

CROSS BORDER RESOURCES, INC.

Form 10-Q

August 15, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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

CROSS BORDER RESOURCES, INC.

(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.)

22610 US Highway 281 N., Suite 218

San Antonio, TX

(Address of principal executive offices)

78258

(Zip Code)

(210) 226-6700

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Accelerated filer
 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 August 8, 2011, the Registrant had 16,151,946 shares of common stock outstanding.

Cross Border Resources, Inc.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 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 six-month periods ended June 30, 2011 are not necessarily indicative of the results that can be expected for the year ending December 31, 2011.

As used in this Quarterly Report on Form 10-Q, the terms "we," "us," "our," and the "Company" mean Cross Border Resources, Inc. unless otherwise indicated. All dollar amounts in this Quarterly Report are in U.S. dollars unless otherwise stated.

Cross Border Resources, Inc.
Balance Sheets

	June 30, 2011 (Unaudited)	Predecessor Entity December 31, 2010 (As Restated)
ASSETS		
Current Assets		
Cash	\$ 1,537,152	\$ 975,123
Accounts Receivable - Production	497,430	512,624
Accounts Receivable - Related Party	—	250,000
Prepaid Expenses	446,606	—
Derivative Asset	106,850	—
Current Tax Asset	49,737	—
Total Current Assets	2,637,775	1,737,747
Oil and Gas Properties	31,971,832	19,421,621
Less: Accumulated Depletion	(8,768,498)	(7,328,326)
Net Oil and Gas Properties	23,203,334	12,093,295
Other Assets		
Other Property and Equipment, net of Accumulated Depreciation of \$112,763 and \$94,759 in 2011 and 2010, respectively	108,194	124,776
Deferred Bond Costs, net of Accumulated Amortization of \$303,243 and \$293,915 in 2011 and 2010, respectively	200,611	209,939
Deferred Bond Discount, net of Accumulated Amortization of \$134,019 and \$108,827 in 2011 and 2010, respectively	52,541	77,733
Other Assets	173,056	112,532
Total Other Assets	534,402	524,980
TOTAL ASSETS	\$ 26,375,511	\$ 14,356,022

	June 30, 2011 (Unaudited)	Predecessor Entity December 31, 2010 (As Restated)
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts Payable - Trade	\$ 253,910	\$ 875,881
Accounts Payable - Revenue Distribution	76,000	49,880
Interest Payable	83,532	107,875
Accrued Expenses	19,968	28,460
Deferred Revenues	97,436	162,394
Bonds Payable - Current Portion	720,000	660,000
Creditors Payable - Current Portion	180,000	150,000
Total Current Liabilities	1,430,846	2,034,490
Non-Current Liabilities		
Asset Retirement Obligations	1,191,919	508,588
Deferred Income Tax Liability	19,487	—
Line of Credit	1,000	1,582,426
Notes Payable	764,278	—
Bonds Payable, net of Current Portion	3,305,000	3,555,000
Creditors Payable, net of Current Portion	1,359,545	1,656,305
Total Non-Current Liabilities	6,641,229	7,302,319
Total Liabilities	8,072,075	9,336,809
Stockholders' Equity (Deficit)		
Retained Earnings (Accumulated Deficit)(1)	(14,371,458)	5,019,213
Common Stock (\$0.001 par value; 36,363,637 authorized and 16,151,946 shares issued and outstanding at June 30, 2011)	16,152	—
Additional Paid in Capital	32,658,742	—
Total Stockholders' Equity	18,303,436	5,019,213
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 26,375,511	\$ 14,356,022

(1) Retained Earnings as of December 31, 2010 (As Restated) includes all equity accounts, including all Predecessor Entity Partners' Capital accounts.

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

Cross Border Resources, Inc.
Statements of Operations
(Unaudited)

	Three months ended June 30,	
	2011	2010 Predecessor Entity
Revenues and Gains		
Oil and gas sales	\$ 1,465,050	\$ 919,234
Gain on sale of oil and gas properties	599,100	--
Other	32,479	38,073
Total revenues and gains	\$ 2,096,629	\$ 957,307
Expenses:		
Operating costs	362,161	87,375
Production taxes	165,108	100,440
Depreciation, depletion, and amortization	488,601	222,538
Accretion expense	26,416	14,818
General and administrative	1,100,147	234,565
Total expense	2,142,433	659,736
Gain (loss) from operations	(45,804)	297,571
Other income (expense):		
Bond issuance amortization	(4,664)	(4,664)
Gain (loss) on derivatives	75,857	—
Interest expense	(142,438)	(91,648)
Miscellaneous other income (expense)	10,609	(202,402)
Total other income (expense)	(60,636)	(298,714)
Loss before income taxes	(106,440)	(1,143)
Current tax benefit (expense)	54,160	(7,862)
Deferred tax benefit (expense)	(14,317)	7,862
Income tax benefit (expense)	39,843	—
Net income (loss)	\$ (66,597)	\$ (1,143)
Net loss per share:		
Basic and diluted	\$ (0.00)	\$ —
Weighted average shares outstanding:		
Basic and diluted	14,948,649	—

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

Cross Border Resources, Inc.
Statements of Operations
(Unaudited)

	Six months ended June 30,	
	2011	2010 Predecessor Entity
Revenues and Gains		
Oil and gas sales	\$ 3,031,863	\$ 1,926,964
Gain on sale of oil and gas properties	599,100	--
Other	64,958	41,076
Total revenues and gains	\$ 3,695,921	\$ 1,968,040
Expenses:		
Operating costs	515,225	183,624
Production taxes	270,564	186,286
Depreciation, depletion, and amortization	1,072,891	624,835
Accretion expense	52,833	29,635
General and administrative	1,973,291	463,464
Total expense	3,884,804	1,487,844
Gain (loss) from operations	(188,883)	480,196
Other income (expense):		
Bond issuance amortization	(9,328)	(9,328)
Gain (loss) on derivatives	106,123	—
Interest expense	(247,594)	(202,321)
Miscellaneous other income (expense)	52,628	(31,239)
Total other income (expense)	(98,171)	(242,888)
Loss before income taxes	(287,054)	237,308
Current tax benefit (expense)	85,028	(21,358)
Deferred tax benefit (expense)	(19,487)	21,358
Income tax benefit (expense)	65,541	—
Net income (loss)	\$ (221,513)	\$ 237,308
Net loss per share:		
Basic and diluted	\$ (0.02)	\$ —
Weighted average shares outstanding:		
Basic and diluted	13,719,626	—

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

Cross Border Resources, Inc.
 Statements of Cash Flows
 For the six months ended June 30, 2011 and 2010
 (Unaudited)

