Border Petroleum Limited

Consolidated Financial Statements

March 31, 2014

(Audited)

Independent Auditors' Report

To the Shareholders of Border Petroleum Limited:

We have audited the accompanying consolidated financial statement of Border Petroleum Limited and its subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2014 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, 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 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 audit. We conducted our audit 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.

We believe that the audit evidence we have obtained in our audit 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 Limited and its subsidiaries as at March 31, 2014 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Border Petroleum Limited and its subsidiaries as at March 31, 2013 and for the years then ended, were audited by another auditor who expressed an unmodified opinion on those statements on July 20, 2013.

Calgary, Alberta
July 16, 2014 *Chartered Accountants*

Suite 1500, 640 – 5th Ave. S.W., Calgary, Alberta T2P 3G4 Tel: (403) 263-3385 Fax: (403) 269-8450

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Border Petroleum Limited
Consolidated Balance Sheets
As at March 31,
(amounts in Canadian dollars)

	Notes		2014		2013
Assets					
Current assets					
Cash and cash equivalents		$	3,122,067	$	8,266,710
Accounts receivable	4(c)		1,026,529		1,394,733
Assets held for sale	7, 19		2,300,000		-
Deposits and prepaid expenses			58,696		101,844
Investment in secured debt	14		-		899,067
Total current assets			6,507,292		10,662,354
Lease reclamation deposits			289,151		150,422
Exploration and evaluation assets	6		1,741,432		5,032,385
Property and equipment	7		2,796,591		18,012,275
Total assets		$	11,334,466	$	33,857,436
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	4(d)	$	1,857,787	$	3,142,512
Flow-through share premium	18(a)		-		341,626
Total current liabilities			1,857,787		3,484,138
Decommissioning provisions	9		2,143,204		2,204,770
Total liabilities			4,000,991		5,688,908
Shareholders' Equity					
Share capital	10(b)		65,404,764		65,354,764
Contributed surplus			3,071,291		2,628,762
Deficit			(61,142,580)		(39,814,998)
Total shareholders' equity			7,333,475		28,168,528
Total liabilities and shareholders' equity		$	11,334,466	$	33,857,436

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Per: "Al Kroontje"
Director

Per: "Steve Thompson"
Director

See accompanying notes to the consolidated financial statements.

Border Petroleum Limited
Consolidated Statements of Loss and Comprehensive Loss
For the year ended March 31,
(amounts in Canadian dollars)

	Notes	2014	2013
Revenue			
Oil and natural gas revenue		**$ 2,180,534**	*$ 3,110,509*
Royalties		**(232,034)**	*(292,829)*
		1,948,500	*2,817,680*
Expenses			
Production and operating		**2,022,862**	*3,084,943*
General and administrative		**1,954,799**	*1,937,269*
Stock-based compensation	*11(a)*	**442,529**	*885,719*
Depletion and depreciation	*7*	**879,750**	*1,584,493*
Impairment	*7*	**13,497,366**	*13,480,946*
Exploration and evaluation	*6*	**5,243,842**	*941,790*
		24,041,148	*21,915,160*
Loss from operations		**(22,092,648)**	*(19,097,480)*
Gain on sale of property and equipment	*7*	**345,543**	-
Finance income, net	*12*	**77,897**	*20,286*
Loss before income taxes		**(21,669,208)**	*(19,077,194)*
Deferred tax recovery	*15*	**341,626**	*1,393,304*
Net loss and comprehensive loss for the year		**$ (21,327,582)**	*$ (17,683,890)*
Loss per share - basic and diluted	*13*	**$ (0.64)**	*$ (0.63)*

See accompanying notes to the consolidated financial statements.

