

Doral Energy Corp.
Form 10-Q/A
March 12, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2009

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER 000-52738

DORAL ENERGY CORP.

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

98-0555508

(I.R.S. Employer Identification No.)

415 West Wall, Suite 500

Midland, TX

(Address of principal executive offices)

79701

(Zip Code)

(432) 789-1180

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s.

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232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
 Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: **As of June 12, 2009, the Registrant had 17,674,010 (88,370,050 post-2009 Forward Split) shares of common stock outstanding.**

EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-Q for Doral Energy Corp., originally filed on June 15, 2009 (the "Original Report") is being filed to provide the Company's amended and restated consolidated financial statements for the fiscal period ended April 30, 2009 and the comparative period ended April 30, 2008 (the "April 2009 Financial Statements").

On November 4, 2009, we determined that the original valuation model for the net profit overriding royalty interest (the "MAC NPORRI") granted to Macquarie in connection with the Macquarie Credit Agreement contained errors that resulted in an overstatement of the value of the MAC NPORRI. After discovering this issue, we engaged an independent economist to re-evaluate the value of the MAC NPORRI, resulting in a substantially lower value being assigned to the MAC NPORRI at the date of grant than the value originally assigned for accounting purposes. Correcting this overvaluation resulted in our recording an increase of approximately \$5.1 million in the value of oil and gas properties as of April 30, 2009 and July 31, 2008 and an increase in the value of notes payable of approximately \$5.1 million as of July 31, 2008. It also resulted in our recording increased depreciation, depletion and amortization of approximately \$34,000 and decreased interest expense of approximately \$5.1 million for the nine months ended April 30, 2009. As a result of these corrections, we decreased the tax benefit for the nine months ended April 30, 2009 by approximately \$1.8 million and decreased deferred federal income tax on the balance sheet as of April 30, 2009.

The April 2009 Financial Statements and other financial information included in this Amendment No. 1 have been restated accordingly. In addition, the April 2009 Financial Statements and other financial information included in this Amendment No. 1 have been amended to give retroactive effect to our 5-for-1 forward split of our common stock (the "2009 Forward Split") completed September 14, 2009, after the end of the fiscal period covered by this Amendment No. 1 and after the filing date of the Original Report. Our shareholders should no longer rely on our previously filed financial statements for the three and nine months ended April 30, 2009. These matters have been discussed by our authorized officers and with our independent registered public accounting firm.

This Amendment No. 1 reproduces only those sections of the Original Report that have been changed as a result of the restatement and amendments described above. This Amendment No. 1 is stated as of the file date of the Original Report and does not reflect events occurring after the filing date of the Original Report, or modify or update the disclosures therein in any way other than as required to reflect the restatements described above and to give retroactive effect to the 2009 Forward Split.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

The accompanying consolidated unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X, and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the three and nine month periods ended April 30, 2009 are not necessarily indicative of the results that can be expected for the year ending July 31, 2009.

As used in this Quarterly Report on Form 10-Q, the terms "we," "us," "our," "Doral Energy" and the "Company" mean Doral Energy Corp. and its subsidiaries unless otherwise indicated. All dollar amounts in this Quarterly Report are in U.S. dollars unless otherwise stated.

Doral Energy Corp.
Consolidated Balance Sheets
April 30, 2009 and July 31, 2008

| | April 30, 2009 (Restated) | July 31, 2008 (Restated) |
|--|---------------------------------|--------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ - | \$ 54,500 |
| Accounts receivable, net of allowance for doubtful accounts of \$- | 192,691 | - |
| Restricted cash note proceeds restricted as to use | 215,150 | 566,960 |
| Current derivative asset | 1,099,528 | - |
| Prepaid insurance and other | 53,139 | 65,676 |
| Total current assets | 1,560,508 | 687,136 |
| Oil and gas properties Proved, using full cost method of accounting, net of accumulated depreciation, depletion and amortization of \$244,448 and \$-, Respectively | 20,145,507 | 19,834,246 |
| Derivative asset | 287,900 | - |
| Deferred federal income tax | 106,279 | - |
| Deferred financing cost, net of current portion | - | 58,040 |
| Office equipment, net of depreciation | 116,498 | 104 |
| Security deposit | 539,433 | 1,105 |
| Total assets | \$ 22,756,125 | \$ 20,580,631 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 587,606 | \$ 201,947 |
| Accounts payable related party | 80,919 | 50,919 |
| Accrued liabilities | 158,146 | 9,943 |
| Current portion of long-term debt | 6,055,249 | - |
| Current deferred income tax | 420,185 | - |
| Other current liabilities | 6,103 | 8,442 |
| Total current liabilities | 7,308,208 | 271,251 |
| Notes payable, net of discount of \$- and \$181,746, respectively | 1,054,788 | 5,738,254 |
| Asset retirement obligation | 1,038,348 | 918,902 |
| Total liabilities | 9,401,344 | 6,928,407 |
| STOCKHOLDERS EQUITY | | |
| Common stock, \$0.001 par value, 2,000,000,000 shares authorized, 86,316,470 and 85,862,000 issued and outstanding, respectively | 86,316 | 85,862 |
| Additional paid-in capital | 14,414,310 | 14,188,489 |
| Retained earnings (deficit) | (1,145,845) | (622,127) |
| Total stockholders equity | 13,354,781 | 13,652,224 |
| Total liabilities and stockholders equity | \$ 22,756,125 | \$ 20,580,631 |

The accompanying notes are an integral part of these consolidated financial statements.

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Doral Energy Corp.
Consolidated Statements of Operations
For the three months and nine months ended April 30, 2009 and 2008
(Unaudited)

| | Three months ended April 30, | | Nine months ended April 30, | |
|--|---------------------------------|------------|--------------------------------|------------|
| | 2009 (Restated) | 2008 | 2009 (Restated) | 2008 |
| Revenue - oil and gas sales | | | | |
| Oil and gas sales | \$ 298,692 | - | \$ 1,289,896 | \$ - |
| Total revenue | 298,692 | - | 1,289,896 | - |
| Expenses: | | | | |
| Operating costs | 497,236 | - | 1,247,727 | - |
| Production taxes | 38,149 | - | 155,419 | - |
| Depreciation, depletion, amortization and | 91,506 | - | 261,485 | - |
| Accretion expense | 60,815 | - | 119,446 | - |
| General and administrative | 458,278 | 171,126 | 1,140,809 | 253,214 |
| Total expense | 1,145,984 | 171,126 | 2,924,886 | 253,214 |
| Loss from operations | (847,292) | (171,126) | (1,634,990) | (253,214) |
| Other expense: | | | | |
| Interest expense | (79,549) | (1,833) | (658,210) | (1,886) |
| Price risk management activities | (179,847) | - | 2,083,388 | - |
| Loss before income taxes | (1,106,688) | (172,959) | (209,812) | (255,100) |
| Income tax expense | - | - | 313,906 | - |
| Net loss | (1,106,688) | (172,959) | (523,718) | (255,100) |
| Net loss per share: | | | | |
| Basic and diluted | \$ (0.01) | \$ (0.00) | \$ (0.01) | \$ (0.00) |
| Weighted average shares outstanding: | | | | |
| Basic and diluted | 86,180,035 | 80,070,000 | 85,974,825 | 80,070,000 |

The accompanying notes are an integral part of these consolidated financial statements.

Doral Energy Corp.
Consolidated Statements of Cash Flows
For the nine months ended April 30, 2009 and 2008
(Unaudited)

| | 2009 (Restated) | 2008 |
|--|--------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (523,718) | \$ (255,100) |
| Adjustments to reconcile net income (loss) to cash used by operating activities: | | |
| Depreciation, depletion, amortization and accretion | 380,931 | 108 |
| Noncash interest expense | | 1,833 |
| Amortization of debt discount and deferred financing costs | 359,409 | - |
| Unrealized gain on derivative instruments, net | (1,387,427) | - |
| Contribution of rent and salary | - | 10,501 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (192,691) | - |
| Prepaid expenses and other current assets | 12,537 | (1,105) |
| Deposits | (13,896) | - |
| Accounts payable | 385,659 | 57,677 |
| Accounts payable related party | 30,000 | - |
| Accrued expenses | 148,203 | - |
| Other current liabilities | (2,339) | - |
| Deferred income taxes | 313,906 | - |
| NET CASH USED BY OPERATING ACTIVITIES | (489,426) | (186,086) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Deposits paid to Miltex | (275,000) | - |
| Deposits paid to Hanson Energy | - | (100,000) |
| Change in restricted cash | 351,810 | |
| Purchase of property and equipment | (63,476) | - |
| Additions to oil and gas properties | (555,709) | - |
| CASH FLOWS USED IN INVESTING ACTIVITIES | (542,375) | (100,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Amounts due to related party | - | (1,680) |
| Proceeds from issuance of notes payable, gross | 1,126,348 | 320,000 |
| Repayments of notes payable | (6,267) | - |
| Deferred financing costs incurred | (119,623) | - |
| Proceeds from sale of common stock | 30,025 | - |
| Deposit paid to investment advisor | (53,182) | |
| CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES | 977,301 | 318,320 |
| NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS | (54,500) | 32,234 |
| Cash and cash equivalents, beginning of period | 54,500 | 31,268 |
| Cash and cash equivalents, end of period | \$ - | \$ 63,502 |

Supplemental disclosures of cash flow information:

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| | | | | |
|---|----|-----------|----|---|
| Interest paid | \$ | (280,107) | \$ | - |
| Income taxes paid | | | - | - |
| Non cash investing and financing activities: | | | | |
| Fixed assets acquired through the issuance of notes payable | \$ | 69,956 | \$ | - |
| Stock issued for services--CK Cooper | | 125,000 | | - |
| Stock issued to extend closing of Miltex acquisition | | 71,250 | | - |

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The accompanying notes are an integral part of these consolidated financial statements

Doral Energy Corp.
Notes to Unaudited Consolidated Financial Statements

NOTE 1 ORGANIZATION AND BUSINESS OPERATIONS

Doral Energy Corp. (the Company or Doral) was incorporated under the laws of Nevada, USA, on October 25, 2005. Our principal executive offices are in Midland, Texas.

On July 29, 2008, the Company acquired certain oil and gas properties and changed their business focus to that of a company engaged in the acquisition, operation, exploration and development of oil and gas properties and prospects. The future plan is to acquire additional producing properties with strong proven reserves and considerable undrilled inventory that can be explored and developed with reasonable levels of forward risk. The Company anticipates financing these acquisitions with a combination of cash and shares of common stock.

The Company is a licensed oil and gas operator in the state of New Mexico.

Interim financial statements

The unaudited financial information furnished herein reflects all adjustments, which in the opinion of management are necessary to fairly state the Company's financial position and the results of its operations for the periods presented. This report on Form 10-Q should be read in conjunction with the Company's financial statements and notes thereto included in the Company's audited financial statements for the fiscal period ended July 31, 2008 as filed on Form 10-K. The Company assumes that the users of the interim financial information herein have read or have access to the audited financial statements for the preceding fiscal year and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. Accordingly, footnote disclosure, which would substantially duplicate the disclosure contained in the Company's audited financial statements for the fiscal period ended July 31, 2008, has been omitted. The results of operations for the three-month and nine-month periods ended April 30, 2009 are not necessarily indicative of results for the entire year ending July 31, 2009.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN

Basis of presentation

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and the Securities and Exchange Commission Act 1934.

Until July 31, 2008, Doral was an exploration stage company. Effective August 1, 2008, Doral began earning revenue from its proved properties and left the exploration stage.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could materially differ from those estimates.

Management believes that it is reasonably possible the following material estimates affecting the financial statements could significantly change in the coming year: (1) estimates of proved oil and gas reserves, and (2) forecast forward price curves for natural gas and crude oil. The oil and gas industry in the United States has historically experienced substantial commodity price volatility, and such volatility is expected to continue in the future. Commodity prices

affect the level of reserves that are considered commercially recoverable; significantly influence Doral's current and future expected cash flows; and impact the PV10 derivation of proved reserves.

Principles of consolidation

The consolidated financial statements include the accounts of Doral Energy Corp. and its 100% owned subsidiary Doral West Corporation.

Cash and cash equivalents

For purposes of the balance sheet and statement of cash flows, the Company considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. At April 30, 2009 and July 31, 2008, the Company had no cash equivalents. Doral may, in the normal course of operations, maintain cash balances in excess of federally insured limits. As of April 30, 2009, there were no cash balances in excess of federally insured limits.

Restricted cash note proceeds restricted as to use

At April 30, 2009, Doral has \$215,150 of restricted cash. The restricted cash represents proceeds from the revolving loan payable to Macquarie (See Note 5) which are restricted as to use under the terms of the credit agreement. These funds may be used to pay lease operating expenses, note interest, certain fees associated with obtaining the note and certain general and administrative expenses.

