

**Border Petroleum Corp.**  
**Condensed Consolidated Interim Financial Statements**  
**September 30, 2012**  
*(Unaudited)*

**Border Petroleum Corp.**  
**Condensed Interim Consolidated Balance Sheets**

(amounts in Canadian dollars)

(unaudited)

	Notes	September 30, 2012	March 31, 2012
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 19,536,797	\$ 12,972,419
Accounts receivable	5(c)	762,907	1,500,909
Deposits and prepaid expenses		109,080	56,703
Investment in secured debt	15	831,185	762,929
<b>Total current assets</b>		21,239,969	15,292,960
Lease reclamation deposits		150,422	173,033
Exploration and evaluation assets	7	5,556,163	5,573,557
Property and equipment	8	22,870,497	21,494,092
<b>Total assets</b>		\$ 49,817,051	\$ 42,533,642
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	5(d)	\$ 1,826,141	\$ 9,075,357
Flow-through share premium liability		68,250	
<b>Total current liabilities</b>		1,894,391	9,075,357
Flow-through share premium liability		1,666,680	-
Decommissioning provisions	10	1,945,016	1,923,376
Note payable	16	1,289,299	1,570,273
<b>Total liabilities</b>		6,795,386	12,569,006
<b>Shareholders' Equity</b>			
Share capital	11(b)	65,379,636	50,352,701
Warrants	11(c)	161,877	819,209
Contributed surplus		1,892,945	712,693
Conversion feature on note payable	16	211,141	211,141
Deficit		(24,623,934)	(22,131,108)
<b>Total shareholders' equity</b>		43,021,665	29,964,636
<b>Total liabilities and shareholders' equity</b>		\$ 49,817,051	\$ 42,533,642

Commitments and contingencies

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Per: "Al Kroontje"  
**Director**

Per: "Kelly Kimbley"  
**Director**

See accompanying notes to the condensed interim consolidated financial statements.

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

		Three months ended September 30,		Six months ended September 30,	
	Notes	2012	2011	2012	2011
Revenue					
Oil and natural gas revenue		\$ 615,410	\$ 873,376	\$ 1,466,565	\$ 1,115,592
Royalties		(22,052)	(81,010)	(113,694)	(85,475)
		593,358	792,366	1,352,871	1,030,117
Expenses					
Production and operating		613,551	722,065	1,592,759	976,794
General and administrative		478,566	414,859	943,342	696,632
Transaction costs	4	-	61,426	-	151,804
Stock-based compensation (recovery)	12(a)	261,205	23,443	522,920	42,202
Depletion and depreciation	8	328,788	315,062	761,626	371,968
		1,682,110	1,536,855	3,820,647	2,239,400
		(1,088,752)	(744,489)	(2,467,776)	(1,209,283)
Finance expense	13	(6,728)	(27,744)	(25,050)	(43,613)
Loss before income taxes		(1,095,480)	(772,233)	(2,492,826)	(1,252,896)
Deferred tax expense (recovery)		-	-	-	(34,415)
Net loss and comprehensive loss for the period		\$ (1,095,480)	\$ (772,233)	\$ (2,492,826)	\$ (1,218,481)
Loss per share - basic and diluted	14	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)

See accompanying notes to the condensed interim consolidated financial statements.

**Border Petroleum Corp.**  
**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**

(amounts in Canadian dollars)

(unaudited)

	Notes	Number of Common Shares	Share capital stated value	Warrants	Contributed surplus	Conversion feature on note payable	Deficit	Total equity
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		30,312,232	9,699,914	-	-	-	-	9,699,914
Issuance in exchange for Canflame debentures and related interest		6,225,594	1,992,190	-	-	-	-	1,992,190
Stock-based compensation related to stock options	12(b)	-	-	-	42,202	-	-	42,202
Share issuance costs		-	(35,712)	-	-	-	-	(35,712)
Conversion feature on note payable		-	-	-	-	211,141	-	211,141
Net loss and comprehensive loss		-	-	-	-	-	(1,218,481)	(1,218,481)
<b>Balance at September 30, 2011</b>		<b>107,124,119</b>	<b>\$ 27,622,010</b>	<b>\$ 695,426</b>	<b>\$ 344,581</b>	<b>\$ 211,141</b>	<b>\$ (10,513,431)</b>	<b>\$ 18,359,727</b>
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	11(b)(i)	48,335,000	7,250,250	-	-	-	-	7,250,250
Share issuance – Flow-through shares	11(b)(i)	60,106,000	9,015,900	-	-	-	-	9,015,900
Share issuance costs		-	(1,239,215)	-	-	-	-	(1,239,215)
Stock-based compensation related to options and warrants	12(a,b)	-	-	(657,332)	1,180,252	-	-	522,920
Net loss and comprehensive loss		-	-	-	-	-	(2,492,826)	(2,492,826)
<b>Balance at September 30, 2012</b>		<b>332,978,953</b>	<b>\$ 65,379,636</b>	<b>\$ 161,877</b>	<b>\$ 1,892,945</b>	<b>\$ 211,141</b>	<b>\$ (24,623,934)</b>	<b>\$ 43,021,665</b>