Border Petroleum Limited
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		Deficit		Total equity
Balance at March 31, 2012		224,537,953	$	50,352,701	$	819,209	$	712,693	$	211,141	$	(22,131,108)	$	29,964,636
Share issuance – Common Shares	10(b)	48,335,000		7,250,250		-		-		-		-		7,250,250
Share issuance – Flow-through shares	10(b)	60,106,000		10,750,830		-		-		-		-		10,750,830
Flow through share premium	10(b)	-		(1,734,930)		-		-		-		-		(1,734,930)
Share issuance costs	10(b)	-		(1,264,087)		-		-		-		-		(1,264,087)
Stock-based compensation related to options	11(a)	-		-		-		885,719		-		-		885,719
Non-cash fair value related to warrants expired	10(c)	-		-		(819,209)		819,209		-		-		-
Conversion feature on note payable extinguished		-		-		-		211,141		(211,141)		-		-
Net loss and comprehensive loss		-		-		-		-		-		(17,683,890)		(17,683,890)
Balance at March 31, 2013		**332,978,953**	**$**	**65,354,764**	**$**	**-**	**$**	**2,628,762**	**$**	**-**	**$**	**(39,814,998)**	**$**	**28,168,528**
Cancelled – Common Shares		(6,062,446)	$	-	$	-	$	-	$	-	$	-	$	-
Reduced by way of 10:1 consolidation of common shares		(294,224,843)		-		-		-		-		-		-
Share issuance – Common Shares	10(b)	1,000,000		50,000		-		-		-		-		50,000
Stock-based compensation related to stock options	11(a)	-		-		-		442,529		-		-		442,529
Net loss and comprehensive loss		-		-		-		-		-		(21,327,582)		(21,327,582)
Balance at March 31, 2014		**33,691,664**	**$**	**65,404,764**	**$**	**-**	**$**	**3,071,291**	**$**	**-**	**$**	**(61,142,580)**	**$**	**7,333,475**

See accompanying notes to the consolidated financial statements.

Border Petroleum Limited
Consolidated Statements of Cash Flows
For the year ending March 31,
(amounts in Canadian dollars)

	Notes	2014	2013
Cash and cash equivalents provided by (used in):			
Loss for the year		**$ (21,327,582)**	*(17,683,890)*
Adjustments for:			
Depletion and depreciation	7	**879,750**	*1,584,493*
Impairment	7	**13,497,366**	*13,480,946*
Stock-based compensation	11(a)	**442,529**	*885,719*
Interest on note payable		**-**	*63,594*
Interest on secured debt	14	**(33,941)**	*(136,138)*
Gain on sale on property and equipment		**(345,543)**	*-*
Accretion and gain/loss on redemption of convertible note payable		**-**	*74,135*
Accretion of decommissioning provisions	12	**14,685**	*43,238*
Exploration and evaluation expenditures	6	**5,243,842**	*941,790*
Actual abandonment costs incurred		**(40,535)**	*(173,249)*
Deferred tax recovery		**(341,626)**	*(1,393,304)*
		(2,011,055)	*(2,312,666)*
Operating cash flow before changes in non-cash working capital			
Changes in non-cash working capital	5	**(962,102)**	*(3,873,554)*
Net cash used in operating activities		**(2,973,157)**	*(6,186,220)*
Cash flows from investing activities			
Additions to exploration and evaluation assets	6	**(1,952,889)**	*(8,627,871)*
Additions to property and equipment	7	**(968,597)**	*(2,944,964)*
Proceeds from sale of property and equipment	7	**750,000**	*-*
Change in non-cash working capital	5	**-**	*(1,856,645)*
Net cash used in investing activities		**(2,171,486)**	*(13,429,480)*
Cash flows from financing activities			
Proceeds from common shares	10(b)	**-**	*7,250,250*
Proceeds from flow through shares		**-**	*10,750,830*
Repayment of note payable		**-**	*(1,708,002)*
Share issuance costs		**-**	*(1,264,087)*
Change in non-cash working capital		**-**	*(119,000)*
Net cash used in financing activities		**-**	*14,909,991*
Change in cash and cash equivalents		**(5,144,643)**	*(4,705,709)*
Cash and cash equivalents, beginning of year		**8,266,710**	*12,972,419*
Cash and cash equivalents, end of year		**$ 3,122,067**	*$ 8,266,710*
Cash and cash equivalents is comprised of:			
Bank balances, end of year		**$ 1,057,012**	*$ 266,710*
Term deposits, end of year		**2,065,055**	*8,000,000*
Cash and cash equivalents, end of year		**$ 3,122,067**	*$ 8,266,710*

See accompanying notes to the condensed interim consolidated financial statements.

1. General business description

Border Petroleum Limited ("Border" or the "Corporation") is engaged in the exploration for, development of and production of oil and natural gas in Western Canada and Montana. Effective March 24, 2014, the Corporation's name was changed from Border Petroleum Corp. to Border Petroleum Limited. Border Petroleum Limited is a publicly traded company, incorporated and domiciled in Canada. The address of the registered office of the Corporation is Suite 2000, 840 – 7 Avenue SW, Calgary, Alberta, Canada, T2P 3G2.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRAC") in effect for the fiscal year beginning April 1, 2013.

These consolidated financial statements were authorized for issue by the Board of Directors on July 16, 2014.

