Drift Lake Exploration & Production

NORTHBROOK ENERGY, LLC
(WHOLLY-OWNED SUBSIDIARY OF DLR)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THREE MONTHS ENDING MARCH 31, 2011
(EXPRESSED IN U.S. DOLLARS)

Trading Symbol: DLA.V
Toronto Stock Exchange

Management's Responsibility for Condensed Interim Consolidated Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of Northbrook Energy, LLC (the "Company" or "Northbrook") are the responsibility of management and the Board of Directors.

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the financial position date. In the opinion of management, the condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited condensed interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited condensed interim consolidated financial statements and (ii) the unaudited condensed interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited condensed interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed) *"Doug Manner"*
Doug Manner
Chief Executive Officer

(signed) *"Carmelo Marrelli"*
Carmelo Marrelli
Chief Financial Officer

Toronto, Canada
June 24, 2011

Northbrook Energy, LLC

Condensed Interim Consolidated Statements of Financial Position
(Expressed in United States Dollars)
(Unaudited)

		As at March 31, 2011		As at December 31, 2010 (note 14)		As at January 1, 2010 (note 14)
ASSETS						
Current assets						
Cash (note 6)	**$**	**6,272**	$	10,500	$	1,003,162
Accounts receivable and other assets (note 7)		**2,000,000**		100,222		13,620
Total assets	**$**	**2,006,272**	$	110,722	$	1,016,782
PARTNERS' DEFICIT AND LIABILITIES						
Current liabilities						
Accounts payable and other liabilities (note 8)	**$**	**191,821**	$	173,519	$	1,160,542
Related party payable (note 11)		**347,154**		281,631		249,616
Promissory note (note 12)		**2,111,132**		-		-
		2,650,107		455,150		1,410,158
Partners' deficit		**(643,835)**		(344,428)		(393,376)
Total partners' deficit and liabilities	**$**	**2,006,272**	$	110,722	$	1,016,782

The notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

Subsequent events (note 15)

Northbrook Energy, LLC

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in United States Dollars)
(Unaudited)

	Three Months Ended March 31,	
	2011	**2010** (note 14)
Operating expenses		
Exploration and evaluation expenditures (note 9)	**$ 34,299**	$ 65,939
General and administrative (note 10)	**154,576**	16,248
Foreign exchange loss	**62,200**	-
Finance interest (note 12)	**48,332**	-
Net loss and comprehensive loss for the period	**$ 299,407**	$ 82,187

The notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

Northbrook Energy, LLC

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in United States Dollars)
(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010 (note 14)
Operating activities		
Net loss for the period	**$ (299,407)**	$ (82,187)
Adjustment for:		
Foreign exchange loss	**62,200**	-
Accrued interest	**48,332**	-
Non-cash working capital items:		
Accounts receivable and other assets	**(1,899,778)**	130
Accounts payable and accrued liabilities	**18,302**	10,382
Related party payable	**65,523**	71,328
Net cash used in operating activities	**(2,004,828)**	(347)
Financing activity		
Promissory note issued (note 12)	**2,000,600**	-
Net cash provided by financing activity	**2,000,600**	-
Net change in cash	**(4,228)**	(347)
Cash, beginning of period	**10,500**	1,003,162
Cash, end of period	**$ 6,272**	$ 1,002,815

The notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

Northbrook Energy, LLC

Condensed Interim Consolidated Statement of Changes in Partners' Deficit
(Expressed in United States Dollars)
(Unaudited)

	Petroven, Inc.	Douglas Manner	Keith Spickelmier	Prizm Properties LLC	Macquarie Bank Limited	Total
Balance, January 1, 2010	**$ (220,986)**	**$ (220,986)**	**$ (220,896)**	**$ (60,400)**	**$ 329,892**	**$ (393,376)**
Net loss and comprehensive loss for the period	(20,095)	(20,095)	(20,087)	(5,473)	(16,437)	(82,187)
Balance, March 31, 2010	**$ (241,081)**	**$ (241,081)**	**$ (240,983)**	**$ (65,873)**	**$ 313,455**	**$ (475,563)**
Withdrawals	(13,913)	(13,913)	(13,908)	(3,792)	-	(45,526)
Net income and comprehensive income for the period	43,194	43,194	43,176	11,765	35,332	176,661
Balance, December 31, 2010	**$ (211,800)**	**$ (211,800)**	**$ (211,715)**	**$ (57,900)**	**$ 348,787**	**$ (344,428)**
Net loss and comprehensive loss for the period	(73,205)	(73,205)	(73,175)	(19,941)	(59,881)	(299,407)
Balance, March 31, 2011	**$ (285,005)**	**$ (285,005)**	**$ (284,890)**	**$ (77,841)**	**$ 288,906**	**$ (643,835)**

The notes to the unaudited condensed interim consolidated financial statements are an integral part of these statements.

