

Doral Energy Corp.  
Form 10-K  
November 15, 2010

---

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

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **July 31, 2010**

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.)

**3300 N. "A" Street, Bldg 2, Suite 218**

**Midland, TX**

(Address of principal executive offices)

**79705**

(Zip Code)

Registrant's telephone number, including area code:

**(432) 789-1180**

Securities registered pursuant to Section 12(b) of the Act:

**NONE.**

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, \$0.001 Par Value Per Share.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Edgar Filing: Doral Energy Corp. - Form 10-K

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 (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (s229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Act).

Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: **\$11,627,165 as of January 29, 2010, based on an average of the closing bid price of \$0.14 and the closing ask price of \$0.15 as quoted by the OTC Bulletin Board on that date.**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **As of November 10, 2010, the Registrant had 111,433,086 shares of common stock outstanding.**

**DORAL ENERGY CORP.**

**ANNUAL REPORT ON FORM 10-K  
FOR THE YEAR ENDED JULY 31, 2010**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b><u>PART I</u></b>	<b>3</b>
<b><u>ITEM 1. BUSINESS</u></b>	<b>3</b>
<b><u>ITEM 1A. RISK FACTORS</u></b>	<b>6</b>
<b><u>ITEM 2. PROPERTIES</u></b>	<b>12</b>
<b><u>ITEM 3. LEGAL PROCEEDINGS</u></b>	<b>16</b>
<b><u>ITEM 4. (REMOVED AND RESERVED)</u></b>	<b>16</b>
<b><u>PART II</u></b>	<b>17</b>
<b><u>ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u></b>	<b>17</b>
<b><u>ITEM 6. SELECTED FINANCIAL DATA.</u></b>	<b>18</b>
<b><u>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	<b>18</b>
<b><u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.</u></b>	<b>24</b>
<b><u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u></b>	<b>25</b>
<b><u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u></b>	<b>26</b>
<b><u>ITEM 9A. CONTROLS AND PROCEDURES</u></b>	<b>26</b>
<b><u>ITEM 9B. OTHER INFORMATION</u></b>	<b>27</b>
<b><u>PART III</u></b>	<b>28</b>
<b><u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u></b>	<b>28</b>
<b><u>ITEM 11. EXECUTIVE COMPENSATION</u></b>	<b>30</b>
<b><u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u></b>	<b>31</b>

<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	<u>34</u>
<u>ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	<u>35</u>
<u>ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.</u>	<u>36</u>
<u>SIGNATURES</u>	<u>39</u>

## PART I

*The information in this discussion contains forward-looking statements. These forward-looking statements involve risks and uncertainties, including statements regarding the Company's capital needs, business strategy and expectations. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms or other comparable terminology. Actual events or results may differ materially. In evaluating these statements, you should consider various factors, including the risks described below, and, from time to time, in other reports the Company files with the United States Securities and Exchange Commission (the SEC). These factors may cause the Company's actual results to differ materially from any forward-looking statement. The Company disclaims any obligation to publicly update these statements, or disclose any difference between its actual results and those reflected in these statements.*

*As used in this Annual Report, the terms we, us, our, Doral, Doral Energy, and the Company mean Doral Energy Corp. and its wholly owned subsidiary, unless otherwise indicated. All dollar amounts in this Annual Report are expressed in U.S. dollars, unless otherwise indicated.*

### ITEM 1. BUSINESS

#### General

Doral Energy Corp. was incorporated on October 25, 2005 under the laws of the State of Nevada under the name Language Enterprises Corp. On January 7, 2008, we completed a 25-for-1 forward stock split of our common stock. As a result of the stock split, our authorized capital increased from 100,000,000 shares of common stock, with a par value of \$0.001 per share, to 2,500,000,000 shares of common stock, with a par value of \$0.001 per share (the "2008 Forward Split"). On April 28, 2008, we changed our name from Language Enterprises Corp. to Doral Energy Corp. To effect the name change, we incorporated a wholly-owned subsidiary ( SubCo ) and completed a merger of SubCo with and into the Company, with the Company continuing as the surviving entity. Other than the name change, no changes were made to our articles of incorporation as a result of the merger. On January 12, 2009, we completed a 6.25 -for-1 reverse split of our common stock, decreasing our authorized share capital from 2,500,000,000 shares of common stock, par value \$0.001 per share, to 400,000,000 shares of common stock, par value \$0.001 per share (the "2009 Reverse Split"). On September 14, 2009, we completed a 5-for-1 forward split of our common stock, increasing our authorized capital to 2,000,000,000 shares of common stock, par value \$0.001 per share (the "2009 Forward Split"). Pursuant to the Nevada Revised Statutes, shareholder approval of the above actions was not required.