(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, 2014, the Corporation had positive working capital of $4,649,505.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value.

(d) Functional and presentation currency

These consolidated 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.

2. Basis of preparation *(continued from previous page)*

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

<u>Depletion and depreciation and valuation of property and equipment and exploration and evaluation assets</u>

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 is 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 assets 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.

<u>Decommissioning provisions</u>

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.

<u>Income taxes</u>

The amounts recorded for deferred 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.

<u>Stock-based compensation</u>

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

<u>Investment in secured debt</u>

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.

2. Basis of preparation *(continued from previous page)*

(f) Judgements

Judgment is used in situations when there is a choice and/or assessment requirement by management. The following are critical judgments apart from those involving estimations, that management has made in the process of applying the Corporation's accounting policies and that have a significant effect on the amounts recognized the consolidated financial statements.

Cash-generating Units ("CGUs")

Management makes judgments in determining its CGUs and evaluates the geography, geology, production profile and infrastructure of its assets in making such determinations. Based on this assessment, the Corporation's CGUs are generally composed of significant development areas. As at March 31, 2014, the Corporation had eight CGUs. The Corporation reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

Impairment of oil and natural gas properties

Management uses judgment to assess the existence of impairment indicators such as events or changes in circumstances that may indicate the carrying amount of oil and natural gas properties may not be recoverable.

Decommissioning liabilities

Management uses judgment to assess the Corporation's legal obligations to decommission its oil and natural gas properties and restore property sites after closure. The Corporation's production activity is required to be in compliance with various environmental laws and regulations in Canada and the United States. The assessment of decommissioning liabilities is based on management's understanding of the current legal and environmental requirements and third party engineering valuations.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

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 where the acquisition of companies and assets meet the definition of a business under IFRS. 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.

3. Significant accounting policies *(continued from previous page)*

(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 that are cashable or 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 assets 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 loss and comprehensive loss.

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 the statement of loss and comprehensive loss.

3. Significant accounting policies *(continued from previous page)*

(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 the statement of loss and comprehensive loss.

(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 period 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 are 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% per annum 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 separate cash-generating units ("CGUs"), defined as the lowest levels for which there are separately identifiable independent cash inflows. Goodwill, if any is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill.

3. Significant accounting policies *(continued from previous page)*

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 the statement of loss and comprehensive loss.

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. A goodwill impairment loss is not reversed.

(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 statement of financial position 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 asset or property and equipment and is depleted or amortized over the useful life of the asset. The provision is accreted over time through charges to Financing Expenses. 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 in the statement of loss and comprehensive loss.

3. Significant accounting policies *(continued from previous page)*

(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 recorded.

(i) Taxes

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

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.

3. Significant accounting policies *(continued from previous page)*

(l) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in the statement loss and comprehensive loss, using the effective interest method.

Finance expense is comprised of interest expense on borrowings, accretion of discounts on notes payable, accretion of 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 loss and comprehensive loss in the period in which they are incurred using the effective interest method.

(m) Share-based payments

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

The Corporation measures share-based payments to non-employees at the fair value of the goods or services received at the date of receipt of the goods or service. If the fair value of the goods or services cannot be measured reliably, the value of the options/warrants granted will be used, measured 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 and conversion of convertible debt securities are used to purchase common shares at average market prices during the period.

(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 profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities measured at amortized cost".

3. Significant accounting policies *(continued from previous page)*

Financial assets and financial liabilities at "fair value through profit or loss" are measured at fair value with changes in fair value recognized in the statement of loss and comprehensive loss. 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 profit or loss" and that are not derivatives.

The Corporation has designated accounts receivable, deposits and investment in secured debt as "loans and receivables", and accounts payable and accrued liabilities 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 or loss. 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 profit or loss".

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 loss and comprehensive loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in the statement of loss and comprehensive loss. 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.

3. Significant accounting policies *(continued from previous page)*

(iv) Impairment

The Corporation assesses at each statement of financial position date whether there is objective evidence that financial assets, other than those designated as "fair value through profit or loss" are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of loss and comprehensive loss. 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 loss and comprehensive loss in the period. Impairment losses may be reversed in subsequent periods.

(p) Changes in accounting standards

On April 1, 2013, the Corporation adopted new standards for IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IFRS 13 Fair Value Measurement as well as consequential amendments to IAS 28 Investments in Associates and Joint Ventures. The adoption of these standards and amendments had no impact on the amounts recorded in the consolidated financial statements for the year ended March 31, 2014.

