

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

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**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 **October 31, 2008**

**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)

**111 N. Sepulveda Blvd., Suite 250, Manhattan Beach, CA 90266**

(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 [ X ] 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

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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 December 16, 2008, the Registrant had 107,337,550 (85,870,040 post-2009 Stock Splits) shares of common stock outstanding.**

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**EXPLANATORY NOTE**

This Amendment No. 1 to the Quarterly Report on Form 10-Q for Doral Energy Corp., originally filed on December 22, 2008 (the "Original Report"), is being filed to provide the Company's amended and restated consolidated financial statements for the fiscal year ended October 31, 2008 and the comparative period ended October 31, 2007 (the "October 2008 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 notes payable and oil and gas properties as of October 31, 2008 and July 31, 2008. It also resulted in our recording increased depreciation, depletion and amortization of approximately \$11,000 and decreased interest expense of approximately \$19,000 for the three months ended October 31, 2008.

The October 2008 Financial Statements and other financial information included in this Amendment No. 1 have been restated accordingly. In addition, the October 2008 Financial Statements and other financial information included in this Amendment No. 1 have been amended to give retroactive effect to our 1-for-6.25 reverse split of our common stock (the "2009 Reverse Split") completed January 12, 2009 and our 5-for-1 forward split of our common stock (the "2009 Forward Split") completed September 14, 2009. Both the 2009 Reverse Split and the 2009 Forward Split (collectively referred to as the "2009 Stock Splits") were completed after 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 months ended October 31, 2008. 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 Stock Splits.

**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 months ended October 31, 2008 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**  
**October 31, 2008 and July 31, 2008**  
**(Unaudited)**

	October 31, 2008 (Restated)	July 31, 2008 (Restated)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 165,846	\$ 54,500
Accounts receivable, net of allowance for doubtful accounts of \$-	201,382	-
Restricted cash — note proceeds restricted as to use	210,539	566,960
Current derivative asset	626,266	-
Current portion of deferred financing cost	57,091	-
Prepaid insurance and other	64,455	65,676
<b>Total current assets</b>	<b>1,325,579</b>	<b>687,136</b>
Oil and gas properties — Proved, using full cost method of accounting, net of accumulated depreciation, depletion and amortization of \$71,460 and \$-, respectively	20,287,400	19,834,246
Derivative asset	811,794	-
Deferred financing cost, net of current portion	106,299	58,040
Office equipment, net of depreciation	33,655	104
Security deposit	15,001	1,105
<b>Total assets</b>	<b>\$ 22,579,728</b>	<b>\$ 20,580,631</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 646,863	\$ 201,947
Accounts payable — related party	80,919	50,919
Accrued interest payable	16,673	9,943
Current deferred income tax	219,193	-
Other current liabilities	10,735	8,442
<b>Total current liabilities</b>	<b>974,383</b>	<b>271,251</b>
Notes payable, net of discount of \$152,460 and \$181,746, respectively	5,967,540	5,738,254
Asset retirement obligation	938,318	918,902
Deferred income tax	219,445	-
<b>Total liabilities</b>	<b>8,099,686</b>	<b>6,928,407</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common shares, \$0.001 par value, 2,000,000,000 shares authorized, 85,870,040 and 85,862,000 issued and outstanding, respectively	85,870	85,862
Additional paid-in capital	14,193,506	14,188,489
Retained earnings (deficit)	200,666	(622,127)
<b>Total stockholders' equity</b>	<b>14,480,042</b>	<b>13,652,224</b>

Total liabilities and stockholders' equity \$ 22,579,728 \$ 20,580,631

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

F-1

**Doral Energy Corp.**  
**Consolidated Statements of Operations**  
**For the three months ended October 31, 2008 and 2007**  
**(Unaudited)**

	2008 (Restated)	2007
Revenue - oil and gas sales	\$ 652,256	\$ -
Expenses:		
Operating costs	279,422	-
Production taxes	60,330	-
Depreciation, depletion, and amortization	73,528	36
Accretion expense	19,416	-
General and administrative	287,019	35,727
Total expense	719,715	35,763
Loss from operations	(67,459)	(35,763)
Other expense:		
Interest expense	(153,394)	-
Price risk management activities	1,482,284	-
Income (loss) before income taxes	1,261,431	(35,763)
Income tax expense	438,638	-
Net income (loss)	\$ 822,793	\$ (35,763)
Other comprehensive income		
Foreign currency translation adjustment	-	(53)
Comprehensive loss	\$ 822,793	\$ (35,816)
Net income (loss) per share:		
Basic and diluted	\$ 0.01	\$ (0.00)
Weighted average shares outstanding:		
Basic and diluted	85,862,000	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 three months ended October 31, 2008 and 2007**  
**(Unaudited)**

