DISCOVERY ENERGY CORP

MD&A | Q1 2011

DISCOVERY ENERGY CORP

(FORMERLY SANTOS RESOURCE CORP.)

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE QUARTER ENDING MAY 31, 2011

(EXPRESSED IN US DOLLARS)

DENR | OTCBB

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

THE FOLLOWING PRESENTATION OF MANAGEMENT'S DISCUSSION AND ANALYSIS OF SANTOS RESOURCE CORP. SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION INCLUDED HEREIN.

Overview

Santos Resource Corp. (the "Company" or "Santos") was incorporated under the laws of the state of Nevada on May 24, 2006. We have not commenced business operations and we are considered an exploration stage company. We are defined as a "shell company" under the Rule 405 of the Securities Act and Rule 12b-2 of the Exchange Act because we have nominal operations and nominal assets. To date, our activities have been limited to organizational matters, obtaining a geological report on the Lourdeau Claims (also referred to as the Lourdeau Property), the preparation and filing of a registration statement on Form S-1, and acquiring the Lourdeau Claims.

Lourdeau Claims

Under the Property Option Agreement entered into on June 25, 2007, we acquired an option to acquire a 75% interest in and to 18 mineral claims called the Lourdeau Claims from Starfire Minerals Inc. ("Starfire"), the registered owner of the Lourdeau Claims. To exercise the option we paid Starfire cash of $10,582 (CAD$10,000), issued Starfire 75,000 shares, and instead of incurring expenditures of $48,304 (CAD$50,000) we paid Starfire cash of $48,304, pursuant to which we acquired a 75% interest in the Lourdeau Claims. Title to the Lourdeau Claims remain the name of Starfire. The Lourdeau Claims consist of 18 mineral claims covering approximately 900.75 hectares (9.01 km^2), located in the La Grande geological area of Quebec in the James Bay Territory about 620 miles (1,000 km) north of Montreal, Quebec.

Under the Property Option Agreement, Starfire retained a 3% Net Smelter Return ("NSR") royalty interest in the Lourdeau Claims. NSR means the actual proceeds received from the sale of ore, metals or concentrated products from the Lourdeau Property derived from commercial production as recorded by the producer and net of any smelting and refining charges, penalties, costs of transportation of ores, metals or concentrates from the Lourdeau Property to any mint, smelter or other purchaser, cost of insurance of the products, and any export and import taxes levied with respect to production from the Lourdeau Property.

Santos also has the right to purchase up to two-thirds of the NSR royalty (i.e. 2% of the NSR royalty) on the basis of $100,000 for each 0.1% of the NSR royalty (i.e. $100,000 per 0.1% NSR royalty) acquired on the first one-half of the NSR royalty, and $150,000 for each 0.1% 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 Starfire 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.

Santos and Starfire will share their proportionate costs incurred in making all filings related to the Lourdeau Property and to maintain the Lourdeau Property in good standing by preparing and filing the assessment reports, paying taxes and keeping the Lourdeau Property free and clear of all liens and encumbrances. The Lourdeau Claims are in good standing until July 18, 2011 and have been assigned tenure numbers 87500, 87501, 87502, 87503, 87504, 87505, 87506, 87507, 87508, 87509, 87510, 87511, 87512, 87513, 87514, 87515, 87516 and 87517 by the Province of Quebec.

Starfire and Santos agree to negotiate in good faith the terms and conditions of entering into a joint venture agreement to carry out further exploration and mining activities on the Lourdeau Property, with the intention that all costs and profits to be split proportionately by the parties according to their ownership of the Lourdeau Property.

Plan of Operation

Our business plan is to proceed with the exploration of the Lourdeau Claims to determine whether there are commercially exploitable reserves of base and precious metals. We presently do not have funds to meet our general operating expenses and to meet our obligations under the Property Option Agreement. We do not have the funds to conduct the recommended exploration program. Due to extreme weather conditions, exploration activities can only be conducted between June and August of each year. We are attempting to raise additional money, and have not started the exploration program as we have not been successful in raising funds. However, if we are able to raise additional money, we can only conduct the exploration program recommended by Mr. Michel Boily in the summer of 2011. We anticipate the recommended program will cost approximately $111,057 (CAD$107,570).

Mr. Michel Boily, Ph.D., P. Geo. was hired by Santos to provide a Technical Report in July 2007 on the Lourdeau Claims. Mr. Boily does not have any interest in the Lourdeau Property or the Company. The report is based on published and private reports, maps and data provided by the Company and in the public domain.