New standards and interpretations not yet adopted

The Corporation has reviewed amendments to accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Corporation:

IFRS 2 Share-based Payment
Amendments to IFRS 2 Share-based Payment revised the definitions of 'vesting conditions' and 'market condition' and add definitions for 'performance condition' and 'service condition'. Amendments apply to share-based payment transactions for which the grant date is on or after July 1, 2014.

IAS 24 Related Party Disclosures
Amendments to IAS 24 Related Party Disclosures clarify that an entity providing key management services to the reporting entity is a related party of the reporting entity.

IAS 32 Financial Instruments: Presentation
Amendments to IAS 32 Financial Instruments: Presentation clarify that an entity has a legally enforceable right to set-off if that right is (a) not contingent on a future event; and (b) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments also clarify that when a settlement mechanism provides for either net settlement or gross settlement, it is equivalent to net settlement.

IAS 36 Impairment of Assets
In May 2013, the International Accounting Standards Board issued an amendment to IAS 36 Impairment of Assets. These narrow-scope amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IAS 39 Financial Instruments: Recognition and Measurement
In November 2013, the IASB published amendments to IAS 39 Financial Instruments: Recognition and Measurement through a document entitled "Novation of Derivatives and Continuation of Hedge Accounting". The amendments provide some relief from the discontinuation of hedge accounting when a novation is made as a consequence of laws or regulations or the introduction of laws or regulations, subject to certain criteria.

3. Significant accounting policies *(continued from previous page)*

IFRIC 21 Levies
IFRIC 21 Levies clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached.

The above amendments are effective for annual periods beginning on or after January 1, 2014. The Corporation is currently assessing the impact of these amendments on its consolidated financial statements.

4. 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, and accounts payable and accrued liabilities approximate their carrying value due to their short-term maturities.

At March 31, 2014, 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 Level 1 designation.

(c) Credit risk

Credit risk is primarily related to the Corporation's receivables from oil and natural gas marketers and joint interest 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 interest partners' 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 interest partners' receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Corporation does not typically obtain collateral from joint interest 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.

(amounts in Canadian dollars)

4. Financial instruments and risk management *(continued from previous page)*

As at March 31, 2014 and March 31, 2013, the Corporation's accounts receivable were comprised of the following:

		2014		2013
Oil and natural gas sales	**$**	**109,477**	*$*	*438,462*
Joint interest partners and other		**917,384**		*512,639*
GST		**(332)**		*443,632*
		1,026,529		*1,394,733*

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, 2014, and there are $623,125 (2013 - $469,308) in accounts receivable outstanding greater than 90 days at March 31, 2014, which the Corporation would consider past due under normal conditions.

Cash and cash equivalent includes $2,065,000 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, 2014, is comprised of $1,026,529 in accounts receivable and $3,122,067 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 4(f) for a discussion on the Corporation's capital management policy.

The Corporation's accounts payable and accrued liabilities as at March 31, 2014 and 2013 are comprised of the following:

		2014		2013
Trade	**$**	**1,028,777**	*$*	*970,985*
Royalties		**74,050**		*45,717*
Capital		**217,360**		*1,616,106*
Joint venture		**537,600**		*509,704*
	$	**1,857,787**	*$*	*3,142,512*

The Corporation expects to satisfy its obligations under accounts payable and accrued liabilities within the next year.

The Corporation is also subject to future commitments as disclosed in note 18.

4. Financial instruments and risk management *(continued from previous page)*

(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, 2014 and 2013, the Corporation had no forward exchange rate contracts in place nor 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 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, 2014 or March 31, 2013.

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. The Corporation had not entered into financial derivative sales contracts as at or during the years ended March 31, 2014 or 2013.

Based on the decreased levels of production, a price change of $1.00 per barrel of oil equivalent would not have a material impact on the reported net loss.

(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 (excluding flow-through share premium) and debt instruments (if any) are the components of the Corporation's capital structure to be managed.

(amounts in Canadian dollars)

4. Financial instruments and risk management *(continued from previous page)*

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 debt 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.

The Corporation had no externally imposed capital requirements, other than the working capital covenant requirements disclosed in note 8. There were no changes in the Corporation's approach to capital management during the year ended March 31, 2014.