See accompanying notes to the condensed interim consolidated financial statements.

# Border Petroleum Corp.

## Condensed Interim Consolidated Statements of Cash Flows

(amounts in Canadian dollars)

(unaudited)

	Notes	Three months ended September 30,		Six months ended September 30,	
		2012	2011	2012	2011
Cash and cash equivalents provided by (used in):					
Loss for the period		\$ (1,095,480)	\$ (772,233)	\$ (2,492,826)	\$ (1,218,481)
Adjustments for:					
Depletion and depreciation	8	328,788	315,062	761,626	371,968
Stock-based compensation	12(a)	261,205	23,443	522,920	42,202
Interest on convertible debentures		-	-	-	-
Interest on note payable	16	26,547	27,741	53,986	51,863
Interest on secured debt	15	(34,315)	(34,314)	(68,256)	(68,255)
Accretion on convertible note payable	16	16,678	26,609	45,040	49,748
Accretion of decommissioning provisions	13	5,917	4,046	12,990	6,744
Deferred income tax expense (recovery)		-	-	-	(34,415)
Operating cash flow before changes in non-cash working capital		(490,660)	(409,646)	(1,164,520)	(798,626)
Changes in non-cash working capital	6	(23,082)	(143,989)	(4,094,404)	(352,863)
Net cash used in operating activities		(513,742)	(553,635)	(5,258,924)	(1,151,489)
Cash flows from investing activities					
Additions to exploration and evaluation assets	7	(115,144)	(30,434)	(150,463)	(253,332)
Additions to property and equipment	8	(232,690)	(994,656)	(1,961,523)	(4,242,358)
Cash acquired in business combination	4	-	1,922	-	1,922
Repayment of note payable		(380,000)	-	(380,000)	-
Change in non-cash working capital	6	(1,916,294)	(938,829)	(2,579,476)	790,881
Net cash used in investing activities		(2,644,128)	(1,961,997)	(5,071,462)	(3,702,887)
Cash flows from financing activities					
Proceeds from bank debt, net of repayments		-	1,210,000	-	1,210,000
Proceeds from convertible debenture		-	-	-	-
Proceeds from common shares		7,250,250	-	7,250,250	-
Proceeds from flow through shares		10,750,830	-	10,750,830	-
Share issuance costs	11(b)	(1,239,216)	-	(1,239,216)	(35,712)
Change in non-cash working capital	6	251,900	3,466	132,900	33,591
Net cash from financing activities		17,013,764	1,213,466	16,894,764	1,207,879
Change in cash and cash equivalents		13,855,894	(1,302,166)	6,564,378	(3,646,497)
Cash and cash equivalents, beginning of period		5,680,903	1,467,002	12,972,419	3,811,333
Cash and cash equivalents, end of period		\$ 19,536,797	\$ 164,836	\$ 19,536,797	\$ 164,836
Cash and cash equivalents is comprised of:					
Bank balances, end of period		\$ 17,536,742	\$ 164,836	\$ 17,536,742	\$ 164,836
Term deposits, end of period		2,000,055	-	2,000,055	-
Cash and cash equivalents, end of period		\$ 19,536,797	\$ 164,836	\$ 19,536,797	\$ 164,836

See accompanying notes to the condensed interim consolidated financial statements.

# Border Petroleum Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

### For the three and six months ended September 30, 2012 and 2011

*(amounts in Canadian dollars)*

*(unaudited)*

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#### 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 condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 28, 2012.