	Six Months Ended June	
	2011	2010 Predecessor Entity
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (221,513)	\$ 237,308
Adjustments to reconcile net income (loss) to cash used by operating activities:		
Depreciation, depletion, amortization	1,047,697	624,835
Accretion	52,833	29,635
Gain on Disposition of Assets	(583,766)	—
Share-based Compensation	455,230	—
Amortization of debt discount and deferred financing costs	34,520	34,521
Changes in operating assets and liabilities:		
Accounts receivable	15,194	265,168
Prepaid expenses and other current assets	(551,986)	6,714
Accounts payable – trade	(1,064,664)	52,095
Accrued expenses	(190,602)	(27,801)
Deferred income tax	(30,250)	—
Deferred revenue	(64,958)	227,352
Other current liabilities	(105,074)	21,835
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(1,207,339)	1,471,662
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures - oil and gas properties	(1,856,805)	(996,363)
Disposal of oil and gas properties	799,100	—
Capital expenditures - other assets	(35,239)	—
NET CASH USED IN INVESTING ACTIVITIES	(1,092,944)	(996,363)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock, net of expenses	5,143,220	—
Net borrowings (payments) on line of credit	(1,581,426)	(355,000)
Proceeds from renewing notes	139,359	—
Repayments of notes payable	(382,081)	—
Repayments of bonds	(190,000)	—
Repayments to creditors	(266,760)	(122,895)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,862,312	(477,895)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	562,029	(2,596)
Cash and cash equivalents, beginning of period	975,123	757,119
Cash and cash equivalents, end of period	\$ 1,537,152	\$ 754,523
Supplemental disclosures of cash flow information:		
Interest paid	\$ 195,795	\$ 185,493

Income taxes paid	\$	—	\$	—
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The above changes in current assets and current liabilities differ from changes between amounts reflected in the June 30, 2011 balance sheet due to current assets and current liabilities acquired in connection with the Company's reverse acquisition with Pure Energy Group, Inc. and Pure Gas Partners II, LP, as more fully described in Note 1 to the unaudited financial statements.

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

Cross Border Resources, Inc.
Notes to Unaudited Financial Statements

NOTE 1 – ORGANIZATION AND BUSINESS OPERATIONS

Nature of Operations

The Company is an independent natural gas and oil company engaged in the exploration, development, exploitation, and acquisition of natural gas and oil reserves in North America. The Company's primary area of focus is the State of New Mexico, particularly southeastern New Mexico.

Reverse Acquisition

Effective December 27, 2010, the Company completed a 1-for-55 reverse split of its common stock in accordance with Article 78.207 of the Nevada Revised Statutes (the "Reverse Split"). The Reverse Split resulted in a decrease in the Company's authorized share capital from 2,000,000,000 shares of common stock, par value \$0.001 per share, to 36,363,637 shares of common stock, par value, \$0.001 per share, with a corresponding decrease in the number of issued and outstanding shares of the Company's common stock from 135,933,086 shares to 2,471,544 shares (after accounting for fractional share interests being rounded up to the next whole number). Completion of the Reverse Split was a condition precedent for the merger with Pure Gas Partners II, L.P. ("Pure").

Effective January 3, 2011, the Company completed the acquisition of Pure Energy Group, Inc. ("Pure Sub") as contemplated pursuant to the Agreement and Plan of Merger dated December 2, 2010 (the "Pure Merger Agreement") among the Company, Doral Acquisition Corp., the Company's wholly owned subsidiary ("Doral Sub"), Pure Gas Partners II, L.P. ("Pure") and Pure Sub, a wholly owned subsidiary of Pure (Pure Sub and Pure being collectively referred to herein as the "Pure Energy Group").

Pursuant to the provisions of the Pure Merger Agreement, all of Pure's oil and gas assets and liabilities were transferred to Pure Sub. Pure Sub was then merged with and into Doral Sub, with Doral Sub continuing as the surviving corporation (the "Pure Merger"). Upon completion of the Pure Merger, the outstanding shares of Pure Sub were converted into an aggregate of 9,981,536 shares of the Company's common stock. As a result of the Pure Merger, the previous Pure shareholders own approximately 80% of the Company's total outstanding shares on a fully diluted basis, with the Company's previous stockholders owning the remaining 20%.

The purchase price of the assets of the Company arising from the reverse acquisition with the Pure Energy Group was \$8,085,984, representing eighty percent (80%) of the appraised value of 2,471,511 post-split shares of the Company which were issued and outstanding immediately prior to the reverse acquisition. The allocation of the purchase price and the purchase price accounting is based upon preliminary estimates of the assets and liabilities effectively acquired on January 3, 2011 in accordance with ASC topic 805, Business Combinations.

The preliminary allocation of the purchase price is as follows:

Cash and cash equivalents	\$ (62,798)
Accounts receivable	94,810
Prepaid expenses and other current assets	5,769
Proved oil and gas properties	10,336,219
Property and equipment	12,643
Other assets	228,268
Total assets	10,614,911

Accounts payable	(378,079)
Accounts payable- related party	(69,917)
Accrued liabilities	(182,110)
Long-term debt	(1,018,322)
Notes payable to related party	(250,000)
Asset retirement obligation	(630,499)
Purchase price	\$ 8,085,984

NOTE 1 – ORGANIZATION AND BUSINESS OPERATIONS (continued)

The statements of income include the results of operations for Cross Border Resources, Inc. commencing on January 4, 2011. As a result, information provided for the six months ended June 30, 2011 presented below includes the actual results of operations from January 4, 2011 to June 30, 2011 and the combined historical financial information for the Cross Border Resources, Inc. (formerly Doral Energy) and Pure for the period January 1, 2011 to January 3, 2011. The unaudited pro forma financial information for the six months ended June 30, 2010 presented below combines the historical financial information for the Cross Border Resources, Inc. and Pure for that period. The following unaudited pro forma information is not necessarily indicative of the results of future operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010 Predecessor Entity	2011	2010 Predecessor Entity
Revenues	\$2,096,629	\$957,307	\$3,695,921	\$2,517,492
Operating income (loss)	(45,804)	297,571	(200,113)	(9,149,415)
Net income (loss)	(66,597)	(1,143)	(234,427)	(9,812,901)
Earnings (loss) per share *	\$(0.00)	\$(0.00)	\$(0.02)	\$(0.72)

* For purposes of this pro forma presentation of earnings per share we have assumed the same number of shares outstanding in the prior year periods as were outstanding in the current year periods.

Basis for Presentation

The unaudited condensed balance sheet as of June 30, 2011 and the unaudited condensed statements of operations and cash flows for the six months ended June 30, 2011 include the accounts of the predecessor company Pure for the period of January 1, 2011 to January 3, 2011 and the accounts of Pure and the Company for the period January 4, 2011 (date of reverse acquisition as discussed below) to June 30, 2011 (collectively, “Cross Border Resources, Inc.” or the “Company”). The comparative consolidated balance sheet as of December 31, 2010 and the unaudited condensed consolidated statements of operations and cash flows for the three and six month periods ended June 30, 2010 represent the accounts of Pure only. The consolidation effected by the business combination has been accounted for as a reverse acquisition wherein Pure is treated as the acquirer for accounting purposes.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior period to conform to current presentation.

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 Pure audited financial statements for the fiscal period ended December 31, 2010 as filed on Form 8-K/A on April 7, 2011. 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 Pure’s audited financial statements for the fiscal period ended December 31, 2010 has been omitted. The results of operations for the three and six month periods ended June 30,

2011 are not necessarily indicative of results for the entire year ending December 31, 2011.

