

CROSS BORDER RESOURCES, INC.

Form S-1

July 25, 2011

As filed with the Securities and Exchange Commission on July ____, 2011

Registration No. 333-

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

FORM S-1
Registration Statement under the Securities Act of 1933

CROSS BORDER RESOURCES, INC.
(Exact name of registrant as specified in its charter)

| | | |
|-----------------------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------|
| NEVADA (State or other jurisdiction of incorporation or organization) | 1311 (Primary Standard Industrial Classification Code number) | 98-0555508 (I.R.S. Employer Identification No.) |
|-----------------------------------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------|

22610 US Highway 281 N., Suite 218
San Antonio, TX 78258
(210) 226-6700

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Everett Willard Gray II
22610 US Highway 281 N., Suite 218
San Antonio, TX 78258
(210) 226-6700

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:
Williams & Anderson PLC
111 Center St., Twenty-Second Floor
Little Rock, Arkansas 72201

Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement is declared effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement number for

the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

| | | | |
|--------------------------------------------------|--------------------------------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------|
| Large accelerated filer <input type="radio"/> | Accelerated filer <input type="radio"/> | Non-accelerated filer <input type="radio"/> (Do not check if a smaller reporting company) | Smaller reporting company <input checked="" type="radio"/> |
|--------------------------------------------------|--------------------------------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------|

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered (1) | Proposed Maximum Offering Price Per Share (2) | Proposed Maximum Aggregate Offering Price (2) | Amount of Registration Fee |
|----------------------------------------------------|-----------------------------|-----------------------------------------------|-----------------------------------------------|----------------------------|
| Common Stock, \$0.001 par value per share | 7,209,375 shares | \$ 1.97 | \$ 14,202,469 | \$ 1,649 |

- (1) Pursuant to Rule 416 under the Securities Act of 1933, as amended, the number of shares of common stock registered hereby includes such indeterminate number of additional shares of common stock as may become issuable as a result of stock splits, stock dividends or similar transactions.
- (2) Estimated solely for the purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based upon the average high and low prices of the common stock on July 19, 2011, as reported on the OTCQX.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Subject to Completion, dated _____, 2011

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

7,209,375 Shares of Common Stock
Cross Border Resources, Inc.

This prospectus relates to the resale by selling stockholders identified in the section entitled "Selling Stockholders" on page 36 of up to an aggregate of 7,209,375 shares of common stock of Cross Border Resources, Inc. Of the 7,209,375 shares being registered, 3,606,250 shares are outstanding, and 3,603,125 shares are issuable upon exercise of outstanding warrants.

We will not receive any proceeds from the sale of the shares of common stock covered by this prospectus. We may receive proceeds from the exercise of the warrants whose underlying shares of common stock are covered by this prospectus. However, the shareholders are not required to exercise their warrants, and under the terms of the warrants, cashless exercise is permitted in certain circumstances. We may not receive any proceeds if the warrants are not exercised or are exercised on a cashless basis. If all of the shares underlying the warrants are exercised for cash, we would receive aggregate gross proceeds of \$8,115,625.00.

The selling stockholders may offer and sell any of the shares of common stock from time to time at fixed prices, at market prices or at negotiated prices, and may engage a broker, dealer or underwriter to sell the shares. For additional information on the possible methods of sale that may be used by the selling stockholders, you should refer to the section entitled "Plan of Distribution" on page 40 of this prospectus.

You should consider carefully the risks that we have described in the section entitled "Risk Factors" beginning on page 2 before deciding whether to invest in our common stock.

Our common stock is quoted on OTCQX and trades under the symbol XBOR. On July 19, 2011, the closing sale price of our common stock was \$2.00 per share.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus is dated _____, 2011.