As Language Enterprises Corp., we previously operated a translation brokerage business, acting as an intermediary between clients and independent, professional translators. In early 2008, as Doral Energy Corp., we changed our business focus from translation services to the oil and gas industry. We are now an oil and gas exploitation and production company focused on identifying, acquiring and operating under-performing and under-producing oil and gas properties in the Permian Basin of West Texas and New Mexico.

Our principal executive offices are located at 3300 N. "A" Street, Bldg 2, Suite 218, Midland, TX 79705, and our telephone number is (432) 789-1180. Our internet website can be found at [www.doralenergycorp.com](http://www.doralenergycorp.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934 will be available through our internet website as soon as reasonably practical after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

#### Business Development

From our inception, we have built our asset base via the acquisition and divestiture of undervalued oil and gas assets. Our acquisitions are geographically focused in the Permian Basin of western Texas and southeastern New Mexico, which we have identified as the most attractive region in which to develop our business. The Permian Basin has been a top US oil and gas producing region for over 80 years. Because of its long history as a top producing region, the Permian Basin has attracted a wide spectrum of energy producing companies. In

addition to hosting operations from virtually every major oil and gas company, the Permian Basin is also home to many independent operators of varying sizes.

Our existing business model is predicated on seeking out and acquiring under-performing and under-producing oil and gas properties owned by independent operators with the goal of creating value by improving the performance and production of those properties. The goal is to focus on the acquisition of producing properties with strong proven reserves and considerable undrilled proved undeveloped, shallow, low-risk reserves that can be developed with reasonably low levels of forward risk. By targeting properties with predominately shallow, low-risk, in fill proved undeveloped drilling locations and reserves, geological and reserve risks can be effectively mitigated.

#### *Pure Gas Partners II, L.P.*

On September 13, 2010, we entered into a non-binding letter of intent to combine our operations with Pure Gas Partners II, L.P. ( "Pure Gas" ). The business combination is expected to be effected through the issuance of shares of our common stock, resulting in a change of control, with Pure Gas expected to own approximately 80% of our outstanding common stock upon completion of the transaction. Pure Gas is a limited partnership with interests in approximately 600,000 gross acres located within New Mexico. Pure Gas' net acreage consists of approximately 300,000 net acres with approximately 30,000 net acres located within the Permian Basin of Southeastern New Mexico. 98% of all of Pure Gas' acreage is held by production (HBP), with the largest percentage being fee mineral. Pure Gas owns varying operated and non-operated working interests, ranging from 1% to 50%, in approximately 75 gross wells located within Eddy, Lea, Roosevelt and Chaves counties, New Mexico, with net current production of approximately 230 BOEPD. We expect to conduct a reverse split of our common stock and change our name as part of this transaction. It is expected that E. Willard Gray, II, our current sole executive officer, will remain as our Chairman and Chief Executive Officer, while Larry Risely, of Pure Gas, is expected to become our President and Chief Operating Officer.

If the proposed business combination with Pure Gas is completed as expected, of which there is no assurance, we expect to focus our combined operations on becoming a significant non-operated player within the Permian Basin. This strategy is expected to include working closely with Pure Gas' current operators to continue to develop their current acreage position as well as seeking out new drilling opportunities with proven Permian operators. We also expect to continue operating our existing Chaves and Roosevelt County assets.

Completion of this transaction is subject to the execution of binding definitive agreements. We are currently working diligently with Pure Gas' management on the preparation of these agreements.

#### **Hedging Transactions**

In previous years, we entered into a costless collar hedging position, and later a combination of a swap and costless collar, which provided us with partial protection against variations in the price of crude oil. Upon completing the sale of the certain oil and gas properties located in Eddy County, New Mexico (the "Hanson Properties" ), we closed out all of our hedging positions. We have chosen not to enter into any hedging positions at this time but reserve the right to do so at a later date if deemed prudent by our Board of Directors.