Working capital is determined on the following basis:

		2014		*2013*
Cash and cash equivalents	**$**	**3,122,067**	*$*	*8,266,710*
Accounts receivable and deposits and prepaid expenses		**1,085,225**		*1,496,577*
Investment in secured debt		**-**		*899,067*
Accounts payable and accrued liabilities		**(1,857,787)**		*(3,142,512)*
Working capital	**$**	**2,349,505**	*$*	*7,519,842*

5. Supplemental cash flow information

Changes in non-cash working capital is comprised of:

		2014		*2013*
Source/(use) of cash:				
Accounts receivable	**$**	**368,204**	*$*	*106,176*
Deposits, prepaid expenses and lease reclamation deposits		**(95,581)**		*(22,530)*
Accounts payable and accrued liabilities		**(1,234,725)**		*(5,932,845)*
		(962,102)		*(5,849,199)*
Related to operating activities		**(962,102)**	*$*	*(3,873,554)*
Related to investing activities		**-**		*(1,856,645)*
Related to financing activities		**-**		*(119,000)*
Changes in non-cash working capital	**$**	**(962,102)**	*$*	*(5,849,199)*
Cash interest paid	**$**	**34,352**	*$*	*198,419*

6. Exploration and evaluation assets

Balance at March 31, 2012	*$*	*5,573,557*
Additions		*8,627,871*
Transfers to property and equipment (note 7)		*(8,227,253)*
Exploration and evaluation assets expensed		*(941,790)*
Balance at March 31, 2013	*$*	*5,032,385*
Additions		*1,952,889*
Exploration and evaluation assets expensed		*(5,243,842)*
Balance at March 31, 2014	**$**	**1,741,432**

(amounts in Canadian dollars)

6. Exploration and evaluation assets *(continued from previous page)*

Exploration and evaluation assets include undeveloped lands and assets that management has not fully evaluated for technical feasibility and commercial viability. Additions represent the Corporation's share of costs incurred on exploration and evaluation assets during the year. Transfers to property and equipment represent successful drilling and related land costs to which technical feasibility and commercial viability are determined to exist.

During the year ended March 31, 2014, the Corporation expensed $5,243,842 previously capitalized as exploration and evaluation asset. The Corporation has no plans to further develop the Red Earth Loon Block and therefore has expensed $5,009,440 of land permit costs, seismic costs and preliminary expenditures associated with prospective drilling locations in the Red Earth area. An additional $234,402 has also been expensed as a result of the sale of the Corporation's Leduc properties as the Corporation no longer plans to develop this area. These amounts have been included as exploration and evaluation expenditures in the statement of loss and comprehensive loss.

7. Property and equipment

	Oil and natural gas interests	Corporate and other	Total
Cost			
Balance at March 31, 2012	$ 33,165,960	$ 66,328	**$ 33,232,288**
Additions	2,936,383	8,581	**2,944,964**
Transfers from exploration and evaluation assets (note 6)	8,227,253	-	**8,227,253**
Decommissioning provisions	411,405	-	**411,405**
Balance at March 31, 2013	$ 44,741,001	$ 74,909	**$ 44,815,910**
Additions	968,597	-	**968,597**
Acquisition of Red Earth properties	933,008	-	**933,008**
Disposition of properties	(404,457)	-	**(404,457)**
Transfer to assets held for sale	(2,300,000)	-	**(2,300,000)**
Decommissioning provisions	(35,716)	-	**(35,716)**
Balance at March 31, 2014	$ 43,902,433	$ 74,909	**$ 43,977,342**
Accumulated depletion, depreciation and net impairment losses			
Balance at March 31, 2012	$ 11,716,413	$ 21,783	**$ 11,738,196**
Depletion and depreciation	1,569,306	15,187	**1,584,493**
Impairment	13,480,946	-	**13,480,946**
Balance at March 31, 2013	26,766,665	36,970	**26,803,635**
Depletion and depreciation	869,654	10,096	**879,750**
Impairment	13,497,366	-	**13,497,366**
Balance at March 31, 2014	$ 41,133,685	$ 47,066	**$ 41,180,751**
Net book value:			
At March 31, 2013	$ 17,974,336	$ 37,939	**$ 18,012,275**
At March 31, 2014	$ 2,768,748	$ 27,843	**$ 2,796,591**

During the year ended March 31, 2014, the Corporation recorded impairment losses of $13,497,366 (2013 - $13,480,946); $5,102,959 (2013 - $nil) is attributable to the Leduc CGU; $7,875 (2013 - $6,060) to the Cardiff Area CGU, and $8,386,532 (2013 - $13,474,886) to the Red Earth CGU.