Deferred financing cost

In connection with debt financing, Doral paid \$183,250 in fees, in which \$58,040 was paid in prior year. These fees were written off to interest expense during the nine months ended April 30, 2009 in connection with the debt being reclassified as a current liability (See Note 5)

Concentrations of Credit Risk

All of the Company's receivables are due from oil and natural gas purchasers. The Company sold approximately 92% and 6% of its oil and natural gas production to two customers during the nine months ended April 30, 2009.

Revenue and cost recognition

Doral uses the sales method to account for sales of crude oil and natural gas. Under this method, revenues are recognized based on actual volumes of oil and gas sold to purchasers. The volumes sold may differ from the volumes to which Doral is entitled based on the interest in the properties. These differences create imbalances which are recognized as a liability only when the imbalance exceeds the estimate of remaining reserves. No imbalances were required to be recorded at April 30, 2009. Costs associated with production are expensed in the period incurred.

Derivatives

Derivative financial instruments, utilized to manage or reduce commodity price risk related to Doral's production, are accounted for under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and for Hedging Activities", and related interpretations and amendments. Under this statement, derivatives are carried on the balance sheet at fair value. Effective August 2008 if the derivative is not designated as a hedge, changes in the fair value are recognized in other income (expense).

The Company adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) FASB Interpretation (FIN) No. 39-1, "Amendment of FASB Interpretation No. 39," (FSP FIN No. 39-1) which effectively amends FIN No. 39, "Offsetting of Amounts Related to Certain Contracts." FSP FIN No. 39-1 permits the netting of fair values of derivative assets and liabilities for financial reporting purposes, if such assets and liabilities are with the same counterparty and subject to a master netting arrangement. Doral has elected to employ net presentation of derivative assets and liabilities when FSP FIN No. 39-1 conditions are met. FSP FIN No. 39-1 also requires that when derivative assets and liabilities are presented net, the fair value of the right to reclaim collateral assets (receivable) or the obligation to return cash collateral (payable) is also offset against the net fair value of the corresponding derivative. The Company routinely exercises its contractual right to net realized gains against realized losses when settling with

its swap and option counterparties. At April 30, 2009, derivative assets include the net market value of derivative assets and liabilities due to the right of offset in the settlement of these contracts.

New Accounting Pronouncements

On December 31, 2008, the SEC published the final rules and interpretations updating its oil and gas reporting requirements. Many of the revisions are updates to definitions in the existing oil and gas rules to make them consistent with the petroleum resource management system, which is a widely accepted stand for the management of petroleum resources that was developed by several industry organizations. Key revisions include changes to the pricing used to estimate reserves utilizing a 12-month average price rather than a single day spot price which eliminates the ability to utilize subsequent prices to the end of a reporting period when the full cost ceiling was exceeded and subsequent pricing exceeds pricing at the end of the reporting period, the ability to include nontraditional resources in reserves, the use of new technology for determining reserves, and permitting disclosure of probable and possible reserves. The SEC will require companies to comply with the amended disclosure requirements for registration statements filed after January 1, 2010, and for annual reports on Form 10-K for fiscal years ending on or after December 15, 2009. Early adoption is not permitted. The Company is currently assessing the impact that the adoption will have on the Company's disclosures, operating results, financial position and cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161), an amendment of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 161 requires entities to provide qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of and gains and losses on derivative contracts, and details of credit-risk-related contingent features in their hedged positions. The standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged but not required. SFAS 161 will be effective for the Company on August 1, 2009. SFAS 161 also requires entities to disclose more information about the location and amounts of derivative instruments in financial statements how derivatives and related hedges are accounted for under SFAS 133 and how the hedges affect the entity's financial position, financial performance, and cash flows. The Company is currently evaluating whether the adoption of SFAS 161 will have an impact on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)). SFAS 141(R) replaces SFAS 141, Business Combinations, however it retains the fundamental requirements that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) requires an acquirer to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, be measured at their fair values as of that date, with specified limited exceptions. Changes subsequent to that date are to be recognized in earnings, not goodwill. Additionally, SFAS 141 (R) requires costs incurred in connection with an acquisition be expensed as incurred. Restructuring costs, if any, are to be recognized separately from the acquisition. The acquirer in a business combination achieved in stages must also recognize the identifiable assets and liabilities, as well as the noncontrolling interests in the acquiree, at the full amounts of their fair values. SFAS 141(R) is effective for business combinations occurring in fiscal years beginning on or after December 15, 2008. The Company will apply the requirements of SFAS 141(R) upon its adoption on August 1, 2009 and is currently evaluating whether SFAS 141(R) will have an impact on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits companies to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS 159, a company may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a remeasurement event that gives rise to new-basis accounting. The decision about whether to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable and is applied only to an entire instrument and not only to specified risks, cash flows or portions of that instrument. SFAS No. 159 does not affect any existing accounting standards that require certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. Doral adopted SFAS No. 159 effective August 1, 2008 and did not elect the fair value option for any existing eligible items.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. These non-financial items include assets and liabilities such as non-financial assets and liabilities assumed in a business combination, reporting units measured at fair value in a goodwill impairment test and asset retirement obligations initially measured at fair value. Effective August 1, 2008, Doral adopted SFAS 157 for fair value measurements not delayed by FSP FAS No. 157-2. The adoption resulted in

additional disclosures as required by the pronouncement (See Note 9 Fair Value Measurements) related to our fair value measurements for oil and gas derivatives but no change in our fair value calculation methodologies. Accordingly, the adoption had no impact on our financial condition or results of operations.

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GOING CONCERN

As of April 30, 2009, Doral has negative working capital. This factor raises substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might be necessary if Doral is unable to continue as a going concern.

Doral intends to raise additional working capital either through private placements, public offerings and/or bank financing. The Company is actively pursuing such alternatives in conjunction with its financial advisor, C.K. Cooper & Company, Inc. Doral is also identifying merger and/or acquisition candidates of strategic and financial benefit to the Company's plans for growth. As of April 30, 2009, no acquisition or merger agreements have yet been closed. To the extent that funds generated from any private placements, public offerings and/or bank financing are insufficient, Doral will have to raise additional working capital through other channels. No assurance can be given that additional financing will be available, or if available, will be on terms acceptable to Doral.

NOTE 3 OIL AND GAS PROPERTIES

Acquisition of Eddy County Properties

On July 29, 2008, the Company acquired a working interest in 66 producing oil fields and approximately 186 wells (the Eddy County Properties) in and around Eddy County, New Mexico. The acquisition of the Eddy County Properties was completed pursuant to the terms of the Purchase and Sale Agreement dated April 25, 2008, as amended on July 17, 2008, (the Hanson Energy Agreement) between J. Warren Hanson, an individual doing business as Hanson Energy, and his wife, Kathie Hanson, and the Company. Under the terms of the Hanson Energy Agreement, Hanson Energy transferred to Doral all of its right, title and interest in and to the Eddy County Properties, together with all of Hanson Energy's right, title and interest in and to the lands, wells and hydrocarbons associated with the Eddy County Properties, and to the oil and gas sales contracts related thereto (collectively, the Assets).

The Eddy County Properties consist of approximately 7,800 acres and are located along the Artesia-Vacuum Trend near the northwestern edge of the Permian Basin. As a result of the acquisition of the Eddy County Properties, Doral currently holds a 100% working interest and an average of a 74.7% net revenue interest in 55 of the 66 leases. In addition, the Company holds an average of an 84.4% working interest and an average of a 67.1% net revenue interest in the remaining 11 leases. Doral's leasehold rights vary between leases, but they generally extend from the surface to approximately 3,500 feet in depth. Doral has been entitled to production from the Eddy County Properties since August 1, 2008.

As consideration for the Assets, Doral paid to Hanson Energy the following consideration:

- (a) Upon execution of the Hanson Energy Agreement, a deposit (the Deposit) of \$100,000 in cash plus and 400,000 shares of common stock;
- (b) Upon execution of the Amendment Agreement to the Hanson Energy Agreement dated July 17, 2008, an amount of \$150,000 in cash, paid as an increase to the Deposit amount;
- (c) Upon closing, \$4,750,000 in cash and 5,200,000 shares of our common stock, and an overriding royalty interest of 2.5% of 8/8 on the oil and gas produced from the Assets; and
- (d) On November 24, 2008, \$463,408 in cash as a final purchase price adjustment.

The total purchase price was as follows:

| | |
|----------------------------|--------------|
| Cash paid to Hanson Energy | \$ 5,000,000 |
| | 14,000,000 |

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| | |
|---|---------------|
| Common stock issued to Hanson Energy (5,600,000 shares valued at \$2.50 per share based on last traded stock price) | |
| Cash paid for other acquisition costs | 97,090 |
| Asset retirement obligation incurred | 918,902 |
| Total purchase price | \$ 20,015,992 |
| Less: Net profits overriding royalty interest | (181,746) |
| Net purchase price | \$ 19,834,246 |

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The total purchase price was allocated to proved oil and gas properties, as this was the only asset purchased.

The following table reflects selected pro forma financial information as if the acquisition of the Eddy County Properties had occurred as of the beginning of the period ended April 30, 2008:

| | Nine months ended April 30, 2008 |
|----------------------|---|
| Revenues oil and gas | \$ 1,624,174 |
| Net loss | \$ (556,234) |
| Loss per share | \$ (0.03) |

The pro forma financial information above includes the actual results of Doral for the nine months ended April 30, 2008 adjusted by the following:

- Revenue and direct operating expenses of the Eddy County Properties for the nine months ended April 30, 2008;
- Incremental depreciation, depletion and accretion expense, using units of production method, resulting from the purchase of the Eddy County Properties;
- Estimated increase in general and administrative expense as a result of the purchase of the Eddy County Properties;
- Interest expense and amortization of deferred financing costs; and
- Shares issued for the acquisition of the Eddy County Properties.

Oil and gas properties

Doral recognized depletion expense of \$226,112 during the nine months ended April 30, 2009.

NOTE 4 ASSET RETIREMENT OBLIGATION

Asset retirement obligation activity for the nine months ended April 30, 2009 is as follows:

| | Amount |
|---|--------------|
| Asset retirement obligations, beginning of period | \$ 918,902 |
| Accretion expense | 119,446 |
| Asset retirement obligations, end of period | \$ 1,038,348 |

NOTE 5 NOTES PAYABLE

Notes payable consist of the following as of April 30, 2009:

| | Amount |
|---------------------------|--------------|
| Little Bay Consulting | \$ 520,000 |
| Green Shoe Investments | 487,000 |
| Macquarie Ltd. | 6,039,348 |
| Vehicle and trailer notes | 63,689 |
| Total notes payable | 7,110,037 |
| Less: current portion | 6,055,249 |
| Noncurrent notes payable | \$ 1,054,788 |

Little Bay Notes Payable

During October 2008, Doral borrowed \$200,000 from Little Bay Consulting SA. The loans are unsecured, carry an annual interest rate of 5.0%, and are due October 1, 2010.

Green Shoe Investments

During February and April 2009, Doral borrowed a total of \$187,000 from Green Shoe Investments. The loans are unsecured and carry an annual interest rate of 5.0%. The notes mature \$100,000 on March 1, 2011 and \$87,000 on May 1, 2011.

Macquarie Credit Agreement

On July 29, 2008, the Company entered into a Senior First Lien Secured Credit Agreement (the **Credit Agreement**) with Macquarie Bank Limited (**Macquarie**). Under the terms of the Credit Agreement, Macquarie has agreed to provide Doral with: (i) a maximum of \$25,000,000 under a revolving loan (the **Revolving Loan**); and (ii) a maximum of \$25,000,000 under a term loan (the **Term Loan**). Upon closing of the Credit Agreement, Macquarie advanced \$2,500,000 of the Revolving Loan and \$2,800,000 of the Term Loan. These advances are subject to an upfront advance fee of 1.00% of the total amount advanced. The advances were used to fund the acquisition of the Eddy County Properties and for working capital purposes. Future advances are subject to the approval of Macquarie.

The Term Loan and the Revolving Loan are secured by all of the assets of the Company. Interest accrued on the Term Loan and the Revolving Loan is payable monthly beginning on September 20, 2008. The Credit Agreement requires that Doral must pay 100 percent of net operating cash flow to Macquarie monthly beginning on September 20, 2008. This payment will be applied first to accrued interest and fees, second to principal on the Term Loan and last to principal on the Revolving Loan. At April 30, 2009, the applicable interest rate under the Term Loan and the Revolving Loan was 6.95% and 3.45%, respectively. The effective interest rates on the Term and Revolving Loans combined is approximately 8%.

Provided that the Company submitted a Development Plan (as such term is defined in the Credit Agreement) acceptable to Macquarie (at its sole discretion) by January 15, 2009, the Credit Agreement would have matured on July 30, 2011. Since the Company failed to submit an acceptable Development Plan to Macquarie, the maturity date has been moved up to July 30, 2009. In connection with the Credit Agreement, Doral granted Macquarie a net profits overriding royalty interest ("NPORRI") in the Eddy County Properties. Beginning on the maturity date of the Credit Agreement, or earlier if all amounts advanced under the Credit Agreement are repaid before that date, Doral will pay Macquarie 35% of its net profits on the Eddy County Properties. After Macquarie has received \$5,000,000, this percentage will drop to 20% in perpetuity. Doral has valued the NPORRI at \$181,746 based on the valuation prepared by a valuation expert. As a result Doral has recorded a discount of \$181,746 on the Term and Revolving loans with a corresponding reduction in proved oil and gas properties.