#### **Competitive Business Conditions**

We operate in the oil and gas industry, which is a highly competitive environment. Competition is particularly intense with respect to the acquisition of desirable producing properties, the acquisition of oil and gas prospects suitable for enhanced production efforts, marketing oil and natural gas, and the hiring of experienced personnel. Our competitors in oil and gas acquisition, development, and production include the major oil companies in addition to numerous independent oil and gas companies, individual proprietors and drilling programs. Many of these competitors possess and employ financial and personnel resources substantially greater than those which are available to us and may be able to pay more for desirable producing properties and prospects and to define, evaluate, bid for, and purchase a

greater number of producing properties and prospects than we can. Our ability to acquire additional properties and to find and develop reserves in the future will depend on our ability to identify, evaluate, and select suitable properties and to consummate transactions in such a highly competitive environment, in competition with these companies. Also, there is substantial competition for capital available for investment in the oil and gas industry.



The actual price range of crude oil is largely established by major crude oil purchasers and commodities trading. Pricing for natural gas is based on regional supply and demand conditions. To this extent, we work to insure that we receive competitive oil and natural gas prices comparable to other producers in the areas which we operate. There is little risk of domestic overproduction at current prices is not deemed to be significant. We view our primary pricing risk to be related to a potential decline in oil and natural gas prices to a level which could render our current production uneconomical.

We are not subject to such third-party gathering systems for our oil production. All oil production is transported by the oil purchaser by trucks with competitive trucking costs in the area.

### **Major Customers**

For the fiscal year ended July 31, 2010, we had oil and natural gas sales to four customers, Navajo Refining Company, ConocoPhillips Company, DCP Midstream LP, and Frontier Field Services. Currently, ConocoPhillips Company purchases 100% of our crude oil production. However, we believe that the loss of this customer would not materially impact our business, because we could readily find other purchasers for our oil produced.

### **Government and Environmental Regulation**

The oil and gas industry is subject to heavy regulation at the federal, state and local levels. These regulations include regulations:

- requiring permits for the drilling of wells,
- requiring the posting of bonds for drilling and/or operating wells,
- governing the location of wells,
- governing the methods used to drill wells,
- governing surface area usage and the restoration of the land upon which wells are drilled,
- governing the plugging and abandoning of wells and the disposal of waste materials used in or generated in drilling operations, and
- setting certain environmental conservation restrictions.

The cost of complying with these regulations is high and these regulations can have the effect of limiting our ability to engage in oil and gas exploration activities and when or where those activities take place. Some of these laws and regulations, including the federal Comprehensive Environmental Response, Compensation and Liability Act (also known as CERCLA or the Superfund law), may impose strict liability for environmental damage caused by hazardous wastes released during oil and gas exploration and production activities. As a result, we could become liable for the costs of environmental cleanups, environmental damages and, in some cases, consequential damages, regardless of whether or not there was any negligence or fault on our part. In some cases, regulations may also require oil and gas production levels to be kept at a level that is lower than what would be economically optimal. In other cases, we may be completely prohibited from drilling exploratory or production wells in certain environmentally sensitive areas even if we believe that there are economically viable oil and gas deposits in those areas. If we violate any of these environmental laws or regulations, we could become subject to heavy fines or sanctions and/or be required to incur significant costs for environmental clean up and remediation. In addition, neighboring landowners and other third parties could file claims for personal injury claims or for damage to property or natural resources caused by oil and gas exploration activities.

We believe that we are currently in substantial compliance with all applicable environmental laws and regulations. To date, we have not been required to expend substantial amounts of money in complying with these laws and regulations and we anticipate that the costs associated with future compliance will not have a materially adverse effect on our financial position. However, the laws and regulations governing the oil and gas industry are subject to constant change as environmental issues relating this industry remain highly politicized. Proposals and proceedings affecting oil and

gas exploration activities are periodically presented to Congress and federal regulatory bodies as well as to state legislative and regulatory bodies. We cannot predict when or whether such proposals may become effective. There is no assurance that the future regulatory environment for oil and gas activities will be consistent with the current regulatory environment. We will need to constantly monitor developments in environmental and other laws and regulations applicable to oil and gas activities in order to ensure compliance. There is no assurance that we will be able to meet the costs associated with regulatory compliance in the future.

## Employees

As of July 31, 2010, we employed two (2) full-time employees. Our employees are not represented by a labor unit. We consider our relations with our employees to be satisfactory and have never experienced a work stoppage or strike.

We retain certain engineers, geologists, landmen, pumpers, and other personnel on a contract or fee basis as necessary for our field and office operations.