1. Nature of operations and going concern

Northbrook Energy, LLC (the "Company" or "Northbrook") was formed under the laws of the state of Texas, United States of America, on June 9, 2008, and has a fiscal year end of December 31. The Company's principal business activities are the acquisition, exploration and development of oil and gas properties in Texas and Latin America. The primary office is located at 360 Bay Street, Suite 500, Toronto, Ontario, Canada, M5H 2V6. The unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2011 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on June 24, 2011.

These unaudited condensed interim consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

Northbrook is at an early stage of development and as is common with many exploration companies, it raises financing for its exploration and property acquisition activities. The Company has incurred losses in the current and prior periods, with a net loss for the three months ended March 31, 2011 of $299,407 and has an accumulated partners' deficit of $643,835. Results for the period ended March 31, 2011 are not necessarily indicative of future results. In addition, the Company had a working capital deficit balance of $643,835 at March 31, 2011. The Company expects to be a going concern for the following 12 months due to the closing of the merger on April 27, 2011 (note 15(a)). Further financing may be required for operations beyond the next 12 months. While there is no assurance additional funds can be raised, the Company believes financing will be available as required.

2. Significant accounting policies

(a) Conversion to International Financial Reporting Standards ("IFRS")

These are the Company's first financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). Previously, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The disclosures required by the provisions of IFRS 1, "First-time adoption of International Financial Reporting Standards", explaining how the transition to IFRS has affected the reported financial performance, cash flows and financial position of the Company, are presented in note 14.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The accounting policies set out below have been applied consistently to all periods presented in these unaudited condensed interim consolidated financial statements. They also have been applied in preparing an opening IFRS statement of financial position at January 1, 2010 (note 14) for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1).

These unaudited condensed interim consolidated financial statements have been prepared on the basis of IFRS standards that are expected to be effective or available for early adoption by the Company on December 31, 2011, the Company's first annual reporting date under IFRS. The Company has made certain assumptions about the accounting policies expected to be adopted when the first IFRS annual financial statements are prepared for the year ended December 31, 2011.

2. Significant accounting policies (continued)

(b) Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

In the preparation of these unaudited condensed interim consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in note 2(l).

(c) Basis of consolidation

The unaudited condensed interim consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiary.

The results of subsidiaries acquired or disposed of during the periods presented are included in the condensed interim consolidated statement of loss and comprehensive loss from the effective date of acquisition and up to the effective date of disposal, as appropriate. All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

(d) Financial assets

The Company's financial instruments consist of the following:

Financial assets:	**Classification:**
Cash	Fair value through profit and loss ("FVTPL")
Accounts receivable and other assets	Loans and receivables
Financial liabilities:	**Classification:**
Accounts payable and accrued liabilities	Other financial liabilities

Fair value through profit and loss:

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets that are not part of an effective and designated hedging relationship. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the statements of income (loss).

The Company's financial assets classified as FVTPL include cash. The Company does not currently hold any derivative instruments or apply hedge accounting.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

2. Significant accounting policies (continued)

(d) Financial assets (continued)

Other financial liabilities:

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the likelihood that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the condensed interim consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of March 31, 2011, December 31, 2010 and January 1, 2010, except for cash, none of the Company’s financial instruments are recorded at fair value in the unaudited condensed interim consolidated statements of financial position.

2. Significant accounting policies (continued)

(e) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

(f) Exploration and evaluation expenditures

The Company expenses exploration and evaluation expenditures as incurred for oil and gas prospects not commercially viable and financially feasible. Exploration and evaluation expenditures include acquisition costs of oil and gas prospects, property option payments and evaluation activities.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

Exploration and evaluation expenditures are capitalized if the Company can demonstrate that these expenditures meet the criteria of an identifiable intangible asset. To date, no such exploration and evaluation expenditures have been identified and capitalized.

(g) Cash

Cash includes cash on hand.

(h) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at March 31, 2011, December 31, 2010 and January 1, 2010.

(i) Share based payment transactions

The fair value of share options granted to employees and non-employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each end of the reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

2. Significant accounting policies (continued)

(j) Income taxes

Pursuant to the provisions of the articles of formation, the Company designated itself as a limited liability partnership ("LLC"). The LLC is not a taxable entity and accordingly is not liable to pay income tax or file tax returns. Each partner is required to include (or will be entitled to deduct) in computing the partner's income for purposes of the Income Tax Act the partner's share of the tax income (or tax loss) of the LLC allocated to the partner pursuant to the partnership agreement for its fiscal year ending in, or at the end of, the partner's taxation year, whether or not any amount of cash is actually distributed to the partner in the year.