The NPORRI is convertible into common stock of Doral contingent on the following conditions being met:

- Doral's Common Stock is listed on the American Stock Exchange or another exchange approved by Macquarie;
- No more than 65 percent of Doral's common stock is held by affiliates or insiders of the Company; and
- The average trading volume of the shares of common stock on the exchange is equal to or greater than 50% of the outstanding shares of common stock;

The NPORRI is convertible at Doral or Macquarie's option after the conversion requirements listed above are met. After either party issues a notice of conversion, the NPORRI will be valued by investment bankers approved by both parties. The number of shares to be issued will be determined by dividing the value of the NPORRI by the volume weighted average trading price of the common stock for the 60 days prior to conversion. The conversion feature expires on July 29, 2018. Because the conversion option is contingent on future events, no value has been assigned to this conversion feature.

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The Credit Agreement also contains events of default which are customary for such financings. The events of default include, but are not limited to, default of payment; failure to comply with any term, condition or covenant of the Credit Agreement; bankruptcy or insolvency related defaults; judgment pertaining to receivership or liquidation; federal tax lien or judgment against us of more than \$100,000; our failure to comply with any government regulations on our properties; the operator is removed or withdraws and no replacement is acceptable to Macquarie; a change in control occurs; or a material adverse event occurs.

We have failed to meet the minimum quarterly operating cash flow and minimum quarterly sales volume requirements set out in the Credit Agreement for the nine months ended April 30, 2009. Under the terms of the Credit Agreement, Macquarie has the right to declare us in default of our obligations and to declare the amounts due under the Credit Agreement to be immediately payable. Macquarie has not yet exercised these rights and has not provided us with any indications that it intends to do so at this time. However, there is no assurance that Macquarie will not exercise its right to declare us in default in the future. As a result of the failure to meet these minimum requirements, we reclassified amounts due under the notes to current liabilities, and we wrote off all unamortized deferred financing costs and unamortized discounts on the notes.

Upon an event of default, Macquarie has the right under the Credit Agreement to: (i) accelerate payment on all outstanding promissory notes and loans due; (ii) sell any collateral; and (iii) carry out our rights under our operating agreements with respect to our Eddy County Properties.

During the nine months ended April 30, 2009, we borrowed an additional \$739,348 under the Credit Agreement in order to pay the additional purchase price adjustment for the acquisition of the Hanson Properties and for other working capital purposes.

Vehicle and trailer notes

During the nine months ended April 30, 2009, we entered into two note agreements to finance the acquisition of a vehicle and an office trailer. These notes require monthly payments of principal and interest, bear interest at rates between 5.75% and 9.69%, are secured by the assets they financed, and mature in five years.

NOTE 6 COMMITMENTS AND CONTINGENCIES

From time to time Doral may become involved in litigation in the ordinary course of business. At the present time the Company's management is not aware of any such litigation.

The Company, as an owner or lessee and operator of oil and gas properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. We maintain insurance coverage, which we believe is customary in the industry, although we are not fully insured against all environmental risks. The Company is not aware of any environmental claims existing as of April 30, 2009, which have not been provided for, covered by insurance or otherwise have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change, or past non-compliance with environmental laws will not be discovered on the Company's properties.

Cochran County Properties Agreement

On January 15, 2009, Doral entered into a letter agreement with Miltex Oil Company (Miltex) to acquire three oil and gas leases located in Cochran County, Texas for a total purchase price of \$2.2 million. Under the terms of the letter agreement, Doral paid a deposit of \$100,000 in January 2009 and must pay the remaining \$2.1 million by February

27, 2009. In February 2009, Doral paid an additional \$100,000 to extend the closing date of the transaction to March 31, 2009, increasing the total purchase price of the properties to \$2.3 million. The \$100,000 deposit is included in deposits on the balance sheet at April 30, 2009.

On March 31, 2009, the Company entered into an agreement to modify the terms of their letter agreement with Miltex to increase the purchase price by \$125,000. Of this increase, Doral paid \$25,000 in earnest money and an additional \$100,000 was added to the purchase price due at closing, making the total purchase price \$2,425,000. Doral has until April 21, 2009 to complete the acquisition of the Cochran County Properties. In order to complete the acquisition of the Cochran County Properties, Doral will be required to pay Miltex an additional \$2,235,981.90 by April 21, 2009. The required payment amount includes \$2,200,000 for the remainder of the purchase price and \$35,981.90 for the value of oil in Miltex's storage tanks as of March 1, 2009. The \$25,000 deposit is included in deposits on the balance sheet at April 30, 2009.

On April 21, 2009, Doral entered into an agreement to modify the terms of their letter agreement with Miltex. The deadline for Doral's proposed acquisition of the Miltex Properties has been changed from April 21, 2009 to May 29, 2009, with extension clauses to adjust the closing date to July 31, 2009, if necessary. The effective date of the proposed Miltex Properties acquisition, however, remains at the original date of March 1, 2009. If closing occurs by the May 29, 2009 scheduled closing date, the revised total acquisition cost of the Miltex Properties will be \$2,635,000 plus 125,000 shares of the Company's common stock, of which \$2,400,000 will be payable to Miltex at closing. If the closing date is extended to June 30, 2009, the Company will pay an additional \$10,000 to Miltex and will issue an additional 125,000 shares of the Company's common stock. If the closing date is extended to July 31, 2009, the Company will pay to Miltex an additional \$50,000. The shares to be issued to Miltex will be issued pursuant to the registration exemptions provided by Regulation D of the Securities Act of 1933 (the "Securities Act"). The Company has granted piggy-back registration rights to Miltex.

On May 22, 2009, Doral notified Miltex of its intention to extend the closing date of the proposed acquisition of Cochran County Properties owned by Miltex. Under the amended terms of Doral's agreement with Miltex, Doral has the right to extend the closing date for the Miltex Properties from May 29, 2009 to June 30, 2009 by paying Miltex an additional \$10,000 and issuing to Miltex an additional 125,000 shares of its common stock. These amounts were paid subsequent to year end and included in deposit on the balance sheet April 30, 2009.

Investment advisory agreement

On January 26, 2009, Doral entered into an investment advisory agreement with a financial advisor. Under the terms of the agreement, Doral has agreed to pay \$125,000 in cash, of which \$25,000 was paid upon execution of the agreement with the remaining \$100,000 payable in 11 equal monthly installments and 250,000 shares of common stock. The shares were valued at \$125,000 based on the market value of the stock on the date of the agreement. The \$25,000 cash payment and the \$125,000 paid in shares of common stock has been included in deposits on the balance sheet at April 30, 2009, based on management's expectation that the financial advisor will be successful in obtaining additional financing for the Company.

NOTE 7 STOCKHOLDERS EQUITY

In June 2008, Doral completed a private placement of 192,000 shares of common stock at a price of \$0.625 per share and received total cash proceeds of \$120,000. These shares were issued in November 2008.

In August 2008, Doral completed a private placement of 8,040 shares of common stock at a price of \$0.625 per share and received total cash proceeds of \$5,025. These shares were issued in November 2008.

In December, 2008, Doral's Board of Directors approved a 1-for-6.25 reverse split of our common stock. The reverse split became effective January 23, 2009. All share amounts have been restated to reflect the reverse stock split.

In January 2009, Doral issued 50,000 shares of common stock at a price of \$2.50 per share and received services totaling \$125,000.

In March 2009, Doral received subscription proceeds of \$25,001 for the sale of 71,430 shares of common stock under Doral's \$0.35 per share offering. The shares subscribed for have not yet been issued by the Company; however, they are reflected in outstanding shares for accounting purposes.

In April 2009, Doral entered into an agreement to modify the terms of their letter agreement with Miltex. Doral issued 125,000 shares of the company's common stock at a price of \$0.57 in exchange for an extension of the closing date of their agreement.

NOTE 8 RELATED PARTY TRANSACTIONS

As of April 30, 2009, Doral had accounts payable to the Chairman of the Board and CFO of the Company in the amount of \$80,919. These amounts represent unpaid salary and expense reimbursements.

NOTE 9 DERIVATIVE INSTRUMENTS AND PRICE RISK MANAGEMENT ACTIVITIES

On August 6, 2008, in accordance with a requirement of the Credit Agreement, Doral entered into a Costless Collar with Macquarie. The net effect of the costless collar is that if the monthly average price of NYMEX WTI Crude Oil futures drops below \$100 per barrel, the Company effectively receives \$100 for each barrel of production covered by the costless collar. If the NYMEX WTI Crude Oil futures price rises above \$131 per barrel, the Company receives \$131 per barrel for each barrel of production covered by the costless collar. The result is a floor on the price of \$100 and a ceiling of \$131.

In December 2008, we re-structured our hedge position to guarantee more near-term income by closing out our old position and using the value realized to enter into a combination of a swap and a costless collar, with more volume hedged in the near term. The swap, with a fixed price of \$94, covers the period from January 2009 through June 2010 and effectively guarantees us \$94 per barrel on an average of our first 2250 barrels of production each month. From July 2010 through December 2011, there is a costless collar in effect on an average of 1850 barrels per month, guaranteeing a minimum of \$60 a barrel.

SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of each derivative is recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. To make this determination, management formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring effectiveness. This process includes linking all derivatives that are designated as cash-flow hedges to specific cash flows associated with assets and liabilities on the balance sheet or to specific forecasted transactions.

Based on the above, management has determined the swaps noted above do not qualify for hedge accounting treatment. For the nine months ended April 30, 2009, Doral recognized a derivative asset of \$1,387,428 with the change in fair value reflected in other income (expense). Realized hedge gains totaled \$695,960 for the nine months ended April 30, 2009.

NOTE 10 FAIR VALUE MEASUREMENTS

Doral's commodity derivatives are measured at fair value in the financial statements. Doral's financial assets and liabilities are measured using input from three levels of the fair value hierarchy. A financial asset or liability classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

- Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Doral has the ability to access at the measurement date.
- Level 2 Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 Unobservable inputs reflect Doral's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. Doral develops these inputs based on the best information available, using internal and external data.

The following table presents Doral's assets and liabilities recognized in the balance sheet and measured at fair value on a recurring basis as of April 30, 2009:

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| Description | Input Levels for Fair Value Measurements | | | |
|-----------------------|--|--------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Commodity derivatives | \$ - | \$ 1,387,428 | \$ - | \$ 1,387,428 |
| | \$ - | \$ 1,387,428 | \$ - | \$ 1,387,428 |

The fair value of commodity derivatives is determined using forward price curves derived from market price quotations, externally developed and commercial models, with internal and external fundamental data inputs. Market price quotations are obtained from independent energy brokers and direct communication with market participants.

NOTE 11 SUBSEQUENT EVENTS

On May 21, 2009, Doral entered into agreements for the acquisition of Slape Oil Company, Inc. (Slape Oil) and Flaming S, Inc. (Flaming S). Slape Oil and Flaming S are oil and gas corporations with producing properties in Cochran and Hockley Counties, Texas.

Doral has agreed to pay \$4,700,000 for all of the outstanding shares of Slape Oil and \$1,200,000 for all of the outstanding shares of Flaming S, for an aggregate purchase price of \$5,900,000 for both companies. As a deposit for these purchases, Doral has agreed to issue 1,520,000 shares of its common stock to the shareholders of Slape Oil and 480,000 to the shareholders of Flaming S (collectively, the “Deposit Shares”). The Deposit Shares will be placed in escrow, and returned to Doral for cancellation if the acquisitions of Slape Oil and Flaming S are completed. If Doral does not complete the acquisition of these companies, the shareholders of Slape Oil and Flaming S will be entitled to keep the Deposit Shares, unless the failure to complete arises due to their breaching any of the terms, conditions, representations or warranties of the purchase agreements.

Closing of the acquisitions of Slape Oil and Flaming S is scheduled for June 30, 2009. Doral may extend the closing date to July 31, 2009 by paying installments of \$395,000 and \$105,000 by July 1, 2009 to the shareholders of Slape Oil and Flaming S, respectively (collectively, the Extension Installments). The Extension Installments will be treated as installments of the total purchase price, however if the acquisitions do not occur by the extended closing date, the shareholders of Slape Oil and Flaming S will be entitled to keep the Extension Installments.

