DISCOVERY
ENERGY CORP

FORM 10Q
Q3 | 2012

DISCOVERY ENERGY CORP
(FORMERLY SANTOS RESOURCE CORP.)

INTERIM FINANCIAL STATEMENTS

FOR THE QUARTER ENDING NOVEMBER 30, 2012

(EXPRESSED IN US DOLLARS)

UNAUDITED

DENR | OTCBB

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

FORM 10-Q

(MARK ONE)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended November 30, 2012

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 000-53520

DISCOVERY ENERGY CORP.
f/k/a "Santos Resource Corp."
(Exact Name of Registrant as Specified in Its Charter)

Nevada	**98-0507846**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Riverway Drive, Suite 1700, Houston, Texas 77056
(Address of principal executive offices)

713-840-6495
(Registrant's telephone number

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer (Do not check if smaller reporting company)	☐	Smaller reporting company	☒

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

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 133,995,500 common shares as of January 11, 2013

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Discovery Energy Corp.
(an Exploration stage company)Balance Sheets
(Unaudited)

	November 30, 2012	February 29, 2012
Assets		
Current Assets		
Cash	$ 233,646	$ 504,742
Other receivables	1,007	3,828
Deposit for acquisition of oil and gas license	-	730,000
Total Current Assets	234,653	1,238,570
Oil and gas property	2,422,835	-
Total Assets	$ 2,657,488	$ 1,238,570
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 60,970	$ 34,215
Accounts payable- related party	-	50,000
Other Liabilities	9,901	-
Promissory Notes	667,009	-
Total Current Liabilities	737,880	84,215
Stockholders' Equity		
Preferred Stock- 10,000,000 shares authorized, zero issued and outstanding	-	-
Common Stock - 500,000,000 shares authorized, $0.001 par value -133,995,500 and 60,858,500 shares issued and outstanding as of November 30, 2012 and February 29, 2012, respectively	133,996	60,859
Additional paid in capital	2,757,183	1,437,405
Deficit accumulated during the exploration stage	(971,571)	(343,909)
Total Stockholders' Equity	1,919,608	1,154,355
Total Liabilities and Stockholders' Equity	$ 2,657,488	$ 1,238,570

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

Discovery Energy Corp.
(an Exploration stage company)
Statements of Expenses
(Unaudited)

	Three Months Ended November 30, 2012	Three Months Ended November 30, 2011	Nine Months Ended November 30, 2012	Nine Months Ended November 30, 2011	Cumulative From Inception (May 24, 2006) To November 30, 2012
Expenses					
General and administrative	$ 49,154	$ 16	$ 81,623	$ 90	$ 83,794
Exploration Costs	51,487	-	222,079	29,740	321,508
Professional fees	106,975	8,649	240,698	14,976	500,043
Rent	4,086	-	7,256	-	7,457
Travel	77,613	-	81,756	-	81,887
Total expenses	289,315	8,665	633,412	44,806	994,689
Other Income					
Gain on debt for settlement of accounts payable	-	-	-	-	(17,980)
Miscellaneous income	(1,705)	-	(9,678)	-	(9,678)
Foreign exchange loss (gain)	3,677	(6,170)	3,928	(5,555)	4,540
Other (income) expenses	1,972	(6,170)	(5,750)	(5,555)	(23,118)
Net loss	(291,287)	$ (2,495)	$ (627,662)	$ (39,251)	$ (971,571)
Net loss per share - basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.00)	
Weighted average number of shares outstanding- basic and diluted	89,725,423	32,076,500	71,419,193	32,076,500	

The accompanying notes are an integral part of these unaudited interim fnancial statements

Discovery Energy Corp.
(an Exploration stage company)
Statements of Cash Flows
(Unaudited)