(k) Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of an oil and gas property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate under IFRS. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

(l) Significant accounting judgments and estimates

The preparation of these unaudited condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited condensed interim consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2. Significant accounting policies (continued)

(l) Significant accounting judgments and estimates (continued)

Critical accounting estimates

Significant assumptions about the future that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- Categorization of financial assets and liabilities is an accounting policy that requires management to make judgments or assessments.

Critical accounting judgments

How financial assets and liabilities are categorized is an accounting policy that requires management to make judgments or assessments.

(m) Recent Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after December 31, 2010. Many are not applicable or do not have a significant impact on the Company and so have been excluded from the list below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

(i) IFRS 9 Financial instruments (“IFRS 9”) was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

(ii) IFRS 10 ‘Financial Statements’ – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of financial statements when an entity controls one or more other entities.

(iii) IFRS 11 Joint arrangements (“IFRS 11”) was issued by the IASB in May 2011 and will replace IAS 31 Interests in Joint ventures and SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.

(iv) IFRS 12 ‘Disclosure of Interests in Other Entities’ - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

2. Significant accounting policies (continued)

(m) Recent Accounting Pronouncements (continued)

(v) IFRS 13 'Fair Value Measurement' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

3. Capital risk management

The Company considers its capital to be partners' capital.

Northbrook manages its capital to ensure that funds are available or are scheduled to be raised to provide adequate funds to carry out the Company's defined exploration programs and to meet its ongoing administrative costs. This is achieved by the Board of Directors' review and acceptance of exploration budgets that are achievable within existing resources and the timely matching and release of the next stage of expenditures with the resources made available from private placements or other fund raisings.

In order to carry out the planned exploration and pay for administrative costs, the Company will raise additional amounts as needed. On April 27, 2011, the Company completed a merger which provided additional funds to the Company (note 15(a)).

The Company is not subject to any material externally imposed capital requirements or covenants.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2011.

4. Financial risk management

Financial risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest and foreign exchange risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee and the Board of Directors.

(i) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash. All the Company's cash is held with well known and established financial institutions. As such, management considers credit risk related to these financial assets to be minimal.

4. Financial risk management (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company’s liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at March 31, 2011, the Company had cash of $6,272 (December 31, 2010 - $10,500 and January 1, 2010 - $1,003,162) to settle current liabilities of $2,650,107 (December 31, 2010 - $455,150 and January 1, 2010 - $1,410,158). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

The Company is not exposed to any liquidity risk, and has sufficient funds to meet its ongoing obligations for 12 months due to the closing of the merger on April 27, 2011 (note 15(a)).

(iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

The Company has cash balances and fixed interest-bearing debt (note 12). The Company's current policy is to invest excess cash in guaranteed investment certificates or interest-bearing accounts of major Canadian chartered banks. The Company regularly monitors compliance to its cash management policy.

(b) Foreign currency risk

The Company's functional and reporting currency is the United States dollar and major purchases are transacted in United States dollars. As a result, the Company's exposure to foreign currency risk is minimal.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a three month period:

(i) The Company has minimal cash balances. The Company has a promissory note in the amount of Canadian $2,000,000 with a fixed interest rate that was paid in April 2011 (note 12). As such, the Company does not have significant interest rate risk.

(ii) The Company has a promissory note in the amount of Canadian $2,000,000 that was paid in April 2011 (note 12) and the Company does not hold significant balances in foreign currencies. As such, the Company does not have significant foreign exchange rate risk.

(Expressed in United States Dollars)

5. Categories of financial instruments

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
		(note 14)	(note 14)
Financial assets:			
FVTPL			
Cash	$ 6,272	$ 10,500	$ 1,003,162
Loans and receivables			
Accounts receivable and other assets	$ 2,000,000	$ 100,222	$ 13,620
Financial liabilities:			
Other financial liabilities			
Accounts payable and other liabilities	$ 191,821	$ 173,519	$ 1,160,542
Related party payable	$ 347,154	$ 281,631	$ 249,616
Promissory note	$ 2,111,132	$ -	$ -

6. Cash position

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Cash	$ 6,272	$ 10,500	$ 1,003,162

7. Accounts receivable and other assets

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Faulkner deposit (note 13)	$ 2,000,000	$ -	$ -
Accounts receivable	-	100,222	1,330
Related party receivable	-	-	12,290
	$ 2,000,000	$ 100,222	$ 13,620

8. Accounts payable and other liabilities

	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Falling due within the year			
Trade payables	$ 191,821	$ 173,519	$ 1,160,542

(Expressed in United States Dollars)

9. Exploration and evaluation expenditures

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Exploration activities (a)	**$ 34,299**	$ 65,939

(a) During the three months ended March 31, 2011, the Company's exploration and evaluation expenditures on its oil and gas prospects amounted to $34,299 (three months ended March 31, 2010 - $65,939).