(amounts in Canadian dollars)

7. Property and equipment *(continued from previous page)*

During 2014 and 2013, the Red Earth impairment was due to drilling results that did not yield commercially viable volumes of oil.

During the year, the Corporation disposed of certain wells in the Red Earth CGU having an approximate carrying value of $404,457 for total proceeds of $750,000, resulting in a gain on disposition of $345,543.

Effective April 1, 2014 the Corporation sold the majority of its Leduc properties for $1.8 million and has an offer to sell the remaining Leduc properties for an additional $500,000. At March 31, 2014 the Leduc properties were written-down to $2.3 million based on this fair market value, and recorded as available for sale. The $2.3 million includes property with a fair value of $2,690,734 net of the related decommissioning liability of $390,734.

At March 31, 2014, $3,006,000 (March 2013 - $28,164,000) of future development costs related to proved and probable reserves were included in costs subject to depletion.

The recoverable amounts of the Corporation's CGUs were estimated as the fair value less costs to sell based on the net present value of the before tax net cash flows from oil and natural gas proved plus probable reserves estimated by the Corporation's external reserve evaluators discounted at a rate of 10% (2013 – 10%) per annum.

The impairment evaluation at March 31, 2014 and 2013 reflects the following commodity price estimates:

Year	Edmonton Par Price 40° API ($Cdn/bbl)	Alberta AECO-C Spot ($Cdn/MMBTU)
2014 Forecast Prices		
2014	*97.76*	*4.64*
2015	*89.61*	*4.33*
2016	*84.35*	*4.27*
2017	*91.20*	*5.00*
2018	*95.52*	*5.23*
2019	*96.96*	*5.31*
2020	*98.41*	*5.40*
2021	*99.89*	*5.48*
2022	*101.38*	*5.57*
2023	*102.91*	*5.66*
2024	*104.45*	*5.75*
2025	*106.02*	*5.84*
	Escalation rate of 1.5% thereafter	

(amounts in Canadian dollars)

7. Property and equipment *(continued from previous page)*

2013 Forecast Prices

2013	*87.92*	*3.52*
2014	*85.58*	*3.80*
2015	*87.75*	*3.95*
2016	*93.30*	*4.66*
2017	*97.03*	*5.32*
2018	*98.49*	*5.40*
2019	*99.96*	*5.49*
2020	*101.46*	*5.57*
2021	*102.99*	*5.66*
2022	*104.53*	*5.75*
2023	*106.10*	*5.84*
2024	*107.69*	*5.94*
	Escalation rate of 1.5% thereafter	

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

8. Bank debt

At March 31, 2014 and 2013, the Corporation had no bank debt outstanding under its demand revolving operating facility. 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.

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.

On November 7, 2013 this credit facility was terminated.

9. 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 undiscounted cash flows required to settle the provisions, before considering salvage, is approximately $2,923,510 at March 31, 2014 (2013 – $2,415,344), which has been discounted using risk-free rates ranging from 1.00% to 3.24% at March 31, 2014 (2013 – 1.00% to 2.50%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 19.75 years into the future and will be funded from general corporate resources at the time of abandonment.

(amounts in Canadian dollars)

9. Decommissioning provisions *(continued from previous page)*

The following table summarizes changes in the decommissioning provisions for the years ended March 31, 2014 and 2013:

		2014		2013
Decommissioning provisions, beginning of year	**$**	**2,204,770**	*$*	*1,923,376*
Disposition		**-**		*-*
New liabilities recognized		**(200,515)**		*70,967*
Actual abandonment costs incurred		**(51,698)**		*(173,249)*
Change in previous estimates		**175,962**		*340,438*
Accretion (unwinding of discount)		**14,685**		*43,238*
Decommissioning provisions, end of year	**$**	**2,143,204**	*$*	*2,204,770*

10. Share capital

(a) Authorized
Unlimited number of voting common shares

(b) Issued common shares

	March 31, 2014		*March 31, 2013*	
	Number	**Stated value**	*Number*	*Stated Value*
Balance, beginning of year	**332,978,953**	**$ 65,354,764**	*224,537,953*	*$ 50,352,701*
Reduced by 10:1 consolidation	**(294,224,843)**	**-**	*-*	*-*
Cancelled (ii)	**(6,062,446)**	**-**	*-*	*-*
Issuance of common shares (i)	**1,000,000**	**50,000**	*-*	*-*
Issuance of common shares (iii)	**-**	**-**	*48,335,000*	*7,250,250*
Issuance of flow-through shares (iii)	**-**	**-**	*60,106,000*	*10,750,830*
Flow-through share premium (iii)	**-**	**-**	*-*	*(1,734,930)*
Share issue costs	**-**	**-**	*-*	*(1,264,087)*
Balance, end of year	**33,691,664**	**$ 65,404,764**	*332,978,953*	*$ 65,354,764*

(i) On March 27, 2014, the Corporation issued 1,000,000 common shares at a price of $0.05 per common share to a former employee as part of their severance payment.