## 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.

### **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 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 exploitation and development activities, including the necessity of making significant expenditures to locate and acquire properties and to drill development 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 exploitation and development activities, the presence of unanticipated formation pressure or irregularities in formations, miscalculations or accidents may cause our exploitation, development and, if warranted, production activities to be unsuccessful. This could result in a total loss of our investment in a particular well. If exploitation and development efforts are unsuccessful in establishing proved reserves and development 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 net 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, exploitation, and development 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 exploitation 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 assurances can be given that our exploitation 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 formation pressures, and or work interruptions. In addition, the costs of exploitation 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 do not have any hedging positions at this time. If we do enter into hedging transactions, they will likely be for a portion of our expected production for the purpose of reducing the risk of fluctuations in oil and gas prices. Although these hedging transactions would be expected to provide us with some protection in the event of a decrease in oil and gas prices, they would also be expected to 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 formation 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 excessive 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 contaminated 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 natural gas prices, taxes, royalties, land lease tenure, allowable production volumes, and environmental protection regulations.

**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 operating 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. We maintain well control, re-drill, environmental cleanup, and liability insurance on all of our field production and future drilling operations. However, the occurrence of a significant adverse event on such prospects that would happen to be 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 greatly upon the efforts, abilities, and decision-making of our sole executive officer, Everett Willard Gray, II. The loss of Mr. Gray 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 Mr. Gray 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.

**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 2,000,000,000 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 "DRLY". 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. As a result of this potential price and volume volatility, an investor may have difficulty selling 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 15c-2-07 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.

Edgar Filing: Doral Energy Corp. - Form 10-K

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

Page 10 of 39

---

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 2. PROPERTIES****GENERAL BACKGROUND**

We have built our asset base primarily through property acquisitions and divestitures that are geographically focused in the Permian Basin of West Texas and southeastern New Mexico, which we have identified as the most attractive region in which to develop our business. Our properties consist of working and royalty interests owned by us in various oil and gas wells and oil and gas lease acreage located in both Chaves and Roosevelt Counties, New Mexico. These properties were acquired by us in a transaction completed by us in two transactions:

- (i) properties consisting of 6,800 acres of operated producing oil and gas assets located in Chaves County and Roosevelt County, New Mexico, acquired for \$1,700,000 on June 14, 2010; and
- (ii) properties consisting of additional working interests in the same areas as (i), for a price of \$20,000 on July 15, 2010.

**Oil and Gas Acreage**

The following table sets forth the developed leasehold acreage held by us as of July 31, 2010. Gross acres are the total number of acres we have a working interest. Net acres are the sum of our fractional working interests owned in the gross acres.

In certain leases, our ownership varies at different depths; therefore, the net acreage in these leases is calculated with consideration of the varying ownership interests.

<b>All Acreage in New Mexico</b>	<b>Developed</b>	<b>Undeveloped</b>	<b>Total</b>
Gross acreage, approximate	1,260	1,000	2,260
Net acreage, approximate	992	734	1,726

**Reserves**

As of July 31, 2010, we have a portfolio of oil and natural gas reserves, with approximately 100% of our proved reserves consisting of oil and no natural gas. Our proved reserves and the standardized measure of discounted future net cash flows of our interests in proved oil and gas reserves at July 31, 2010 are set forth below:

<b>Proved Reserves</b>	<b>Oil (Bbls)</b>	<b>Natural Gas (MCF)</b>	<b>Discounted Future Net Cash Flow (at 10% per year)</b>
Developed	121,000	0.00	\$ 2,334,000
Undeveloped	906,000	0.00	\$ 1,818,000
Total, before income taxes	1,027,000	0.00	\$ 4,152,000

*Changes in Proved Undeveloped Reserves*

Our proved undeveloped reserves as of our fiscal year ended July 31, 2010 were substantially less than our proved undeveloped reserves as of our previous fiscal year ended July 31, 2009. Proved undeveloped reserves as of July 31, 2009 were entirely contained in our Hanson Properties located in Eddy County, New Mexico. Effective June 15, 2010, we sold the Hanson Properties for total proceeds of \$10,370,990.