	Nine Months Ended November 30, 2012	Nine Months Ended November 30, 2011	Cumulative from Inception May 24, 2006 to November 30, 2012
Cash flows used in operating activities			
Net loss	$ (627,662)	$ (39,251)	$ (971,571)
Adjustments to reconcile net loss to net Cash used in operating activities			
Shares issued for property acquisition	-	-	11,250
Amortization of debt discount	3,774	-	3,774
Gain on debt for shares issued for Settlement of accounts payable	-	-	(17,980)
Unrealized foreign exchange loss (gain)	3,928	(5,555)	6,424
Services provided by founders in Exchange for shares	-	-	15,520
Changes in assets and liabilities:			
Other receivable	2,821	(1,160)	(1,007)
Accounts payable and accrued liabilities	66,056	(8,178)	118,952
Net cash used in operating activities	(551,083)	(54,144)	(834,638)
Cash flows from investing activities			
Acquisition of oil and gas property	(439,835)	-	(989,835)
Net cash flows used in investing activities	(439,835)		(989,835)
Cash flows from financing activities			
Proceeds from notes payable	25,000		159,061
Common Stock issued	748,750	-	1,958,496
Private placement fees	-	-	(4,713)
Advances from shareholders	(50,000)	55,267	(50,000)
Net cash flows from financing activities	723,750	55,267	2,062,844
Foreign exchange effect on cash	(3,928)	(249)	(4,725)
Change in cash during the period	(271,096)	874	233,646
Cash beginning of the period	504,742	1,909	-
Cash end of the period	$ 233,646	$ 2,783	$ 233,646
Supplemental disclosures:			
Interest Paid in the period	$ -	$ -	$ -
Income Taxes Paid in the period	$ -	$ -	$ -
Noncash investing and financing activities:			
Promissory notes issued for O&G property	$ 650,000	$ -	$ 650,000
Discount on convertible note	$ 11,765	$ -	$ 11,765

Shares issued for settlement of accounts payable	$ 29,400	$ -	$ 114,466
Shares issued for O&G property	$ 603,000	$ -	$ 783,000

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

Discovery Energy Corp.
f/k/a Santos Resource Corp.
(an Exploration stage company)
Notes to the Unaudited Financial Statements

1. Nature of Operations and Basis of Presentation

Discovery Energy Corp. (the "Company") was incorporated in Nevada on May 24, 2006 under the name "Santos Resource Corp." The Company is an Exploration Stage Company. The Company's principal business is the proposed exploration and development of the 584,651 gross acres (the "Prospect") in the State of South Australia covered by Petroleum Exploration License (PEL) 512. The Prospect involves a 100% working interest in the preceding acreage, which overlies portions of the Cooper and Eromanga basins... The Company has not presently determined whether the Prospect contains any crude oil and natural gas reserves that are economically recoverable. While the Company's present focus is on the Prospect, the Company may consider the acquisition of other attractive oil and gas properties under the right circumstances. On May 7, 2012, the Company changed its name to Discovery Energy Corp.

In May 2012, the Company incorporated a wholly-owned Australian subsidiary, Discovery Energy SA Ltd. for purposes of acquiring the Prospect.

The accompanying unaudited interim financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in the Company's February 29, 2012 Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements, which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year end February 29, 2012, as reported on Form 10-K, have been omitted.

2. Going Concern

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 ability of the Company to obtain necessary equity or debt financing to continue operations, the successful development of the Prospect or one or more alternative oil and gas properties, and the attainment of profitable operations. As of November 30, 2012, the Company has not generated any revenues and has an accumulated loss of $971,571 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. During October 2012, the Company entered into a services agreement with Chrystal Capital Partners LLP ("Chrystal"), a corporate finance firm based in London regulated by the British Financial Services Authority. Chrystal has agreed to assist the Company in connections with its efforts to complete a major capital raising transaction of up to US$20.0 million.

The term of the Engagement Agreement was initially for two months, and it will now continue on a month-to-month basis until either party terminates it. In the event of a successful capital raise, the term of the Engagement Agreement will continue on a year-to-year basis thereafter until either party terminates it. After termination of the Engagement Agreement, Chrystal will be entitled to the success fees described below for any transaction completed within 18 months after termination with any prospect presented by Chrystal.