Mr. Boily recommends a systemic surface sampling program of the Lourdeau Vein site and its vicinity, and the northern edge of the Lourdeau Hill, incorporating grab and channel sampling, in order to get a solid geochemical assay database. Mr. Boily recommends obtaining a helicopter-borne geophysical survey to cover the rest of the Lourdeau Property. Mr. Boily recommends the geophysical magnetic and radiometric surveys to be done on a 100 m spaced grid.

Depending on the results of this program, the next phase could involve a drilling campaign which would define the targets acquired during the geophysical surveys and sampling campaign. The focus of the drilling will be the uranium-mineralized sandstones at the Lourdeau Hill, with the gold, copper and silver-mineralized metavolcanic constituting secondary targets.

We anticipate that additional funding will be in the form of equity financing from the sale of our common stock. However, we cannot provide investors with any assurance that we will be able to raise sufficient funding from the sale of our common stock to fund additional phases of the exploration program should we decide to proceed. We believe that debt financing will not be an alternative for funding any further phases in our exploration program. The risky nature of this enterprise and lack of tangible assets places debt financing beyond the credit-worthiness required by most banks or typical investors of corporate debt until such time as an economically viable mine can be demonstrated. We do not have any arrangements in place for any future equity financing.

Risk Factors

An investment in Santos' common stock involves a number of very significant risks. Prospective investors should refer to all the risk factors disclosed in Santos' Annual Report on Form 10-K filed with the SEC on May 31, 2011.

Financial Condition

As at May 31, 2011, Santos had a cash balance of $951. Management does not anticipate generating any revenue for the foreseeable future. When additional funds become required, the additional funding will come from equity financing from the sale of Santos' common stock. If Santos is successful in completing an equity financing, existing shareholders will experience dilution of their interest in Santos. Santos does not have any financing arranged and Santos cannot provide investors with any assurance that Santos will be able to raise sufficient funding from the sale of its common stock. In the absence of such financing, Santos' business will fail.

Based on the nature of Santos' business, management anticipates incurring operating losses in the foreseeable future. Management bases this expectation, in part, on the fact that very few mineral claims in the exploration stage ultimately develop into producing, profitable mines. Santos' future financial results are also uncertain due to a number of factors, some of which are outside its control. These factors include, but are not limited to:

- Santos' ability to raise additional funding;
- the market price for minerals; and
- the results of Santos' proposed exploration programs on its exploration mineral properties.

Due to Santos' lack of operating history and present inability to generate revenues, Santos' auditors have stated their opinion that there currently exists a substantial doubt about Santos' ability to continue as a going concern. This means that there is substantial doubt whether Santos can continue as an on going business for the next 12 months unless we obtain additional capital to pay our bills. We presently do not have the funds to conduct the recommended exploration program. Further, even if Santos completes its current exploration program, we will require additional funds in order to place the Lourdeau Claims into commercial production.

Liquidity

Santos' internal sources of liquidity will be loans that may be available to Santos from management. Although Santos has no written arrangements with any of directors and officers, Santos expects that the directors and officers will provide Santos with internal sources of liquidity, if it is required.

Also, Santos' external sources of liquidity will be private placements for equity conducted outside the United States. Since inception on May 24, 2006 to May 31, 2011, Santos did not complete any definitive arrangements for any external sources of liquidity, except for a private placement in February 2008 where the Company issued 961,500 shares of common stock at $0.15 per share for proceeds of $144,226.

There are no assurances that Santos will be able to achieve further sales of its common stock or any other form of additional financing. If Santos is unable to achieve the financing necessary to continue its plan of operations, then Santos will not be able to continue its exploration programs and its business will fail.

Capital Resources

As of May 31, 2011, Santos had total assets of $3,510 and total liabilities of $105,703 for a net working capital deficiency of $102,193, compared with a net working capital deficiency of $66,947 as of February 28, 2011 (an increase of $35,246). The assets as at May 31, 2011 are comprised of cash of $951 and amounts receivable of $2,559. The liabilities as at May 31, 2011 consisted of shareholders loan of $68,520 and accounts payables and accrued liabilities of $37,183.

There are no assurances that Santos will be able to achieve further sales of its common stock or any other form of additional financing. If Santos is unable to achieve the financing necessary to continue its plan of operations, then Santos will not be able to continue its exploration programs and its business will fail.

Management does not believe that Santos' current cash will be sufficient to meet our general operating expenses for the next 12 months and to meet our obligations under the Property Option Agreement. We do not have the funds to conduct the recommended exploration program which is estimated to cost approximately $111,057 (CAD$107,570). We need to raise additional money to conduct our exploration program, however we have not been successful in raising funds. If we are able to raise additional money, we plan to conduct our exploration program in the summer of 2011.