*Revisions to SEC Oil and Gas Reserve Reporting Requirements.*

Effective December 31, 2008, the SEC effected revisions designed to modernize the oil and gas company reserves reporting requirements. The revisions are effective for annual reports filed on or after December 15, 2009. Among other things, the revised reporting requirements include:

- **Commodity Prices** Economic predictability of reserves and discounted cash flows are now based on a 12-month average commodity price unless contractual arrangements designate the price to be used.
- **Disclosure of Unproved Reserves** Probable and possible reserves may be disclosed separately on a voluntary basis.
- **Proved Undeveloped Reserves** Reserves may be classified as proved undeveloped if there is a high degree of confidence that the quantities will be recovered and they are scheduled to be drilled within the next five years.
- **Reserves Estimation Based on New Technologies** Reserves may be estimated through the use of reliable technology in addition to flow tests and production history.
- **Reserve Personnel and Estimation Process Disclosure** Additional disclosure is required regarding the qualifications of the chief technical person who oversees the reserves estimation process and internal controls used to assure the objectivity of the reserve estimates.

The required revisions to modernize the oil and gas reserve disclosures have been incorporated into our July 31, 2010 reserve reports and in the aggregate were not considered material to our reserves.

*Preparation of Reserve Estimates*

The proved reserves estimates contained in the above tables at July 31, 2010 are based primarily on reserve reports prepared by of Joe C. Neal & Associates, independent petroleum consultants to the Company. Joe C. Neal & Associates is an independent petroleum engineering consulting firm that has been providing petroleum consulting services throughout the world for 35 years. Joe C. Neal & Associates has extensive experience calculating reserves for other companies operating in the Permian Basin region and, as such, we believe that they have sufficient experience to estimate our reserves. Joe C. Neal & Associates is a Texas registered professional engineering firm. Our primary contact at Joe C. Neal & Associates is Alan Neal. Mr. Neal is a Licensed Professional Engineer in the State of Texas

The present values of the proved reserves as of July 31, 2010 identified in the tables are prepared by discounting future projected net cash flows computed with constant oil prices of \$69.67 per barrel (Bbl) and constant future production and development costs less estimated future income tax expense. The estimated future net cash flows are then discounted at a rate of 10 percent per year.

When estimating our reserves we engage independent registered engineering firms to prepare reserve reports based on records, geological and engineering reports and other data that we provide to them. Included in this information is historical production data from our wells, historical lease operating expenses and differentials, updated working interest and net revenue interest information and geological and geophysical information from operators. These engineering firms are permitted to consult freely with our officers and employees. Our Chief Executive Officer, Everett Willard Gray, II, reviews the report prepared by the independent engineering firm and the assumptions relied upon in such report.

Reserve reports prepared by petroleum engineers and used by the Company are, by their very nature, inexact and subject to changes and revisions. Proved developed reserves are reserves expected to be recovered from existing wells with existing equipment and methods. Proved undeveloped reserves are expected to be recovered from new wells drilled to known reservoirs on undrilled acreage for which existence and recoverability of such reserves can be estimated with reasonable certainty, or from existing wells where a relatively major expenditure is required to establish production. No estimates of reserves have been included in any reports to any federal agency other than the SEC.



See Supplemental Information on Oil and Gas Producing Activities included as part of our consolidated financial statements. A copy of the Joe C. Neal & Associates, Inc. report Estimated Reserves and Future Net Revenue as of August 1, 2010, Attributable to Interests Owned by Doral Energy, Corp. In Certain Properties Located in Texas (SEC Case) is attached as Exhibit 99.1 to this Annual Report on Form 10-K.

**Wells**

The following summarizes the Company's productive oil and gas wells as of July 31, 2010. Productive wells are producing wells and wells capable of production. Gross wells are the total number of wells in which the company has an interest. Net wells are the sum of the Company's fractional working interests owned in the gross wells.

	<b>Year ended July 31, 2010</b>
<b>Oil and gas wells, New Mexico:</b>	
Gross	63.00
Net	49.59

### **Production Sales Volume, Sales Price and Production Costs**

The following summarizes our net production sold for the years ended July 31, 2010 and 2009:

	<b>July 31, 2010</b>	<b>July 31, 2009</b>
Production sales:		
Oil (barrels)	25,818	33,701
Natural gas (thousands cubic feet)	4,885	8,880
Total (barrels oil equivalent)	26,633	35,181

Set forth in the following schedule is the average sales price per unit of oil, expressed in barrels ("bbl"), and of natural gas, expressed in thousand cubic feet ("mcf") and average cost of production produced by us for the past two fiscal years.

	<b>Year ended July 31,</b>	
	<b>2010</b>	<b>2009</b>
Average sales price:		
Gas (per mcf)	\$ 3.36	\$ 2.29
Oil (per bbl)	\$ 71.07	\$ 53.48
Average cost of production:		
Average production cost (\$/boe)	\$ 13.90	\$ 14.63

\*Gas sold is a byproduct of oil production; costs associated with the gas sold are included in the cost of oil production.