Pursuant to the Engagement Agreement, the Company agreed to pay the following fees to Chrystal:

* Monthly fees in the amount of GBP £7,500 (Sterling) (or approximately US$12,100);
* Cash success fees generally in amounts equal to 7% of the gross amount of all funds raised;

* A stock success fee represented by 6,472,425 shares of the Company’s common stock, which stock success fee is subject to forfeiture (see footnote 6 below); and
* An option success fee - In the event of a successful capital raise, Chrystal will be entitled to be issued options to purchase shares of the Company’s common stock. The number of shares to be covered by the options will equal 7% of the number of shares issued in the related capital raise. The exercise price for the options will equal the sale price of the Company’s shares in the related capital raise. The options will have a term of three years in which they could be exercised, and they will feature anti-dilution provisions.

The Company will also reimburse Chrystal for its expenses in connection with its services.

3. Related Party Transactions

During January 2012, the Company entered into an assignment agreement (the “Assignment”) with Keith D. Spickelmier, who is now (but was not then) the Company’s Chairman of the Board. The transactions provided for by the Assignment were fully consummated in the Company’s third quarter 2013. Because Mr. Spickelmier is now the Company’s Chairman of the Board, the Company regards the consummation of the the transactions provided for by the Assignment as related party transactions. Moreover, because certain transactions between Mr. Spickelmier and other members of the Company’s management required the Company to issue certain Company shares to these other members instead of Mr. Spickelmier, the Company regards these share issuances to be related party transactions with those members for purposes of this footnote.

On September 12, 2011, Mr. Spickelmier entered into an agreement (the “Liberty Agreement”) with Liberty Petroleum Corporation (“Liberty”) granting to Mr. Spickelmier an exclusive right to negotiate an option to acquire the Petroleum Exploration License (PEL) 512 (the “License”) regarding the Prospect. Per the terms of the Liberty Agreement, Mr. Spickelmier paid to Liberty a $50,000 initial deposit. In anticipation of the assignment of the Liberty Agreement to the Company, the Company paid to Liberty (a) an additional $100,000 deposit to extend the exclusive right provided for by the Liberty Agreement, and (b) an additional $200,000 deposit to modify certain terms of the Liberty Agreement, including the further extension of the exclusive right. The preceding amounts were part of the $800,000 that the Company paid to Liberty, as discussed in footnote 4 below. Subsequent to the assignment to the Company of the Liberty Agreement and pursuant to its terms, the Company reached the agreements described in footnote 4 below whereby the Company would take the direct issuance of the License in place of Liberty. The purchase price for the assignment of Mr. Spickelmier's rights in the Liberty Agreement is as follows:

* $50,000 in cash - This amount was paid during the quarter ended May 31, 2012 to reimburse for this amount paid by Mr. Spickelmier to Liberty.
* $100,000 in cash - This amount was paid after the issuance of the License, and after the Company and Mr. Spickelmier decided not to defer its payment.
* Twenty million shares of the Company’s common shares - These shares were issued upon the assignment of the Liberty Agreement in fiscal 2012.
* Fifty-five million shares of the Company’s common shares - These shares became due to Mr. Spickelmier after the issuance of the License. Mr. Spickelmier assigned to other members of the Company’s management his right to receive certain of these shares. As a result, these shares were issued to the following persons in the denominations indicated:

Name of Recipient of Shares	Position with Company	Number of Shares Received
Keith Spickelmier	Chairman of the Board	30,000,000
Keith McKenzie	Director & CEO	16,700,000
William E. Begley Jr.	Director & CFO	7,500,000
Mark S. Thompson	Corporate Secretary	800,000

4. Oil and Gas Properties

On October 26, 2012, the South Austrailian Minister of Regional Development (the “Minister”) granted and issued the License in the name of the Company’s wholly owned subsidiary Discovery Energy SA Ltd. Originally, Liberty was the winning bidder for the License. The Company entered into agreements with Liberty whereby Liberty agreed to sell the License to the Company upon its issuance. Eventually, the Company and Liberty modified their agreements so that the Company would take the direct issuance of the License in place of Liberty. For Liberty's agreements to allow the Company to be issued the License, the Company agreed to remit to Liberty the following consideration, which has a deemed value of US$3.95 million:

* Cash in the amount of $800,000 - All of this cash amount was paid to Liberty prior to the issuance of the License.
* Two promissory notes with an aggregate principal amount of $650,000, one in the amount of $500,000 becoming due six months after the issuance of the License, and the other in the amount of $150,000 becoming due nine months after the issuance of the License - These notes were issued after the issuance of the License. These notes feature prepayment discounts if the Company pays the notes earlier than required.
* Twelve million shares of the Company's common stock - All of these shares became due to Liberty after the issuance of the License, and Liberty agreed not to sell more than 10% of the shares received in any three-month period

In addition to the preceding, Liberty was allowed to retain a 7.0% royalty interest relating to the License.

The compensation paid for the acqusition of the exclusive right to negotiate with Liberty to acquire the License is described in footnote 3 above.

The License requires a five-year work commitment involving geologic studies at an estimated cost of AU$200,000 (US$ 208,600) in the first year after the acquisition, the completion of a 250 km (approximately 150 mile) 2D seismic survey in the second year, and even greater amounts of work, including drilling a total of 12 wells, in the subsequent years. The Company's inability to honor this work commitment may result in the assignment of the Prospect to Liberty pursuant to the terms of the Novation Deed or its reversion back to the South Australian Government.

5. Notes Payable

Two promissory notes were issued on October 26, 2012 to Liberty upon delivery of the License with aggregate principal amount of $650,000. The terms of the note are:

(i) One note in the original principal amount of $500,000 is due on April 26, 2013.

(ii) The other note in the original principal amount of $150,000 is due on July 26, 2013.

(iii) Both notes bear interest at a floating rate equal to the one month term LIBOR rate, plus an additional 3%.

(iv) Both notes feature prepayment discounts if the Company pays the notes earlier than required.

On October 4, 2012 a promissory note was issued to Mark Thompson, the Company's corporate secretary, with aggregate principal amount of $25,000. The loan is due to be paid on or before February 4, 2013 with interest accruing monthly at 6% and is convertible at Mr. Thompson's option into 300,000 shares of the Company's common stock. . In connection with the issuance of this convertible note, the Company evaluated the conversion option for derivative treatment under ASC 815-15, "*Embedded Derivatives*", and determined the note and the conversion feature did not qualify as derivatives. The Company also evaluated the note for a beneficial conversion feature under ASC 470-20, "Debit with Conversion and Other Options", and determined a beneficial conversion feature existed. The intrinsic value of the beneficial conversion feature of the convertible note was $11,765 and was recorded as a debt discount. The Company amortized $3,774 of the debt discount as of November 30, 2012.

6. Common stock

During the nine months ended November 30, 2012, the Company sold an aggregate 5.99 million common shares from a private placement offering at a price of $0.125 per share for total proceeds of $748,750.

On September 19, 2012, 147,000 shares were issued as settlement of an accounts payable balance in the amount of $29,400.

In connection with it agreement with Chrystal (see footnote 2 above), the Company issued 6,472,425 shares of its common stock pursuant to a Restricted Share Award Agreement. Generally, if Chrystal fails to present timely a fund raising transaction that the Company accepts, these shares will be forfeited and returned to the Company. Under certain limited circumstances, Chrystal will be entitled to retain one-half of these shares while forfeiting the other half. As the delivery of these shares is contingent, they are not considered outstanding within the context of these financial statements.

On October 26, 2012, a total of 55 million shares became due to Keith D. Spickelmier, and his designees upon delivery of the License. In addition, another 12 million shares became due to Liberty Petroleum Corporation also upon delivery of the License, valued at $495,000 and $108,000, respectively.

In May 2012, the Company amended its articles of incorporation to increase the number of authorized common shares to 500 million and to authorize 10 million preferred shares.

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Keith McKenzie
William Begley

OFFICERS
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Mike Dahlke, President and C0O
William Begley, Chief Financial Officer
Mark Thompson, Corporate Secretary

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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
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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 JULY 16th 2012

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

Issued and Outstanding: 133,995,500

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For more information visit us at discoveryenergy.com