

(d) 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 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 note 5(f) for a discussion on the Corporation's capital management policy.

The Corporation's accounts payable and accrued liabilities as at March 31, 2012 and March 31, 2011, are comprised of the following:

	March 31, 2012	March 31, 2011
Trade	$ 1,555,725	$ 586,301
Royalties	44,183	9,059
Capital	7,471,714	203,076
Joint venture	3,735	15,313
	$ 9,075,357	$ 813,749

(e) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Corporation's net earnings or the value of financial instruments and are largely outside the control of the Corporation. The objective of the Corporation is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns. Market risks are as follows:

Foreign currency risk

Prices for oil are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Corporation will be influenced by both U.S. and Canadian demand and the corresponding North American supply, and by imports of liquefied natural gas. An increase in the value of the Canadian dollar relative to the U.S. dollar will decrease the revenues received from the sale of oil and natural gas commodities.

The impact of such exchange rate fluctuations cannot be accurately quantified. As at March 31, 2012, the Corporation had no forward exchange rate contracts in place nor did any working capital items denominated in foreign currencies.

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, if any, bears interest at a floating rate. The Corporation had no interest rate swaps or financial contracts in place as at or during the years ended March 31, 2012 or March 31, 2011.

Commodity price risk

The nature of the Corporation's operations results in exposure to fluctuations in commodity prices. Commodity prices for oil and natural gas are impacted by global economic events that dictate the levels of supply and demand. Border's management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when it deems appropriate.

The Corporation's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Corporation, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts. At March 31, 2012 and during the year ended March 31, 2012, the Corporation had not entered into financial derivative sales contracts.

(f) 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.

Working capital is determined on the following basis:

	March 31, 2012	March 31, 2011
Cash and cash equivalents	$ 12,972,419	$ 3,811,333
Accounts receivable and prepaid expenses	1,557,612	374,960
Investment in secured debt	762,929	-
Flow-through share premium	-	(34,415)
Accounts payable and accrued liabilities	(9,075,357)	(813,749)
Working capital	$ 6,217,603	$ 3,338,129

6. Supplemental cash flow information

Changes in non-cash working capital is comprised of:

	Year ended March 31, 2012	Year ended March 31, 2011
Source/(use) of cash:		
Accounts receivable	$ (728,410)	$ (237,099)
Prepaid expenses and deposits	(43,157)	(1,049)
Accounts payable and accrued liabilities	7,123,141	246,600
	$ 6,351,574	$ 8,452
Related to operating activities	$ 3,428,620	$ (96,585)
Related to investing activities	2,805,312	105,037
Related to financing activities	117,642	-
Changes in non-cash working capital	$ 6,351,224	$ 8,452
Cash interest paid	$ 3,714	$ -

7. Exploration and evaluation assets

Balance at April 1, 2010	$ 1,004,064
Additions	181,387
Balance at March 31, 2011	1,185,451
Acquired from business combination (note 4)	126,753
Additions	4,782,584
Transfers to property and equipment (note 8)	(521,231)
Balance at March 31, 2012	$ 5,573,557

At March 31, 2012, $915,790 of exploration and evaluation assets are located in Montana, USA.

8. Property and equipment

	Oil and natural gas interests	Corporate and other	Total
Cost			
Balance at April 1, 2010	$ 29,615	$ -	$ 29,615
Acquisition of property and equipment	-	-	-
Additions	2,988,022	31,174	3,019,196
Decommissioning provisions	194,244	-	194,244
Balance at March 31, 2011	3,211,881	31,174	3,243,055
Acquisitions of property and equipment (notes 4 and 16)	17,308,514	17,905	17,326,419
Additions	11,819,681	17,249	11,836,930
Transfers from exploration and evaluation assets (note 7)	521,231	-	521,231
Decommissioning provisions	304,653	-	304,653
Balance at March 31, 2012	$ 33,165,960	$ 66,328	$ 33,232,288
Accumulated depletion, depreciation and net impairment losses			
Balance at April 1, 2010	$ -	$ -	$ -
Depletion and depreciation	248,708	5,156	253,864
Balance at March 31, 2011	248,708	5,156	253,864
Depletion and depreciation	1,650,049	16,627	1,666,676
Impairment	9,817,656	-	9,817,656
Balance at March 31, 2012	$ 11,716,413	$ 21,783	$ 11,738,196
Net book value:			
At April 1, 2010	$ 29,615	$ -	$ 29,615
At March 31, 2011	$ 2,963,173	$ 26,018	$ 2,989,191
At March 31, 2012	$ 21,449,547	$ 44,545	$ 21,494,092

During the year ended March 31, 2012, the Corporation recorded impairment losses of $9,585,000 (2011 - $Nil) attributable to the Leduc Cost Generating Unit (CGU) and $233,000 (2011 - $Nil) to the Cardiff Area CGU. The Leduc impairment was caused by changes in forecasted commodity prices that reflected the continued weakness in natural gas prices, available well results to date and a change in reserve evaluators. This resulted in lower estimated recoverable reserve amounts and lower net present values in the Corporation's March 31, 2012 independent reserve evaluation. The Cardiff impairment was due to the shutting-in of the only well in this CGU.