Convertible note payable

On May 28, 2009, we received \$150,000 in debt financing from Green Shoe Investments Ltd. (Green Shoe). On June 10, 2009 we entered into an agreement dated effective as of May 28, 2009 (the Green Shoe Note Agreement) with Green Shoe whereby, in exchange for the \$150,000 provided by Green Shoe, we agreed to issue a convertible note in the principal amount of \$300,000. The convertible note is due 10 business days after the earlier of the maturity date of the amounts owed to Macquarie under the terms of the Macquarie Credit Agreement and the date, if any, that we are able to close a financing (or combination of financings) sufficient to enable us to repay all of the amounts owned by us under the Macquarie Credit Agreement (a Qualified Refinancing). The principal amount of the convertible note may be converted into shares of our common stock at a rate of \$1.00 per share.

Under the terms of the Green Shoe Note Agreement, if we are able to obtain a Qualified Refinancing, the unpaid principal amount of the convertible note outstanding after the due date described above will earn interest at a rate of 18% per annum. If we are not able to obtain a Qualified Refinancing on or before the maturity date of the Macquarie Credit Agreement and we dispose of the properties acquired by us from Hanson Energy in August 2008 (including a realization by any secured debtors of their security interest in those properties), no interest shall be payable on the \$300,000 convertible note, however we will be required to issue to Green Shoe an additional convertible note in the principal amount of \$150,000 on the same terms and conditions as the \$300,000 convertible note, except that no interest shall be payable on the principal amount of the \$150,000 convertible note.

NOTE 12 RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The financial statements presented herein as of April 30, 2009 and July 31, 2008 and for the three and nine months ended April 30, 2009 have been restated for an error in the valuation of the MAC NPORRI.

Management determined that the original valuation model for the net profit overriding royalty interest (the MAC NPORRI) granted to Macquarie in connection with the Macquarie Credit Agreement contained errors that resulted in an overstatement of the value of the MAC NPORRI. After discovering this issue, the Company engaged an independent economist to re-evaluate the value of the MAC NPORRI, resulting in a substantially lower value being assigned to the MAC NPORRI at the date of grant than the value originally assigned for accounting purposes. Correcting this overvaluation resulted in our recording an increase of approximately \$5.1 million in the value of oil and gas properties as of April 30, 2009 and July 31, 2008 and an increase in the value of notes payable of approximately \$5.1 million as of July 31, 2008. It also resulted in our recording increased depreciation, depletion and amortization of approximately \$34,000 and decreased interest expense of approximately \$5.1 million for the nine months ended April 30, 2009. As a result of these corrections, we decreased the tax benefit for the nine months ended April 30, 2009 by approximately \$1.8 million and decreased deferred federal income tax on the balance sheet as of April 30, 2009.

The effects of the restatement on the balance sheet as of April 30, 2009 are summarized as follows:

| | As Previously Reported | Adjustments | As Restated |
|-----------------------------|------------------------------|--------------|----------------|
| Oil and gas properties | \$ 15,045,589 | \$ 5,099,918 | \$ 20,145,507 |
| Deferred federal income tax | 1,881,816 | (1,775,537) | 106,279 |
| Total assets | 19,431,744 | 3,324,381 | 22,756,125 |
| Retained earnings | (4,470,226) | 3,324,381 | (1,145,845) |
| Total stockholders equity | 10,030,400 | 3,324,381 | 13,354,781 |

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The effects of the restatement on the balance sheet as of July 31, 2008 are summarized as follows:

| | As Previously Reported | Adjustments | As Restated |
|------------------------|------------------------------|--------------|----------------|
| Oil and gas properties | \$ 14,715,992 | \$ 5,118,254 | \$ 19,834,246 |
| Total assets | 15,462,377 | 5,118,254 | 20,580,631 |
| Notes payable | 620,000 | 5,118,254 | 5,738,254 |
| Total liabilities | 1,810,253 | 5,118,254 | 6,928,407 |

The effects of the restatement on the statement of operations for the three months ended April 30, 2009 are summarized as follows:

| | As Previously Reported | Adjustments | As Restated |
|--|------------------------------|-------------|----------------|
| Revenue | \$ 298,692 | \$ - | \$ 298,692 |
| Depreciation, depletion and amortization | 86,653 | 4,853 | 91,506 |
| Total operating expenses | 1,141,131 | 4,853 | 1,145,984 |
| Loss from operations | (842,439) | (4,853) | (847,292) |
| Net income | (1,101,835) | (4,853) | (1,106,688) |
| Loss per share | \$ (0.06) | - | \$ (0.01) |

The effects of the restatement on the statement of operations for the nine months ended April 30, 2009 are summarized as follows:

| | As Previously Reported | Adjustments | As Restated |
|--|------------------------------|-------------|----------------|
| Revenue | \$ 1,289,896 | \$ - | \$ 1,289,896 |
| Depreciation, depletion and amortization | 243,149 | 18,336 | 261,485 |
| Total operating expenses | 2,906,550 | 18,336 | 2,924,886 |
| Loss from operations | (1,616,654) | (18,336) | (1,634,990) |
| Interest expense | (5,776,464) | 5,118,254 | (658,210) |
| Net other income (expense) | (3,693,076) | 5,118,254 | 1,425,178 |
| Income (loss) before income taxes | (5,309,730) | 5,099,918 | (209,812) |
| Income tax expense (benefit) | (1,461,631) | 1,775,537 | 313,906 |
| Net income | (3,848,099) | 3,324,381 | 523,718 |
| Income (loss) per share | \$ (0.22) | - | \$ (0.01) |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report constitute "forward-looking statements." These statements, identified by words such as "plan," "anticipate," "believe," "estimate," "should," "expect" and similar expressions include our expectations and objectives regarding our future financial position, operating results and business strategy. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under the heading "Risk Factors" and elsewhere in this Quarterly Report. We do not intend to update the forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information. We advise you to carefully review the reports and documents, particularly our Annual Reports, Quarterly Reports and Current Reports, we file from time to time with the United States Securities and Exchange Commission (the "SEC").

OVERVIEW

We are an oil and gas exploration and development company. Our plan is to acquire producing properties with strong proven reserves and considerable undrilled inventory that can be explored and developed with reasonable levels of forward risk. Currently, we hold a working interest in 66 producing oil fields and 186 wells in and around Eddy County, New Mexico (the "Eddy County Properties").

Recent Corporate Developments

The following significant developments occurred since the completion of our last fiscal quarter ended January 31, 2009:

1. Unsecured Debt Financing

On February 24, 2009, we borrowed \$100,000 from Green Shoe Investments Ltd. The amount borrowed earns interest at a rate of 5% per annum, is unsecured and payable on or before March 1, 2011.

On April 29, 2009, we borrowed \$87,000 from Green Shoe Investments Ltd. The amount borrowed from Green Shoe is due on or before May 1, 2011, bears interest at a rate of 5% per annum and is unsecured.

2. Unregistered Sale of Equity Securities

On January 15, 2009, our Board of Directors approved an offering of up to 1,000,000 (5,000,000 post-2009 Forward Split) shares of our common stock at a price of \$1.75 (\$0.35 post-2009 Forward Split) per share (the "Share Offering"). The Share Offering is being made solely to persons who qualify as accredited investors as defined in Rule 501 of Regulation D. In March 2009, we received subscription proceeds for the sale of 14,286 (71,430 post-2009 Forward Split) shares under the Share Offering. As of the date of filing of this Quarterly Report, the shares subscribed for have not yet been issued, but are reflected on our balance sheet as outstanding shares for accounting purposes.

3. Amendments to Purchase Agreements for Miltex Properties

On March 31, 2009, we entered into an agreement to modify the terms of our letter agreement (the "Miltex Agreement") dated January 15, 2009, with Miltex Oil Company ("Miltex") for the purchase of three oil and gas leases located in Cochran County, Texas (the "Miltex Properties"). The Miltex Agreement was further amended by us and Miltex on

April 21, 2009.

As amended, the Miltex Agreement provides that we are to pay to Miltex \$2,400,000 for the Miltex Properties upon closing, together with an additional \$35,981.90 for the value of oil inventories from the Miltex Properties on March 1, 2009. Currently the closing date for the Miltex Properties is scheduled for June 30, 2009. We may extend the closing date for the Miltex Properties to July 31, 2009 by notifying Miltex of our intention to do so by June 24, 2009 and paying to Miltex an additional \$50,000 by June 26, 2009.

To date, we have paid an aggregate of \$245,000 and issued an aggregate of 50,000 (250,000 post-2009 Forward Split) shares of our common stock to Miltex as non-refundable deposits and for previous extensions to closing granted by Miltex. If we are able to complete the acquisition of the Miltex Properties by June 30, 2009, the total cash consideration paid for these properties will be \$2,645,000. The shares issued to Miltex were issued in reliance upon the exemptions from registration contained in Rule 506 of Regulation D promulgated under the Securities Act of 1933 (the "Securities Act") based upon representations provided by Miltex that it is an "accredited investor" as defined in Regulation D.

4. Adoption of 2009 Stock Incentive Plan

Effective April 29, 2009, our Board of Directors adopted our 2009 Stock Incentive Plan (the "2009 Plan"). The purpose of the 2009 Plan is to enhance our long-term stockholder value by offering opportunities to our directors, officers, employees and eligible consultants (Participants) to acquire and maintain stock ownership in order to give these persons the opportunity to participate in our growth and success, and to encourage them to remain in our service.

The 2009 Plan allows us to grant awards to our officers, directors and employees. In addition, we may grant awards to individuals who act as our consultants, so long as those consultants are natural persons who do not provide services connected to the offer or sale of our securities in capital raising transactions and do not directly or indirectly promote or maintain a market for our securities.

A total of 1,700,000 (8,500,000 post-2009 Forward Split) shares of our common stock are available for issuance under the 2009 Plan. However, under the terms of the 2009 Plan, at any time after August 1, 2009, the authorized number of shares available under the 2009 Plan may be increased by our Board of Directors, provided that the total number of shares issuable under the 2009 Plan cannot exceed 10% of the total number of shares of common stock outstanding.

Awards may be granted in the form of options to purchase shares of our common stock (Option Awards) or in the form of shares of our common stock (Stock Awards). Option Awards granted under the 2009 Plan may be made in the form of incentive stock options and non-qualified stock options. Incentive stock options granted under the 2009 Plan are those intended to qualify as incentive stock options as defined under Section 422 of the Internal Revenue Code. However, in order to qualify as incentive stock options under Section 422 of the Internal Revenue Code, the 2009 Plan must be approved by our stockholders of within 12 months of its adoption. The 2009 Plan has not been approved by our stockholders and there is no assurance that the 2009 Plan will be approved by our stockholders. Non-qualified stock options granted under the 2009 Plan are option grants that do not qualify as incentive stock options under Section 422 of the Internal Revenue Code. Stock Awards may be made subject to such terms, conditions and restrictions as the plan administrator may, in its sole discretion, decide, including transfer restrictions and vesting provisions.

On May 26, 2009, we filed a registration statement on Form S-8 to register the resale of shares issued under the 2009 Plan.

5. Acquisition of Slape Oil Company, Inc. and Flaming S, Inc.

On May 5, 2009 and May 15, 2009, respectively, we entered into agreements for the acquisition of Flaming S, Inc. (Flaming S) and Slape Oil Company, Inc. (Slape Oil). Flaming S and Slape Oil are oil and gas corporations with producing properties in Cochran and Hockley Counties, Texas.

We have agreed to pay \$4,700,000 for all of the outstanding shares of Slape Oil and \$1,200,000 for all of the outstanding shares of Flaming S, for an aggregate purchase price of \$5,900,000 for both companies. As a deposit for these acquisitions, we issued 304,000 (1,520,000 post-2009 Forward Split) shares of our common stock to the shareholders of Slape Oil and 96,000 (480,000 post-2009 Forward Split) to the shareholders of Flaming S (collectively, the "Deposit Shares"). The Deposit Shares have been placed in escrow, and will be returned to us for cancellation if the acquisitions of Slape Oil and Flaming S are completed. If we do not complete the acquisition of these companies, the shareholders of Slape Oil and Flaming S will be entitled to keep the Deposit Shares, unless the failure to complete arises due to their breaching any of the terms, conditions, representations or warranties of the purchase agreements. The shareholders of Slape Oil and Flaming S have provided us with representations that they are "accredited investors" as defined in Regulation D promulgated under the Securities Act of 1933.

Closing of the acquisitions of Slape Oil and Flaming S is scheduled for June 30, 2009. We may extend the closing date to July 31, 2009 by paying installments of \$395,000 and \$105,000 by July 1, 2009 to the shareholders of Slape

Oil and Flaming S, respectively (collectively, the Extension Installments). The Extension Installments will be treated as installments of the total purchase price, however if the acquisitions do not occur by the extended closing date, the shareholders of Slape Oil and Flaming S will be entitled to keep the Extension Installments.