Prior Period Correction of an Error

In the Company's 2010 financial statements, the Company recorded goodwill in connection with the 2005 acquisition of Pure Energy Group, Inc. During 2011, the Company re-evaluated its obligations with respect to its initial accounting for the transaction and determined that consideration paid in excess of the fair market value of the assets and liabilities transferred should have been allocated to the acquired oil and gas properties and subsequently tested for impairment. As a result, the Company retroactively stated its oil and gas properties as of December 31, 2010 to reflect the allocation of goodwill. In addition, the Company did not consider the need to impair the value of its acquired oil and gas properties based on the future cash flows of the assets. The correction of this error reduced net income for the three and six months ended June 30, 2010 by approximately \$80,165 and \$160,330, and \$320,660 was adjusted to beginning retained earnings as of January 1, 2010. The tax effect of this transaction was determined to be immaterial to the overall financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Oil and Gas Properties

The Company uses the successful efforts method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves, to drill and equip development wells and related asset retirement costs are capitalized. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. Capitalized costs of producing oil and gas properties, after considering estimated residual salvage values, are depreciated and depleted by the unit-of-production method.

On the sale or retirement of a complete unit of a proved property, the cost, and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. On the retirement or sale of a partial unit of proved property, the cost is charged to accumulated depreciation, depletion, and amortization with a resulting gain or loss recognized in income.

On the sale of an entire interest in an unproved property for cash or cash equivalent, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable - Production

Accounts receivable consist of amounts due from customers for oil and gas sales and are considered fully collectible by the Company as of June 30, 2011 and December 31, 2010. The Company determines when receivables are past due based on how recently payments have been received.

Revenue Recognition

The Company recognizes oil and natural gas revenue from its interests in producing wells when oil and natural gas is produced and sold from those wells.

Property and Equipment

Property, plant, and equipment are stated at cost. Depreciation of office furniture and equipment is provided using the straight-line method and the Modified Accelerated Cost Recovery System (MACRS) based on estimated useful lives ranging from three to 15 years. These methods do not materially differ from generally accepted accounting principles. Depreciation expense was \$19,013 and \$19,070 for the six month periods ended June 30, 2011 and 2010, respectively.

Asset Retirement Obligations

The Company accounts for asset retirement obligations under the provisions of ASC 410, Asset Retirement and Environmental Obligations, which provides for an asset and liability approach to accounting for Asset Retirement Obligations (ARO). Under this method, when legal obligations for dismantlement and abandonment costs, excluding salvage values, are incurred, a liability is recorded at fair value and the carrying amount of the related oil and gas properties is increased. Accretion of liability is recognized each period using the interest method of allocation and the capitalized cost is depleted over the useful life of the related asset. Asset retirement obligations as of June 30, 2011 and December 31, 2010 were \$1,191,919 and \$508,588, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following is a description of the changes to the Company's asset retirement obligations for the years ended June 30, 2011 and December 31, 2010:

	2011	Predecessor Entity 2010 (As Restated)
Asset retirement obligations at beginning of year	\$ 508,588	\$ 449,319
Asset retirement obligations acquired in acquisition	630,499	—
Accretion expense	52,832	59,269
Asset retirement obligations at end of period	\$ 1,191,919	\$ 508,588

Income Taxes

The Company is a taxable entity for federal or state income tax purposes for which an income tax provision has been made in the accompanying financial statements. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Differences between the enacted tax rates and the effective tax rates are primarily the result of timing differences in the recognition of depletion and accretion expenses. These differences do not create a material variance between the enacted tax rate and the effective tax rate.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Actual results could differ from those estimates and assumptions. Significant estimates include volumes of oil and gas reserves used in calculating depletion of proved oil and natural gas properties and costs to abandon oil and gas properties.

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 the Company's current and future expected cash flows; and impact the PV10 derivation of proved reserves.

Financial Instruments

The Company's financial instruments include cash and cash equivalents, receivables, payables, and debt and are accounted for under the provisions of ASC Topic 825, Financial Instruments. The carrying amount of these financial instruments as reflected in the balance sheets, except for long-term, fixed-rate debt, approximates fair value. The Company estimates the fair value of its long-term, fixed-rate debt generally using discounted cash flow analysis based on the Company's current borrowing rates for similar types of debt.

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. If not discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's financial statements upon adoption.

NOTE 3– STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

2011 Equity Financing

On May 26, 2011, the Company closed a private offering exempt from registration under the Securities Act of 1933 pursuant to Rule 506 of Regulation D promulgated thereunder. In the offering, the Company issued an aggregate of 3,600,000 units. Each unit was sold at \$1.50 and was comprised of one share of common stock and one five-year warrant to purchase a share of common stock at an exercise price of \$2.25 per share. The warrants are exercisable beginning on November 26, 2011. The Company agreed to use the net proceeds from the sale of the units for general business and working capital purposes and not to use such proceeds for the redemption of any common stock or common stock equivalents.

The investors in the offering received registration rights. The Company agreed to file a registration statement covering the resale of the common stock issued and the common stock underlying the warrants issued to the Selling Stockholders within sixty days after the closing date. If the registration statement is not declared effective by the SEC prior to the earlier of (i) five (5) Business Days after the SEC shall have informed the Company that no review of the Registration Statement will be made or that the SEC has no further comments on the Registration Statement or (ii) the 120th day after the Closing Date, then the Company will make pro rata cash payments to each Purchaser as liquidated damages in an amount equal to 1.0% of the aggregate amount invested by such Purchaser for each 30-day period or pro rata for any portion thereof following the date by which such Registration Statement should have been effective. If at the time of exercise of the warrants there is no effective registration statement covering the resale of the shares underlying the warrant, then the Selling Stockholder has the right at such time to exercise warrants in full or in part on a cashless basis.

In addition to registration rights, the Selling Stockholders were offered a right of first refusal to participate in future offerings of common stock if the principal purpose of which is to raise capital. This right of first refusal terminates upon the earlier of a sale, merger, consolidation or reorganization of the Company or the one-year anniversary of the Closing Date.

Warrants

In connection with the equity offering closed on May 26, 2011, the Company issued warrants to purchase an aggregate of 3,600,000 shares of the Company's common stock at a per-share price of \$2.25. The Company also has outstanding warrants to purchase 3,125 shares of the Company's common stock at a per-share price of \$5.00.

If all of these warrants are exercised for cash, the Company would receive \$8,115,625.00 in aggregate proceeds. The warrants to purchase the 3,600,000 shares are not exercisable until November 2011. We do not expect the immediate exercise of these warrants as the exercise price currently exceeds the average closing price. Furthermore, we cannot make assurances that any of the warrants will ever be exercised for cash or at all.

Stock Issued for Services

During the second quarter of 2011, the Company issued a total of 75,000 shares of its common stock as compensation for services by consultants.