We had no production or sales during the fiscal year ended July 31, 2008.

### **Drilling and Other Exploratory and Development Activities**

We did not drill any exploratory or development wells, and did not engage in any other exploratory activities during the last three fiscal years.

We do not anticipate investing in or purchasing assets and/or property for the purpose of capital gains. It is our intention to purchase assets and/or property for the purpose of enhancing our primary business operations. We are not limited as to the percentage amount of our assets we may use to purchase any additional assets or properties.

### **Present Activities**

As of July 31, 2010, we were not in the process of drilling any development or exploratory wells or conducting completion operations on any development or exploratory well.

### **Delivery Commitments**

As of July 31, 2010, the Company had no obligations or delivery commitments under any existing contracts.

## Other Projects and Properties

### *Pure Gas Partners II, L.P.*

On September 13, 2010, we entered into a non-binding letter of intent to combine our operations with Pure Gas Partners II, L.P. ( Pure Gas ). The business combination is expected to be effected through the issuance of shares of our common stock, resulting in a change of control, with Pure Gas expected to own approximately 80% of our outstanding common stock upon completion of the transaction. Pure Gas is a limited partnership with interests in approximately 600,000 gross acres located within New Mexico. Pure Gas net acreage consists of approximately 300,000 net acres with approximately 30,000 net acres located within the Permian Basin of Southeastern New Mexico. 98% of all of Pure Gas acreage is held by production (HBP), with the largest percentage being fee mineral. Pure Gas owns varying operated and non-operated working interests, ranging from 1% to 50%, in approximately 75 gross wells located within Eddy, Lea, Roosevelt and Chaves counties, New Mexico, with net current production of approximately 230 BOEPD. We expect to conduct a reverse split of our common stock and change our name as part of this transaction. It is expected that E. Willard Gray, II, our current sole executive officer, will remain as our Chairman and Chief Executive Officer, while Larry Risely, of Pure Gas, is expected to become our President and Chief Operating Officer.

Completion of this transaction is subject to the execution of binding definitive agreements. We are currently working diligently with Pure Gas management on the preparation of these agreements.

### *Sale of Hanson Properties*

On June 15, 2010, we sold our properties in Eddy County, New Mexico (the “Hanson Properties”) to Alamo Resources LLC. The sale was completed pursuant to our agreement (the “Alamo Agreement”) with Alamo dated April 30, 2010. Under the terms of the Alamo Agreement, the base purchase price paid by Alamo for the Hanson Properties was \$10,000,000 subject to the customary adjustments. The total estimated adjusted purchase price on closing was \$10,370,990, with \$6,484,567 paid to Macquarie Bank Limited to discharge our obligations under the Macquarie Credit Agreement. Net proceeds received by us on completion of the sale were \$3,735,023.

Under the Alamo Agreement, Alamo has also agreed to pay up to two additional production incentive payments ( PIPs ) of \$750,000 each. The first PIP will be payable if Alamo increases gross production from the Hanson Properties by 500 BOE/day based on a 30 day average within 24 months after the sale is completed. The second PIP is payable if Alamo increases gross production by a further 500 BOE/day (ie. a total increase of 1,000 BOE/day) during the same 24 month period.

### *Cave Pool Project Eddy County, New Mexico*

On October 28, 2009, Doral West Corp. ( Doral West ), a wholly owned subsidiary of Doral Energy Corp., entered into an agreement (the Blugrass Agreement ) with Blugrass Energy Inc. ( Blugrass ) to purchase a 40% working interest in certain oil and gas properties (the Cave Pool Unit Properties ) located in and around the Cave Pool Unit in Eddy County, New Mexico, approximately 5 miles northwest of Loco Hills, New Mexico. The effective date of the acquisition was October 12, 2009. The Cave Pool Unit properties are comprised of the Cave Pool Unit and ten (10) leases that make up approximately 2,800 gross acres of leasehold, which we have designated as the Cave Pool Project. The Cave Pool Project is comprised of a total of 39 wells completed in the Grayburg formation in the Grayburg Jackson Pool.