6. \$300,000 Convertible Debt Financing

On May 28, 2009, we received \$150,000 in debt financing from Green Shoe Investments Ltd. (Green Shoe). On June 10, 2009 we entered into an agreement dated effective as of May 28, 2009 (the Green Shoe Note Agreement) with Green Shoe whereby, in exchange for the \$150,000 provided by Green Shoe, we agreed to issue a convertible note in the principal amount of \$300,000. The convertible note is due 10 business days after the earlier of the maturity date of the amounts owed to Macquarie Bank Limited (Macquarie) under the terms of our \$50,000,000 Senior First Lien Secured Credit Agreement (the Macquarie Credit Agreement) with Macquarie (including any extensions granted thereon) and the date, if any, that we are able to close a financing (or combination of financings) sufficient to enable us to repay all of the amounts owned by us under the Macquarie Credit Agreement (a Qualified Refinancing). The principal amount of the convertible note may be converted into shares of our common stock at a rate of \$1.00 per share.

Under the terms of the Green Shoe Note Agreement, if we are able to obtain a Qualified Refinancing, the unpaid principal amount of the convertible note outstanding after the due date described above will earn interest at a rate of 18% per annum. If we are not able to obtain a Qualified Refinancing on or before the maturity date of the Macquarie Credit Agreement and we dispose of the properties acquired by us from Hanson Energy in August 2008 (including a realization by any secured debtors of their security interest in those properties), no interest shall be payable on the \$300,000 convertible note, however we will be required to issue to Green Shoe an additional convertible note in the principal amount of \$150,000 on the same terms and conditions as the \$300,000 convertible note, except that no interest shall be payable on the principal amount of the \$150,000 convertible note.

PLAN OF OPERATION

We are an early stage company engaged in the acquisition, development and operation of prospective and producing oil and gas properties, interests in oil and gas joint ventures, and other activities in the oil and gas industry.

Eddy County Properties

We are currently working to increase the production from existing wells on our properties in Eddy County, New Mexico (the Eddy County Properties) through improvements to existing facilities. We believe that this improvement program will increase production incrementally, even while work is being carried out sequentially on various wells. We anticipate that this work program will include inspection and evaluation of existing wells, pumping units, and production facilities to insure proper operational integrity; testing of all wells to ascertain accurate daily oil, gas, and water production rates; performing mechanical repair job workovers to restore any wells to production that are found to be off-production; carrying out well repair and clean-out workovers which will include well chemical treatments and/or acid stimulations to restore wells to higher prior production rates; and implementing improvements in downhole pump designs and production facility equipment and piping to increase operational efficiencies.

We have completed the first stage of the improvement work program, performing mechanical repair job workovers on 17 wells, which achieved an additional 64.5 barrels of oil production per day (BOPD), increasing our total daily production to approximately 155 BOPD. The actual additional production achieved exceeded our pre-work estimates of an additional 39.3 BOPD by 64%. Repairs performed on these 17 wells included optimizing artificial lift by replacing the downhole pump; reducing pump size; setting pumps at proper depth; changing pump strokes per minute; optimizing pumping times/schedules; cutting and removing paraffin from the tubing and wellbore; replacing bad rods and tubing where required; replacing/repairing wellheads; and repairing flowlines. Total gross expenditures for the improvement work program, which totaled \$270,000 16 % below AFE estimated costs of \$320,500 was funded through advances from Macquarie Bank Limited (Macquarie) under our \$50,000,000 Senior First Lien Secured Credit Agreement (the Macquarie Credit Agreement). We estimate than an additional 75 wells on the Eddy County Properties are currently in need of similar repairs to restore production, representing a significant opportunity to boost our production numbers further.

In addition to increasing production through improvements on existing wells, it is our long-term goal to create additional value by implementing an infill development drilling program on the Eddy County Properties. The current producing wells have been drilled on 40 acre well spacing. By carrying out an infill development drilling program to redevelop the leases on 20 acre well spacing, we anticipate that we will increase production from the Eddy County Properties. Offset operators in this area over the past 20 to 30 years have successfully performed infill drilling programs such as this with very good success, accessing and developing oil and gas reserves that would not have been produced otherwise by the wells drilled on 40 acre spacing patterns. We have identified over 250 potential 20 acre infill locations on the Eddy County Properties, and 166 of these locations have been classified as proved undeveloped locations in our current in-house reserves. An infill development program for the Eddy County Properties is expected to take several years to complete.

In 2008, our engineers and geologists worked with Macquarie's engineers and geologists to develop an initial infill development drilling program for the Eddy County Properties (the Infill Development Plan). The proposed Infill Development Plan was to have involved the drilling of 21 additional wells at an estimated cost of \$16,000,000. However, due to the precipitous drop in the price of oil since mid-2008, our management has determined that it would not be prudent to pursue the Infill Development Program at this time. We anticipate that the Infill Development Plan will move forward in the coming months, as the forward pricing curves for crude indicate that an increase in prices is likely. In addition, drilling costs have decreased significantly in recent months, making the capital investment required smaller and thus making the drilling program more economic to our interests. The selection and timing of individual wells to be drilled under any Infill Development Plan that we implement will be made based on: (i) new geological structure and net pay maps of the pay zones being prepared; (ii) the quality of current producing wells on the lease including both cumulative production to-date and estimated ultimate recovery from target reservoirs; (iii) the presence of previously undeveloped and un-produced intervals in target pay zones present on the lease; (iv) volumetric reserve calculations where appropriate; (v) the status of lease production facilities and capacities; and (vi) access to gas sales markets for casinghead gas production. Readers are cautioned, however, that there is no assurance that the Infill Development Plan will proceed when scheduled, as currently proposed, or at all.

Miltex Oil Company Properties

We currently have an agreement in place with Miltex Oil Company ("Miltex") to acquire three oil and gas leases located in Cochran County, Texas (the "Miltex Properties"). Under the terms of our agreement with Miltex, we are required to pay Miltex \$2,400,000 for the Miltex Properties upon closing, together with \$35,981.90 for the value of oil inventories from the Miltex Properties on March 1, 2009. Closing is currently scheduled for June 30, 2009 and we may extend the closing date to July 31, 2009 by providing Miltex with notice by June 24, 2009 and paying to Miltex an additional \$50,000 by June 26, 2009. As of the date of filing this Quarterly Report, we had paid an aggregate of \$245,000 and issued an aggregate of 50,000 (250,000 post-2009 Forward Split) shares of our common stock to Miltex as non-refundable deposits and for previous extensions to closing granted by Miltex.

Slape Oil Company, Inc. and Flaming S, Inc.

On May 5, 2009 and May 15, 2009, respectively, we entered into agreements for the acquisition of Flaming S, Inc. (Flaming S) and Slape Oil Company, Inc. (Slape Oil). Flaming S and Slape Oil are oil and gas corporations with producing properties in Cochran and Hockley Counties, Texas.

We have agreed to pay \$4,700,000 for all of the outstanding shares of Slape Oil and \$1,200,000 for all of the outstanding shares of Flaming S, for an aggregate purchase price of \$5,900,000 for both companies. As a deposit for these acquisitions, we have issued 304,000 (1,520,000 post-2009 Forward Split) shares of our common stock to the shareholders of Slape Oil and 96,000 (480,000 post-2009 Forward Split) shares of our common stock to the shareholders of Flaming S (collectively, the "Deposit Shares"). The Deposit Shares have been placed in escrow, and will be returned to us for cancellation if the acquisitions of Slape Oil and Flaming S are completed. If we do not complete the acquisition of these companies, the shareholders of Slape Oil and Flaming S will be entitled to keep the Deposit Shares, unless the failure to complete arises due to their breaching any of the terms, conditions, representations or warranties of the purchase agreements.

Closing of the acquisitions of Slape Oil and Flaming S is scheduled for June 30, 2009. We may extend the closing date to July 31, 2009 by paying installments of \$395,000 and \$105,000 by July 1, 2009 to the shareholders of Slape Oil and Flaming S, respectively (collectively, the Extension Installments). The Extension Installments will be treated as installments of the total purchase price, however if the acquisitions do not occur by the extended closing date, the shareholders of Slape Oil and Flaming S will be entitled to keep the Extension Installments.

Future Acquisitions

We are also currently evaluating other oil and gas producing properties in the Permian Basin area with the goal of increasing our portfolio of properties. Our goal is to focus on the acquisition of producing properties with strong proven reserves and considerable undrilled inventory that can be explored and developed with reasonable levels of forward risk. Our strategy involves finding acquisitions that can be paid for with a combination of cash and shares of our common stock, with an emphasis toward minimizing the cash outlay. The Permian Basin of Texas and New Mexico is a geographic area of particular interest to us in seeking future acquisitions, due both to the successful history of the region in oil and gas production, and to the fact that our principal executive offices are located in the heart of the Permian Basin in Midland, Texas.

Estimated Expenditures

In carrying out our plan of operation for our fourth fiscal quarter ending July 31, we have budgeted for following amounts:

| <u>Budget During the Next Three Months</u> | | <u>Amount</u> |
|---|-----------|----------------------|
| Drilling and Development | \$ | 1,960,000 |
| Lease Operating Expenses & Taxes | \$ | 700,000 |
| Salaries | \$ | 336,000 |
| Professional Fees (Legal, Accounting, Technical) | \$ | 250,000 |
| Other General & Administrative Expenses | \$ | 213,000 |
| Interest Expense | \$ | 200,000 |
| Property Acquisitions | \$ | 8,310,000* |
| Total | \$ | 11,969,000 |

- * Includes the expected purchase price for the Miltex Properties, Slape Oil Company, Inc. and Flaming S, Inc. Amount does not include amounts paid prior to May 1, 2009 or additional amounts that may be paid to extend the closing dates for the proposed acquisitions.

In addition to the above, as at April 30, 2009, we owed Macquarie \$6,039,348, which amount is due and payable by July 30, 2009. As of April 30, 2009, we had a working capital deficit of (\$5,747,700). Based on our current estimated revenues from the Eddy County Properties, we will need to acquire additional financing in order to complete our plan of operation and to pay our existing debt obligations as they become due. See Liquidity and Capital Resources, below.

RESULTS OF OPERATIONS*Three and Nine Months Summary*

| | Three Months Ended | | Percentage Increase / (Decrease) | Nine Months Ended | | Percentage Increase / (Decrease) |
|----------------------------------|--------------------|----------------|----------------------------------|-------------------|----------------|----------------------------------|
| | April 30, 2009 | April 30, 2008 | | April 30, 2009 | April 30, 2008 | |
| Revenues | \$ 298,692 | \$ - | N/A | \$ 1,289,896 | \$ - | N/A |
| Expenses | (1,145,984) | (171,126) | 570% | (2,924,886) | (253,214) | 1,055% |
| Interest Expense | (79,549) | (1,833) | 4,240% | (658,210) | (1,886) | 34,800% |
| Price Risk Management Activities | (179,847) | - | N/A | 2,083,388 | - | N/A |
| Income tax expense (benefit) | - | - | N/A | (313,906) | - | N/A |
| Net Income (Loss) | \$ (1,106,688) | \$ (172,959) | (540%) | \$ (523,718) | \$ (255,100) | (105%) |

Revenues

During the three and nine months ended April 30, 2009 we recognized revenues from the sale of crude oil and natural gas of \$298,692 and \$1,289,896, respectively. Revenues recognized from the Eddy County Properties were lower than those recognized for the nine months ended April 30, 2008 by the previous operators, Hanson Energy. See Note 3 to the unaudited financial statements included in this Quarterly Report. We believe that the primary reason that revenues were lower for the period ended April 30, 2009 is that the average price of crude oil was significantly lower during the period ended April 30, 2009 as compared to the comparable period of 2008. This decrease was partially offset by an increase in the volume of oil produced. Revenues from the sale of oil and gas are recognized based on the actual volume of oil and gas sold to purchasers. Although we have begun to incrementally increase production from the Eddy County Properties by making improvements to existing well facilities, our revenues are also subject to fluctuations in the market

price of crude oil and natural gas. Although we have entered into hedging positions that provide us with partial protection against price decreases, prolonged downturns in the price of crude oil and natural gas will have an adverse effect on our revenues. See Risk Factors.

Under the terms of the Macquarie Credit Agreement, we are required, on a monthly basis, to pay to Macquarie 100% of our net operating cash flows from all sources (including, but not limited to the Eddy County Properties) less an allocated amount for our general and administrative expenses, until all amounts advanced under the Macquarie Credit Agreement have been repaid. The amount allocated for our general and administrative expenses was equal to \$125,000 per month up to March 31, 2009, and since that date has been equal to 10% of our net operating cash flows for the month. The amounts paid to Macquarie are applied to interest and principal payable under the Macquarie Credit Agreement.