#### 2. Basis of preparation

##### (a) Statement of compliance

These condensed interim financial statements are unaudited and have been prepared in accordance with International Accounting (IAS) 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards (IFRS). Certain information and disclosures normally included in the annual financial statements prepared in accordance with the IFRS have been condensed or omitted. The condensed interim financial statements should be read in conjunction with the Corporation's audited financial statements as at, and for the years ended, March 31, 2012, and the notes thereto.

##### (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 September 30, 2012, the Corporation had positive working capital of \$19,345,578.

##### (c) Basis of measurement

The condensed interim consolidated 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.

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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.

In preparation of these condensed interim consolidated financial statements, the significant judgements made for management in applying the Corporation's accounting policies and the key sources of estimations uncertainty were the same as those that applied to the financial statement as at and for the year ended March 31, 2012.

3. Significant accounting policies

The condensed interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the Corporation's March 31, 2012 annual financial statements. The Corporation continues to assess the impact of adopting the pronouncements of the IABS as described in the Corporation's March 31, 2012 annual financial statements.

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. During the six months ended September 30, 2012 and 2011, transaction costs were nil and \$151,804 respectively.

# Border Petroleum Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

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(amounts in Canadian dollars)

(unaudited)

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.

### 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, accounts payable and accrued liabilities and note payable approximate their carrying value.

At September 30, 2012, the Corporation does not have any financial derivatives, including commodity contracts.



# Border Petroleum Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

### For the three and six months ended September 30, 2012 and 2011

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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 September 30, 2012 and March 31, 2012, the Corporation's accounts receivable were comprised of the following:

	September 30, 2012		March 31, 2012	
Oil and natural gas sales	\$	274,565	\$	420,381
Joint interest partners and other		423,001		657,026
GST		65,341		423,502
		762,907		1,500,909
Less: allowance for doubtful accounts		-		-
	\$	762,907	\$	1,500,909

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 six months ended September 30, 2012, and there is \$389,813 in accounts receivable outstanding greater than 90 days at September 30, 2012, which the Corporation would consider past due under normal conditions. Of this balance, \$330,202 is due from one joint venture partner.

# Border Petroleum Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

### For the three and six months ended September 30, 2012 and 2011

(amounts in Canadian dollars)

(unaudited)

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 September 30, 2012, is comprised of \$871,987 in accounts receivable, \$150,422 in lease reclamation deposits, \$831,185 in investment in secured debt and \$19,536,797 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 September 30, 2012 and March 31, 2012, are comprised of the following:

	September 30, 2012	March 31, 2012
Trade	\$ 885,940	\$ 1,555,725
Royalties	21,052	44,183
Capital	413,949	7,471,714
Joint venture	505,200	3,735
	\$ 1,826,141	\$ 9,075,357

(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 September 30, 2012, the Corporation had no forward exchange rate contracts in place nor did any working capital items denominated in foreign currencies.

**Border Petroleum Corp.**  
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*(amounts in Canadian dollars)*  
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*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 six months ended September 30, 2012 or as at or during the year ended March 31, 2012.

*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. As at and during the six months ended September 30, 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.

# Border Petroleum Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

### For the three and six months ended September 30, 2012 and 2011

(amounts in Canadian dollars)

(unaudited)

Working capital is determined on the following basis:

	September 30, 2012	March 31, 2012
Cash and cash equivalents	\$ 19,536,797	\$ 12,972,419
Accounts receivable and prepaid expenses	871,987	1,557,612
Investment in secured debt	831,185	762,929
Accounts payable and accrued liabilities	(1,826,141)	(9,075,357)
Flow-through share premium liability	(68,250)	-
<b>Working capital</b>	<b>\$ 19,345,578</b>	<b>\$ 6,217,603</b>

#### 6. Supplemental cash flow information

Changes in non-cash working capital is comprised of:

	Three months ended September 30, 2012		Six months ended September 30, 2012	
Source/(use) of cash:				
Accounts receivable	\$ 368,521	\$ (221,738)	\$ 760,613	\$ (287,233)
Prepaid expenses and deposits	(28,030)	8,289	(52,377)	(28,893)
Accounts payable and accrued liabilities	(2,027,967)	(865,903)	(7,249,216)	787,735
	\$ (1,687,476)	\$ (1,079,352)	\$ (6,540,980)	\$ 471,609
Related to operating activities	\$ (23,082)	\$ (143,989)	\$ (4,094,404)	\$ (352,863)
Related to investing activities	(1,916,294)	(938,829)	(2,579,476)	790,881
Related to financing activities	251,900	3,466	132,900	33,591
Changes in non-cash working capital	\$ (1,687,476)	\$ (1,079,352)	\$ (6,540,980)	\$ 471,609
Cash interest paid	\$ 2,267	\$ 3,677	\$ 12,179	\$ 3,677

#### 7. Exploration and evaluation assets

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
Additions	150,463
Transfers to property and equipment (note 8)	(167,857)
Balance at September 30, 2012	\$ 5,556,163

# Border Petroleum Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

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(amounts in Canadian dollars)

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8. At September 30, 2012, \$915,790 of exploration and evaluation assets are located in Montana, USA.  
Property and equipment

	Oil and natural gas interests	Corporate and other	Total
<b>Cost</b>			
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
Additions	1,952,942	8,582	1,961,523
Transfers from exploration and evaluation assets (note 7)	167,857	-	167,857
Decommissioning provisions (note 10)	8,650	-	8,650
Balance at September 30, 2012	\$ 35,295,409	\$ 74,910	\$ 35,370,319
<b>Accumulated depletion, depreciation and net impairment losses</b>			
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
Depletion and depreciation	754,034	7,592	761,626
Balance at September 30, 2012	\$ 12,470,447	\$ 29,375	\$ 12,499,822
<b>Net book value:</b>			
At March 31, 2011	\$ 2,963,173	\$ 26,018	\$ 2,989,191
At March 31, 2012	\$ 21,449,547	\$ 44,545	\$ 21,494,092
At September 30, 2012	\$ 22,824,962	\$ 45,535	\$ 22,870,497

# Border Petroleum Corp.

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(amounts in Canadian dollars)

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At September 30, 2012, \$34,666,000 (September 2011 - \$45,775,000) of future development costs related to proved and probable reserves were included in costs subject to depletion.

#### 9. Bank debt

At September 30, 2012 and March 31, 2012, the Corporation had no bank debt outstanding under its demand revolving operating facility (June 30, 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, 2013.

#### 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 \$2,153,715 at September 30, 2012 (March 31, 2012 - \$2,167,569), which has been discounted using risk-free rates ranging from 1.07% to 2.32% at September 30, 2012 (March 31, 2012 - 1.20% to 2.66%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 24 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 six months ended September 30, 2012, and the year ended March 31, 2012:

	<b>September 30, 2012</b>	<b>March 31, 2012</b>
Decommissioning provisions, beginning of period	\$ 1,923,376	\$ 487,834
Liabilities assumed on acquisition (note 4)	-	1,108,949
Liabilities changed in estimate	9,142	307,107
Accretion (unwinding of discount)	12,498	19,486
Decommissioning provisions, end of period	\$ 1,945,016	\$ 1,923,376

# Border Petroleum Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

### For the three and six months ended September 30, 2012 and 2011

(amounts in Canadian dollars)

(unaudited)

#### 11. Share capital

##### (a) Authorized

Unlimited number of voting common shares

##### (b) Issued common shares

As at September 30, 2012, the Corporation had 332,978,953 common shares issued and outstanding with a stated value of \$65,338,786.

	September 30, 2012		
	Notes	Number	Stated Value
Balance, at March 31, 2012		224,537,953	\$ 50,352,701
Issuance of common shares		48,335,000	7,250,250
Issuance of flow-through shares		60,106,000	10,750,830
Flow-through share premium		-	(1,734,930)
Share issue costs		-	(1,239,215)
Balance, at September 30, 2012		332,978,953	\$ 65,379,636

- (i) 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 for aggregate gross proceeds of \$18,001,080. The Underwriters were paid a cash commission of 6% of the gross proceeds of the offering.

##### (c) Warrants

As at September 30, 2012, the Corporation had 3,122,166 warrants outstanding with a stated value of \$161,877 and with the weighted exercised price at \$0.20 per warrant.

