Doral Energy Corp.
Form 10-Q
June 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **April 30, 2009**

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

For the transition period from ________to ________

COMMISSION FILE NUMBER 000-52738

DORAL ENERGY CORP.

(Exact name of registrant as specified in its charter)

NEVADA	**98-0555508**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

415 West Wall, Suite 500	
Midland, TX	**79701**
(Address of principal executive offices)	(Zip Code)

(432) 789-1180
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [ ] Yes [ ] No

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	**Smaller reporting company** [X]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: **As of June 12, 2009, the Registrant had 17,674,010 shares of common stock outstanding.**

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

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

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

		April 30, 2009 (Unaudited)		July 31, 2008 (Unaudited)
ASSETS				
Current assets				
Cash and cash equivalents	$	-	$	54,500
Accounts receivable, net of allowance for doubtful accounts of $-		192,691		-
Restricted cash note proceeds restricted as to use		215,150		566,960
Current derivative asset		1,099,528		-
Prepaid insurance and other		53,139		65,676
Total current assets		1,560,508		687,136
Oil and gas properties Proved, using full cost method of accounting, net of accumulated depreciation, depletion and amortization of $226,112 and $-, respectively		15,045,589		14,715,992
Derivative asset		287,900		-
Deferred federal income tax		1,881,816		-
Deferred financing cost, net of current portion		-		58,040
Office equipment, net of depreciation		116,498		104
Security deposit		539,433		1,105
Total assets	$	19,431,744	$	15,462,377
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities				
Accounts payable	$	587,606	$	201,947
Accounts payable related party		80,919		50,919
Accrued liabilities		158,146		9,943
Current portion of long-term debt		6,055,249		-
Current deferred income tax		420,185		-
Other current liabilities		6,103		8,442
Total current liabilities		7,308,208		271,251
Notes payable, net of discount of $- and $5,300,000, respectively		1,054,788		620,000
Asset retirement obligation		1,038,348		918,902
Total liabilities		9,401,344		1,810,153
STOCKHOLDERS EQUITY				
Common stock, $0.001 par value, 400,000,000 shares authorized, 17,263,294 and 17,172,400 issued and outstanding, respectively		17,263		17,172
Additional paid-in capital		14,483,363		14,257,179
Retained earnings (deficit)		(4,470,226)		(622,127)
Total stockholders equity		10,030,400		13,652,224
Total liabilities and stockholders equity	$	19,431,744	$	15,462,377

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

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

	Three months ended April 30, 2009	Three months ended April 30, 2008	Nine months ended April 30, 2009	Nine months ended April 30, 2008
Revenue - oil and gas sales				
Oil and gas sales	$ 298,692	-	$ 1,289,896	$
Total revenue	298,692	-	1,289,896	
Expenses:				
Operating costs	497,236	-	1,247,727	
Production taxes	38,149	-	155,419	
Depreciation, depletion, and amortization	86,653		243,149	
Accretion expense	60,815	-	119,446	
General and administrative	458,278	171,126	1,140,809	253,214
Total expense	1,141,131	171,126	2,906,550	253,214
Loss from operations	(842,439)	(171,126)	(1,616,654)	(253,214)
Other expense:				
Interest expense	(79,549)	(1,833)	(5,776,464)	(1,886)
Price risk management activities	(179,847)	-	2,083,388	
Loss before income taxes	(1,101,835)	(172,959)	(5,309,730)	(255,100)
Income tax benefit	-	-	(1,461,631)	
Net loss	(1,101,835)	(172,959)	(3,848,099)	(255,100)
Net loss per share:				
Basic and diluted	$ (0.06)	$ (0.00)	$ (0.22)	$ (0.00)
Weighted average shares outstanding:				
Basic and diluted	17,236,007	16,014,000	17,194,965	16,014,000