	2008 (Restated)	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 822,793	\$ (35,763)
Adjustments to reconcile net income (loss) to cash used by operating activities:		
Depreciation, depletion, amortization and accretion	92,944	36
Amortization of debt discount and deferred financing costs	50,289	-
Unrealized gain on derivative instruments, net	(1,438,060)	-
Contribution of rent and salary	-	10,500
Changes in operating assets and liabilities:		
Accounts receivable	(201,382)	-
Prepaid expenses and other current assets	1,221	-
Deposits	(13,896)	-
Accounts payable	(18,492)	19,238
Accounts payable related party	30,000	-
Other current liabilities	2,293	-
Deferred tax liabilities	438,638	-
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(233,652)</b>	<b>(5,989)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(35,619)	-
Additions to oil and gas properties	(61,206)	-
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(96,825)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Amounts due to related party	-	(4,277)
Proceeds from issuance of notes payable, gross	200,000	-
Deferred financing costs incurred	(119,623)	-
Change in note proceeds restricted as to use	356,421	-
Proceeds from sale of common stock	5,025	-
<b>CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>441,823</b>	<b>(4,277)</b>
<b>NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>111,346</b>	<b>(10,266)</b>
Effect of unrealized exchange rate changes	-	(53)
Cash and cash equivalents, beginning of period	54,500	31,268
Cash and cash equivalents, end of period	\$ 165,846	\$ 20,949
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$ 103,105	\$ -
Income taxes paid	\$ -	\$ -
<b>Non cash investing and financing activities:</b>		



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Purchase price adjustment payable \$ 463,408 \$ -

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

F-3

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**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 period ended October 31, 2008 are not necessarily indicative of results for the entire year ending July 31, 2009.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 presented in Doral supplemental oil and gas reserve disclosures made herein.

F-4

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## **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 October 31, 2008 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 October 31, 2008, there were no cash balances in excess of federally insured limits.

## **Restricted cash note proceeds restricted as to use**

At October 31, 2008, Doral has \$210,539 of restricted cash. The restricted cash represents proceeds from the revolving loan payable to Macquarie (See Note 4.) 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 \$177,623 in fees. These fees were recorded as deferred financing costs and are being amortized over the life of the loans using the straight-line method which approximates the effective interest method as the majority of the principal amounts on the debt financings are due at maturity.

## **Concentrations of Credit Risk**

All of the Company's receivables are due from oil and natural gas purchasers. The Company sold over 99% of its oil and natural gas production to two customers during the three months ended October 31, 2008.

## **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 October 31, 2008. 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 October 31, 2008, derivative assets include the net market value of derivative assets and liabilities due to the right of offset in the settlement of these contracts.

F-5

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## New Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, (SFAS 162), which identifies a consistent framework for selecting accounting principles to be used in preparing financial statements for nongovernmental entities that are presented in conformity with United States generally accepted accounting principles (GAAP). The current GAAP hierarchy was criticized due to its complexity, ranking position of FASB Statements of Financial Accounting Concepts and the fact that it is directed at auditors rather than entities. SFAS 162 will be effective 60 days following the United States Securities and Exchange Commission's (SEC's) approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The FASB does not expect that SFAS 162 will result in a change in current practice, and the Company does not believe that SFAS 162 will have an impact on operating results, financial position or 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.

### **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 will be entitled to production from the Eddy County Properties beginning 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
Common stock issued to Hanson Energy (5,600,000 shares valued at \$2.50 per share based on last traded stock price)	14,000,000
Cash paid for other acquisition costs	97,090
Asset retirement obligation incurred	918,902
<b>Total purchase price</b>	<b>\$ 20,015,992</b>
Less: Net profits overriding royalty interest	(181,746)
<b>Net purchase price</b>	<b>\$ 19,834,746</b>

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 each of the period ended October 31, 2007:

	Three months ended October 31, 2007
Revenues oil and gas	\$ 540,175
Net Loss	\$ (251,718)
Loss per share	\$ (0.00)

The pro forma financial information above includes the actual results of Doral for the three months ended October 31, 2007 adjusted by the following:

- Revenue and direct operating expenses of the Eddy County Properties for the three months ended October 31, 2007;
- 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 \$60,614 during the three months ended October 31, 2008.