10. General and administrative

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Administrative and general	**$ 476**	$ 4,626
Professional fees	**88,577**	3,076
Business development	**65,523**	8,546
	$ 154,576	$ 16,248

11. Related party balances and transactions

Related parties include the Board of Directors, officers, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

Northbrook entered into the following transactions with related parties:

The Company reimburses the Partners (Petroven, Inc., Douglas Manner and Keith Spickelmier) for expenses paid by the Partners related to Company business. At March 31, 2011, related party payable included $327,154 (December 31, 2010 - $261,631 and January 1, 2010 - $249,616) relating to these costs. Transactions with related parties are recorded at the exchange amount being the price agreed to between the parties.

At March 31, 2011, Marrelli CFO Outsource Syndicate Inc. ("Marrelli") was owed $20,000 (December 31, 2010 - $20,000) for the services of Carmelo Marrelli to act as Chief Financial Officer of the Company. Carmelo Marrelli beneficially owns Marrelli. This amount was included in related party payable.

12. Promissory note

On February 22, 2011, the Company issued a promissory note in exchange for Canadian $2,000,000 (US$ equivalent at March 31, 2011 - $2,062,800) received from a lender. The principal sum of Canadian $2,000,000 was payable on or before the date which was the earlier of (i) one business day after the release of private placement funds from escrow to Drift Lake Resources Inc. ("Drift Lake") by the Company which funds are being held in escrow on certain conditions in connection with the merger of Drift Lake and the Company, (ii) the bankruptcy or insolvency of the Company or the date the Company takes advantage of any statute which permits the compromise of any obligations owing by a debtor to a creditor, and (iii) May 31, 2011, together, in each case, with interest payable on the same date calculated on the principal sum outstanding from time to time at a rate of 24% per annum calculated monthly on the principal sum from time to time remaining unpaid and payable both before and after default, as well as before and after maturity and after judgment. The promissory note is secured by the Company's equipment, inventory, general intangibles, and all other property and assets of the Company and all proceeds and products thereof. Interest as of March 31, 2011 amounted to Canadian $48,048 ($48,332). The promissory note was repaid in full in April 2011 in the amount of Canadian $2,086,329 (note 13).

13. Faulkner deposit

Northbrook Oil and Gas, LLC, a wholly-owned subsidiary of the Company has received an assignment of all of the rights of the assignor under the Exploration and Production Participation Agreement dated as of February 4, 2011 with Faulkner Exploration, Inc., Faulkner Exploration, Inc. S.A. and Faulkner Exploration and Production, Inc. (the “Bayovar Agreement”) with respect to the License Contract for Exploration and Exploitation of Hydrocarbons dated April 15, 2009 (the “Bayovar License”) governing the parcel of land referred to as the Bayovar Prospect located in the Country of Peru. Pursuant to the terms of the Bayovar Agreement, Northbrook will acquire an undivided 25% interest in the rights and obligations of the Contractor under the Bayovar License in consideration of (i) a cash payment to be made in the aggregate amount of $2,000,000 (paid); and (ii) the issuance of 5,489,143 Drift Lake common shares at Canadian $0.525 per share (note 15(e)). On February 23, 2011, the Company made a payment of $2,000,000 which was funded in part, by way of a short-term bridge loan (note 12) which was repaid in full in April 2011.

14. Conversion to IFRS

(i) Overview

As stated in significant accounting policies (note 2), these are the Company’s first unaudited condensed interim consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The policies set out in the significant accounting policies section have been applied in preparing the condensed interim consolidated financial statements for the three months ended March 31, 2011 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company’s Transition Date).

14. Conversion to IFRS (continued)

(ii) First-time adoption of IFRS

The Company did not use any of the exemptions listed in IFRS 1.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS condensed interim consolidated statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

The Company's Transition Date IFRS unaudited statement of financial position is included as comparative information in the unaudited condensed interim consolidated statements of financial position in these financial statements.

(iii) Changes to accounting policies

The Company has changed certain accounting policies to be consistent with IFRS as is expected to be effective or available on December 31, 2011, the Company's first annual IFRS reporting date. The changes to its accounting policies have resulted in certain changes to the recognition and measurement of assets, liabilities, equity, revenue and expenses within its financial statements.

The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS.

(a) Impairment of (non-financial) assets

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Current Canadian GAAP requires a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

The Company's accounting policies related to impairment of non-financial assets have been changed to reflect these differences. There was no impact on the unaudited condensed interim consolidated financial statements.

(b) Decommissioning Liabilities (Asset Retirement Obligations)

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to decommissioning liabilities have been changed to reflect these differences. There is no impact on the unaudited condensed interim consolidated financial statements.