(ii) On November 14, 2014, 6,062,446 common shares (pre-consolidation) were cancelled.

(iii) On September 28, 2012, the Corporation closed a bought deal offering with a syndicate of Underwriters for the issuance of 48,335,000 common shares of the Corporation at a price of $0.15 per common share and 55,556,000 Canadian Exploration Expense ("CEE") flow-through shares of the Corporation at a price of $0.18 per flow-through share and 4,550,000 Canadian Development Expense ("CDE") flow-through shares of the Corporation at a price of $0.165 per flow-through share for aggregate gross proceeds of $18,001,080. The Underwriters were paid a cash commission of 6% of the gross proceeds of the offering.

(amounts in Canadian dollars)

10. Share capital *(continued from previous page)*

Of the total proceeds from the flow-through shares issued, the premium paid for the flow-through shares of $1,734,930 was recorded as flow-through share premium. At December 31, 2012, the Corporation had incurred all of the CDE qualifying expenditures related to this issuance and accordingly, the flow-through share premium has been reversed through deferred income tax recovery. At March 31, 2013, the Corporation has incurred $8.0 million of the CEE qualifying expenditures related to this issuance and accordingly, the flow-through share premium related to expenditures incurred has been reversed through deferred income tax recovery. An additional $2.0 million of CEE qualifying expenditures is required to be spent by December 31, 2013 (note 18(a)).

11. 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, 2014		*March 31, 2013*	
	Number	**Weighted Average Exercise Price**	*Number*	*Weighted Average Exercise Price*
Outstanding, beginning of year	**14,625,000**	**$0.23**	*14,936,250*	*$0.23*
Cancelled, expired or forfeited	**(8,725,000)**	**$0.23**	*(311,250)*	*$0.23*
	5,900,000	**$0.23**	*14,625,000*	*$0.23*
Reduced by 10:1 consolidation	**(5,310,000)**	**-**	-	-
Outstanding, end of year	**590,000**	**$2.30**	*14,625,000*	*$0.23*
Exercisable, end of year	**422,500**	**$2.31**	*6,408,334*	*$0.23*

Compensation costs of $442,529 for the year ended March 31, 2014, (2013 - $885,719) have been recorded with a corresponding increase in contributed surplus.

(amounts in Canadian dollars)

11. Stock-based compensation *(continued from previous page)*

(b) The following table summarizes the expiry terms of the Corporation's outstanding stock options as at March 31, 2014:

Date of grant	Exercise Price	Outstanding Options	Weighted Average Remaining Contractual Life	Number of Stock Options Exercisable
November 3, 2010	*$1.00*	*27,500*	*1.6*	*27,500*
February 2, 2010	*$2.50*	*40,000*	*1.8*	*40,000*
March 1, 2011	*$3.80*	*20,000*	*1.9*	*20,000*
December 7, 2011	*$2.30*	*502,500*	*2.7*	*335,000*
		590,000		*422,500*

12. Finance income and expense

		2014		*2013*
Finance income				
Interest	**$**	**126,934**	*$*	*229,327*
Finance expenses				
Interest and standby fees	**$**	**34,352**	*$*	*28,074*
Interest on note payable		**-**		*63,594*
Accretion and gain/loss on redemption of convertible note payable		**-**		*74,135*
Accretion of decommissioning provisions (note 9)		**14,685**		*43,238*
	$	**48,817**	*$*	*209,041*
Net finance income	**$**	**77,897**	*$*	*20,286*

13. Loss per share

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

Weighted Average Common Shares	**2014**	*2013*
Basic and diluted – adjusted for 10:1 common share consolidation	**33,081,310**	*27,920,410*

(amounts in Canadian dollars)

14. Investment in secured debt

Current year transaction

As a secured creditor, Border initiated proceedings to collect on its receivable and as a result a court order was issued. On January 21, 2014 the Corporation acquired the secured assets in the Red Earth area of Alberta valued at $943,192.

Prior years' transactions

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 period ended March 31, 2013 was $136,138 (2012 - $136,510).