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MARCH 31, 2011

AUDITED FINANCIAL STATEMENTS FOR YEARS ENDED F-15
DECEMBER 31, 2010 AND 2009

PROSPECTUS SUMMARY

This summary highlights selected information more fully described elsewhere in this prospectus. You should read the following summary together with the entire prospectus, including the more detailed information regarding us and the common stock being sold in this offering, and our financial statements and notes thereto appearing elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in the section entitled “Risk Factors” beginning on page 2 before deciding to invest in our common stock. Unless otherwise stated or the context requires otherwise, references in this prospectus to “we,” “our,” “us” or the “Company” refer to Cross Border Resources, Inc. and its subsidiaries.

Overview of the Company

Cross Border Resources, Inc. is an oil and gas exploration company with its headquarters in San Antonio, Texas, resulting from the business combination of Doral Energy Corp (“Doral”) and Pure Gas Partners II, L.P. (“Pure L.P.”), effective January 3, 2011. The business combination of Doral and Pure L.P. was completed by the transfer of all of Pure L.P.’s oil and gas assets and liabilities to its wholly owned subsidiary, Pure Energy Group, Inc. (“Pure Sub”), and the subsequent merger (the “Pure Merger”) of Pure Sub with a wholly owned subsidiary of Doral incorporated for the purpose of completing the Pure Merger.

The Company currently owns over 800,000 gross (approximately 300,000 net) mineral and lease acres within the state of New Mexico. Over 31,000 of these net acres exist within the Permian Basin. Unlike many exploration and production organizations, 99% of our acreage consists of either owned mineral rights or leases held by production.

Current development of the Company’s acreage is focused on our prospective Bone Spring acreage located in the heart of the 1st and 2nd Bone Spring play. This play encompasses approximately 4,390 square miles across both New Mexico and Texas. The Company currently owns varying, non-operated working interest in both Eddy and Lea counties, New Mexico, in conjunction with our working interest partners who include Cimarex, Apache, and Mewbourne, all of whom having significant footprints within this play.

Additional development is currently underway on our Abo, Yeso, and San Andres acreage with our other working interest partners, Concho Resources and Cimarex. The Company currently has drilling inventory across these formations with varying non-operated working interests ranging from 3% to 90%.

The Company’s principal executive offices are located at 22610 US Highway 281 N., Suite 218, San Antonio, TX 78258, and our telephone number is (210) 226-6700. Our website address is <http://www.xbres.com>. The information on, or that can be accessed through, our website is not part of this prospectus.

The Offering

Common stock offered by the selling stockholders Up to 7,209,375 shares of our common stock issued or issuable upon the exercise of outstanding warrants.

Use of Proceeds Selling stockholders will receive the proceeds from the sale of common stock covered by this prospectus. We will not receive any proceeds from the sale of the shares of common stock covered by this prospectus. We will receive proceeds from any cash exercise of the warrants whose underlying shares of common stock are covered by this prospectus. We

intend to use proceeds from the cash exercise of the warrants, if any, for general working capital.

As of June 30, 2011, we had 16,151,946 shares of common stock outstanding, warrants outstanding to purchase an aggregate of 3,603,125 shares of common stock, and options to directors, officers and employees outstanding to purchase an aggregate of 1,352,500 shares of common stock.

RISK FACTORS

Our business faces many risks. We believe the risks described below are the material risks facing the Company. However, the risks described below may not be the only risks we face. Additional unknown risks or risks that we currently consider immaterial may also impair our business operations. If any of the events or circumstances described below actually occur, our business, financial condition or results of operations could suffer, and the trading price of our shares of common stock could decline significantly. Investors should consider the specific risk factors discussed below, together with the "Cautionary Note Regarding Forward-Looking Information" and the other information contained in this registration statement and the other documents that we file from time to time with the Securities and Exchange Commission.

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

Risks Relating to Our Business

We have an operating deficit.

Currently, our operations are not profitable. Doral Energy Corp. (prior to the merger) incurred losses since inception. We may never be able to achieve profitability.

We have recently merged operations and therefore have a short combined operating history and no combined audited financial statements.