At March 31, 2012, $34,666,000 (2011 - $15,581,000) of future development costs related to proved and probable reserves were included in costs subject to depletion.

The impairment evaluation at March 31, 2012 and 2011, reflects the following commodity price estimates:

Year	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par Price 40° API ($Cdn/bbl)	Alberta AECO-C Spot ($Cdn/MMBTU)
2012 Forecast Prices			
2012	108.05	97.15	2.37
2013	105.97	105.09	3.19
2014	100.29	99.45	3.61
2015	97.37	96.56	5.18
2016	99.37	98.54	5.71
2017	101.35	100.51	5.83
2018	103.38	102.52	5.95
2019	105.45	104.57	6.08
2020	107.56	106.66	6.20
2021	109.71	108.80	6.33
	Escalation rate of 2.0% thereafter		
2011 Forecast Prices			
2011	94.41	92.57	4.08
2012	94.86	96.29	4.94
2013	95.72	97.16	5.63
2014	97.10	98.56	6.27
2015	99.58	101.08	6.57
2016	101.58	103.11	6.71
2017	103.61	105.17	6.85
2018	105.68	107.27	7.00
2019	107.79	109.42	7.15
2020	109.95	111.60	7.30
	Escalation rate of 2.0% thereafter		

Adjustments were made to the benchmark prices to arrive at the Corporation's average prices for purposes of the impairment test and to reflect varied delivery points and quality differentials in the products delivered.

9. Bank debt

At March 31, 2012, the Corporation had no bank debt outstanding under its demand revolving operating facility (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 with 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 business combination described in note 4.

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.

The next review date scheduled for this facility is July 31, 2012, or earlier at the discretion of the lender.

10. Decommissioning provisions

The Corporation’s decommissioning provisions result from its ownership interest in oil and natural gas assets including well sites and gathering systems. Total decommissioning provisions is estimated based on the Corporation’s net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated, inflated undiscounted risked cash flows required to settle the provisions, before considering salvage, is approximately $2,167,569 at March 31, 2012 (March 31, 2011 – $509,971), which has been discounted using risk-free rates ranging from 1.20% to 2.66% at March 31, 2012 (March 31, 2011 – 1.73% to 2.90%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 25 years into the future and will be funded from general corporate resources at the time of abandonment.

The following table summarizes changes in the decommissioning provisions for the year ended March 31, 2012, and the year ended March 31, 2011:

	March 31, 2012	March 31, 2011
Decommissioning provisions, beginning of period	$ 487,834	$ 292,541
Liabilities assumed on acquisition (note 4)	1,108,949	-
Liabilities incurred	307,107	188,779
Accretion (unwinding of discount)	19,486	6,514
Decommissioning provisions, end of period	$ 1,923,376	$ 487,834

11. Share capital

(a) Authorized
Unlimited number of voting common shares

(b) Issued common shares

The following table summarizes share capital transactions:

	March 31, 2012		March 31, 2011	
	Number	**Stated value**	**Number**	**Stated Value**
Balance, beginning of period	70,586,293	$ 15,965,618	74,464,263	$ 8,188,840
Reduced by way of 4:1 consolidation of common shares (v)	-	-	(55,848,197)	-
Private placement (vi)	-	-	5,108,333	730,516
Private placement (vii)	-	-	4,271,333	579,090
Private placement (viii)	-	-	24,000,000	5,478,310
Conversion of convertible debentures (ix)	-	-	18,540,561	1,959,913
Issuance to acquire Canflame A&B shares (i)	30,312,232	9,699,914	-	-
Issuance for Canflame debentures & accrued interest (i)	6,225,594	1,992,190	-	-
Issuance of common shares (ii)	81,000,000	17,010,000	-	-
Issuance of flow-through shares (ii)	24,000,000	6,000,000	-	-
Issuance common shares (iii)	12,150,000	2,551,500	-	-
Flow-through share premium (ii)(x)	-	(960,000)	-	(222,140)
Exercise of warrants (note 11(c))	263,834	50,675	-	-
Exercise of stock options (note 12(a))	-	-	50,000	5,000
Share issue costs (iv)	-	(1,957,196)	-	(753,911)
Balance, end of period	224,537,953	$ 50,352,701	70,586,293	$ 15,965,618

(i) 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”) (note 4).

(ii) 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 equalling 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. The fair value ascribed to the warrants for the units issued on November 30, 2011 and December 14, 2011 was $109,571 and $14,212, respectively (note 12(b)(iii)). The fair value of the warrants was estimated based on the Black-Scholes option pricing model using an expected life of 1 year, a risk-free interest rate of 1.33%, expected dividends of $Nil, a forfeiture rate of Nil% and a volatility of 70% as underlying assumptions.

Of the total proceeds from the flow-through shares issued, the premium paid for the flow-through shares of $960,000 was recorded as flow-through share premium. At March 31, 2012, the Corporation had incurred all of the qualifying expenditures related to this issuance and accordingly, the flow-through share premium has been reversed through deferred income tax recovery.