(Expressed in United States Dollars)

14. Conversion to IFRS (continued)

(iii) Changes to accounting policies (continued)

(c) Exploration and evaluation

On transition to IFRS, the Company elected to expense exploration and evaluation expenditures as incurred. Previously, the Company's Canadian GAAP policy was to capitalize exploration and evaluation expenditures as incurred.

The Company has chosen to expense its exploration and evaluation expenditures as incurred instead of capitalizing these costs to the consolidated statement of financial position. The Company has chosen this policy because management has not yet determined that there is a future benefit for its exploration properties at this point in time.

Impact on Condensed Interim Consolidated Statements of Financial Position

	As at March 31, 2010	As at December 31, 2010	As at January 1, 2010
Adjustment to petroleum and natural gas prospects	$ (3,007,264)	$ (2,455,542)	$ (2,940,125)
Adjustment to deficit	$ (3,007,264)	$ (2,455,542)	$ (2,940,125)

Impact on Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

	Year ended December 31, 2010	Three months ended March 31, 2010
Adjustment to exploration and evaluation expenditures, net of recoveries	$ (484,583)	$ 65,939
Adjustment to comprehensive (income) loss	$ (484,583)	$ 65,939

Impact on Condensed Interim Consolidated Statements of Cash Flows

	Year ended December 31, 2010	Three months ended March 31, 2010
Adjustment to comprehensive loss	$ 484,583	$ (65,939)
Impairment of prospects	(125,000)	-
Petroleum and natural gas prospects, net	$ (359,583)	$ 65,939

(Expressed in United States Dollars)

14. Conversion to IFRS (continued)

(v) Reconciliation between IFRS and Canadian GAAP

The January 1, 2010 Canadian GAAP interim consolidated balance sheet has been reconciled to IFRS as follows:

	January 1, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
ASSETS			
Current assets			
Cash	$ 1,003,162	$ -	**$ 1,003,162**
Accounts receivable and other assets	13,620	-	**13,620**
	1,016,782	-	**1,016,782**
Petroleum and natural gas prospects (note 14(iii)(c))	2,940,125	(2,940,125)	**-**
	$ 3,956,907	$ (2,940,125)	**$ 1,016,782**
PARTNERS' CAPITAL (DEFICIT) AND LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	$ 160,542	$ -	**$ 160,542**
Deposit payable	1,000,000	**-**	**1,000,000**
Related party payable	249,616	**-**	**249,616**
	1,410,158	**-**	**1,410,158**
Partners' capital (deficit) (note 14(iii)(c))	2,546,749	(2,940,125)	**(393,376)**
Total liabilities and partners' capital (deficit)	$ 3,956,907	$ (2,940,125)	**$ 1,016,782**

(Expressed in United States Dollars)

14. Conversion to IFRS (continued)

(v) Reconciliation between IFRS and Canadian GAAP (continued)

The December 31, 2010 Canadian GAAP interim consolidated balance sheet has been reconciled to IFRS as follows:

	December 31, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
ASSETS			
Current assets			
Cash	$ 10,500	$ -	**$ 10,500**
Accounts receivable and other assets	100,222	-	**100,222**
	110,722	-	**110,722**
Petroleum and natural gas prospects (note 14(iii)(c))	2,455,542	(2,455,542)	-
	$ 2,566,264	$ (2,455,542)	**$ 110,722**
PARTNERS' CAPITAL (DEFICIT) AND LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	$ 173,519	$ -	**$ 173,519**
Related party payable	281,631	**-**	**281,631**
	455,150	**-**	**455,150**
Partners' capital (deficit) (note 14(iii)(c))	2,111,114	(2,455,542)	**(344,428)**
Total liabilities and partners' capital (deficit)	$ 2,566,264	$ (2,455,542)	**$ 110,722**

(Expressed in United States Dollars)

14. Conversion to IFRS (continued)

(v) Reconciliation between IFRS and Canadian GAAP (continued)

The March 31, 2010 Canadian GAAP interim consolidated balance sheet has been reconciled to IFRS as follows:

	March 31, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
ASSETS			
Current assets			
Cash	$ 1,002,815	$ -	**$ 1,002,815**
Accounts receivable and other assets	13,490	-	**13,490**
	1,016,305	-	**1,016,305**
Petroleum and natural gas prospects (note 14(iii)(c))	3,007,264	(3,007,264)	**-**
	$ 4,023,569	$ (3,007,264)	**$ 1,016,305**
PARTNERS' CAPITAL (DEFICIT) AND LIABILITIES			
Current liabilities			
Accounts payable and other liabilities	$ 170,924	$ -	**$ 170,924**
Deposit payable	1,000,000	-	**1,000,000**
Related party payable	320,944	-	**320,944**
	1,491,868	-	**1,491,868**
Partners' capital (deficit) (note 14(iii)(c))	2,531,701	(3,007,264)	**(475,563)**
Total liabilities and partners' capital (deficit)	$ 4,023,569	$ (3,007,264)	**$ 1,016,305**