### NOTE 4 ASSET RETIREMENT OBLIGATION

Asset retirement obligation activity for the three months ended October 31, 2008 is as follows:

	Amount
Asset retirement obligations, beginning of period	\$ 918,902
Accretion expense	19,416
Asset retirement obligations, end of period	\$ 938,318

F-8



## NOTE 5 NOTES PAYABLE

### 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.

### 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 October 31, 2008, the applicable interest rate under the Term Loan and the Revolving Loan was 8.75% and 5.25%, respectively. The effective interest rates on the Term and Revolving Loans combined is approximately 8%.

Provided that the Company submits 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 will mature on July 30, 2011. In the event the Company fails to submit an acceptable Development Plan to Macquarie, the maturity date will be accelerated 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 (July 30, 2011), or earlier if all amounts advanced under the Credit Agreement are repaid before July 30, 2011, 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 valued the NPORRI at \$181,746 based on the valuation performed by a third-party valuation expert. As a result Doral 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.

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.

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.

In November 2008, we borrowed an additional \$463,408 under the Credit Agreement in order to pay the additional purchase price adjustment for the acquisition of the Hanson Properties. This amount was included in accounts payable at October 31, 2008.

#### **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 October 31, 2008, 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.

#### **NOTE 7 STOCKHOLDERS EQUITY**

In June 2008, Doral completed a private placement of 192,000 shares of common stock at a price of \$0.6250 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 \$0.6250 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 is expected to become effective January 12, 2009. However the reverse split may be further amended or terminated by our Board of Directors at any time prior to the effective date. The effect of this reverse split has not been reflected in the accompanying financial statements pending the receipt of final approval for the reverse split from the NASD and due to the uncertainty in the final conversion rate.

#### **NOTE 8 RELATED PARTY TRANSACTIONS**

October 31, 2008, Doral had accounts payable to the Chairman of the Board and former CEO 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.



The number of barrels of production covered by the costless collar for production months through July 2011 is:

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

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 collars noted above do not qualify for hedge accounting treatment. For the three months ended October 31, 2008, Doral recognized a derivative asset of \$1,438,060 with the change in fair value reflected in other income (expense). Realized hedge gains totaled \$44,224 for the three months ended October 31, 2008.

#### 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 October 31, 2008:

Description	Input Levels for Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Assets:				
Commodity derivatives	\$ -	\$ 1,438,060	\$ -	\$ 1,438,060
	\$ -	\$ 1,438,060	\$ -	\$ 1,438,060

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 RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

The financial statements presented herein as of October 31, 2008 and July 31, 2008 and for the three months ended October 31, 2008 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 \$5,118,254 in the value of notes payable and oil and gas properties as of July 31, 2008. It also resulted in our recording increased depreciation, depletion and amortization of approximately \$11,000 and decreased interest expense of approximately \$19,000 for the three months ended October 31, 2008. In order to correct the error described above, Doral has restated its financial statements as of October 31, 2008 and July 31, 2008 and for the three months ended October 31, 2008.

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

	As Previously Reported	Adjustments	As Restated
Oil and gas properties	\$ 15,179,992	\$ 5,107,408	\$ 20,287,400
Total assets	17,472,320	5,107,408	22,579,728
Notes payable	868,594	5,098,946	5,967,540
Total liabilities	3,000,740	5,098,946	8,099,686
Retained earnings	192,204	8,462	200,666
Total stockholders equity	14,471,580	8,462	14,480,042

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

F-12

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The effects of the restatement on the statement of operations for the three months ended October 31, 2008 are summarized as follows:

	As Previously Reported	Adjustments	As Restated
Revenue	\$ 652,256	\$ -	\$ 652,256
Depreciation, depletion and amortization	62,682	10,846	73,528
Total operating expenses	708,869	10,846	719,715
Loss from operations	(56,613)	(10,846)	(67,459)
Interest expense	(172,702)	19,308	(153,394)
Net other income (expense)	1,319,582	19,308	1,328,890
Income before income taxes	1,252,969	8,462	1,261,431
Net income	814,331	8,462	822,793
Earnings per share	\$ 0.01	-	