(iii) 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 November 30, 2011 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.

(iv) During the year ended March 31, 2012, the Corporation incurred $1,833,413 of share issuance costs related to financings, which was further adjusted to reflect the valuation of Broker options of $123,783 to total $1,957,196.

Prior Year Issuances

(v) On June 15, 2010, the Corporation consolidated its common shares on a basis of one common share for each four pre-consolidation common shares. Prior to the consolidation the Corporation had 74,464,263 common shares issued and outstanding. Following consolidation, 18,616,066 common shares were outstanding.

(vi) On December 16, 2010, the Corporation issued 4,383,333 common shares on a “flow-through” basis at a price of $0.15 per share for gross proceeds of $657,500 and 725,000 units at a price of $0.12 per unit for gross proceeds of $87,000 (note 11(b)(x)). 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 $0.15 per share for a period of two years from the date of closing.

The fair value ascribed to the warrants for the units issued on December 16, 2010 and December 31, 2010 was $38,094. The fair value of the warrants was estimated based on the Black-Scholes option pricing model using an expected life of 2 years, a risk-free interest rate of 1.65%, expected dividends of $Nil, a forfeiture rate of Nil% and a volatility of 70% as underlying assumptions.

(vii) On December 31, 2010, the Corporation issued 3,021,333 common shares on a "flow-through" basis at a price of $0.15 per share for gross proceeds of $453,200 and 1,250,000 units at a price of $0.12 per unit for gross proceeds of $150,000 (note 11(b)(x)). Each unit consisted 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 $0.15 per share for a period of two years from the date of closing.

(viii) On February 2, 2011, the Corporation sold 24,000,000 units ("Units") of the Corporation at a price of $0.25 per Unit for gross proceeds of $6,000,000. Each unit consisted 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 date of closing. 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 fair value ascribed to the warrants was $521,690. The fair value of the warrants was estimated based on the Black-Scholes option pricing model using an expected life of 1.5 years, a risk-free rate of 1.65%, expected dividends of $Nil, a forfeiture rate of Nil% and a volatility of 70% as underlying assumptions. 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. The value ascribed to the broker's option was calculated to be $135,642. The fair value of the Broker's options was estimated based on the Black-Scholes option pricing model using an expected life of 1.5 years, a risk-free rate of 1.65%, expected dividends of $Nil, a forfeiture rate of Nil% and a volatility of 70% as underlying assumptions. This amount is included as part of share issuance costs.

(ix) On February 2, 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 (note 17). Border issued 18,540,561 common shares as a result of the conversion and recorded the conversion value at $1,854,056 plus the $105,857 conversion option as additions to share capital.

(x) Of the total proceeds from the flow-through share issuances (notes 11(b)(vi) and (vii)), the premium paid for the flow-through shares of $222,140 was recorded as flow-through share premium. At March 31, 2012, the Corporation had incurred all $1,110,700 (2011 - $938,627) of the qualifying expenditures related to these issuances and recorded a deferred income tax recovery of $34,415 (2011 - $187,725).

(c) Warrants

	March 31, 2012		March 31, 2011	
	Number of Warrants	**Weighted Average Exercise Price**	**Number of Warrants**	**Weighted Average Exercise Price**
Outstanding, beginning of year	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 (i) (ii)	2,343,000	0.21	14,427,500	0.33
Exercised	(263,834)	0.19	-	-
Expired	-	-	(2,062,500)	0.40
Outstanding and exercisable, end of year	16,506,666	$ 0.32	14,427,500	$ 0.33

(i) Upon the closing 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 equalling 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.

(ii) 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.

12. Stock-based compensation

(a) Stock option plan

The Corporation has established a 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 granting of stock options 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 over a two to three year period following the grant date.

The following options have been awarded under the stock option plan:

	March 31, 2012		March 31, 2011	
	Number	**Weighted Average Exercise Price**	**Number**	**Weighted Average Exercise Price**
Outstanding, beginning of year	2,923,750	$ 0.25	7,295,000	$ 0.10
Cancelled or expired	(537,500)	0.25	(4,200,000)	$ 0.10
	2,386,250	$ 0.25	3,095,000	$ 0.10
Adjust for 4:1 consolidation (*)	-	-	(2,321,250)	-
	2,386,250	$ 0.25	773,750	$ 0.40
Granted	12,550,000	0.23	2,200,000	$ 0.19
Exercised	-	-	(50,000)	$ 0.10
Outstanding, end of year	14,936,250	$ 0.23	2,923,750	$ 0.25
Exercisable, end of year	1,865,417	$ 0.26	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.

On December 7, 2011, the Corporation granted 12,550,000 stock options to officers, directors and consultants of the Corporation to purchase common shares at $0.23 per common share for a period of five years from the date of grant. The options vest as to 33.33% on each of the first, second and third anniversary dates of grant. During the year ended March 31, 2012, 537,000 stock options were cancelled or forfeited.