Results of Operations

Our results of operations for the three month periods ended May 31, 2011 and 2010 are summarized as follows:

	Three months ended May 31, **2011**	Three months ended May 31, **2010**
Revenue	$ -	$ -

		Three months ended May 31, **2011**		Three months ended May 31, **2010**
Operating Expenses	$	35,246	$	2,973
Net Loss	$	($35,246)	$	(2,973)

We did not earn any revenues for the three months ended May 31, 2011 and 2010. We do not anticipate earning revenues until such time as we have entered into commercial production of our mineral properties. We are presently in the exploration stage of our business and we can provide no assurance that we will discover commercially exploitable levels of mineral resources on our properties, or if such resources are discovered, that we will enter into commercial production of our mineral properties.

Our expenses for the three month periods ended May 31, 2011 and 20010 are outlined in the table below:

		Three months ended May 31, **2011**		Three months ended May 31, **2010**
General and Administrative	$	46	$	176
Foreign Exchange Loss		615		-
Mineral Property Costs		29,740		-
Professional Fees		4,845		2,797
Total	$	35,246	$	2,973

Off-Balance Sheet Arrangements

Santos has no off-balance sheet arrangements.

Cautionary Statement Regarding Forward-Looking Statements

This quarterly report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "we believe," "our company believes," "management believes" and similar language. These forward-looking statements are based on our current expectations and are subject to certain risks, uncertainties and assumptions, including those set forth in the following discussion, including under the heading "Risk Factors". Our actual results may differ materially from results anticipated in these forward-looking statements. We base our forward-looking statements on information currently available to us, and we assume no obligation to update them. In addition, our historical financial performance is not necessarily indicative of the results that may be expected in the future and we believe that such comparisons cannot be relied upon as indicators of future performance. Other important factors that could cause actual results to differ materially include the following: business conditions, the price of precious metals, ability to attract and retain personnel; the price of the Company's stock; and the risk factors set forth from time to time in the Company's SEC reports, including but not limited to its annual report on Form 10-K; its quarterly reports on Form 10-Q; and any current reports on Form 8-K. In addition, the Company disclaims any obligation to update or correct any forward-looking statements in all the Company's annual reports and SEC filings to reflect events or circumstances after the date hereof.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and Rule 15d-15(e) as of the end of the period covered by this quarterly report. Based on that evaluation, the principal executive officer and principal financial officer have identified that the lack of segregation of accounting duties as a result of limited personnel resources is a material weakness of its financial procedures. Other than for this exception, the principal executive officer and principal financial officer believe the disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that our disclosure and controls are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation and there were no corrective actions with regard to significant deficiencies and material weaknesses.

Changes in Internal Control over Financial Reporting

None.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description of Exhibit	Filed herewith	Incorporated by reference Form	Exhibit	Filing date (mm/dd/yy)
3.1	Articles of Incorporation		S-1	3.1	07/14/08
3.2	Bylaws		S-1	3.2	07/14/08
4.1	Specimen Stock Certificate		S-1	4.1	07/14/08
10.1	Mineral Property Option Agreement dated June 25, 2007 between Starfire Minerals Inc. and Santos Resource Corp., whereby Santos has an option to acquire a 75% interest in and to the Lourdeau Property		S-1	10.1	07/14/08
10.2	Mineral Property Option Amending Agreement dated May 29, 2008 between Starfire Minerals Inc. and Santos Resource Corp.		S-1	10.2	11/26/08
10.3	Mineral Property Option Agreement Amendment No. 2 dated April 23, 2009 between Starfire Minerals Inc. and Santos Resource Corp.		10-K	10.3	05/27/09
10.4	Mineral Property Option Amending Agreement (third amendment) dated April 26, 2010 between Starfire Minerals Inc. and Santos Resource Corp.		8-K	10.4	04/30/10

Exhibit No.	Description of Exhibit	Filed herewith	Incorporated by reference		
			Form	Exhibit	Filing date (mm/dd/yy)
10.5	Mineral Property Option Amending Agreement (fourth amendment) dated August 31, 2010 between Starfire Minerals Inc. and Santos Resource Corp.		8-K	10.5	08/31/10
10.6	Mineral Property Option Amending Agreement (fifth amendment) dated December 15, 2010 between Starfire Minerals Inc. and Santos Resource Corp.		8-K	10.6	12/15/10
31.1	Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X			
32.1	Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SANTOS RESOURCE CORP.

Date: July 15, 2011

By: /s/ Richard Pierce
Richard Pierce
Director, President and Treasurer

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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 MARCH 23rd 2012

Authorized: 500,000,000 common shares without par value
Issued and Outstanding: 61,058,500

MEDIA COMMUNICATIONS

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