Expenses

Our expenses for the three and nine months ended April 30, 2009 and 2008 consisted of the following:

| | Three Months Ended | | Percentage Increase / (Decrease) | Nine Months Ended | | Percentage Increase / (Decrease) |
|---|--------------------|------------|----------------------------------|-------------------|------------|----------------------------------|
| | April 30, | | | April 30, | | |
| | 2009 | 2008 | | 2009 | 2008 | |
| Operating Costs | \$ 497,236 | \$ - | N/A | \$ 1,247,727 | \$ - | N/A |
| Production Taxes | 38,149 | - | N/A | 155,419 | - | N/A |
| Depreciation, Depletion, and Amortization | 91,506 | - | N/A | 261,485 | - | N/A |
| Accretion Expense | 60,815 | - | N/A | 119,446 | - | N/A |
| General Administrative | 458,278 | 171,126 | 168% | 1,140,809 | 253,214 | 351% |
| Total Operating Expenses | \$ 1,145,984 | \$ 171,126 | 540% | \$ 2,924,886 | \$ 253,214 | 1,055% |

Our expenses for the three and nine months ended April 30, 2009 increased substantially as compared to the same periods ended April 30, 2008. Operating costs are the costs associated with our oil and gas production activities for the period. Production taxes are severance and ad valorem taxes payable in respect of the oil and gas production from our properties.

Our expenses for the three and nine months ended April 30, 2008 were significantly lower as we had little to no operations during that period. Expenses for the period ended April 30, 2009 are expected to be more indicative of our future expenses. However, expenses in future periods may be significantly greater depending upon the extent of any developmental activities that we engage in on our properties.

Price Risk Management Activities

We previously entered into a costless collar hedging position, which provides us with partial protection against variations in the price of crude oil. The net effect of the costless collar was to set a floor of \$100 on the price to be received for each barrel of production covered and a ceiling of \$131 for each barrel of production covered. The number of barrels of our production covered by the costless collar for production months through July 2011 was as follows:

| | |
|----------------------|-------------------------|
| Aug 2008 - Dec 2008: | 1,900 barrels per month |
| Jan 2009 - Dec 2009: | 1,700 barrels per month |
| Jan 2010 - Dec 2010: | 1,600 barrels per month |
| Jan 2011 - Jul 2011: | 1,400 barrels per month |

During December 2008, we re-structured our hedge position to guarantee more near-term income by closing out our old position and using the value realized to enter into a combination of a swap and a costless collar, with more volume hedged in the near term. The swap, with a fixed price of \$94, covers the period from January 2009 through June 2010

and effectively guarantees us \$94 per barrel on an average of our first 2250 barrels of production each month. From July

2010 through December 2011, there is a costless collar in effect on an average of 1850 barrels per month, guaranteeing a minimum of \$60 a barrel and a maximum of \$94 a barrel.

Included in price risk management activities for the three months and nine months ended April, 2009 are hedge settlements of \$333,115 and \$695,960, respectively. These settlements represent the difference between the hedge prices of \$100 and the actual price received for the volumes hedged for the months of August – December 2008 and the difference between the hedge price of \$94 and the actual price received for the volumes hedged for the month of April 2009.

During the nine months ended April 30, 2009, we recognized a derivative asset of \$1,387,428, with the change in fair value reflected in other income.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

| | At April 30, 2009 | At July 31, 2008 | Percentage Increase / (Decrease) |
|---------------------------|-------------------|------------------|----------------------------------|
| Current Assets | \$ 1,560,508 | \$ 687,136 | 127% |
| Current Liabilities | (7,308,208) | (271,251) | 2,594% |
| Working Capital (Deficit) | \$ (5,747,700) | \$ 415,885 | (1,282%) |

Cash Flows

| | Nine Months Ended April 30, 2009 | Nine Months Ended April 30, 2008 |
|---|----------------------------------|----------------------------------|
| Cash Flows Used in Operating Activities | \$ (489,426) | \$ (186,086) |
| Cash Flows Used in Investing Activities | (542,375) | (100,000) |
| Cash Flows Provided by Financing Activities | 977,301 | 318,320 |
| Net Increase (Decrease) in Cash During Period | \$ (54,500) | \$ 32,234 |

As at April 30, 2009, we had a working capital deficit of (\$5,747,700).

Although the Eddy County Properties generate cash flows, under the terms of our Macquarie Credit Agreement with Macquarie, until we have repaid all amounts advanced by Macquarie, we are required to pay Macquarie 100% of our net operating cash flows from all sources, less an allocated amount for our general administrative expenses. As such, until such time as we have repaid all amounts advanced to us by Macquarie, we expect that our primary sources of financing will be additional advances from Macquarie under the Macquarie Credit Agreement, other forms of debt financing, and proceeds from the sale of our common stock. We are currently seeking to refinance our existing debt, including the amounts owed under the Macquarie Credit Agreement. However, there is no assurance that we will be able to refinance our existing debt or that we will be able to obtain additional financing in the future. If we sell additional shares of our common stock, existing stockholders will experience a dilution of their proportionate interests in our Company.

Macquarie Credit Agreement

Under the terms of the Macquarie Credit Agreement, Macquarie agreed to provide us with: (i) a maximum of \$25,000,000 under a revolving loan (the Revolving Loan); and (ii) a maximum of \$25,000,000 under a term loan (the Term Loan). Advances under the Macquarie Credit Agreement were used to fund our acquisition of, and improvements on, the Eddy County Properties and for working capital purposes. Future advances are subject to prior approval by Macquarie, and we are required to submit to Macquarie an estimate of expenses for work to be performed on our properties.

We did not meet our minimum quarterly operating cash flow and minimum quarterly production volume targets for the period ended October 31, 2008, and we did not meet our minimum quarterly operating cash flow targets for the periods ending January 31, 2009 and April 30, 2009. Under the terms of the Macquarie Credit Agreement, Macquarie has the right to declare us in default of our obligations and to declare the amounts due under the Macquarie Credit Agreement to be immediately payable. Macquarie has not yet exercised these rights and has not provided us with any indications that it intends to do so at this time. However, there is no assurance that Macquarie will not exercise its right to declare us in default in the future.

Due to our management's decision to temporarily postpone our proposed Infill Development Plan for the Eddy County Properties in response to the precipitous decline in the price of oil from mid-2008, the due date for the amounts owed by us under the Macquarie Credit Agreement has been moved up from July 30, 2011 to July 30, 2009.

As of April 30, 2009, we owed Macquarie \$6,039,348. We are currently seeking to refinance the amounts owed by us under the Macquarie Credit Agreement, however there is no assurance that we will be able to do so.

Other Debt Financings

On February 24, 2009, we borrowed \$100,000 from Green Shoe Investments Ltd. (Green Shoe) with interest payable at a rate of 5% per annum. The loan is unsecured and due on or before March 1, 2011.

On April 29, 2009, we borrowed \$87,000 from Green Shoe. The amount borrowed from Green Shoe is due on or before May 1, 2011, bears interest at a rate of 5% per annum, and is unsecured.

On May 28, 2009, we received \$150,000 in debt financing from Green Shoe Investments Ltd. (Green Shoe) On June 10, 2009 we entered into an agreement dated effective as of May 28, 2009 (the Green Shoe Note Agreement) with Green Shoe whereby, in exchange for the \$150,000 provided by Green Shoe, we agreed to issue a convertible note in the principal amount of \$300,000. The convertible note is due 10 business days after the earlier of the maturity date of the amounts owed to Macquarie Bank Limited (Macquarie) under the terms of our \$50,000,000 Senior First Lien Secured Credit Agreement (the Macquarie Credit Agreement) with Macquarie (including any extensions granted thereon) and the date, if any, that we are able to close a financing (or combination of financing) sufficient to enable us to repay all of the amounts owned by us under the Macquarie Credit Agreement (a Qualified Refinancing). The principal amount of the convertible note may be converted into shares of our common stock at a rate of \$1.00 per share.

Under the terms of the Green Shoe Note Agreement, if we are able to obtain a Qualified Refinancing, the unpaid principal amount of the convertible note outstanding after the due date described above will earn interest at a rate of 18% per annum. If we are not able to obtain a Qualified Refinancing on or before the maturity date of the Macquarie Credit Agreement and we dispose of the properties acquired by us from Hanson Energy in August 2008 (including a realization by any second debtors of their security interest in these properties), no interest shall be payable on the \$300,000 convertible note, however we will be required to issue to Green Shoe an additional convertible note in the principal amount of \$150,000 on the same terms and conditions as the \$300,000 convertible note except that no interest shall be payable on the principal amount of the \$150,000 convertible note.

Recent Unregistered Sales of Equity Securities

In February 2009, we issued 50,000 (250,000 post-2009 Forward Split) shares of our common stock to C.K. Cooper & Company, Inc. ("CK Cooper") as partial consideration for the financial advisory services to be provided by CK Cooper. The shares were issued pursuant to Rule 506 of Regulation D on the basis of representations provided by CK Cooper that it is an accredited investor as defined in Regulation D.

On April 21, 2009, we sold 25,000 (125,000 post-2009 Forward Split) shares of our common stock to Miltex and on May 22, 2009 we issued an additional 85,000 (425,000 post-2009 Forward Split) shares of our common stock to Miltex. These shares were issued in partial consideration for Miltex's agreement to extend the closing date for the Miltex Properties. The shares were issued to Miltex pursuant to Rule 506 of Regulation D based on representations provided by Miltex that it is an accredited investor as defined in Regulation D.

On May 26, 2009, we issued 304,000 (1,520,000 post-2009 Forward Split) shares of our common stock to the sole shareholder of Slape Oil Company, Inc, ("Slape Oil") and 96,000 (480,000 post-2009 Forward Split) shares of our common stock to the sole shareholder of Flaming S, Inc. ("Flaming S"). These shares were issued as a deposit for our planned acquisition of Slape Oil and Flaming S and will be returned to us for cancellation if we complete the acquisition of those companies. These shares were issued pursuant to Rule 506 based on representations provided by the sole shareholders of Slape Oil and Flaming S that they are accredited investors as defined in Regulation D.

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On January 15, 2009, our Board of Directors approved an offering of up to 1,000,000 (5,000,000 post-2009 Forward Split) shares of our common stock at a price of \$1.75 (\$0.35 post-2009 Forward Split) per share (the "Share Offering"). The Share Offering is being made solely to persons who qualify as accredited investors as defined in Rule 501 of Regulation D. In March 2009, we received subscription proceeds for the sale of 14,286 (71,430 post-2009 Forward Split) shares under the Share Offering. As of the date of filing of this Quarterly Report, the shares subscribed for have not yet been issued, but are reflected on our balance sheet as outstanding shares for accounting purposes.

On February 24, 2009, our Board of Directors approved an offering of up to \$250,000 in convertible notes (the Convertible Note Offering). Notes issued under the Convertible Note Offering will earn interest at a rate of 8% per annum, maturing on February 28, 2010, and will be convertible at the lesser of \$2.00 per share and the lowest price per share at which the Company has completed a sale of its common stock after the date the convertible note was issued and prior to the date of conversion. Interest on the convertible notes may be paid in shares of common stock at the above conversion price at the Company's option. The Convertible Note Offering is being made solely to persons who qualify as accredited investors as defined in Regulation D. No convertible notes have been issued under this offering to date.

We do not intend to register either the Share Offering or the Convertible Note Offering under the Securities Act and any securities issued under those offerings may not be resold or reoffered in the United States absent an effective registration under the Securities Act or an applicable exemption from the registration requirements under the Securities Act. We have not yet completed the sale of any securities under the Share Offering or the Convertible Note Offering. There is no minimum number of securities to be sold under either offering.

OFF-BALANCE SHEET ARRANGEMENTS

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our stockholders.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements presented with this Quarterly Report on Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information. These financial statements do not include all information and footnote disclosures required for an annual set of financial statements prepared under United States generally accepted accounting principles. In the opinion of our management, all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at April 30, 2009, and for all periods presented in the attached financial statements, have been included. Interim results for the period ended April 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year as a whole.

Our significant accounting policies are disclosed at Note 2 to the unaudited financial statements included in this Quarterly Report.

Derivatives

Derivative financial instruments, utilized to manage or reduce commodity price risk related to our production, are accounted for under the provisions of SFAS No. 133, Accounting for Derivative Instruments and for Hedging Activities, and related interpretations and amendments. Under this statement, derivatives are carried on the balance sheet at fair value. Effective August 2008, if the derivative is not designated as a hedge, changes in the fair value are recognized in other income (expense).

We adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) FASB Interpretation (FIN) No. 39-1, "Amendment of FASB Interpretation No. 39," (FSP FIN No. 39-1) which effectively amends FIN No. 39, "Offsetting of Amounts Related to Certain Contracts." FSP FIN No. 39-1 permits the netting of fair values of derivative assets and liabilities for financial reporting purposes, if such assets and liabilities are with the same counterparty and subject to a master netting arrangement. We have elected to employ net presentation of derivative assets and liabilities when FSP FIN No. 39-1 conditions are met. FSP FIN No. 39-1 also requires that when derivative assets and liabilities are presented net, the fair value of the right to reclaim collateral assets (receivable) or the obligation to return cash collateral (payable) is also offset against the net fair value of the corresponding derivative.

We routinely exercise our contractual right to net realized gains against realized losses when settling with our swap and option counterparties. At April 30, 2009, derivative assets include the net market value of derivative assets and liabilities due to the right of offset in the settlement of these contracts.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS.