The Corporation granted to officers, directors and consultants of the Corporation 1,000,000 stock options at an exercise price of $0.10 per common share in November 2010, 1,000,000 stock options to purchase common shares at an exercise price of $0.25 per common share in February 2011 and 200,000 stock options to purchase common shares at an exercise price of $0.38 per common share in March 2011. Options granted in 2011 have a five year life and vest as to 50% immediately and 25% on each of the first and second anniversary dates of grant for the February 2011 and March 2011 grants and 33% immediately and 33% on each of the first and second anniversary dates of grant for the November 2010 grants. During the year ended March 31, 2011, 4,200,000 stock options were cancelled or forfeited.

The fair value of the stock options granted during the periods ended March 31, 2012 and March 31, 2011 have been estimated using the Black-Scholes option-pricing model with the following assumptions:

	2012	2011
Risk-free interest rate	1.33%	1.8% - 2.38%
Expected life	5 years	5 years
Expected volatility	70%	70%
Expected dividends	Nil	Nil
Forfeiture rate	Nil	Nil
Fair value per option	$0.13	$0.05 - $0.22

Compensation costs of $410,314 for the year ended March 31, 2012 (2011 - $140,013), have been expensed and have resulted in a corresponding increase in contributed surplus.

(b) The following table summarizes the expiry terms of the Corporation's outstanding stock options as at March 31, 2012:

Date of grant	Outstanding Options	Weighted Average Remaining Contractual life (years)	Number of Stock Options Exercisable
November 23, 2009	586,250	2.7	586,250
November 3, 2010	850,000	3.6	566,667
February 2, 2010	750,000	3.8	562,500
March 1, 2011	200,000	3.9	150,000
December 7, 2011	12,550,000	4.7	-
	14,936,250	4.5	1,865,417

13. Finance income and expense

	Year ended March 31	
	2012	**2011**
Finance income		
Interest income	$ 183,758	$ 26,432
Finance expenses		
Interest expense on convertible debentures (note 17)	-	125,056
Interest expense on note payable (note 16)	106,751	-
Interest expense on bank debt	3,714	-
Loss on convertible debentures (note 17)	-	55,549
Accretion on convertible debentures (note 17)	-	50,308
Accretion on convertible note payable (note 16)	102,398	-
Accretion of decommissioning provisions	21,940	1,048
	234,803	231,961
Net finance expense recognized in the statement of loss	$ (51,045)	$ (205,529)

14. Earnings (loss) per share

The following table summarizes the common shares used in calculating net loss per share:

Weighted Average Common Shares Outstanding	Year ended March 31,	
	2012	**2011**
Basic and diluted	135,394,501	27,785,400

The weighted average common shares for the year ended March 31, 2011, have been retrospectively adjusted for the 4:1 share consolidation.

All outstanding options, warrants and conversion features on notes payable were excluded from the dilution calculation as inclusion of these items would be anti-dilutive for all periods.

15. Investment in secured debt

During the year ended March 31, 2011, the Corporation purchased secured debt from an arm’s length party. The price paid was $550,000. The debt is secured via a general security agreement of which the main asset covered is an oil well drilled in northern Alberta. The oil well is located in the Corporation’s core area. Under the terms of the debt assignment agreement, interest accumulates at a per diem rate of $373. Total interest accrued during the year ended March 31, 2012 was $136,510 (March 31, 2011 - $26,109). During the year ended March 31, 2012, the Corporation purchased additional secured debt of $50,310 from arm’s length parties. Management has initiated proceedings to realize on its security and anticipates collection of all amounts due within the next 12 months.

16. Note payable

On April 11, 2011, the Corporation acquired certain interests and assets under a farmout agreement between PrivateCo and the Vendor (the "Farmout") pertaining to PrivateCo's land. Under the Purchase and Sale Agreement (the "PSA"), Border acquired: (i) a test well drilled under the Farmout; (ii) 1.25 net sections of land; (iii) the option to drill subsequent wells on PrivateCo's lands earning on a well by well basis; and (iv) a right of first refusal to acquire all other PrivateCo lands. Pursuant to the PSA, Border paid consideration of $2,572,265, consisting of (i) $1,000,000 cash; and (ii) the issuance of an unsecured promissory note of Border in the amount of $1,572,265 which bears an interest rate of 7% compounded annually, and payable quarterly for a period of two (2) years from the date of issuance and is convertible into Border common shares at a price of $0.30 per share for a period of two (2) years from the date of issuance of the promissory note. Border can repay the debenture at any time, without penalty, with the conversion right of the holder being exercisable prior to repayment.

The promissory note payable is a debt security with an embedded conversion option. The equity component represents the value of the Vendor's option to convert the debt into common shares at the time the note payable is issued. The Corporation allocated a fair value of $1,361,124 to the debt component and $211,141 to the equity component. The Corporation valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 15%, being the estimate of the rate a non-convertible note payable with similar terms would bear. The equity conversion feature of the note payable comprises the value of the conversion option, being the difference between the face value of the note payable and the liability element calculated above.