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

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

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (3,848,099)	$ (255,100)
Adjustments to reconcile net income (loss) to cash used by operating activities:		
Depreciation, depletion, amortization and accretion	362,595	108
Noncash interest expense		1,833
Amortization of debt discount and deferred financing costs	5,477,663	-
Unrealized gain on derivative instruments, net	(1,387,427)	-
Contribution of rent and salary	-	10,501
Changes in operating assets and liabilities:		
Accounts receivable	(192,691)	-
Prepaid expenses and other current assets	12,537	(1,105)
Deposits	(13,896)	-
Accounts payable	385,659	57,677
Accounts payable related party	30,000	-
Accrued expenses	148,203	-
Other current liabilities	(2,339)	-
Deferred income taxes	(1,461,631)	-
NET CASH USED BY OPERATING ACTIVITIES	(489,426)	(186,086)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits paid to Miltex	(275,000)	-
Deposits paid to Hanson Energy	-	(100,000)
Change in restricted cash	351,810	
Purchase of property and equipment	(63,476)	-
Additions to oil and gas properties	(555,709)	-
CASH FLOWS USED IN INVESTING ACTIVITIES	(542,375)	(100,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Amounts due to related party	-	(1,680)
Proceeds from issuance of notes payable, gross	1,126,348	320,000
Repayments of notes payable	(6,267)	-
Deferred financing costs incurred	(119,623)	-
Proceeds from sale of common stock	30,025	-
Deposit paid to investment advisor	(53,182)	
CASH FLOWS PROVIDED BY (USED IN)FINANCING ACTIVITIES	977,301	318,320
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(54,500)	32,234

Cash and cash equivalents, beginning of period		54,500		31,268
Cash and cash equivalents, end of period	$	-	$	63,502
Supplemental disclosures of cash flow information:				
Interest paid	$	(280,107)	$	-
Income taxes paid		-		-
Non cash investing and financing activities:				
Fixed assets acquired through the issuance of notes payable	$	69,956	$	-
Stock issued for services--CK Cooper		125,000		-
Stock issued to extend closing of Miltex acquisition		71,250		-

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

Doral Energy Corp.
Notes to Unaudited Consolidated Financial Statements

NOTE 1 ORGANIZATION AND BUSINESS OPERATIONS

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

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

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

Interim financial statements

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN

Basis of presentation

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

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

Use of estimates

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

Management believes that it is reasonably possible the following material estimates affecting the financial statements could significantly change in the coming year: (1) estimates of proved oil and gas reserves, and (2) forecast forward price curves for natural gas and crude oil. The oil and gas industry in the United States has historically experienced substantial commodity price volatility, and such volatility is expected to continue in the future. Commodity prices affect the level of reserves that are considered commercially recoverable; significantly influence Doral s current and future expected cash flows; and impact the PV10 derivation of proved reserves.

Principles of consolidation

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

Cash and cash equivalents

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

Restricted cash   note proceeds restricted as to use

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

Deferred financing cost

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

Concentrations of Credit Risk

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

Revenue and cost recognition

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

Derivatives

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

The Company adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) FASB Interpretation (FIN) No. 39-1, "Amendment of FASB Interpretation No. 39," (FSP FIN No. 39-1) which effectively amends FIN No. 39, "Offsetting of Amounts Related to Certain Contracts." FSP FIN No. 39-1 permits the netting of fair values of derivative assets and liabilities for financial reporting purposes, if such assets and liabilities are with the same counterparty and subject to a master netting arrangement. Doral has elected to employ net presentation of derivative assets and liabilities when FSP FIN No. 39-1 conditions are met. FSP FIN No. 39-1 also requires that when derivative assets and liabilities are presented net, the fair value of the right to reclaim collateral assets (receivable) or the obligation to return cash collateral (payable) is also offset against the net fair value of the corresponding derivative. The Company routinely exercises its contractual right to net realized gains against realized losses when settling with its swap and option counterparties. At April 30, 2009, derivative assets include the net market value of derivative assets and liabilities due to the right of offset in the settlement of these contracts.