NOTE 3– STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE (continued)

Earnings Per Share

The following table illustrates the calculation of earnings per share for the three and six month periods ended June 30:

	Three Month Periods		Six Month Periods	
	2011	2010	2011	2010
Net income (loss)	\$ (66,597)	\$ (1,143)	\$ (221,513)	\$ 237,308
Weighted-average number of common shares:	14,948,649	n/a	13,719,626	n/a
Earnings per common share:				
Basic	\$ (0.00)	n/a	\$ (0.02)	n/a
Diluted	\$ (0.00)	n/a	\$ (0.02)	n/a

In periods where a net loss is incurred, any assumed exercise of stock options or warrants would be anti-dilutive. The exercise prices of all outstanding stock options and warrants exceeded the market price for the Company's common stock throughout the periods shown. Therefore there would have been no dilutive impact from these items if there were net income for the periods.

Prior to the merger, effective January 3, 2011, the accounting acquirer was a privately held partnership. No earnings per share can be calculated for those periods.

NOTE 4– RELATED PARTY TRANSACTIONS

The Company paid \$163,000 and \$78,000 in consulting fees in June 30, 2011 and 2010, respectively to BDR Consulting, Inc. (BDR), a member of CCJ/BDR Investments, L.L.C., who owned a combined 64.108% limited partnership interest in the Pure Gas Partners, L.P. The president of BDR also served on the Board of Directors and was the Chief Executive Officer of Pure Energy Group, Inc. In addition, the Company rented office space from BDR on a month-to-month basis through September 2010. The Company paid BDR \$12,000 in rental fees in the six months ended June 30, 2010.

The Company has a development contract with Aztec Energy Partners I, L.P. (Aztec), whereby Aztec agreed to fund 100% of costs through completion on certain wells to be drilled in two counties in New Mexico. Certain partners in Aztec are also indirect limited partners and members of the Board of Directors of the Company and its subsidiaries. On certain wells, the Company owns a working interest. On those wells, Aztec will receive working interest and net revenue interest. During the period ended June 30, 2011 and 2010, the Company paid Aztec \$71,014 and \$197,831, for Aztec's share of well income, net of related well costs, based on production.

Aztec Managing GP, LLC (Aztec MP) is the managing general partner of Aztec Energy Partners I, L.P. The principals of Aztec MP also serve on the Board of Directors of the Company. During the period ended June 30, 2011 and 2010, the Company paid Aztec MP \$190,654 and \$103,001, respectively, for Aztec MP's share of well income, net of related well costs, based on production.

NOTE 5 – LONG TERM - DEBT

At June 30, 2011 and December 31, 2010, long-term debt consisted of the following items:

	June 30, 2011	Predecessor Entity December 31, 2010 (As Restated)
7½% Debentures, Series 2005	\$ 4,025,000	\$ 4,215,000
Notes Payable – Greenshoe Investment	367,309	—
Notes Payable – Little Bay Consulting	396,969	—
Total Long-term Debt	\$ 4,789,278	\$ 4,215,000

NOTE 5 – LONG TERM - DEBT (continued)

7½% Debentures, Series 2005

On March 1, 2005, Pure Energy Group, Inc. and its subsidiary Pure Gas Partners, II, L.P., issued 7 ½ % Debentures, Series 2005, in the principal amount of \$5,500,000. The Debentures are secured by all revenues of the issuer and all money held in the funds and accounts created under the Indenture. The Debentures mature on March 1, 2015, with principal and interest payable semi-annually on March 1 and September 1. As of June 30, 2011 and December 31, 2010 the balance payable was \$4,025,000 and \$4,215,000, respectively. Interest expense for the six months ended June 30, 2011 and 2010 was \$154,223 and \$171,580, respectively.

Aggregate long-term debt, consisting of the 7½% Debentures, Series 2005, is estimated to be repayable annually as follows:

2011	\$ 370,000
2012	830,000
2013	1,020,000
2014	1,175,000
2015	630,000
Total	\$ 4,025,000

As permitted by the bond debt agreement, the Company purchases bonds back on the open market at its discretion. Bonds held by the Company at June 30, 2011 and December 31, 2010 totaled \$0 and \$185,000, respectively. These bonds were purchased at a discount of \$310,067 during 2010 and 2009. The bonds held by the Company are shown as a reduction of bonds payable on the balance sheet as follows:

	June 30, 2011	Predecessor Entity December 31, 2010 (As Restated)
Bonds Payable	\$ 4,025,000	\$ 4,400,000
Less: Bonds held by the Company		— (185,000)
Total	\$ 4,025,000	\$ 4,215,000

Notes Payable Green Shoe Investments

In connection with the merger, the Company, as the accounting acquirer, assumed an unsecured loan from Green Shoe Investments Ltd. (“Green Shoe”) in the principal amount of \$487,000 at an interest rate of 5.0%

On April 26, 2011, Cross Border Resources, Inc. (the “Company”) entered into a Loan Agreement with Green Shoe, and the Company executed and delivered a Promissory Note to Green Shoe in connection therewith. The amount of the Promissory Note and the loan from Green Shoe (the “Green Shoe Loan”) is \$550,936 and the purpose of the Green Shoe Loan is to consolidate and extend all of the loans owed by the Company and its predecessors to Green Shoe including without limitation the following: (i) loan dated May 9, 2008 in the principal amount of \$100,000, (ii) loan dated May 23, 2008 in the principal amount of \$150,000, (iii) loan dated July 18, 2008 in the principal amount of \$50,000, (iv) loan dated February 24, 2009 in the principal amount of \$100,000, and (v) loan dated April 29, 2009 in the principal amount of \$87,000 plus accrued interest of \$63,936. The Green Shoe Loan is unsecured.

Beginning March 31, 2011 (the effective date of the Promissory Note), the amounts owed under the Promissory Note began to accrue interest at a rate of 9.99%, and the Promissory Note provides that no payments of principal or interest are due until the maturity date of September 30, 2012. The Company is obligated to pay all accrued interest and make a principal payment equal to one-third of the principal owed upon the closing of an equity offering resulting in a specified amount of net proceeds to the Company. In addition, Green Shoe was granted the right to convert the principal and interest owed into shares of common stock of the Company at a conversion price of \$4.00 per share. The balance of these amounts as of June 30, 2011 is \$367,309.

NOTE 5 – LONG TERM DEBT (continued)

Notes Payable Little Bay Consulting

In connection with the merger, the Company, as the accounting acquirer, assumed an unsecured loan from Little Bay Consulting SA (“Little Bay”) in the principal amount of \$520,000 at an interest rate of 5%.

On April 26, 2011, the Company entered into a Loan Agreement with Little Bay, and the Company executed and delivered a Promissory Note to Little Bay in connection therewith. The amount of the Promissory Note and the loan from Little Bay (the “Little Bay Loan”) is \$595,423 and the purpose of the Little Bay Loan is to consolidate and extend all of the loans owed by the Company and its predecessors to Little Bay including without limitation the following: (i) loan dated March 7, 2008 in the original principal amount of \$220,000, (ii) loan dated July 18, 2008 in the original principal amount of \$100,000, and (iii) loan dated October 3, 2008 in the principal amount of \$200,000 plus accrued interest of \$75,423. The Little Bay Loan is unsecured.