(Expressed in United States Dollars)

14. Conversion to IFRS (continued)

(v) Reconciliation between IFRS and Canadian GAAP (continued)

The Canadian GAAP interim consolidated statement of loss and comprehensive loss for the three month period ended March 31, 2010 has been reconciled to IFRS as follows:

	Three months ended March 31, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
Operating expenses			
Exploration and evaluation expenditures (note 14(iii)(c))	$ -	$ 65,939	**$ 65,939**
General and administrative	16,248	-	**16,248**
Net loss and compressive loss for the period	$ 16,248	$ 65,939	**$ 82,187**

The Canadian GAAP statement of loss and comprehensive loss for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	Year ended December 31, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
Operating expenses			
Exploration and evaluation expenditures, net of recoveries (note 14(iii)(c))	$ -	$ (484,583)	**$ (484,583)**
General and administrative	390,109	-	**390,109**
Net income (loss) and comprehensive income (loss) for the period	$ (390,109)	$ 484,583	**$ 94,474**

(Expressed in United States Dollars)

14. Conversion to IFRS (continued)

(v) Reconciliation between IFRS and Canadian GAAP (continued)

The Canadian GAAP interim consolidated statement of cash flows for the three months ended March 31, 2010 has been reconciled to IFRS as follows:

	Three months ended March 31, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Operating			
Net loss for the period	$ (16,248)	$ (65,939) [1]	**$ (82,187)**
Non-cash working capital items:			
Accounts receivable and other assets	130	-	**130**
Accounts payable and accrued liabilities	10,382	-	**10,382**
Related party payable	71,328	-	**71,328**
Net cash provided by (used in) operating activities	65,592	(65,939)	**(347)**
Investing activity			
Petroleum and natural gas prospects (note 14(iii)(c))	(65,939)	65,939	**-**
Net cash (used in) provided by financing activities	(65,939)	65,939	**-**
Net change in cash	(347)	-	**(347)**
Cash, beginning of period	1,003,162	**-**	**1,003,162**
Cash, end of period	$ 1,002,815	$ -	**$ 1,002,815**

[1] Refer to Canadian GAAP statement of condensed interim consolidated comprehensive loss for the three month period ended March 31, 2010 reconciled to IFRS in note 14(v) above.

(Expressed in United States Dollars)

14. Conversion to IFRS (continued)

(v) Reconciliation between IFRS and Canadian GAAP (continued)

The Canadian GAAP statement of cash flows for the year ended December 31, 2010 has been reconciled to IFRS as follows:

	Year ended December 31, 2010		
	Canadian GAAP	**Effect of transition to IFRS**	**IFRS**
Operating			
Net (loss) income for the period	$ (390,109)	$ 484,583 [1]	**$ 94,474**
Adjustment for:			
Impairment of prospects	125,000	(125,000)	**-**
Non-cash working capital items:			
Accounts receivable and other assets	(86,602)	-	**(86,602)**
Accounts payable and accrued liabilities	12,977	-	**12,977**
Related party payable	32,015	-	**32,015**
Net cash (used in) provided by operating activities	(306,719)	359,583	**52,864**
Investing activities			
Disposal of petroleum and natural gas prospects (note 14(iii)(c))	595,666	(595,666)	**-**
Purchase of petroleum and natural gas prospects (note 14(iii)(c))	(236,083)	236,083	**-**
Net cash (used in) provided by investing activities	359,583	(359,583)	**-**
Financing activities			
Repayments of deposits	(1,000,000)	-	**(1,000,000)**
Capital withdrawals	(45,526)	-	**(45,526)**
Net cash used in investing activities	(1,045,526)	-	**(1,045,526)**
Net change in cash	(992,662)	-	**(992,662)**
Cash, beginning of period	1,003,162	-	**1,003,162**
Cash, end of period	$ 10,500	$ -	**$ 10,500**

[1] Refer to Canadian GAAP statement of consolidated comprehensive loss for the year ended December 31, 2010 reconciled to IFRS in note 14(v) above.

15. Subsequent events

(a) The following Business Combination (defined herein) was not accounted for in the March 31, 2011 condensed interim consolidated financial statements. As of March 31, 2011, the closing of the Business Combination was subject to the completion of the acquisition and final regulatory approval. The approval was subsequently received and the Business Combination closed on April 27, 2011.

Pursuant to a non-binding letter of intent dated November 4, 2010 (as amended by letter dated December 1, 2010), Drift Lake and Northbrook agreed to complete a business combination of the two companies (the “Northbrook Business Combination”). Northbrook was a private company existing under the laws of Texas. It is engaged in the acquisition, exploration and development of oil and gas properties in Texas and Latin America.