New Accounting Pronouncements

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

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

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

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

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. These non-financial items include assets and liabilities such as non-financial assets and liabilities assumed in a business combination, reporting units measured at fair value in a goodwill impairment test and asset retirement obligations initially measured at fair value. Effective August 1, 2008, Doral adopted SFAS 157 for fair value measurements not delayed by FSP FAS No. 157-2. The adoption resulted in additional disclosures as required by the pronouncement (See Note 9 Fair Value Measurements) related to our fair value measurements for oil and gas derivatives but no change in our fair value calculation methodologies. Accordingly, the adoption had no impact on our financial condition or results of operations.

GOING CONCERN

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

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

NOTE 3 OIL AND GAS PROPERTIES

Acquisition of Eddy County Properties

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

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

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

(a) Upon execution of the Hanson Energy Agreement, a deposit (the Deposit) of $100,000 in cash plus and 80,000 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 1,040,000 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 (7,000,000 shares valued at	14,000,000
$2.00 per share based on last traded stock price)	
Cash paid for other acquisition costs	97,090
Asset retirement obligation incurred	918,902
Total purchase price	$ 20,015,992
Less: Net profits overriding royalty interest	(5,300,000)
Net purchase price	$ 14,715,992

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

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

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

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

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

Oil and gas properties

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

NOTE 4 ASSET RETIREMENT OBLIGATION

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

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

NOTE 5 NOTES PAYABLE

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

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

Little Bay Notes Payable

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

Green Shoe Investments

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

Macquarie Credit Agreement

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

The Term Loan and the Revolving Loan are secured by all of the assets of the Company. Interest accrued on the Term Loan and the Revolving Loan is payable monthly beginning on September 20, 2008. The Credit Agreement requires that Doral must pay 100 percent of net operating cash flow to Macquarie monthly beginning on September 20, 2008. This payment will be applied first to accrued interest and fees, second to principal on the Term Loan and last to principal on the Revolving Loan**.** At April 30, 2009, the applicable interest rate under the Term Loan and the Revolving Loan was 6.95% and 3.45%, respectively. The effective interest rates on the Term and Revolving Loans combined is approximately 130%.

Provided that the Company submitted a Development Plan (as such term is defined in the Credit Agreement) acceptable to Macquarie (at its sole discretion) by January 15, 2009, the Credit Agreement would have matured on July 30, 2011. Since the Company failed to submit an acceptable Development Plan to Macquarie, the maturity date has been moved up to July 30, 2009. In connection with the Credit Agreement, Doral granted Macquarie a net profits overriding royalty interest (NPORRI) in the Eddy County Properties. Beginning on the maturity date of the Credit Agreement, or earlier if all amounts advanced under the Credit Agreement are repaid before that date, Doral will pay Macquarie 35% of its net profits on the Eddy County Properties. After Macquarie has received $5,000,000, this percentage will drop to 20% in perpetuity. Doral has valued the NPORRI at $21,874,740 based on the projected cash flow from the Eddy County Properties discounted at 25%. As a result Doral has recorded a discount of $5,300,000 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.

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

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

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

Vehicle and trailer notes

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

NOTE 6 COMMITMENTS AND CONTINGENCIES

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

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

Cochran County Properties Agreement

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

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

On March 31, 2009, the Company entered into an agreement to modify the terms of their letter agreement with Miltex to increase the purchase price by $125,000. Of this increase, Doral paid $25,000 in earnest money and an additional $100,000 was added to the purchase price due at closing, making the total purchase price $2,425,000. Doral has until

April 21, 2009 to complete the acquisition of the Cochran County Properties. In order to complete the acquisition of the Cochran County Properties, Doral will be required to pay Miltex an additional $2,235,981.90 by April 21, 2009. The required payment amount includes $2,200,000 for the remainder of the purchase price and $35,981.90 for the value of oil in Miltex s storage tanks as of March 1, 2009. The $25,000 deposit is included in deposits on the balance sheet at April 30, 2009.

