



DISCOVERY
ENERGY CORP

FS | Q2 2011



DISCOVERY ENERGY CORP
(FORMERLY SANTOS RESOURCE CORP.)

INTERIM FINANCIAL STATEMENTS

FOR THE QUARTER ENDING AUGUST 31, 2011

(EXPRESSED IN US DOLLARS)

UNAUDITED

DENR | OTCBB

Santos Resource Corp.
 (an Exploration stage company)
 Interim Balance Sheets
 (Expressed in US Dollars)

	August 31, 2011 (Unaudited)	February 28, 2011
Assets		
Current Assets		
Cash	\$ 473	\$ 1,909
Amounts receivable	<u>2,638</u>	<u>2,278</u>
Total Assets	<u>\$ 3,111</u>	<u>\$ 4,187</u>
Liabilities and Stockholders' Equity (Deficiency)		
Current Liabilities		
Accounts payables and accrued liabilities	\$ 38,293	\$ 40,330
Shareholder loan - Note 3(b)	<u>68,521</u>	<u>30,804</u>
Total Current Liabilities	<u>106,814</u>	<u>71,134</u>
Stockholders' Equity (Deficiency)		
Common stock - 75,000,000 shares authorized, \$0.001 par value - 32,076,500 shares issued	32,077	32,077
Additional paid in capital	149,871	149,871
Deficit accumulated during the exploration stage	<u>(285,651)</u>	<u>(248,895)</u>
Total Stockholders' Equity (Deficiency)	<u>(103,703)</u>	<u>(66,947)</u>
Total Liabilities and Stockholders' Equity (Deficiency)	<u>\$ 3,111</u>	<u>\$ 4,187</u>

Nature of operations and continuance of Business - Note 1

Subsequent event – Note 6

On Behalf of the Board:

_____ Director

_____ Director

Santos Resource Corp.
(an Exploration Stage Company)
Interim Statements of Operations
(Expressed in US Dollars)
(Unaudited)

	Three months Ended August 31, 2011	Three months Ended August 31, 2010	Six months Ended August 31, 2011	Six months Ended August 31, 2010	Cumulative to August 31, 2011
Expenses					
General and administrative	\$ 28	\$ 253	\$ 74	\$ 430	\$ 1,073
Foreign exchange loss (gain)	-	(440)	615	(440)	3,111
Mineral property costs	-	-	29,740	-	99,429
Professional fees	1,482	(216)	6,327	2,581	182,038
Total expenses	<u>1,510</u>	<u>(403)</u>	<u>36,756</u>	<u>2,571</u>	<u>285,651</u>
Net loss and comprehensive loss	\$ <u>(1,510)</u>	\$ <u>403</u>	\$ <u>(36,756)</u>	\$ <u>(2,571)</u>	\$ <u>(285,651)</u>
Net loss per share					
Basic and diluted	\$ <u>(0.00)</u>	\$ <u>(0.00)</u>	\$ <u>(0.00)</u>	\$ <u>(0.00)</u>	
Weighted average number of shares outstanding - basic and diluted	<u>32,076,500</u>	<u>32,076,500</u>	<u>32,076,500</u>	<u>32,076,500</u>	

Santos Resource Corp.

(an Exploration Stage Company)

Interim Statements of Stockholders' Equity (Deficiency)

At August 31, 2011

(Expressed in US Dollars)

(Unaudited)

		Common Stock Number	Par Value	Additional Paid-in Capital	Deficit Accumulated During the Exploration Stage	Total Stockholders' Equity (Deficiency)
Balance, May 24, 2006 (date of inception), and February 28, 2007		-	\$ -	\$ -	\$ -	\$ -
Capital Stock issued for subscriptions receivable at \$0.0005 per share and services at \$0.0005 per share	19-Jun-07	31,040,000	31,040	(15,520)	-	15,520
Mineral Property Option - Starfire Minerals at \$0.15 per share	25-Jun-07	75,000	75	11,175	-	11,250
Private Placement at \$0.15 per share	1-Feb-08	961,500	962	143,264	-	144,226
Private Placement Fees	1-Feb-08	-	-	(4,568)	-	(4,568)
Net loss for the year		-	-	15,520	(70,888)	(55,368)
Balance, February 29, 2008		<u>32,076,500</u>	<u>32,077</u>	<u>149,871</u>	<u>(70,888)</u>	<u>111,060</u>
Net loss for the year		-	-	-	(92,777)	(92,777)
Balance, February 28, 2009		<u>32,076,500</u>	<u>32,077</u>	<u>149,871</u>	<u>(163,665)</u>	<u>18,283</u>
Net loss for the year		-	-	-	(54,305)	(54,305)
Balance, February 28, 2010		<u>32,076,500</u>	<u>32,077</u>	<u>149,871</u>	<u>(217,970)</u>	<u>(36,022)</u>
Net loss for the year		-	-	-	(30,925)	(30,925)
Balance, February 28, 2011		<u>32,076,500</u>	<u>32,077</u>	<u>149,871</u>	<u>(248,895)</u>	<u>(66,947)</u>
Net loss for the period		-	-	-	(36,756)	(36,756)
Balance, August 31, 2011		<u>32,076,500</u>	<u>\$ 32,077</u>	<u>\$ 149,871</u>	<u>\$ (285,651)</u>	<u>\$ (103,703)</u>

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

Santos Resource Corp.
(an Exploration Stage Company)
Interim Statements of Cash Flows
(Expressed in US Dollars)
(Unaudited)