The following are some of the important factors that could affect our financial performance or could cause actual results to differ materially from estimates contained in our forward-looking statements. We may encounter risks in addition to those described below. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may also impair or adversely affect our business, financial condition or results of operation.

We have an operating deficit and have incurred losses since inception.

To date, our operations have not been profitable and we may never be able to achieve profitability.

We have not met all of our obligations under our Credit Agreement with Macquarie and Macquarie could exercise its security rights on our properties. We will require additional financing to repay the amounts owed to Macquarie.

We did not meet our minimum quarterly operating cash flow and minimum quarterly production volume targets for the period ended October 31, 2008, and we did not meet our minimum quarterly operating cash flow targets for the periods ending January 31, 2009 and April 30, 2009, as set out in our \$50,000,000 Senior First Lien Secured Credit Agreement (the "Macquarie Credit Agreement") with Macquarie Bank Limited ("Macquarie"). As a result, Macquarie has the right to terminate its commitments under the Macquarie Credit Agreement and to declare the amounts owed to be immediately due and payable. If they exercise this right, Macquarie will also have the right to seize any of our properties over which they have a security interest, including the Eddy County Properties. Although Macquarie has not provided us with any indications that it intends to exercise these rights, there is no assurance that they will not exercise these rights in the future.

In addition, the due date for the amounts owed by us under the Macquarie Credit Agreement has been moved up from July 30, 2011 to July 30, 2009 as a result of our decision not to proceed with the Infill Development Plan for the Eddy County Properties at this time. We do not currently have sufficient financial resources to repay the amounts owed to Macquarie. As a result, we will require additional financing to repay Macquarie by the July 30, 2009 due date or we will be required to renegotiate the terms of the Macquarie Credit Agreement with Macquarie.

Our future performance depends upon our ability to obtain capital to find or acquire additional oil and natural gas reserves that are economically recoverable.

Unless we successfully replace the reserves that we produce, our reserves will decline, resulting eventually in a decrease in oil and natural gas production and lower revenues and cash flows from operations. The business of exploring for, developing or acquiring reserves is capital intensive. Our ability to make the necessary capital investment to maintain or expand our oil and natural gas reserves is limited by our relatively small size. Further, we may commence drilling operations on our Eddy County Properties and any other properties that we acquire in an effort to increase production, which would require more capital than we have available from cash flow from operations or our existing debt facilities. In such case, we would be required to seek additional sources of financing or limit our participation in the additional drilling. In addition, our drilling activities are subject to numerous risks, including the risk that no commercially productive oil or gas reserves will be encountered.

The successful implementation of our business plan is subject to risks inherent in the oil and gas business, which if not adequately managed could result in additional losses.

Our oil and gas operations will be subject to the economic risks typically associated with exploration and development activities, including the necessity of making significant expenditures to locate and acquire properties and to drill

exploratory wells. In addition, the availability of drilling rigs and the cost and timing of drilling, completing and, if warranted, operating wells is often uncertain. In conducting exploration and development activities, the presence of unanticipated pressure or irregularities in formations, miscalculations or accidents may cause our exploration, development and, if warranted, production activities to be unsuccessful. This could result in a total loss of our investment in a particular well. If exploration efforts are unsuccessful in establishing proved reserves and exploration activities cease, the amounts accumulated as unproved costs will be charged against earnings as impairments.

In addition, the availability of a ready market for our oil and gas production depends on a number of factors, including the demand for and supply of oil and gas and the proximity of reserves to pipelines and other facilities. Our ability to market such production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities, in most cases owned and operated by third parties. A failure to obtain such services on acceptable terms could materially harm our proposed oil and gas business. We may be required to shut in wells for lack of a market or because of inadequacy or unavailability of pipelines or gathering system capacity. If that occurs, we would be unable to realize revenue from those wells until arrangements are made to deliver such production to market.

Our future performance is dependent upon our ability to identify, acquire and develop oil and gas properties, the failure of which could result in under use of capital and losses.

The future performance of our oil and gas business will depend upon an ability to identify, acquire and develop oil and gas reserves that are economically recoverable. Success will depend upon the ability to acquire working and revenue interests in properties upon which oil and gas reserves are ultimately discovered in commercial quantities, and the ability to develop prospects that contain proven oil and gas reserves to the point of production. Without successful acquisition and exploration activities, we will not be able to develop oil and gas reserves or generate revenues. There are no assurances oil and gas reserves will be identified or acquired on acceptable terms, or that oil and gas deposits will be discovered in sufficient quantities to enable us to recover our exploration and development costs or sustain our business.

The successful acquisition and development of oil and gas properties requires an assessment of recoverable reserves, future oil and gas prices and operating costs, potential environmental and other liabilities, and other factors. Such assessments are necessarily inexact and their accuracy inherently uncertain. In addition, no assurance can be given that our exploration and development activities will result in the discovery of any reserves. Operations may be curtailed, delayed or canceled as a result of lack of adequate capital and other factors, such as lack of availability of rigs and other equipment, title problems, weather, compliance with governmental regulations or price controls, mechanical difficulties, or unusual or unexpected formations, pressures and or work interruptions. In addition, the costs of exploration and development may materially exceed our initial estimates.

The oil and gas exploration and production industry historically is a cyclical industry and market fluctuations in the prices of oil and gas could adversely affect our business.

Prices for oil and gas tend to fluctuate significantly in response to factors beyond our control. These factors include, but are not limited to:

- (a) weather conditions in the United States and elsewhere;
- (b) economic conditions, including demand for petroleum-based products, in the United States and elsewhere;
- (c) actions by OPEC, the Organization of Petroleum Exporting Countries;
- (d) political instability in the Middle East and other major oil and gas producing regions;
- (e) governmental regulations, both domestic and foreign;
- (f) domestic and foreign tax policy;
- (g) the pace adopted by foreign governments for the exploration, development, and production of their national reserves;
- (h) the price of foreign imports of oil and gas;
- (i) the cost of exploring for, producing and delivering oil and gas; the discovery rate of new oil and gas reserves;
- (j) the rate of decline of existing and new oil and gas reserves;
- (k) available pipeline and other oil and gas transportation capacity;
- (l) the ability of oil and gas companies to raise capital;
- (m) the overall supply and demand for oil and gas; and

(n) the availability of alternate fuel sources.

Changes in commodity prices may significantly affect our capital resources, liquidity and expected operating results. Price changes will directly affect revenues and can indirectly impact expected production by changing the amount of funds available to reinvest in exploration and development activities. Reductions in oil and gas prices not only reduce revenues and profits, but could also reduce the quantities of reserves that are commercially recoverable. Significant declines in prices could result in non-cash charges to earnings due to impairment. Changes in commodity prices may also significantly affect our ability to estimate the value of producing properties for acquisition and divestiture and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on the value of the properties. Price volatility also makes it difficult to budget for and project the return on acquisitions and the development and exploitation of projects. Commodity prices are expected to continue to fluctuate significantly in the future.

Hedging transactions may limit potential gains on increases to oil and gas prices.

We have entered into hedging transactions for a portion of our expected production to reduce the risk of fluctuations in oil and gas prices. Although these hedging transactions provide us with some protection in the event of a decrease in oil and gas prices, they may also limit our potential gains in the event that oil and gas prices increase. If we choose not to engage in hedging arrangements in the future, we may be more adversely affected by changes in oil and natural gas prices than our competitors, who may or may not engage in hedging arrangements.

We may encounter difficulty in obtaining equipment and services.

Higher oil and natural gas prices and increased oil and natural gas drilling activity generally stimulate increased demand and result in increased prices and unavailability for drilling rigs, crews, associated supplies, equipment and services. While we have recently been successful in acquiring or contracting for services, we could experience difficulty obtaining drilling rigs, crews, associated supplies, equipment and services in the future. These shortages could also result in increased costs or delays in timing of anticipated development or cause interests in oil and natural gas leases to lapse. We cannot be certain that we will be able to implement our drilling plans or at costs that will be as estimated or acceptable to us.

Our ability to produce oil and gas from our oil and gas assets may be adversely affected by a number of factors outside of our control.

The business of exploring for and producing oil and gas involves a substantial risk of investment loss. Drilling oil and gas wells involves the risk that the wells may be unproductive or that, although productive, the wells may not produce oil or gas in economic quantities. Other hazards, such as unusual or unexpected geological formations, pressures, fires, blowouts, loss of circulation of drilling fluids or other conditions may substantially delay or prevent completion of any well. Adverse weather conditions can also hinder drilling operations. A productive well may become uneconomic if water or other deleterious substances are encountered that impair or prevent the production of oil or gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. There can be no assurance that oil and gas will be produced from the properties in which we have interests. In addition, the marketability of oil and gas that may be acquired or discovered may be influenced by numerous factors beyond our control. These factors include the proximity and capacity of oil and gas, gathering systems, pipelines and processing equipment, market fluctuations in oil and gas prices, taxes, royalties, land tenure, allowable production and environmental protection.

If we are unable to maintain our working interests in leases, our business will be adversely affected.

Our oil and gas assets are held under oil and gas leases. A failure to meet the specific requirements of each lease may cause that lease to terminate or expire. There are no assurances the obligations required to maintain those leases will be met and that we will be able to meet the rental obligations under federal, state and private oil and gas leases. If we are unable to make rental payments and satisfy any other conditions on a timely basis, we may lose our rights in the properties that we may acquire.

Title deficiencies could render our leases worthless.

The existence of a material title deficiency can render a lease worthless and can result in a large expense to our business. In acquiring oil and gas leases or undivided interests in oil and gas leases we may forgo the expense of retaining lawyers to examine the title to the oil or gas interest to be placed under lease or already placed under lease. Instead, we may rely upon the judgment of oil and gas landmen who perform the field work in examining records in the appropriate governmental office before attempting to place under lease specific oil or gas interest. This is customary practice in the oil and gas industry. As a result, we may be unaware of deficiencies in the marketability of the title to the lease. Such deficiencies could render the lease worthless.

If we fail to maintain adequate insurance, our business could be materially and adversely affected.

Our oil and gas operations are subject to risks inherent in the oil and gas industry, such as blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, earthquakes and other environmental risks. These risks could result in substantial losses due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage, and suspension of operations. We could be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could have a material adverse effect on our financial condition and results of operations. Any prospective drilling contractor or operator which we hire will be required to maintain insurance of various types to cover its operations with policy limits and retention liability customary in the industry. Therefore, we do not plan to acquire our own insurance coverage for such prospects. The occurrence of a significant adverse event on such prospects that is not fully covered by insurance could result in the loss of all or part of our investment in a particular prospect which could have a material adverse effect on our financial condition and results of operations.

Complying with environmental and other government regulations could be costly and could negatively impact prospective production.

The oil and gas business is governed by numerous laws and regulations at various levels of government. These laws and regulations govern the operation and maintenance of our facilities, the discharge of materials into the environment and other environmental protection issues. Such laws and regulations may, among other potential consequences, require that we acquire permits before commencing drilling and restrict the substances that can be released into the environment with drilling and production activities. Under these laws and regulations, we could be liable for personal injury, clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. Prior to commencement of drilling operations, we may secure limited insurance coverage for sudden and accidental environmental damages as well as environmental damage that occurs over time. However, we do not believe that insurance coverage for the full potential liability of environmental damages is available at a reasonable cost. Accordingly, we could be liable, or could be required to cease production on properties, if environmental damage occurs.

The costs of complying with environmental laws and regulations in the future may harm our business. Furthermore, future changes in environmental laws and regulations could occur, resulting in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, any of which could have a material adverse effect on our financial condition or results of operations.

The oil and gas industry is highly competitive, and we may not have sufficient resources to compete effectively.

The oil and gas industry is highly competitive. We will be competing with oil and natural gas companies and other individual producers and operators, many of which have longer operating histories and substantially greater financial and other resources than it does, as well as companies in other industries supplying energy, fuel and other needs to consumers. Larger competitors, by reason of their size and relative financial strength, can more easily access capital markets than we can and may enjoy a competitive advantage in the recruitment of qualified personnel. They may be able to absorb the burden of any changes in laws and regulation in the jurisdictions in which we do business and handle longer periods of reduced prices for oil and gas more easily than we can. Competitors may be able to pay more for oil and gas leases and properties and may be able to define, evaluate, bid for and purchase a greater number of leases and properties than we can. Further, these companies may enjoy technological advantages and may be able to implement new technologies more rapidly than we can. Our ability to acquire oil and gas properties will depend upon its ability to conduct efficient operations, evaluate and select suitable properties, implement advanced technologies and consummate transactions in a highly competitive environment.

The loss of our key persons, or our failure to attract and retain additional personnel could adversely affect our business.