On January 3, 2011, the Company effected a business combination with Pure L.P. Pure L.P. appointed three new directors, and the Company hired new officers. Because of this recent merger, the Company has a very short operating history for the combined operations. Furthermore, Doral's fiscal year ended on July 31, 2010, and Pure L.P.'s fiscal year ended on December 31, 2010; therefore the Company does not have consolidated audited financial statements for the newly-combined entity.

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

Because we are a small company, our success depends greatly upon the efforts, abilities, and decision-making of our executive officers. The loss of any of these persons would have an adverse effect on our business prospects. We do not currently maintain "key-man" life insurance. In the event that we should lose our officers and we are unable to find suitable replacements, we may not be able to maintain or develop our business, in which case investors might lose all of their investment.

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

Our articles of incorporation, as amended, authorize the issuance of 36,363,637 shares of common stock. Our board of directors has the authority to issue additional shares of common stock up to the authorized capital stated in the articles

of incorporation. We contemplate that our board of directors may authorize the issuance of some or all of such shares to provide the Company with additional capital or as compensation for consultants and independent contractors providing services to the Company. The issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. It will also cause a reduction in the proportionate ownership and voting power of all other stockholders.

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

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

Risks Relating to Our Industry

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

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

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

Our oil and gas operations will be subject to the economic risks typically associated with exploitation and development activities, including the necessity of making significant expenditures to locate and acquire properties and to drill development wells. In addition, the availability of drilling rigs and the cost and timing of drilling, completing and, if warranted, operating wells is often uncertain. In conducting exploitation and development activities, the presence of unanticipated formation pressure or irregularities in formations, miscalculations or accidents may cause our exploitation, development and production activities to be unsuccessful. This could result in a total loss of our investment in a particular well. If exploitation and development efforts are unsuccessful in establishing proved reserves and development activities cease, the amounts accumulated as unproved costs will be charged against earnings as impairments.

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

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

The future performance of our oil and gas business will depend upon an ability to identify, acquire and develop oil and gas reserves that are economically recoverable. Success will depend upon the ability to acquire working and net

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

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

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

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

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

Changes in commodity prices may significantly affect our capital resources, liquidity and expected operating results. Price changes will directly affect revenues and can indirectly impact expected production by changing the amount of

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

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

From time to time, the Company may enter into hedging transactions. If we do enter into hedging transactions, they will likely be for a portion of our expected production for the purpose of reducing the risk of fluctuations in oil and gas prices. Although these hedging transactions would be expected to provide us with some protection in the event of a decrease in oil and gas prices, they may limit our potential gains in the event that oil and gas prices increase. Although we are currently engaged in hedging arrangements, if we choose not to engage in hedging arrangements in the future, we may be more adversely affected by changes in oil and natural gas prices than our competitors who engage in hedging arrangements.

We may encounter difficulty in obtaining equipment and services.

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

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

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

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

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

Title deficiencies could render our leases worthless.

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

If we fail to maintain adequate operating insurance, our business could be materially and adversely affected. The liability insurance we maintain may not be adequate to cover losses our business may incur.

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

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

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

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

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

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

Risks Relating to Our Stock

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

Our common stock is quoted on the OTCQX under the symbol "XBOR." Companies quoted on the in the OTC market have traditionally experienced extreme price and trading volume fluctuations. We have experienced price and volume fluctuations. In addition, our stock price may be adversely affected by factors that are unrelated or disproportionate to our operating performance. The Company is a former shell company and the market fluctuations, as well as general economic, political and market conditions such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. As a result of this potential price and volume volatility, an investor may have difficulty selling any of our common stock that they acquire at a price equal or greater than the price paid by the investor.

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

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than \$5.00 and not listed to trade on certain national securities exchanges.

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements. The forward-looking statements are contained principally in the sections entitled "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements.

These forward-looking statements are based on management's beliefs and assumptions and on information currently available to our management. Our management