On April 21, 2009, Doral entered into an agreement to modify the terms of their letter agreement with Miltex. The deadline for Doral s proposed acquisition of the Miltex Properties has been changed from April 21, 2009 to May 29, 2009, with extension clauses to adjust the closing date to July 31, 2009, if necessary. The effective date of the proposed Miltex Properties acquisition, however, remains at the original date of March 1, 2009. If closing occurs by the May 29, 2009 scheduled closing date, the revised total acquisition cost of the Miltex Properties will be $2,635,000 plus 25,000 shares of the Company s common stock, of which $2,400,000 will be payable to Miltex at closing. If the closing date is extended to June 30, 2009, the Company will pay an additional $10,000 to Miltex and will issue an additional 25,000 shares of the Company s common stock. If the closing date is extended to July 31, 2009, the Company will pay to Miltex an additional $50,000. The shares to be issued to Miltex will be issued pursuant to the registration exemptions provided by Regulation D of the Securities Act of 1933 (the Securities Act). The Company has granted piggy-back registration rights to Miltex.

On May 22, 2009, Doral notified Miltex of its intention to extend the closing date of the proposed acquisition of Cochran County Properties owned by Miltex. Under the amended terms of Doral s agreement with Miltex, Doral has the right to extend the closing date for the Miltex Properties from May 29, 2009 to June 30, 2009 by paying Miltex and additional $10,000 and issuing to Miltex an additional 25,000 shares of its common stock. These amounts were paid subsequent to year end and included in deposit on the balance sheet April 30, 2009..

Investment advisory agreement

On January 26, 2009, Doral entered into an investment advisory agreement with a financial advisor. Under the terms of the agreement, Doral has agreed to pay $125,000 in cash, of which $25,000 was paid upon execution of the agreement with the remaining $100,000 payable in 11 equal monthly installments and 50,000 shares of common stock. The shares were valued at $125,000 based on the market value of the stock on the date of the agreement. The $25,000 cash payment and the $125,000 paid in shares of common stock has been included in deposits on the balance sheet at April 30, 2009, based on management s expectation that the financial advisor will be successful in obtaining additional financing for the Company.

NOTE 7 STOCKHOLDERS EQUITY

In June 2008, Doral completed a private placement of 38,400 shares of common stock at a price of $3.125 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 1,608 shares of common stock at a price of $3.125 per share and received total cash proceeds of $5,025. These shares were issued in November 2008.

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

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

In March 2009, Doral received subscription proceeds of $25,001 for the sale of 14,286 shares of common stock under Doral s $1.75 per share offering. The shares subscribed for have not yet been issued by the Company; however, they are reflected in outstanding shares for accounting purposes.

In April 2009, Doral entered into an agreement to modify the terms of their letter agreement with Miltex. Doral issued 25,000 shares of the company s common stock at a price of $2.85 in exchange for an extention of the closing date of their agreement.

NOTE 8 RELATED PARTY TRANSACTIONS

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

NOTE 9 DERIVATIVE INSTRUMENTS AND PRICE RISK MANAGEMENT ACTIVITIES

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

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

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

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

NOTE 10 FAIR VALUE MEASUREMENTS

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

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that Doral has the ability to access at the measurement date.

Level 2 Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

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

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

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

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

NOTE 11 SUBSEQUENT EVENTS

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

Doral has agreed to pay $4,700,000 for all of the outstanding shares of Slape Oil and $1,200,000 for all of the outstanding shares of Flaming S, for an aggregate purchase price of $5,900,000 for both companies. As a deposit for these purchases, Doral has agreed to issue 304,000 shares of its common stock to the shareholders of Slape Oil and 96,000 to the shareholders of Flaming S (collectively, the Deposit Shares). The Deposit Shares will be placed in escrow, and returned to Doral for cancellation if the acquisitions of Slape Oil and Flaming S are completed. If Doral does not complete the acquisition of these companies, the shareholders of Slape Oil and Flaming S will be entitled to keep the Deposit Shares, unless the failure to complete arises due to their breaching any of the terms, conditions, representations or warranties of the purchase agreements.

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

Convertible note payable

On May 28, 2009, we received $150,000 in debt financing from Green Shoe Investments Ltd. (Green Sh