Our success depends largely upon the efforts, abilities, and decision-making of Paul C. Kirkitelos, Chairman of our Board and our Chief Financial Officer, Treasurer and Secretary, Everett Willard Gray II, our Chief Executive Officer, and H. Patrick Seale, our President and Chief Operating Officer. The loss of these individuals would have an adverse effect on our business prospects. We do not currently maintain "key-man" life insurance and there is no contract in place assuring the services of Dr. Kirkitelos, Mr. Gray or Mr. Seale for any length of time. In the event that we should lose our officers and we are unable to find suitable replacements, we may not be able to develop our business, in which case investors might lose all of their investment.

Two of our executive officers own a large portion of our outstanding stock and may act to influence certain types of corporate actions, to the detriment of other stockholders.

Dr. Paul C. Kirkitelos owns approximately 43.6% of our issued and outstanding common stock. Mr. Everett Willard Gray II owns approximately 9.0% of our issued and outstanding common stock. Accordingly, they may exercise significant influence over all matters requiring stockholder approval, including the election of directors and the determination of significant corporate actions. This concentration could also have the effect of delaying or preventing a change in control that could otherwise be beneficial to our stockholders.

If we issue additional shares of common stock in the future this may result in dilution to our existing stockholders.

Our articles of incorporation authorize the issuance of 400,000,000 (2,000,000,000 post-2009 Forward Split) shares of common stock. Our board of directors has the authority to issue additional shares of common stock up to the authorized capital stated in the articles of incorporation. Our board of directors may choose to issue some or all of such shares to provide additional financing in the future. The issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. It will also cause a reduction in the proportionate ownership and voting power of all other stockholders.

We have never paid dividends and do not intend to pay any in the foreseeable future, which may delay or prevent recovery of your investment.

We have never paid any cash dividends and currently do not intend to pay any dividends in the foreseeable future. If we do not pay dividends, this may delay or prevent recovery of your investment. To the extent that we require additional funding currently not provided for in our financing plan, it is possible that our funding sources might prohibit the payment of dividends.

The trading price of our common stock may be volatile, with the result that an investor may not be able to sell any shares acquired at a price equal to or greater than the price paid by the investor.

Our common stock is quoted on the OTC Bulletin Board under the symbol "DEGY". Companies quoted on the OTC Bulletin Board have traditionally experienced extreme price and volume fluctuations. In addition, our stock price may be adversely affected by factors that are unrelated or disproportionate to our operating performance. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. In addition, to date, there has been no trading volume for our shares on the OTC Bulletin Board. As a result of this potential volatility and potential lack of a trading market, an investor may not be able to sell any of our common stock that they acquire that a price equal or greater than the price paid by the investor.

Because our stock is a penny stock, stockholders will be more limited in their ability to sell their stock.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or quotation system.

Because our securities constitute "penny stocks" within the meaning of the rules, the rules apply to us and to our securities. The rules may further affect the ability of owners of shares to sell our securities in any market that might develop for them. As long as the trading price of our common stock is less than \$5.00 per share, the common stock will be subject to rule 15g-9 under the Securities Exchange Act of 1934 (the Exchange Act). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document

prepared by the SEC, that:

1. contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;

2. contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation to such duties or other requirements of securities laws;
3. contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price;
4. contains a toll-free telephone number for inquiries on disciplinary actions;
5. defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and
6. contains such other information and is in such form, including language, type, size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with: (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock.

ITEM 6. EXHIBITS.

Exhibit

Number Description of Exhibits

- | | |
|------|--|
| 2.1 | Agreement and Plan of Merger dated April 21, 2008 between Language Enterprises Corp. (as surviving entity) and Doral Energy Corp. (as merging entity) and changing the name of the surviving entity to Doral Energy Corp. ⁽⁶⁾ |
| 3.1 | Articles of Incorporation. ⁽¹⁾ |
| 3.2 | Certificate of Change Pursuant to NRS 78.209 increasing the authorized capital of common stock to 2,500,000,000 shares, par value \$0.001 per share (25-for-1 Stock Split). ⁽³⁾ |
| 3.3 | Articles of Merger between Language Enterprises Corp. (as surviving entity) and Doral Energy Corp. (as merging entity). ⁽⁶⁾ |
| 3.4 | Certificate of Change Pursuant to NRS 78.209 decreasing the authorized capital of common stock to 400,000,000 shares, par value \$0.001 per share (1-for-6.25 Reverse Split). ⁽¹⁸⁾ |
| 3.5 | Bylaws. ⁽¹⁾ |
| 10.1 | Form of Translator Engagement Agreement. ⁽¹⁾ |
| 10.2 | Translator Services Agreement with Toro Resources Corp. ⁽¹⁾ |

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| Exhibit Number | Description of Exhibits |
|----------------|---|
| 10.3 | Translator Services Agreement with Magnus International Resources, Inc. ⁽¹⁾ |
| 10.4 | Jonathan Moore Loan Letter. ⁽¹⁾ |
| 10.5 | Loan Agreement dated as of March 7, 2008 with Little Bay Consulting SA. ⁽⁴⁾ |
| 10.6 | Letter Agreement dated April 10, 2008 with G2 Petroleum, LLC. ⁽⁵⁾ |
| 10.7 | Purchase and Sale Agreement dated April 25, 2008 with J. Warren Hanson, doing business as Hanson Energy, and his wife Kathie Hanson. ⁽⁷⁾ |
| 10.8 | Loan Agreement between the Company (as borrower) and Green Shoe Investments Ltd. (as lender) dated May 9, 2008 for the amount of \$100,000. ⁽⁸⁾ |
| 10.9 | Loan Agreement between the Company (as borrower) and Green Shoe Investments Ltd. (as lender) dated May 23, 2008 for the amount of \$150,000. ⁽⁹⁾ |
| 10.10 | Title Work Agreement dated May 12, 2008 with Arena Resources, Inc. ⁽¹⁰⁾ |
| 10.11 | Amendment Agreement to Share Purchase Agreement dated July 17, 2008 between J. Warren Hanson, doing business as Hanson Energy, his wife Kathie Hanson, and Doral Energy Corp. (formerly Language Enterprises Corp.) ⁽¹¹⁾ |
| 10.12 | Loan Agreement dated July 18, 2008 between Doral Energy Corp. and Little Bay Consulting SA. ⁽¹¹⁾ |
| 10.13 | Loan Agreement dated July 18, 2008 between Doral Energy Corp. and Green Shoe Investments Ltd. ⁽¹¹⁾ |
| 10.14 | Credit Agreement dated July 29, 2008 between Doral Energy Corp. and Macquarie Bank Limited. ⁽¹²⁾ |
| 10.15 | Security Agreement dated July 29, 2008 between Doral Energy Corp. and Macquarie Bank Limited. ⁽¹²⁾ |
| 10.16 | Subordination Agreement dated July 29, 2008 between Doral Energy Corp., Green Shoe Investments Ltd. and Macquarie Bank Limited. ⁽¹²⁾ |
| 10.17 | Subordination Agreement dated July 29, 2008 between Doral Energy Corp., Little Bay Consulting SA and Macquarie Bank Limited. ⁽¹²⁾ |
| 10.18 | Net Profits Overriding Royalty Interest Conveyance dated July 29, 2008 between Doral Energy Corp. and Macquarie Investments, LLC. ⁽¹²⁾ |
| 10.19 | Conversion Agreement dated July 29, 2008 between Doral Energy Corp. and Macquarie Investments, LLC. ⁽¹²⁾ |
| 10.20 | Limited Forbearance Agreement dated December 10, 2008 between Macquarie Bank Limited and Doral Energy Corp. ⁽¹⁵⁾ |
| 10.21 | Loan Agreement dated October 3, 2008 between Doral Energy Corp. and Little Bay Consulting SA. ⁽¹³⁾ |
| 10.22 | First Amendment to Credit Agreement between Doral Energy Corp. and Macquarie Bank Limited dated November 19, 2008. ⁽¹⁶⁾ |
| 10.23 | Second Amendment to Credit Agreement between Doral Energy Corp. and Macquarie Bank Limited dated January 9, 2009. ⁽¹⁶⁾ |
| 10.24 | Letter Agreement dated January 15, 2009 between Doral Energy Corp. and Miltex Oil Company. ⁽¹⁷⁾ |
| 10.25 | Engagement Agreement dated January 26, 2009 between Doral Energy Corp. and C.K. Cooper & Company, Inc. ⁽¹⁹⁾ |
| 10.26 | Debt Advisory Agreement dated January 30, 2009 between Doral Energy Corp. and C.K. Cooper & Company, Inc. ⁽¹⁹⁾ |
| 10.27 | Loan Agreement dated February 24, 2009 between Doral Energy Corp. (as borrower) and Green Shoe Investments Ltd. (as lender) in the amount of \$100,000 USD. ⁽²⁰⁾ |
| 10.28 | Amendment Agreement dated February 13, 2009 to Engagement Agreement between Doral Energy Corp. and C.K. Cooper & Company, Inc. ⁽²⁰⁾ |
| 10.29 | Amendment Agreement dated March 31, 2009, 2009 to Letter Agreement between Doral Energy Corp. and Miltex Oil Company. ⁽²¹⁾ |
| 10.30 | Amendment Agreement dated April 21, 2009, 2009 to Letter Agreement between Doral Energy Corp. and Miltex Oil Company. ⁽²²⁾ |
| 10.31 | 2009 Stock Incentive Plan. ⁽²³⁾ |
| 10.32 | Loan Agreement dated April 29, 2009 between Doral Energy Corp. and Green Shoe Investments Ltd. ⁽²⁴⁾ |

- 10.33 Sale and Purchase Agreement dated May 5, 2009 between Doral Energy Corp. and Flaming S, Inc.⁽²⁴⁾
- 10.34 Sale and Purchase Agreement dated May 15, 2009 between Doral Energy Corp. and Slape Oil Company, Inc.⁽²⁴⁾

Exhibit

| <u>Number</u> | <u>Description of Exhibits</u> |
|---------------|---|
| 10.35 | Convertible Note Agreement dated May 28, 2009 between Doral Energy Corp. and Green Shoe Investments Ltd. ⁽²⁵⁾ |
| 21.1 | List of Subsidiaries. ⁽¹⁴⁾ |
| 14.1 | Code of Ethics. ⁽²⁾ |
| <u>31.1</u> | <u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>31.2</u> | <u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.1</u> | <u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.2</u> | <u>Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |

- (1) Filed as an exhibit to our Registration Statement on Form SB-2 filed on September 11, 2006.
- (2) Filed as an exhibit to our Annual Report on Form 10-KSB for the year ended July 31, 2007 filed on October 30, 2007.
- (3) Filed as an exhibit to our Current Report on Form 8-K filed on January 9, 2008.
- (4) Filed as an exhibit to our Current Report on Form 8-K filed on March 12, 2008.
- (5) Filed as an exhibit to our Current Report on Form 8-K filed on April 16, 2008.
- (6) Filed as an exhibit to our Current Report on Form 8-K filed on April 28, 2008.
- (7) Filed as an exhibit to our Current Report on Form 8-K filed on May 1, 2008.
- (8) Filed as an exhibit to our Current Report on Form 8-K filed on May 13, 2008.
- (9) Filed as an exhibit to our Current Report on Form 8-K filed on May 21, 2008.
- (10) Filed as an exhibit to our Current Report on Form 8-K filed on May 27, 2008.
- (11) Filed as an exhibit to our Current Report on Form 8-K filed on July 23, 2008.
- (12) Filed as an exhibit to our Current Report on Form 8-K filed on August 4, 2008.
- (13) Filed as an exhibit to our Current Report on Form 8-K filed on October 22, 2008.
- (14) Filed as an exhibit to our Annual Report on Form 10-K filed on October 29, 2008
- (15) Filed as an exhibit to our Current Report on Form 8-K filed on December 11, 2008.
- (16) Filed as an exhibit to our Current Report on Form 8-K filed on January 14, 2009.
- (17) Filed as an exhibit to our Current Report on Form 8-K filed on January 22, 2009.
- (18) Filed as an exhibit to our Current Report on Form 8-K filed on January 29, 2009.
- (19) Filed as an exhibit to our Current Report on Form 8-K filed on February 9, 2009.
- (20) Filed as an exhibit to our Current Report on Form 8-K filed on February 25, 2009.
- (21) Filed as an exhibit to our Current Report on Form 8-K filed on April 6, 2009.
- (22) Filed as an exhibit to our Current Report on Form 8-K filed on April 27, 2009.
- (23) Filed as an exhibit to our Current Report on Form 8-K filed on May 5, 2009.
- (24) Filed as an exhibit to our Current Report on Form 8-K filed on June 2, 2009.
- (25) Filed as an exhibit to our Quarterly Report on Form 10-Q filed on June 15, 2009.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DORAL ENERGY CORP.

Date: March 10, 2010

By: */s/ Everett Willard Gray II*
EVERETT WILLARD GRAY II
Chief Executive Officer
(Principal Executive Officer)

Date: March 10, 2010

By: */s/ H. Patrick Seale*
H. PATRICK SEALE
Chief Financial Officer, Chief Operating Officer,
President, Treasurer and Secretary
(Principal Accounting Officer)