Pursuant to the provisions of the Blugrass Agreement, Blugrass agreed to assign to us a 40% interest in all of Blugrass right, title and interest in the Cave Pool Properties, and to assign to us operatorship of the Cave Pool Properties. In addition, Blugrass agreed to pay for the first \$200,000 of well repairs and workovers. In consideration of this, we agreed to:

Edgar Filing: Doral Energy Corp. - Form 10-K

1. Share with Blugrass access to appropriate Doral proprietary geological and engineering data and information to enhance the re-development of the Cave Pool Unit Properties;
2. Pay for and cause the preparation of an independent third-party reserve report on the Cave Pool Unit Properties to be prepared;

Page 15 of 39

---

3. Pay for and obtain title opinions for the leases contained in the Cave Pool Project; and

4. Be assigned as the Operator of the Cave Pool Project.

As of the date of filing of this Annual Report, Blugrass is in default of their obligations under the Blugrass Agreement. In particular, Blugrass has failed to assign operatorship of the Cave Pool Properties to us, and has not made the necessary workover expenditures. In addition, records examined in Eddy County, New Mexico and the New Mexico Oil Conservation Division indicate that Blugrass may not have acquired proper title to the Cave Pool Properties. We are currently considering our options with respect to these properties, including voiding the Blugrass Agreement or negotiating amended terms with Blugrass.

**ITEM 3. LEGAL PROCEEDINGS**

We are not currently a party to any legal proceedings outside of ordinary routine proceedings incidental to our business and which, in the aggregate, do not involve amounts greater than 10% of our current assets.

**ITEM 4. (REMOVED AND RESERVED)**

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Quotations for our common stock were entered on the OTC Bulletin Board (the "OTCBB") under the symbol LNGG beginning on April 20, 2007. Our symbol was changed to LNGE on January 8, 2008 upon completion of our 25-for-1 forward stock split. As a result of our name change to Doral Energy Corp., our symbol was changed to DENG on April 30, 2008. On January 23, 2009, as a result of our 1-for-6.25 reverse stock split, our symbol was changed to DEGY. On September 14, 2009, as a result of our 5-for-1 forward stock split, our symbol was changed to DRLY.

The high and the low bid prices for our shares for the last two fiscal years as reported by the OTCBB were:

<b>Fiscal Quarter</b>	<b>High</b>	<b>Low</b>
2009 Q1 (ended Oct. 31, 2008)	\$0.00	\$0.00
2009 Q2 (ended Jan. 31, 2009)	\$0.30	\$0.02
2009 Q3 (ended Apr. 30, 2009)	\$0.64	\$0.30
2009 Q4 (ended Jul. 31, 2009)	\$0.624	\$0.50
2010 Q1 (ended Oct. 31, 2009)	\$0.60	\$0.35
2010 Q2 (ended Jan. 31, 2010)	\$0.39	\$0.14
2010 Q3 (ended Apr. 30, 2010)	\$0.135	\$0.015
2010 Q4 (ended Jul. 31, 2010)	\$0.06	\$0.028

The above quotations have been adjusted to reflect the 2008 Forward Split, the 2009 Reverse Split and the 2009 Forward Split. Quotations provided by the OTCBB reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

**Holder**

As of November 10, 2010, there were 111,433,086 shares of our common stock issued and outstanding that are held of record by 15 registered stockholders. We believe that a number of stockholders hold their shares of our common stock in brokerage accounts and registered in the name of stock depositories.

**Dividends**

We have not declared any dividends on our common stock since our inception. There are no dividend restrictions that limit our ability to pay dividends on our common stock in our Articles of Incorporation or Bylaws. Our governing statute, Chapter 78 of the Nevada Revised Statutes (the "NRS"), does provide limitations on our ability to declare dividends. Section 78.288 of the NRS prohibits us from declaring dividends where, after giving effect to the distribution of the dividend:

- (a) we would not be able to pay our debts as they become due in the usual course of business; or
- (b) our total assets would be less than the sum of our total liabilities plus the amount that would be needed, if we were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of stockholders who may have preferential rights and whose preferential rights are superior to those receiving the distribution (except as otherwise specifically allowed by our Articles of Incorporation).

**Recent Sales of Unregistered Securities**

All unregistered sales of our equity securities made during the year ended July 31, 2010 have been reported by us in our Quarterly Reports or in our Current Reports filed with the SEC during the year.



**ITEM 6. SELECTED FINANCIAL DATA.**

Not Applicable.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Restatement of Prior Results**

As of October 21, 2010, our management has determined that the accounting treatment of the assets held for sale reported in our previously filed condensed consolidated financial statements contained in our Quarterly Report on Form 10-Q as of, and for the three and nine month periods ended, April 30, 2010 to be incorrect. Management has determined that under Full Cost accounting, the sale of the properties reported for the period ended April 30, 2010 does not meet the criteria for assets held for sale or discontinued operations.