During the year ended March 31, 2012, the Corporation purchased additional secured debt of $50,310 from arm's length parties.

15. Income taxes

(a) Deferred tax recovery

The provision for income taxes in the consolidated statement of loss and comprehensive loss 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:

		2014		*2013*
Loss before income taxes	**$**	**(21,669,208)**	*$*	*(19,077,194)*
Statutory tax rate		**25.00%**		*25.00%*
Expected income tax recovery		**(5,417,302)**		*(4,769,299)*
Stock-based compensation		**110,632**		*221,430*
Flow-through share renouncement		**512,438**		*2,175,269*
Flow-through share premium reversal		**(341,626)**		*(1,393,304)*
Changes in tax rates		**-**		*(192,433)*
Other		**(15,540)**		*-*
Increase in deferred tax asset not recognized		**4,809,772**		*2,565,033*
Deferred tax recovery	**$**	**(341,626)**	*$*	*(1,393,304)*

(b) Deferred tax asset

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

		2014		*2013*
Exploration and evaluation assets and property and equipment	**$**	**4,420,717**	*$*	*88,123*
Decommissioning provisions		**535,801**		*551,193*
Non-capital losses		**5,881,838**		*5,201,818*
Share issue costs		**404,853**		*592,303*
Deferred tax asset not recognized		**(11,243,209)**		*(6,433,437)*
Deferred tax asset	**$**	**-**	*$*	*-*

The Corporation has approximately $23,527,000 of non-capital losses as well as $26,125,000 additional tax pools for which a deferred tax asset has not been recognized. The non-capital losses expire between 2026 and 2034.

(amounts in Canadian dollars)

16. 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, 2014, the Corporation incurred $68,113 (2013 - $129,160) on legal services, of which $68,113 (2013 - $50,581) is included in general and administrative expense or transaction costs and $nil (2013 - $78,759) is included in share issue costs. At March 31, 2014 $7,747 (2013 - $2,151) is included in accounts payable and accrued liabilities. The transactions are considered to be in the normal course of operations and are initially recognized at their fair value.

17. 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:

		2014		*2013*
Salaries and termination benefits	**$**	**819,530**	*$*	*599,992*
Stock-based compensation [1]		**139,532**		*739,160*
	$	**959,062**	*$*	*1,339,152*

[1] *Represents the amortization of stock-based compensation expense as recorded in the financial statements.*

Total salaries expenses for employees, directors and management included in general and administrative expenses on the statement of loss for 2014 is $910,427 (2013 - $693,000).

18. Commitments and contingencies

(a) Flow-through share commitment

Pursuant to the Corporation's flow-through financing in September 2012, the Corporation is required to spend $750,750 of qualifying oil and natural gas development costs (“CDE”) by December 31, 2012, and $10,000,080 of qualifying oil and natural gas exploration costs (“CEE”) by December 31, 2013. At December 31, 2012, the Corporation had incurred $750,750 on qualifying CDE expenditures, fulfilling the CDE commitment. At March 31, 2014, the Corporation had incurred $10,000,080 CEE expenditures thereby fulfilling the CEE 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.

For the year ended March 31, 2014, total cash payments of $18,859 (2013 - $32,250) have been paid and an additional $15,527 (2013 - $34,386) has been accrued based on management's estimate of the amount that will ultimately be paid under the Termination Agreement.

18. Commitments and contingencies *(continued from previous page)*

(c) Legal matters

Canflame, now amalgamated with the 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 pertaining to the drilling of shallow natural gas wells in the Pembina area of Alberta and their associated costs. Canflame has filed a counterclaim in this matter. On November 26, 2013, that joint venture partner filed a voluntary assignment in bankruptcy pursuant to the provisions of the Bankruptcy and Insolvency Act such that the matter is now being handled by the appointed Receiver.

(d) Office lease

The Corporation entered into a commitment related to the leasing of office premises. The payments due, including estimated operating costs, from April 1, 2014 to November 30, 2014 total $150,528.

19. Subsequent event

Effective April 1, 2014, the Corporation closed the sale of certain of its Leduc assets for proceeds of $1,800,000 which was paid in cash. In connection with that transaction, the Corporation granted an option ("Option") to the private limited partnership ("Purchaser") that acquired those Leduc assets. Effective July 1, 2014, the Purchaser exercised their Option and additional Leduc properties were sold for $500,000. To facilitate the sale of the Leduc properties, Border increased their Liability Management Rating ("LMR") security deposit held in trust by the Royal Bank of Canada to $1.35 million.