Beginning March 31, 2011 (the effective date of the Promissory Note), the amounts owed under the Promissory Note began to accrue interest at a rate of 9.99%, and the Promissory Note provides that no payments of principal or interest are due until the maturity date of September 30, 2012. The Company is obligated to pay all accrued interest and make a principal payment equal to one-third of the principal owed upon the closing of an equity offering resulting in a specified amount of net proceeds to the Company. In addition, Little Bay was granted the right to convert the principal and interest owed into shares of common stock of the Company at a conversion price of \$4.00 per share. The balance of these borrowings as of June 30, 2011 is \$396,968.

NOTE 6 – OPERATING LINE OF CREDIT

As of June 30, 2011 and December 31, 2010, the borrowing base on the line of credit was \$4,000,000 and \$2,350,000, respectively. The interest rate is calculated at the greater of the adjusted base rate or 4% and matures on January 31, 2014. The line of credit is collateralized by producing wells. As of June 30, 2011 and December 31, 2010, the outstanding balance on the line of credit was \$1,000 and \$1,582,426, respectively. Interest expense for the six months ended June 30, 2011 and 2010 was \$46,039 and \$36,910, respectively. The line of credit is reported as long-term debt because the maturity date is greater than one year.

NOTE 7 – CREDITORS PAYABLE

In 2002, the prior owner of Pure Sub filed a petition for reorganization with the United States Bankruptcy Court. According to the plan of reorganization, three creditors were to receive a combined amount of approximately \$3,000,000 for their claims out of future net revenues of Pure Sub (defined as revenues from producing wells net of lease operating expenses and other direct costs).

The net estimated revenue distribution due to creditors in 2011 based on 2010 net revenues is \$180,000 as of June 30, 2011 and is presented as a current liability. The net revenue distribution to creditors in 2010 based on 2009 net revenues was \$105,000 as of June 30, 2010 and was presented as a current liability. As of June 30, 2011 and December 31, 2010, the creditors’ payable balance was \$1,539,545 and \$1,806,305, respectively.

NOTE 8 – OPERATING LEASES

The Company has a non-cancelable operating lease for office space expiring in June 2014. As of June 30, 2011, the remaining future minimum lease payments under the existing lease are as follows:

Year Ending December 31,	Operating Lease
2011	\$ 25,000
2012	50,000
2013	51,250
2014	26,250
2015	<u> </u>
Total Minimum Lease Payments	\$ 152,500

Rent expense related to leases for the six month periods ended June 30, 2011 and 2010 was \$23,750 and \$19,792, respectively.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Company is subject to federal and state laws and regulations relating to the protection of the environment. Environmental risk is inherent to oil and natural gas operations and the Company could be subject to environmental cleanup and enforcement actions. The Company manages this environmental risk through appropriate environmental policies and practices to minimize the impact to the Company.

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. The Company is not currently a party to any proceeding that it believes could have a material adverse effect on the Company's financial condition, results of operation or cash flows.

NOTE 10 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to the concentration of credit risk consist primarily of cash and cash equivalents. Cash balances at one bank exceeded FDIC insurance protection levels at June 30, 2011. The Company's management intends to take measures to reduce the risk to those funds in the event that that bank was compromised.

The Company also maintains cash balances with two investment brokerage firms that are protected by the Securities Investor Protection Corporation (SIPC) up to \$250,000. In addition to the SIPC coverage, one of the investment brokerage firms provides supplemental coverage in excess of SIPC through an insurance policy that covers cash balances up to \$500,000. The cash balance at the other investment brokerage firm is held in a FDIC-Insured Deposit Account and is also protected by a supplemental coverage insurance policy that covers cash balances up to \$124,500,000. As of June 30, 2011 and 2010, the Company's cash balance with these investment brokerage firms did not exceed the combined coverage.

NOTE 11 – PRICE RISK MANAGEMENT ACTIVITIES

On March 23, 2011, the Company entered into a fixed price swap for 1,000 barrels of oil per month at a price of \$104.55 NYMEX-WTI through February 28, 2013. During the six months ended June 30, 2011, the Company recognized a gain of \$106,123, which includes unrealized hedge settlements received for the difference between the hedged price and the market price. The Company recognized this asset of \$106,123 on the balance sheet as of June 30, 2011 in Current Assets as Derivative Asset.

NOTE 12 – FAIR VALUE MEASUREMENTS

Cross Border Resources, Inc. commodity derivatives are measured at fair value in the financial statements. The Company'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 Cross Border Resources, Inc. 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 Cross Border Resources, Inc’s judgments about the assumptions market participants would use in pricing the asset of liability since limited market data exists. The Company develops these inputs based on the best information available, using internal and external data.

The following table presents the Company’s assets and liabilities recognized in the balance sheet and measured at fair value on a recurring basis as of June 30, 2011:

Description	Input Levels for Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets:				
Commodity derivatives	\$	—\$ 106,123	\$	—\$ 106,123

The fair value of derivative assets 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.

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

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q constitute "forward-looking statements." These statements, identified by words such as "plan," "anticipate," "believe," "estimate," "should," "expect" and similar expressions include our expectations and objectives regarding our future financial position, operating results and business strategy. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under the caption "Part II – Item 1A. Risk Factors" and elsewhere in this Quarterly Report. We do not intend to update the forward-looking information to reflect actual results or changes in the factors affecting such forward-looking information. We advise you to carefully review the reports and documents, particularly our Annual Reports, our Quarterly Reports and our Current Reports we file from time to time with the United States Securities and Exchange Commission (the "SEC"). Copies of all of our filings with the SEC may be accessed by visiting the SEC site (<http://www.sec.gov>) and performing a search of our electronic filings.

BUSINESS OVERVIEW

Cross Border Resources, Inc. is an oil and gas exploration company 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. Pure L.P. and Pure Sub are sometimes referred to as "Pure."

We currently own 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 prolific 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 Cross Border Resources Inc.'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. We currently own varying, non-operated working interest in both Eddy and Lea Counties, New Mexico, in conjunction with our working interest partners that include Cimarex, Apache, and Mewbourne, all 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. Cross Border Resources, Inc. currently has a drilling inventory across these formations with varying non-operated working interests ranging from 3%-90%.

The company's management team has worked diligently to provide Cross Border Resources, Inc. shareholders a platform to capitalize on the current Bone Spring trend and will seek additional non-operated opportunities within the Permian Basin that will produce accretive value to shareholders. Ultimately, Cross Border Resources, Inc. will seek to become the premier non-operated working interest owner in the various emerging plays within the Permian Basin, in addition to participating in more conventional plays to provide a balanced oil and gas portfolio to shareholders.

RESULTS OF OPERATION

Summary of Production

The following summarizes our net production sold of oil, expressed in barrels ("Bbl"), and of natural gas, expressed in thousand cubic feet ("mcf") for the three and six month periods ended June 30:

	Three Month Periods		Six Month Periods	
	2011	2010	2011	2010
Oil (Bbls)	12,569	6,737	25,856	14,553
Gas (mcf)	62,672	63,474	113,583	125,376
Total Barrels of Oil Equivalent (boe)*	23,015	17,316	44,786	35,449
Average Barrels of Oil Equivalent per day (boed)	253	190	247	196

* Oil and natural gas were combined by converting oil to natural gas mcfe on the basis of 1 barrel of oil = 6 mcfe of gas.