The liability component of $1,361,124 is accreted to its face value of $1,572,265 at maturity through non-cash charges as accretion on convertible note payable. During the twelve month period ended March 31, 2012, the Corporation recorded accretion on convertible note payable of $102,398 and interest expense accrued on the face value of the note payable of $106,751.

17. Convertible debenture

In May 2010, the Corporation closed a private placement of $1,729,000 of secured convertible debentures (the "debentures"), which were to mature 18 months from the date of issuance, bearing interest at a rate of 10% per annum compounded semi-annually payable after as well as before maturity and were secured by a first fixed and floating charge debenture registered against the assets of the Corporation and an assignment of book debts. The debentures were convertible into common shares on the basis of one share for each $0.10 of the principal amount of debenture and accrued interest. Officers and directors of the Corporation participated in the private placement of the debentures and purchased $1,089,000 of the debentures.

On May 3, 2010, the Corporation closed a $600,000 bridge financing which was secured by a general security agreement over the assets of the Corporation and the Lenders were issued fixed and floating charge debentures and promissory notes for the amount of the bridge financing. The promissory notes were converted into convertible debentures as part of the offering noted above. Two directors participated in the bridge financing and invested $400,000.

The debentures are a debt security with an embedded conversion option. The equity component represents the value of the holders' option to convert the debt into common shares at the time the debenture is issued. Using the residual value method, the Corporation allocated a fair value of $1,623,143 to the debt component and $105,857 to the equity component. The Corporation valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 15%, being the estimate of the rate a non-convertible debenture with similar terms would bear. The equity conversion feature of the debentures comprises the value of the conversion option, being the difference between the face value of the debentures and the liability element calculated above. The liability component of $1,623,143 is accreted to its fact value of $1,729,000 at maturity through non-cash charges as accretion on convertible debenture.

As part of the terms of the 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. Cash interest expense accrued on the face value of the debentures amounts to $125,056, which was recorded as an interest expense during the year ended March 31, 2011. Border issued 18,540,561 common shares as a result of the conversion. As the debentures were converted prior to their maturity date, the Corporation recorded a loss on conversion of $55,549 during the year ended March 31, 2011.

18. Income taxes

(a) Deferred income tax expense (recovery)

The provision for income taxes in the consolidated financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rate to the Corporation's loss before income tax. The difference results from the following items:

		Year ended March 31, 2012		2011
Loss before income taxes	$	(13,830,573)	$	(1,489,213)
Statutory tax rate		26.13%		27.63%
Expected income tax recovery		(3,613,929)		(411,470)
Stock-based compensation		107,215		38,686
Flow-through share renouncement		1,500,000		277,675
Flow-through share premium reversal		(994,415)		(187,725)
Share issue costs		(458,353)		(154,567)
Changes in tax rates		150,159		36,183
Other		11,451		15,658
Increase in valuation allowance		2,303,457		197,835
Deferred income tax recovery	$	(994,415)	$	(187,725)

(b) Deferred income tax asset

The components of the Corporation's deferred income tax assets are as follows:

	March 31, 2012	March 31, 2011
Property and equipment	$ 889,803	$ 141,511
Decommissioning liabilities	480,844	121,959
Non-capital losses	1,715,783	869,605
Share issue costs	465,953	158,870
Flow-through shares	-	(43,019)
Valuation allowance	(2,145,856)	(1,248,926)
Valuation allowance on successored tax pools	(1,406,527)	-
Deferred income taxes	$ -	$ -

19. Related party transactions

The Corporation utilizes the services of a law firm in which a Director of the Corporation is a Partner. During the year ended March 31, 2012, the Corporation incurred $291,478 (March 31, 2011 - $NIL) on legal services, of which $193,705 is included in general and administrative expense or transaction costs, $97,773 is included in share issuance costs and $5,686 (March 31, 2011 - $NIL) is included in accounts payable and accrued liabilities at March 31, 2012.

During the year ended March 31, 2011, $50,000 in management fees, which is included in general and administrative expenses was paid to former officers and or companies controlled by former officers and directors of the Corporation. In addition, during the year ended March 31, 2011, $89,280 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 directors of the Corporation.

During the year ended March 31, 2011, the Corporation paid $30,000 to a company controlled by two former directors as per the terms of a participation agreement whereby Border paid a fee to participate in a farm-out agreement.

During the year ended March 31, 2011, 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. There was no similar financing completed during the year ended March 31, 2012.

During the year ended March 31, 2011, two directors participated in a $600,000 bridge financing. The directors invested $400,000. The bridge financing was secured by a general security agreement over the assets of the Corporation and the Lenders were issued fixed and floating charge debentures and promissory notes for the amount of the bridge financing. The promissory notes were convertible at any time at the option of the Lenders into convertible debentures on the same terms as the debenture offering described in note 17.