	September 30, 2012		
	Notes	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning or period		16,506,666	\$ 0.32
Expired		(13,384,500)	0.34
Outstanding and exercisable, end of period		3,122,166	\$ 0.20

# Border Petroleum Corp.

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- (i) Unexercised warrants totaling 11,944,500 with a strike price of \$0.35 per share granted as part of the February 2, 2011, expired on August 2, 2012. Additional broker options granted with this same financing to purchase 1,440,000 units at a price of \$0.25 per unit also expired on August 2, 2012.

#### 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.

As at September 30, 2012 and March 31, 2012, the Corporation had 14,861,250 stock options outstanding with a weighted average exercise price of \$0.23 and 1,846,667 of these stock options were exercisable at a weighted average price of \$0.26. There were no stock options granted during the six months ended September 30, 2012.

Compensation costs of \$522,920 for the six months ended September 30, 2012, (2011 - \$42,202) 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 September 30, 2012:

<b>Date of grant</b>	<b>Outstanding Options</b>	<b>Weighted Average Remaining Contractual life (years)</b>	<b>Number of Stock Options Exercisable</b>
November 23, 2009	586,250	2.2	586,250
November 3, 2010	850,000	3.1	566,667
February 2, 2010	725,000	3.3	543,750
March 1, 2011	200,000	3.4	150,000
December 7, 2011	12,500,000	4.2	-
	14,861,250	4.0	1,846,667



# Border Petroleum Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

### For the three and six months ended September 30, 2012 and 2011

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#### 13. Finance income and expense

	Three months ended September 30, 2012		Six months ended September 30, 2011	
Finance income				
Interest income	\$ 44,681	\$ 34,329	\$ 99,145	\$ 68,419
Finance expenses				
Interest expense	\$ 2,267	\$ 3,677	\$ 12,179	\$ 3,677
Interest expense on note payable	26,547	27,741	53,986	51,863
Accretion on convertible note payable	16,678	26,609	45,040	49,748
Accretion of decommissioning provisions	5,917	4,046	12,990	6,744
	51,409	62,073	124,195	112,032
Net finance income (expense)	\$ (6,728)	\$ (27,744)	\$ (25,050)	\$ (43,613)
Finance income (expense) cash items	(25,841)	(13,481)	18,711	(3,513)
Finance expense non-cash items	19,113	(14,263)	(43,761)	(40,100)
Net finance income (expense)	\$ (6,728)	\$ (27,744)	\$ (25,050)	\$ (43,613)

#### 14. Earnings (loss) per share

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

	Three months ended September 30		Six months ended September 30	
	2012	2011	2012	2011
Basic and diluted	226,895,366	102,305,944	225,723,100	86,446,119

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 period ended September 30, 2012 was \$68,257 (period ended March 31, 2012 was \$136,510). 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.

# Border Petroleum Corp.

## Notes to the Condensed Interim Consolidated Financial Statements

### For the three and six months ended September 30, 2012 and 2011

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#### 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 three (3) 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 three (3) 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 six month period ended September 30, 2012, the Corporation recorded accretion on convertible note payable of \$45,040 (2011 - \$49,748) and interest expense accrued on the face value of the note payable of \$53,986 (2011 - \$51,863). In September 2012, \$380,000 was repaid against the convertible note payable with \$363,322 applied against the Note payable account and \$16,678 recorded as additional accretion expense.

#### 17. Related party transactions

The Corporation utilizes the services of a law firm in which a Director of the Corporation is a Partner. During the three months ended September 30, 2012, the Corporation incurred \$95,775 (September 30, 2011 - \$157,692) on legal service, of which \$78,579 is an accrual and is included in share issuance costs.

#### 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 by December 31, 2012, and \$10,000,080 of qualifying oil and natural gas exploration costs by December 31, 2013. At September 30, 2012 the Corporation had not incurred any qualifying expenditures to fulfill these flow-through share spending commitments.*

**Border Petroleum Corp.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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(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 six months ended September 30, 2012 total cash payments of \$40,555 have been paid and an additional \$14,445 has been accrued for the period ending March 31, 2013 (September 30, 2011 - \$47,210 cash payments made with an accrual of \$65,225 for the period ending March 31, 2012) based on management’s estimate of the amount that will ultimately be paid under the Termination Agreement.*

(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 September 30, 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	\$ 112,896	\$ 225,792	\$ 150,528