On January 26, 2011, Drift Lake, Northbrook, Drift Lake Texas Inc., a wholly-owned subsidiary of Drift Lake (“Subco”) and a special purpose finance company ("FinanceCo") entered into a definitive Master Agreement (the "Master Agreement") dated January 17, 2011, to complete the Northbrook Business Combination by way of three-cornered amalgamation, pursuant to which Subco would amalgamate with Northbrook and all of the issued and outstanding securities of Northbrook would be acquired by Drift Lake from the existing holders thereof in consideration for the issuance of an aggregate of 27,000,000 common shares of Drift Lake (each, a “DLR Share”) and the payment of Canadian $330,000 to the existing shareholders of Northbrook. The consideration for the DLR Shares to be issued in connection with the Northbrook Business Combination was calculated based upon a deemed price of Canadian $0.50 per DLR Share. Northbrook and Drift Lake were arm’s length parties.

Also on January 26, 2011, Drift Lake completed the first tranche of the private placement in connection with the Northbrook Business Combination, pursuant to which an aggregate of 32,430,000 subscription receipts ("Subscription Receipts") were issued at a price of Canadian $0.50 per Subscription Receipt to raise aggregate gross proceeds of Canadian $16,215,000 (the "Financing"), which amount was held in escrow as at March 31, 2011. Of this total, an aggregate of 2,830,000 Subscription Receipts were issued by Drift Lake directly (the "DLR Subscription Receipts") and an aggregate of 29,600,000 Subscription Receipts (the "FinanceCo Subscription Receipts") were issued by FinanceCo. Each DLR Subscription Receipt was convertible upon the satisfaction of certain release conditions for no additional consideration into units ("DLR Units"), each DLR Unit consisting of one common share of Drift Lake (each, a "DLR Share") and one-half of one common share purchase warrant (each whole such warrant, a "DLR Warrant"), with each DLR Warrant entitling the holder thereof to acquire one additional DLR Share at an exercise price of Canadian $0.75 for a period of 18 months (subject to accelerated expiry in the event that the closing price of the DLR Shares exceeds Canadian $1.25 for 20 consecutive trading days). Each FinanceCo Subscription Receipt was convertible upon the satisfaction of certain release conditions for no additional consideration into units ("FinanceCo Units"), each FinanceCo Unit consisting of one common share of FinanceCo (each, a "FinanceCo Share") and one-half of one common share purchase warrant (each whole such warrant, a "FinanceCo Warrant"), with each FinanceCo Warrant entitling the holder thereof to acquire one additional FinanceCo Share at an exercise price of Canadian $0.75 for a period of 18 months (subject to accelerated expiry in the event that the closing price of the DLR Shares exceeds Canadian $1.25 for 20 consecutive trading days).

On February 3, 2011, the second tranche of the Financing was completed pursuant to which an aggregate of 6,030,000 Subscription Receipts were issued by FinanceCo at a price of Canadian $0.50 per Subscription Receipt to raise aggregate gross proceeds of Canadian $3,015,000, which amount was held in escrow as at February 28, 2011. Each Subscription Receipt was convertible upon the satisfaction of certain release conditions for no additional consideration into one FinanceCo Unit.

15. Subsequent events (continued)

(a) (continued) Concurrently with the execution of the Master Agreement, Drift Lake also entered into an amalgamation agreement with a wholly-owned subsidiary of Drift Lake (“Newco”) and FinanceCo (the "Amalgamation Agreement") pursuant to which Drift Lake and FinanceCo agreed to effect a business combination (the "FinanceCo Business Combination", and together with the Northbrook Business Combination, the "Business Combination") concurrently with the Northbrook Business Combination, which was structured in the form of a three-cornered amalgamation pursuant to which FinanceCo would amalgamate with Newco and all of the issued and outstanding securities of FinanceCo (including all outstanding FinanceCo Shares and FinanceCo Warrants) would be acquired by Drift Lake from the existing holders thereof in consideration of the issuance of equivalent securities of Drift Lake to each of the holders of FinanceCo Shares and FinanceCo Warrants.

On February 24 and March 11, 2011, the final two tranches of the Financing were completed, with an aggregate of 3,700,000 Subscription Receipts being issued by FinanceCo at a price Canadian $0.50 per Subscription Receipt to raise additional aggregate gross proceeds of Canadian $1,850,000. Each Subscription Receipt is convertible upon the satisfaction of certain release conditions for no additional consideration into one FinanceCo Unit.