20. Key management personnel

The remuneration of the key management personnel of the Corporation, which includes both directors, officers and key consultants, is set out below in aggregate:

	Year ended	
	March 31, 2012	**March 31, 2011**
Salaries	$ 521,277	$ 267,260
Stock-based compensation	349,134	102,522
	$ 870,411	$ 369,782

21. Commitments and contingencies

(a) Flow-through share commitments

Pursuant to the Corporation's flow-through financing in December 2010, the Corporation is required to spend $1,110,700 on oil and natural gas development and/or exploration by December 31, 2011. The Corporation fulfilled its $1,110,700 flow-through share spending commitment during the quarter ended June 30, 2011.

Pursuant to the Corporation's flow-through financing in November 2011, the Corporation is required to spend $6,000,000 on oil and natural gas exploration by December 31, 2012. During the quarter ended March 31, 2012, the Corporation fulfilled its $6,000,000 flow-through share spending commitment.

(b) Contingent acquisition costs

During the year ended March 31, 2011, the Corporation entered into a termination agreement pertaining to an Area of Mutual Interest (“AMI”) and Farm-in Agreement dated July 1, 2009 (the “Termination Agreement”). By Termination Agreement dated November 1, 2010, the parties terminated the Area of Mutual Interest Agreement and set out terms for payment by Border. Border is required to pay twenty percent of net monthly revenue (net of royalties, overriding royalties, transportation and processing fees) received from the current and future re-entries conducted by Border on the lands previously covered by the “AMI” at the end of each month to a total maximum payment of all payments under the agreement of $550,000.

Total cash payments of $100,708 have been paid and an additional $66,727 has been accrued during the year ended March 31, 2012 (year ended March 31, 2011 - $101,996 and $NIL, respectively), based on management's estimate of the amount that will ultimately be paid under the Termination Agreement, for a total of $269,431.

(c) Legal matters

Canflame, now amalgamated with a wholly-owned subsidiary of the Corporation, has been named as a defendant in a lawsuit on behalf of a joint venture partner seeking to recover damages allegedly sustained by them as a result of a breach of agreement. The complaint with respect to this action generally alleges Canflame failed to pay certain AFEs. Canflame has also filed a counterclaim. These lawsuits remain at an early stage and management has determined that the likelihood of any loss occurring as being remote and has accrued no amounts related to this claim at March 31, 2012 (see note 4).

(d) Office Lease

The Corporation entered into a commitment related to the leasing of the office premises. The payments due including estimated operating costs are as follows:

Contractual obligations for the fiscal years ended March 31,

	2013	2014	2015
Office Premises	$ 225,792	$ 225,792	$ 150,528

22. Transition to IFRS

As disclosed in note 2, these consolidated financial statements represent the Corporation's initial presentation of the results of operations and financial position under IFRS for the year ended March 31, 2012.

IFRS 1 requires the presentation of comparative information as at April 1, 2010, the transition date and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters to alleviate the retrospective application of certain IFRS.

The following reconciliations present the adjustments made to the Corporation's previous Canadian GAAP results of operations and financial position to comply with IFRS 1. A summary of the significant accounting policy changes and applicable exemptions are discussed following the reconciliations. Reconciliations include the Corporation's consolidated balance sheets as at April 1, 2010 and March 31, 2011, consolidated statements of loss and comprehensive loss for the twelve months ended March 31, 2011 and shareholders' equity reconciliations as at April 1, 2010 and March 31, 2011.

Reconciliation of balance sheet as at April 1, 2010, from Canadian GAAP to IFRS:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ -	$ -	$ -
Accounts receivable		124,315	-	124,315
Deposits and prepaid expenses		12,819	-	12,819
Total current assets		137,134	-	137,134
Investment in secured debt		-	-	-
Lease reclamation deposits		67,105	-	67,105
Exploration and evaluation assets	(a)(i)	-	1,004,064	1,004,064
Property and equipment	(a)(i)	1,033,679	(1,004,064)	29,615
Total assets		$ 1,237,918	$ -	$ 1,237,918
LIABILITIES AND EQUITY				
Current liabilities				
Bank debt		$ 20,483	$ -	$ 20,483
Accounts payable and accrued liabilities		567,150	-	567,150
Flow-through share premium		-	-	-
Total current liabilities		587,633	-	587,633
Decommissioning provisions	(a)(i)	246,114	46,427	292,541
Total liabilities		833,747	46,427	880,174
Shareholders' Equity				
Share capital		8,188,840	-	8,188,840
Warrants		-	-	-
Contributed surplus		162,366	-	162,366
Deficit		(7,947,035)	(46,427)	(7,993,462)
		404,171	(46,427)	357,744
		$ 1,237,918	$ -	$ 1,237,918