This increase in oil and gas sales volumes is due primarily to a combination of increased production from wells added period over period and increased production brought on through the Pure Merger.

Set forth in the following schedule is the average sales price per unit and average cost of production produced by us for the three and six month periods ended June 30:

	3 Months Ended		Six Month Periods	
	2011	2010	2011	2010
Average sales price:				
Gas (\$ per mcf)	6.42	6.16	6.19	5.99
Oil (\$ per bbl)	95.00	76.99	89.60	74.86
Average cost of production:				
Average production cost (\$/boe)	14.90	5.15	10.78	5.27
Average production taxes (\$/boe)	7.28	5.78	6.09	5.24

Three months ended June 30, 2011 and 2010

Summary of Quarter End Results

	Three Months Ended June 30,		Percentage Increase / (Decrease)
	2011	2010 Predecessor Entity	
Revenue and Gains	\$ 2,096,629	\$ 957,307	119%
Operating Expenses	(2,142,433)	(659,736)	225%
Other Income (Expense)	(60,636)	(298,714)	(80)%
Income Tax (Expense) Benefit	39,843	--	100%
Net Income (Loss)	\$ (66,597)	\$ (1,143)	(5727)%

Revenues

We recognized \$1,465,050 in revenues from sales of oil and natural gas for the three months ended June 30, 2011 (the "2011 Quarter"), compared to \$919,234 for the three months ended June 30, 2010 (the "2010 Quarter"). This increase in oil and gas sales revenue is due primarily to a combination of increased production from wells added period over period and increased production brought on through the Pure Merger. In addition, average prices for the oil and natural gas sold period over period increased. We report our revenues on wells in which we have a working interest based on information received from operators. The recognition of revenues in this manner is in accordance with generally accepted accounting principles.

We also recognized a gain of \$599,100 during the 2011 Quarter on the sale of an interest in certain of our leases because the proceeds exceeded the carrying cost of the properties.

Operating Expenses

Our operating expenses for the 2011 Quarter and 2010 Quarter consisted of the following:

	Three Months Ended June 30,	Percentage Increase /
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	2011	2010 Predecessor Entity	(Decrease)
Operating Costs	\$ 362,161	\$ 87,375	315%
Production Taxes	165,108	100,440	64%
Depreciation, Depletion, and Amortization	488,601	222,538	120%
Accretion Expense	26,416	14,818	78%
General and Administrative	1,100,147	234,565	369%
Total	\$ 2,142,433	\$ 659,736	225%

Operating costs were higher as a result of costs related to operated assets -- the Stern properties in Chavez County, New Mexico, environmental remediation and delayed joint interest billings from an operating partner. Production taxes and depletion were all higher as a result of higher production. General and administrative expense increased primarily as a result of \$374,113 in non-cash share-based employee compensation expense and \$50,625 in non-cash stock compensation for consultants during the 2011 Quarter, compared to \$0 for the 2010 Quarter.

Price Risk Management Activities

During the 2011 Quarter, we recognized a gain of \$75,857 which includes realized hedge settlements received for the difference between the hedged price and the market price. On March 23, 2011, we entered in to fixed price swap for 1,000 barrels of oil per month at a price of \$104.55 NYMEX-WTI through February 28, 2013.

Six months ended June 30, 2011 and 2010

Summary of Year to Date Results

	Six Months Ended June 30,		Percentage
	2011	2010	Increase /
		Predecessor	(Decrease)
		Entity	
Revenue and Gains	\$ 3,695,921	\$ 1,968,040	88%
Operating Expenses	(3,884,804)	(1,487,844)	161%
Other Income (Expense)	(98,171)	(242,888)	(60)%
Income Tax (Expense) Benefit	65,541	--	100%
Net Income (Loss)	\$ (221,513)	\$ 237,308	(193)%

Revenues

We recognized \$3,031,863 in revenues from sales of oil and natural gas for the six months ended June 30, 2011 ("YTD 2011"), compared to \$1,926,964 for the six months ended June 30, 2010 ("YTD 2010"). This increase in revenue is due primarily to a combination of increased production from wells added period over period and increased production brought on through the Pure Merger. In addition, average prices for the oil and natural gas sold period over period increased. Additionally, a \$599,100 gain on the sale of an interest in certain oil and gas leases was recognized during YTD 2011.

Operating Expenses

Our operating expenses for the YTD 2011 and YTD 2010 periods consisted of the following:

	Six Months Ended June		Percentage
	2011	2010	Increase /
		Predecessor	(Decrease)
		Entity	
Operating Costs	\$ 515,225	\$ 183,624	181%
Production Taxes	270,564	186,286	45%
Depreciation, Depletion, and Amortization	1,072,891	624,835	72%
Accretion Expense	52,833	29,635	78%

General and Administrative	1,973,291	463,464	326%
Total	\$ 3,884,804	\$ 1,487,844	161%

Operating costs were higher as a result of costs related to operated assets -- the Stern properties in Chavez County, New Mexico, environmental remediation and delayed joint interest billings from an operating partner. Production taxes and depletion were all higher as a result of higher production. We recognized \$1,973,291 in general and administrative expense for YTD 2011 compared to \$463,464 for YTD 2010. This increase resulted primarily from \$404,605 of non-cash employee share-based compensation and \$50,625 in non-cash stock compensation for consultants during YTD 2011, compared to \$0 for YTD 2010. In addition we incurred approximately \$279,000 of non-recurring expenses associated with the Pure Merger (see below) during YTD 2011.

Non-recurring Expense

As a result of the Pure Merger the Company incurred approximately \$279,000 in non-recurring expenses in YTD 2011. Approximately, \$120,000 was incurred in additional legal, accounting and professional fees. In addition, approximately \$159,000 was incurred in transaction related fees and expenses.

Price Risk Management Activities

During YTD 2011, we recognized a gain of \$106,850 which includes realized hedge settlements received for the difference between the hedged price and the market price. On March 23, 2011, we entered in to fixed price swap for 1,000 barrels of oil per month at a price of \$104.55 NYMEX-WTI through February 28, 2013.