	Six Months Ended August 31, <u>2011</u>	Six Months Ended August 31, <u>2010</u>	Cumulative to August 31, <u>2011</u>
Cash flows used in Operating Activities			
Net loss for the period	\$ (36,756)	\$ (2,571)	\$ (285,651)
Adjustments to net loss for non-cash activities			
Shares issued for property acquisition	-	-	11,250
Services provided by founders in exchange for shares	-	-	15,520
Unrealized foreign exchange loss (gain)	615	(440)	3,111
Change in amounts receivable	(360)	(443)	(2,638)
Change in accounts payable and accrued liabilities	<u>(2,957)</u>	<u>(11,612)</u>	<u>36,679</u>
Net cash used in operating activities	<u>(39,458)</u>	<u>(15,066)</u>	<u>(221,729)</u>
Cash flows from financing activities			
Common stock issued	-	-	159,746
Private placement fees	-	-	(4,568)
Advances from shareholders	<u>37,716</u>	<u>19,989</u>	<u>67,515</u>
Net cash flows from financing activities	<u>37,716</u>	<u>19,989</u>	<u>222,693</u>
Foreign exchange effect on cash	306	(851)	(491)
Cash increase (decrease) during the period	(1,436)	4,072	473
Cash beginning of the period	1,909	307	-
Cash end of the period	<u>\$ 473</u>	<u>\$ 4,379</u>	<u>\$ 473</u>
Interest Paid in the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income Taxes Paid in the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Santos Resource Corp.
(an exploration stage company)
Notes to the Interim Financial Statements
For the period ending August 31, 2011
(Expressed in U.S. dollars)

1. Nature of Operations and Continuance of Business

Santos Resource Corp. (the "Company") was incorporated in the state of Nevada on May 24, 2006. The Company is an Exploration Stage Company. The Company's principal business is the acquisition and exploration of mineral properties. The Company has not presently determined whether its properties contain mineral reserves that are economically recoverable.

The accompanying financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has not generated revenues since inception and has never paid dividends and is unlikely to pay dividends or generate earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations, confirmation of the Company's interests in the underlying properties, and the attainment of profitable operations. As at August 31, 2011, the Company has not generated any revenues and has an accumulated loss of \$285,651 since inception. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Summary of Significant Accounting Policies

Basis of Presentation

These interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Item 310(b) of Regulation S-B. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods ended August 31, 2011 and 2010 are not necessarily indicative of the results that may be expected for any interim period or the entire year. These interim financial statements should be read in conjunction with the audited financial statements for the year ended February 28, 2011.

3. Related Party Transactions

- a) On June 25, 2007, the Company issued 75,000 shares of common stock at \$0.15 per share to Starfire Minerals Inc. ("Starfire") as part of its contract to Option to Purchase Property in Quebec. Richard Pierce, President of Santos Resource Corp. is a director on the board of each company.
- b) A shareholder loaned the Company \$68,521 during the period April 2007 to August 31, 2011. The loan is non interest bearing and unsecured and is payable upon request from the shareholder; accordingly fair value cannot be reliably determined.
- c) A shareholder of the Company contributed services to the Company. The amounts are not recorded as it is not material.

Santos Resource Corp.
(an exploration stage company)
Notes to the Interim Financial Statements
For the period ending August 31, 2011
(Expressed in U.S. dollars)

4. Mineral Properties

Under the property option agreement entered into on June 25, 2007 (amended May 29, 2008, April 23, 2009, April 26, 2010, and December 15, 2010), the Company acquired a 75% interest in 18 mineral property claims in Northern Quebec known as the Lordeau Property, from Starfire (subject to the NSR Royalty) by paying Starfire cash of \$10,582 (Cdn\$10,000), issuing 75,000 common shares, and incurring expenditures of \$48,304 (Cdn\$50,000).

Santos will pay Starfire a 3% net smelter return royalty ("NSR Royalty"). Santos may purchase in the aggregate up to two-thirds (i.e., 2% NSR Royalty) of the NSR Royalty on the basis of one hundred thousand dollars for each one-tenth percent of the NSR Royalty (i.e., \$100,000 per 0.1% NSR Royalty) acquired on the first one-half of the NSR Royalty (i.e., the first 1% NSR Royalty), and one hundred fifty (\$150,000) dollars for each one-tenth percent of the NSR Royalty (i.e., \$150,000 per 0.1% NSR Royalty) thereafter for the remaining NSR Royalty (i.e., the remaining 1% NSR Royalty). To exercise its option to purchase the NSR Royalty or any portion thereof, Santos must provide the Owner with at least 30 days advance written notice of its intention to do so, and must close upon each purchase within 60 days of each notice.

5. Financial Instruments

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, and shareholder loan, unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying value, unless otherwise noted.

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

At August 31, 2011 the Company had the following financial assets and liabilities in Canadian dollars:

	USD equivalent	CDN Dollars
Cash on deposit	\$ 430	\$ 421
Shareholder loan	\$ 68,521	\$ 67,109
Accounts payable and accrued liabilities	\$ 28,793	\$ 28,200

At August 31, 2011 US dollar amounts were converted at a rate of \$0.9794 Canadian dollars to \$1.00 US dollar.

6. Subsequent Event

The Company has evaluated subsequent events and has determined that there are no subsequent events to report.

Contact Information

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INCORPORATION

Incorporated of record in the office of the Secretary of State on May 24, 2006 in the State of Nevada

TRANSFER AGENT

Action Stock Transfer Corp.
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Salt Lake City, UT 84121
Website: actionstocktransfer.com

LISTING

Exchange: NASD OTCBB
Trading Symbol: "DENR"
Cusip Number: 25470P 102
ISIN Number: US25470P1021

SHARE CAPITAL AUTHORIZED AND ISSUED AS AT MARCH 23rd 2012

Authorized: 500,000,000 common shares without par value

Issued and Outstanding: 61,058,500

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