As a result of the closing of the final tranche, an aggregate of 42,160,000 Subscription Receipts were issued by FinanceCo and Drift Lake pursuant to the Financing in total, to raise aggregate gross proceeds of Canadian $21,080,000. The gross proceeds raised pursuant to the Financing (the "Escrowed Funds") were deposited with Olympia Transfer Services Inc. to be held in escrow pending the satisfaction of certain release conditions relating to the Business Combination, including the receipt of the requisite approval of the Business Combination by shareholders of Drift Lake, and the conditional approval of the Business Combination by the TSX Venture Exchange.

An aggregate of 41,160,000 of the Subscription Receipts issued pursuant to the Financing were issued on a brokered basis by co-lead agents Jones Gable & Company Limited and PowerOne Capital Markets Limited, with a syndicate that included Clarus Securities Inc., Salman Partners Inc. and Primary Capital Inc. (collectively, the "Agents"), while an aggregate of 1,000,000 Subscription Receipts were issued on a non-brokered basis. An aggregate of 2,366,700 broker warrants (the "Broker Warrants") were issued to the Agents as partial consideration for their services in connection with the Financing, each such Broker Warrant entitling the holder thereof to acquire one DLR Share at an exercise price of Canadian $0.50 until the date which is 18 months following the release of the Escrowed Funds. In addition, aggregate fees in the amount of Canadian $1,440,600 were paid to the Agents and certain other advisers assisting in the Financing, upon release of the Escrowed Funds.

On April 13, 2011, in connection with the Business Combination, Drift Lake prepared and filed a filing statement (the “Filing Statement”) in accordance with the regulations of the TSX Venture Exchange summarizing the terms of the proposed Business Combination and related matters.

On April 27, 2011, Drift Lake closed the Business Combination with Northbrook and FinanceCo, pursuant to the Master Agreement and Amalgamation Agreement. Each of Northbrook and FinanceCo amalgamated with wholly-owned subsidiaries of Drift Lake, the Subscription Receipts converted into DLR Units and FinanceCo Units, as applicable, in accordance with the terms thereof, and all of the issued and outstanding securities of each of Northbrook and FinanceCo were subsequently acquired by Drift Lake from the existing holders thereof in consideration of the issuance of an aggregate of 78,160,001 DLR Shares and an aggregate cash payment of Canadian $330,000. Also in connection with the Business Combination, an aggregate of 19,665,000 FinanceCo Warrants were exchanged for DLR Warrants on a 1:1 basis.

Following the closing of the Business Combination, (i) an aggregate of 27,000,000 DLR Shares were issued to former shareholders of Northbrook in consideration of the acquisition by Drift Lake of all such issued and outstanding Northbrook shares; and (ii) an aggregate of 51,160,001 DLR Shares were issued to subscribers in the Financing and existing holders of FinanceCo shares. In addition, all directors and officers of Drift Lake resigned with the exception of Bruno Maruzzo and Carmelo Marrelli, and the Board of Directors of Drift Lake was reconstituted and new management associated with Northbrook was appointed, including Doug Manner as Chief Executive Officer, Keith Spickelmier as Executive Chairman and David Cherry as President and Chief Operating Officer. Carmelo Marrelli remained as Chief Financial Officer.

15. Subsequent events (continued)

(b) On April 14, 2011, the following DLR stock options were exercised:

- 300,000 with an exercise price of Canadian $0.10 until November 13, 2012; and
- 250,000 with an exercise price of Canadian $0.135 until August 18, 2015

(c) On May 9, 2011, the Company announced that its US subsidiary has entered into a farmout agreement with an arm's-length party for its ownership interests in several leases located in Marion County, Texas, known as the Big Cypress prospect. The US subsidiary will receive a cash payment of $400,000 upon closing and will retain a 15% working interest in the initial test well after payout and a 15% working interest in all future development wells. In addition, the US subsidiary will receive an overriding royalty interest, ranging up to 2% depending on the lease, in all oil and gas produced. The transaction closed on June 20, 2011.

(d) On May 16, 2011, the Company completed its acquisition of a 25% interest in the Faulkner operated Bayovar prospect in Peru. An initial $2.0 million cash payment was made to Faulkner on the closing of the acquisition transaction in February 2011 (note 13). This second and final payment for the interest consisted of the issuance of 5,489,143 DLR Shares at Canadian $0.525 per share, representing a market value of $3.0 million, based on the weighted average closing price of the Company's common shares on the TSX Venture Exchange for the first ten trading days after the completion of the Business Combination.

(e) At a Board of Directors meeting held on May 11, 2011 the directors unanimously approved a rolling 10% stock option plan and granted a total of 3.1 million stock options to five staff members who recently joined the Company, one officer and a director, all subject to shareholder approval of the new stock option plan. The awarded options will be exercisable at Canadian $0.49 per share, the closing price on May 11, 2011, and will vest from time to time over two years.