Non-GAAP Financial Measures

Adjusted EBITDA

In addition to reporting net earnings (loss) as defined under GAAP, we also present net earnings before interest, income taxes, depreciation, depletion, and amortization (adjusted EBITDA), which is a non-GAAP performance measure. Adjusted EBITDA consists of net earnings after adjustment for those items described in the table below. Adjusted EBITDA does not represent, and should not be considered an alternative to GAAP measurements, such as net earnings (loss) (its most comparable GAAP financial measure), and our calculations thereof may not be comparable to similarly titled measures reported by other companies. By eliminating the items described below, we believe the measure is useful in evaluating its fundamental core operating performance. We also believe that adjusted EBITDA is useful to investors because similar measures are frequently used by securities analysts, investors, and other interested parties in their evaluation of companies in similar industries. Our management uses adjusted EBITDA to manage our business, including in preparing its annual operating budget and financial projections. Our management does not view adjusted EBITDA in isolation and also uses other measurements, such as net earnings (loss) and revenues to measure operating performance. The following table provides a reconciliation of net earnings (loss), the most directly comparable GAAP measure, to adjusted EBITDA for the periods presented:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
		Predecessor		Predecessor
		Entity		Entity
Net income (loss)	\$(66,597)	\$(1,143)	\$(221,513)	\$237,308
Interest expense and other	147,102	96,312	256,922	211,649
Income tax expense (benefit)	(39,843)	--	(65,541)	--
Accretion of asset retirement obligations	26,416	14,818	52,833	29,635
Depreciation, depletion, and amortization	488,601	222,538	1,072,891	624,835
Stock-based compensation	424,738	--	455,230	--
Adjusted EBITDA	\$980,417	\$332,525	\$1,550,822	\$1,103,427

Adjusted EBITDA for the 2011 periods was higher than can normally be expected due to a \$599,100 gain on the sale of interests in certain oil and gas leaseholds during the second quarter of 2011.

Additionally, during the third quarter the market prices for crude oil have declined significantly. This decline in product prices will impact our revenue and net income (loss) beginning in the third quarter of 2011 for such time as the current trend continues. The impact of this trend cannot be predicted with accuracy at this time. A portion of our

crude oil production is currently hedged at favorable prices (\$104 per barrel), which will mitigate some of the impact of this decline on our cash flow.

LIQUIDITY AND CAPITAL RESOURCES

Upon completion of the Pure Merger, in addition to acquiring all of the rights, properties and assets of Pure Sub, the Company assumed all of the debts, liabilities and obligations of Pure Sub, including the rights and obligations of Pure Sub under the 7 ½ % Debentures, Series 2005 (the “Pure Debentures”) issued by Pure Energy Group in March 2005. The Pure Debentures are described more fully in the Company’s Form 8-K filed January 7, 2011. These debentures require payments of principal and interest on March 1 and September 1 of each year. Scheduled principal retirements over the next twelve months amount to \$360,000 on September 1, 2011 and \$360,000 due on March 1, 2012.

	At June 30, 2011	At December 31, 2010 Predecessor Entity (As Restated)	Percentage Increase / (Decrease)
Current Assets	\$ 2,637,775	\$ 1,737,747	52%
Current Liabilities	1,430,846	2,034,490	(30)%
Working Capital (Deficit)	\$ 1,206,929	\$ (296,743)	n/m

n/m -- The percentage change is not meaningful when moving from a negative to a positive number.

Cash Flows

	Six Months Ended June 30,	
	2011	2010 Predecessor Entity
Cash Flows Provided by Operating Activities	\$ (1,207,339)	\$ 1,471,662
Cash Flows Used in Investing Activities	(1,092,944)	(996,363)
Cash Flows Provided by (Used in) Financing Activities	2,862,312	(477,895)
Net Increase (Decrease) in Cash During Period	\$ 562,029	\$ (2,596)

As of June 30, 2011, we had working capital of \$1,206,929. Liquidity is a measure of ability to access cash. Our primary needs for cash are for exploration, exploitation, development and acquisition of oil and gas properties, repayment of contractual obligations and working capital funding. We have historically addressed our long-term liquidity requirements through cash provided by operating activities, the issuance of debt and equity securities when market conditions permit, sale of non-strategic assets, and through our credit facilities. The prices for future oil and natural gas production and the level of production have significant impacts on operating cash flows and cannot be predicted with any degree of certainty. We continue to examine alternative sources of long-term capital, including bank borrowings, the issuance of debt instruments, the sale of equity securities, the sales of strategic and non-strategic assets, and joint-venture financing. Availability of these sources of capital and, therefore, our ability to execute our operating strategy will depend upon a number of factors, some of which are beyond our control.

Amended and Restated Credit Agreement with Texas Capital Bank

On January 31, 2011, we entered into an amended and restated credit agreement (the "Credit Agreement") with Texas Capital Bank, N.A. ("TCB"). The Credit Agreement provides the Company with an initial borrowing base of \$4,000,000. Provided that the trustee for the Company's Pure Debentures consents, the amount available under the Credit Agreement may be increased by TCB up to \$25,000,000 based on the Company's reserve reports and the value of the Company's oil and gas properties. If the trustee for the Pure Debentures does not consent, the maximum allowed under the Indenture for the Pure Debentures will be limited to \$5,000,000. As of June 30, 2011, the Company has available to it \$3,999,000 under the credit facility with TCB. The Credit Agreement is described more fully in and is attached as an exhibit to the Company's Form 8-K dated February 7, 2011.

CONTRACTUAL OBLIGATIONS

Little Bay and Green Shoe

As of June 30, 2011, we are indebted to Little Bay Consulting SA (“Little Bay”) and Green Shoe Investments Ltd. (“Green Shoe”) in the amounts of \$396,969 and \$367,309 respectively for loans refinanced in fiscal 2011. Those loans were extended effective March 31, 2011, until September 30, 2012, with no periodic payments until maturity (other than upon an equity raise resulting in net proceeds of more than \$1,000,000), as described more fully in the Company’s 8-K filed April 28, 2011. Payments were made in early June 2011 to Little Bay and Green Shoe as a result of the equity offering that closed effective May 26, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States has required our management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Our significant accounting policies are disclosed in the notes to the interim financial statements for the period ended June 30, 2011 included in this Quarterly Report on Form 10-Q.

The consolidated financial statements presented with this Quarterly Report on Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information. These financial statements do not include all information and footnote disclosures required for an annual set of financial statements prepared under United States generally accepted accounting principles. In the opinion of our management, all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented in the attached financial statements, have been included. Interim results for the period ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year as a whole.

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

The merger and acquisition of Pure Sub has been treated as a "reverse acquisition" for financial reporting and accounting purposes. As a result, Pure Sub has been treated as the "accounting acquirer" for financial reporting and accounting purposes. As such, effective January 6, 2011, the Company engaged Darilek, Butler & Associates PLLC ("Darilek, Butler"), the principal independent accountants for the Pure Energy Group, as the Company's principal independent accountants, and dismissed MaloneBailey, LLP ("MaloneBailey") as the Company's principal independent accountants. The engagement of Darilek, Butler and the dismissal of MaloneBailey was approved by the Company's Board of Directors. The engagement of Darilek, Butler and the dismissal of MaloneBailey are more fully described in the Company's Form 8-K dated January 3, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers as appropriate to allow timely decisions regarding required disclosure. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Under the supervision and with the participation of our management, including our Chief Executive Officer, President and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer, President and Chief Financial Officer have concluded that our disclosure controls and

procedures were effective as of the end of the period covered by this Quarterly Report in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act were reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