To reflect the correction, we intend to restate the unaudited consolidated financial statements as of, and for the three and nine month periods ended, April 30, 2010. The restatement will result in no impact to net income for the relevant periods.

**RESULTS OF OPERATION****Summary of Year End Results**

	Year Ended July 31		Percentage
	2010	2009	Increase / (Decrease)
Revenue	\$ 1,664,209	\$ 1,832,146	(9%)
Expenses	(14,434,344)	(4,104,645)	252%
Gain on financial instrument derivatives	197,940	-	100%
Loss on settlement of debt	(272,557)	-	100%
Other income	18,106	-	100%
Interest Expense	(911,043)	(947,705)	(4%)
Net gain(loss) on oil and gas derivative contracts	(67,020)	1,317,839	(105)%
Income Tax Benefit (Expense)	8,071	(9,602)	(184%)
Net Loss	\$ (13,796,638)	\$ (1,911,967)	622%

**Revenues**

Effective June 15, 2010, we sold certain of our oil and gas properties located in Eddy County, New Mexico (the Hanson Properties) to Alamo Resources LLC (Alamo).

During the year ended July 31, 2010, the Hanson Properties generated revenue of \$1,510,352 compared to revenues of \$1,830,110 for the year ended July 31, 2009. The decrease in revenues was primarily due to the decrease in production volume as a result of the sale of the properties on June 15, 2010. Revenues from the sale of oil and gas are recognized based on the actual volume of oil and gas sold to purchasers.

On June 30, 2010, the Company completed the acquisition of approximately 6,800 gross acres of operated producing oil and gas assets (the Stearns Properties) located in Chavez County and Roosevelt County, New Mexico. The total purchase price for the Stearns Properties was \$1,700,000. The Stern Properties generated revenue of \$153,857 for the year ended July 31, 2010.



**Operating Expenses**

Our operating expenses for the years ended July 31, 2010 and 2009, consisted of the following:

	Year Ended July 31,		Percentage
	2010	2009	Increase / (Decrease)
Operating Costs	\$ 1,657,931	\$ 1,780,266	(7%)
Production Taxes	163,980	265,780	(38%)
Depreciation, Depletion, and Amortization	394,643	451,994	(13%)
Accretion Expense	36,717	74,820	(51%)
Loss (gain) on sale of oil and gas properties	9,043,801	(131,288)	(6981%)
General and Administrative	3,137,272	1,663,073	89% )
Total	\$ 14,434,344	\$ 4,104,645	252%

For the year ended July 31, 2010 and 2009, the operating expenses for continuing operations changed from \$4,104,645 to \$14,434,344. The increase of \$10,329,639 was mainly due loss on sale of oil and gas properties for \$9,043,801 and due to the increase in general and administrative expenses of \$1,474,199. The increase was due to increases in legal and professional fees. During the year ended July 31, 2010, legal and professional fees in the amount of \$384,775 were paid through the issuance of stock or stock options. During the twelve months ended July 31, 2010, we issued 9.6 million common shares valued at \$374,400 for professional services.

**Price Risk Management Activities**

In 2008 we entered into commodity derivative financial instruments intended to hedge our exposure to market fluctuations of oil and gas prices. Upon completing the sale of the Hanson Properties, we closed out all commodity derivative contracts. As of the date of filing of this Annual Report we did not have any hedging positions in place. During the twelve months ended July 31, 2010, we recognized a loss of \$67,020 which includes realized hedge settlements received for the difference between the hedged price and the market price.

**LIQUIDITY AND CAPITAL RESOURCES****Working Capital**

	At July 31, 2010	At July 31, 2009	Percentage Increase / (Decrease)
Current Assets	\$ 154,317	\$ 1,310,324	(88.22%)
Current Liabilities	(1,968,215)	(7,538,514)	(73.89%)
Working Capital (Deficit)	\$ (1,813,898)	\$ (6,228,190)	(70.88%)

**Cash Flows**

	Year Ended July 31, 2010	Year Ended July 31, 2009
Cash Flows Used in Operating Activities	\$ (1,952,454)	\$ (868,000)
Cash Flows From Investing Activities	8,716,751	21,005
Cash Flows Used in Financing Activities	(7,172,078)	1,229,301
Net In		