Reconciliation of balance sheet as at March 31, 2011, from Canadian GAAP to IFRS:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ 3,811,333	$ -	$ 3,811,333
Accounts receivable		361,414	-	361,414
Deposits and prepaid expenses		13,546	-	13,546
Total current assets		4,186,293	-	4,186,293
Investment in secured debt		576,109	-	576,109
Lease reclamation deposits		67,427	-	67,427
Exploration and evaluation assets	(b)(i)	-	1,185,451	1,185,451
Property and equipment	(b)(i)(iii)(iv)	3,724,897	(735,706)	2,989,191
Total assets		$ 8,554,726	$ 449,745	$ 9,004,471
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		$ 813,749	$ -	$ 813,749
Flow-through share premium	(b)(v)	-	34,415	34,415
Total current liabilities		813,749	34,415	848,164
Decommissioning provisions	(b)(iii)	446,448	41,386	487,834
Total liabilities		1,260,197	75,801	1,335,998
Shareholders' Equity				
Share capital	(b)(v)	15,910,083	55,535	15,965,618
Warrants		695,426	-	695,426
Contributed surplus		302,379	-	302,379
Retained earnings (deficit)		(9,613,359)	318,409	(9,294,950)
		7,294,529	373,944	7,668,473
		$ 8,554,726	$ 449,745	$ 9,004,471

Reconciliation of statement of loss and comprehensive loss for the year ended March 31, 2011:

	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue				
Oil and natural gas revenue		$ 858,750	$ -	$ 858,750
Royalties		(112,016)	-	(112,016)
Interest income	(b)(vii)	26,432	(26,432)	-
		773,166	(26,432)	746,734
Expenses				
Production and operating		792,967	-	792,967
General and administrative		843,574	-	843,574
Stock-based compensation		140,013	-	140,013
Depletion and depreciation	(b)(iv)	689,698	(435,834)	253,864
Accretion – decommissioning liabilities	(b)(vii)	20,000	(20,000)	-
Accretion on convertible debentures	(b)(vii)	50,308	(50,308)	-
Loss on conversion of convertible debentures	(b)(vii)	55,549	(55,549)	-
Interest on convertible debentures	(b)(vii)	125,056	(125,056)	-
		2,717,165	(686,747)	2,030,418
		(1,943,999)	660,315	(1,283,684)
Net finance expense	(b)(iii)(vii)	-	(205,529)	(205,529)
Loss before income tax		(1,943,999)	454,786	(1,489,213)
Deferred tax expense (recovery)	(b)(v)(viii)	(277,675)	89,950	(187,725)
Net loss and comprehensive loss for the year		$ (1,666,324)	$ 364,836	$ (1,301,488)
Loss per share - basic and diluted		$ (0.06)	$ 0.01	$ (0.05)

Reconciliation of shareholders' equity as at April 1, 2010 and March 31, 2011 from Canadian GAAP to IFRS:

	Notes	April 1, 2010	March 31, 2011
Total shareholders' equity under Canadian GAAP		$ 404,171	$ 7,294,529
Depletion effect on property and equipment adjustments	(b)(iv)	-	435,834
Decrease due to effect of changes in decommissioning provisions	(a)(i)	(46,427)	(46,427)
Accretion effect on decommissioning provisions adjustments	(b)(iii)	-	18,952
Flow-through shares	(b)(v)	-	55,535
		(46,427)	463,894
Deferred income tax adjustments	(b)(viii)	-	(89,950)
Total adjustments to shareholders' equity		$ (46,427)	$ 373,944
Total shareholders' equity under IFRS		$ 357,744	$ 7,668,473

(a) First-time adoption exemptions and exceptions applied

The following optional exemption was applied by the Corporation:

(i) Deemed cost exemption

Under Canadian GAAP, the Corporation has historically accounted for exploration and development costs of oil and natural gas properties in a single Canada wide full cost accounting pool. Under IFRS, exploration expenditures are reclassified as exploration and evaluation assets. IFRS 1 contains an exemption that allowed the Corporation to measure oil and natural gas assets at the date of transition as follows:

i. exploration and evaluation assets are reclassified from the full cost pool to exploration and evaluation assets at the amount that was recorded under Canadian GAAP; and

ii. the remaining full cost pool is allocated to the development and production assets and components pro rata using reserve values or reserve volumes.

The reclassification of exploration and evaluation assets resulted in a $1,004,064 increase in exploration and evaluation assets with a corresponding decrease in property and equipment at April 1, 2010. The remaining full cost pool was allocated on the basis of total proved plus probable reserve values and April 1, 2010 forecast pricing discounted at 10%.

Decommissioning provisions, disclosed as asset retirement obligations under Canadian GAAP, are calculated using a risk free discount rate under IFRS, resulting in an increase of $46,427 to decommissioning provisions at April 1, 2010, which was recognized directly in opening equity, net of tax.

There was no impairment of exploration and evaluation assets and property and equipment on transition to IFRS.

(b) Changes in accounting policies

In addition to the exemption discussed above, the following narratives explain the significant differences between the previous Canadian GAAP and the current IFRS accounting policies applied by the Corporation. Only the differences having an impact on the Corporation are described below. The following is not a complete summary of all of the differences between Canadian GAAP and IFRS. Unless a quantitative impact was noted below, the impact from the change was not material to the Corporation.