Prior to the Pure Merger, the Company had been using an outside accounting service to prepare financial statements. Effective January 2011, Mr. P. Mark Stark was appointed as the Company's Chief Financial Officer and assumed responsibility for preparation of the financial statements. Mr. Stark left the Company, effective August 5, 2011. His accounting-related duties have been assumed by Nancy S. Stephenson. Ms. Stephenson has accepted the role of Chief Accounting Officer. The Company believes it has improved internal controls by bringing the accounting in house and employing qualified accountants and utilizing consultants as needed. Management has identified and is working with its independent audit committee to put in place additional internal controls to improve its internal control over financial reporting. The additional controls include, but are not limited to, controls over GAAP reporting to ensure compliance with GAAP and SEC disclosure requirements.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 4, 2011, Clifton M. (Marty) Bloodworth filed a lawsuit in the State District Court of Midland County, Texas, against Doral West Corp. d/b/a Doral Energy Corp. and Everett Willard Gray II. Mr. Bloodworth alleges that Mr. Gray, as CEO of the Company, made false representations which induced Mr. Bloodworth to enter into an employment contract that was subsequently breached by the Company. The claims that Mr. Bloodworth has alleged are: breach of his employment agreement with Doral, common law fraud, civil conspiracy breach of fiduciary duty, and violation of the Texas Deceptive Trade Practices-Consumer Protection Act. Mr. Bloodworth is seeking damages of approximately \$280,000. Mr. Gray and the Company deny that Mr. Bloodworth's claims have any merit, and they plan to file a counterclaim in the proceeding.

ITEM 1A. RISK FACTORS

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

We have an operating deficit.

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

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

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

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

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

earnings as impairments.

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

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

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

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

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

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

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

Changes in commodity prices may significantly affect our capital resources, liquidity and expected operating results. Price changes will directly affect revenues and can indirectly impact expected production by changing the amount of funds available to reinvest in exploration and development activities. Reductions in oil and gas prices not only reduce revenues and profits, but could also reduce the quantities of reserves that are commercially recoverable. Significant declines in prices could result in non-cash charges to earnings due to impairment. Changes in commodity prices may

also significantly affect our ability to estimate the value of producing properties for acquisition and divestiture and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on the value of the properties. Price volatility also makes it difficult to budget for and project the return on acquisitions and the development and exploitation of projects. Commodity prices are expected to continue to fluctuate significantly in the future.

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

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 would also be expected to limit our potential gains in the event that oil and gas prices increase. If we choose not to engage in hedging arrangements in the future, we may be more adversely affected by changes in oil and natural gas prices than our competitors, who may or may not engage in hedging arrangements.

We may encounter difficulty in obtaining equipment and services.

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

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

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

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

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

Title deficiencies could render our leases worthless.

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

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

Our oil and gas operations are subject to risks inherent in the oil and gas industry, such as blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, earthquakes and other environmental risks. These risks could result in substantial losses due to injury and loss of life, severe damage to and destruction of

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

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

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

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

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

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

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

Because we are a small company, our success depends greatly upon the efforts, abilities, and decision-making of our three executive officers, Everett Willard Gray, II, Lawrence J. Risley and P. Mark Stark. 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 develop our business, in which case investors might lose all of their investment.

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

Our articles of incorporation authorize the issuance of 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. The issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. It will also cause a reduction in the proportionate ownership and voting power of all other stockholders.

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

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

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

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

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

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

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

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

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On May 12, 2011, the Company issued 25,000 shares of common stock to Princeton Research, Inc. pursuant to Section 4(2) of the Securities Act. These shares were issued in compensation for certain consulting and investor relations services it provided through June 17, 2011, and its preparation and distribution of an analytic report for a six-month period.

Effective May 31, 2011, the Company issued 50,000 shares of common stock to Red Chip Companies Inc. pursuant to Section 4(2) of the Securities Act. These shares were issued in compensation for certain consulting and investor relations services, the preparation and distribution of an analyst's report and market research services to be provided for a 12-month period. The agreement is cancellable after six months.

As reported on the Company's 8-K filed on May 27, 2011, the Company entered into a definitive stock purchase agreement to sell an aggregate of 3,600,000 units. Each unit was sold at \$1.50 and was comprised of one share of common stock and one five-year warrant to purchase a share of common stock at an exercise price of \$2.25 per share. The offering was made to a select group of institutional and accredited investors and was exempt from registration under the Securities Act of 1933 pursuant to Rule 506 of Regulation D promulgated thereunder. The sale closed on May 26, 2011. The Company plans to use the net proceeds from the offering to fund continued drilling in its Bone Spring play located primarily in the Parkway/Turkey Tract and Lusk Projects (Eddy and Lea Counties, New Mexico), general corporate purposes, and working capital.

The offering resulted in aggregate gross proceeds equal to \$5,400,000. The Company received net proceeds of approximately \$5,000,000 after the deduction of placement agent commissions and offering expenses. In accordance with the agreement, the Company filed a registration statement with the Securities and Exchange Commission registering the resale of the shares of common stock issued in the offering and the common stock underlying the warrants on July 25, 2011 (the "Registration Statement"). The Registration Statement was declared effective on August 5, 2011.

Although the Company will not receive any of the proceeds from the resale of the common stock registered under the Registration Statement, the Company does have outstanding warrants to purchase an aggregate of 3,600,000 shares of the Company's common stock at a per-share price of \$2.25 and warrants to purchase 3,125 shares of the Company's common stock at a per-share price of \$5.00 (issued upon conversion of a Pure Debenture in connection with the Pure Merger). If all of these warrants are exercised for cash, the Company would receive \$8,115,625.00 in aggregate proceeds. However, the warrants to purchase the 3,600,000 shares are not exercisable until November 2011 and the warrants may never be exercised. The Company plans to use proceeds, if any, from the exercise of warrants to fund continued operations and for general corporate purposes and working capital.

The purchasers in the offering received a right of first refusal to participate in future offerings of common stock if the principal purpose of such offering is to raise capital. This right of first refusal terminates upon the earlier of a sale, merger, consolidation or reorganization of the Company or May 26, 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit

Exhibit Number	Description of Exhibits
4.1	Form of Common Stock Warrant (filed as an exhibit to our Registration Statement on Form S-1/A filed on August 2, 2011).
10.1	Loan Agreement by and between Green Shoe Investments Ltd. and the Company (filed as an exhibit to our Current Report on Form 8-K filed on April 28, 2011).
10.2	Promissory Note to Green Shoe Investments Ltd. (filed as an exhibit to our Current Report on Form 8-K filed on April 28, 2011).
10.3	Loan Agreement by and between Little Bay Consulting SA and the Company (filed as an exhibit to our Current Report on Form 8-K filed on April 28, 2011).
10.4	Promissory Note to Little Bay Consulting SA (filed as an exhibit to our Current Report on Form 8-K filed on April 28, 2011).
10.5	Separation Agreement and Release with BDR, Inc. (filed as an exhibit to our Current Report on Form 8-K filed on June 3, 2011)
10.6	<u>Form of Registration Rights Agreement by and between purchasers and the Company.</u>
10.7	<u>Form of Securities Purchase Agreement by and between purchasers and the Company.</u>
31.1	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

SIGNATURES

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

CROSS BORDER RESOURCES, INC.

By	/ s/Nancy S. Stephenson
Name:	Nancy S. Stephenson
Title:	Chief Accounting Officer
Date:	August 15, 2011