(i) Exploration and evaluation assets

Under IFRS, exploration and evaluation costs are recognized as exploration and evaluation assets. The Corporation followed full cost accounting under Canadian GAAP and classified all exploration and evaluation costs as oil and natural gas property and equipment. The effect of this change results in a reclassification of exploration and evaluation costs from oil and natural gas property and equipment to exploration and evaluation assets. As well, pre-license seismic and other costs incurred are expensed directly to results of operations. Under Canadian GAAP, such pre-license and seismic costs were capitalized as part of oil and natural gas property and equipment.

Exploration and evaluation assets increased and property and equipment decreased by $1,185,451 at March 31, 2011.

(ii) Impairment

Under Canadian GAAP, impairment was measured by comparing the carrying amounts of property and equipment to the estimated net present value of future cash flows from proved plus probable reserves and the cost less impairment of unproved properties. Under IFRS, the aggregate carrying value is compared against the expected recoverable amount of each cash-generating unit, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves. If the carrying value of a cash-generating unit exceeds its recoverable amount, then an impairment loss shall be recognized. Additionally, an impairment loss from a prior period may be reversed in a subsequent period if impairment no longer exists or has decreased. No impairment losses were required under any of the comparative periods presented under IFRS.

(iii) Decommissioning provisions

Under Canadian GAAP, asset retirement obligations were measured at fair value, incorporating market assumptions and discount rates based on the Corporation's credit-adjusted risk-free rate.

Adjustments were made to asset retirement obligations for changes in the timing or amount of the cash flows and the unwinding of the discount. However, changes in discount rates alone did not result in a re-measurement of the provision. Under Canadian GAAP, changes in estimates related to asset retirement obligations discriminated changes in estimates that increased the liability and those that decreased it. Upward revisions in the estimates of undiscounted cash flows were required to be discounted using the current credit adjusted risk-free rate and downward revisions in the estimated cash flows were required to be discounted using the credit adjusted risk-free rate employed when the original liability was recognized.

Under IFRS, future cash outflows are estimated as they arise and are discounted at the current appropriate discount rate. Both the cash flows to settle the obligation and the discount rate are considered at each reporting period and adjusted to the appropriate estimate at that point in time. Under IFRS, the estimated cash flow to abandon and remediate the wells and facilities is risk adjusted therefore the provision is discounted at a risk-free rate. In addition, under Canadian GAAP, accretion of the discount was included in depletion and depreciation. Under IFRS, it is included in finance expenses.

Upon application of IFRS, decommissioning provisions increased by $41,386 and accretion expense decreased by $18,952 during the year ended March 31, 2011.

(iv) Depletion policy

Upon transition to IFRS, the Corporation adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under Canadian GAAP was based on units of production over proved reserves. In addition, depletion was done on the Canadian cost centre under Canadian GAAP. IFRS requires depletion and depreciation to be calculated based on individual components (i.e. fields or combinations thereof).

The use of total proved plus probable reserve base for calculating depletion resulted in a decrease to depletion expense of $435,834 for the year ended March 31, 2011.

(v) Flow-through shares

Flow-through shares are unique Canadian tax incentives which are the subject of specific guidance under Canadian GAAP. There is no equivalent IFRS guidance. Therefore, the Corporation has adopted a policy whereby the premium paid for flow-through shares in excess of the estimated market value of the Corporation's shares without the flow-through feature, at the time of issue, is credited to other liabilities (“flow-through share premium”) and is included in income at the time the qualifying expenditures are made. Under Canadian GAAP, the gross proceeds received on flow-through share issuances are initially recorded as share capital. When the expenditures are incurred and the tax deductions are renounced to subscribers, the Corporation has adopted an IFRS policy that the deferred tax liability is recorded through a charge to income tax expense less the reversal of the flow-through share premium previously reported. Under Canadian GAAP, the carrying value of the shares issued was reduced, and the future income tax liability of the Corporation was increased, by the estimated value of the renounced income tax deductions when the related flow through expenditures were renounced to the subscribers and the prescribed forms were filed with the Canada Revenue Agency.

As a result, the Corporation recorded $222,140 as a flow-through share premium as at March 31, 2011 and $nil as at April 1, 2010 with a corresponding decrease to share capital, reduced at March 31, 2011, by $187,725 for effect of qualifying expenditures to date. The tax effect of flow through shares of $277,675 originally recorded under Canadian GAAP has also been reversed.

(vi) Statement of cash flows for previous periods

The transition from former Canadian GAAP to IFRS had no material effect upon the reported cash flows generated by the Corporation., and as such, no reconciliation of March 31, 2011 statement of cash flows has been presented.

(vii) Net finance expense

Under IFRS, all amounts related to interest earned and/or paid has been reclassified to net finance expense on the statement of loss and comprehensive loss.

(viii) Income tax

Any change to income tax reporting is predominantly caused by changes in the carrying value of assets, not due to the change in income tax accounting methodology, with the exception of flow-through shares. IFRS requires that all deferred taxes be disclosed as non-current assets or liabilities and designated as deferred taxes. As the Corporation is not recognizing deferred tax assets in excess of deferred tax liabilities for all periods shown, the only adjustment to deferred tax expense (recovery) relates to the reversal of the flow-through share premium liability (note 22(b)(v)).