



**DISCOVERY**  
**ENERGY CORP**

**MD&A**  
**Q1 | 2012**



**DISCOVERY ENERGY CORP**  
*(FORMERLY SANTOS RESOURCE CORP.)*

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

**FOR THE QUARTER ENDING MAY 31, 2012**  
*(EXPRESSED IN US DOLLARS)*

**DENR | OTCBB**

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XBRL Content

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## 6 Subsequent Events

After the quarter ending May 31, 2012, the Company made an early deposit of the final \$250,000 to become due to Liberty upon issuance of the License, in consideration of the Liberty's agreement to modify the promissory notes due to Liberty upon issuance of the License by reducing the 9 month note principal from \$250,000 to \$150,000 and agreeing to an early payment reduction schedule that allows the Company to earn additional reductions of principal of up to \$150,000. The combined principal of the two notes now totals \$650,000.

## Item 2. Management's Discussion and Analysis.

### CAUTIONARY STATEMENT FOR FORWARD-LOOKING STATEMENTS

*This Quarterly Report on Form 10-Q includes 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. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue," or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those described in our other Securities and Exchange Commission filings. The following discussion should be read in conjunction with our Financial Statements and related Notes thereto included elsewhere in this report.*

### General

Our company, Discovery Energy Corp. f/k/a "Santos Resource Corp.," was incorporated under the laws of the state of Nevada on May 24, 2006. Until recently, we had not commenced business operations. Our original plan of business was to explore and develop a 75% interest in and to 18 mineral claims covering approximately 900.75 hectares (9.01 km<sup>2</sup>) called the Lourdeau Claims. The Lourdeau Claims are located in the La Grande geological area of Quebec, Canada, in the James Bay Territory about 620 miles (1,000 km) north of Montreal, Quebec. We abandoned this original plan of business, and had been looking for another business opportunity. Until the completion of the acquisition described herein, we had been a "shell company" as defined in the Rule 405 of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 12b-2 of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended. For reasons given hereinafter, we have adopted a significant change in our corporate direction. We have decided to focus our efforts on the acquisition of an attractive crude oil and natural gas prospect located in Australia, and the exploration, development and production of oil and gas on this prospect.

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We now propose to pursue a new business plan involving the development of the Petroleum Exploration License (PEL) 512 (the "Prospect") in the State of South Australia. The Prospect involves 584,651 gross acres overlaying portions of the geological system generally referred to as the Cooper and Eromanga basins. The Prospect is flanked by offset production totaling more than 4.2 million barrels since 2001. Other nearby fields have produced more than 16.3 million barrels of oil. Since the early 1980s, the oil fairway on which the Prospect sits has produced over 23.6 million barrels of oil. The Prospect features access to markets via existing and expanding pipeline capacity. During the late 1980s and again during 2005-2006, various operators in the extreme southeast corner of the Prospect drilled 11 wells. Reports filed with the South Australian government indicate that some of these wells exhibited "oil shows" but none were completed to enable production. As discussed herein, we are currently actively working to acquire the Prospect.

In the remainder of this Report, Australian dollar amounts are prefaced by "AUS\$" while United States dollar amounts are prefaced simply by "\$" or (when used in close proximity to Australian dollar amounts) by "US\$." When United States dollar amounts are given as equivalents of Australian dollar amounts, such United States dollar amounts are approximations only and not exact figures.

### Recent Events

In connection with the change in our business focus, the following events have occurred:

**\*Change of the Control and Management.** A change of the control of our company occurred effective on January 13, 2012 pursuant to the terms, provisions and conditions of a Common Stock Purchase Agreement dated as of such date (the "Stock Agreement") by and between (a) Shih-Yi Chuang, Richard Bruce Pierce, Andrew Lee Smith, David W. Smalley and Robert Birarda, as sellers (collectively "Sellers"), and (b) Keith J. McKenzie. In connection with the closing of the transactions provided for by the Stock Agreement, Mr. McKenzie, William E. Begley and Michael D. Dahlke (collectively "Purchasers") acquired an aggregate of 25,310,000 shares of our common stock ("Transferred Shares"), \$.001 par value, theretofore owned separately by Sellers at a price of \$0.0001 per Transferred Share. This number of Transferred Shares represented 78.9% of our outstanding shares of our common stock prior to taking into account the other transactions described below, and 41.5% of our outstanding shares of our common stock after taking into account the issuances of 20.0 million shares to Keith D. Spickelmier and 10,070,000 shares in connection with a private placement (both issuances of which are described below).

At the time of the sale and purchase of the Transferred Shares, the number of directors constituting our Board of Directors was initially expanded from one to two, and Keith J. McKenzie was elected to our Board of Directors to fill the newly created vacancy. Eventually, our Board of Directors was expanded to three persons; Richard Bruce Pierce resigned from his seat on such board; and Keith D. Spickelmier and William E. Begley were elected to fill the two vacant seats. Moreover, at the time of the sale and purchase of the Transferred Shares, all our then serving officers resigned from their positions as such. The following persons were elected (some upon the preceding resignations, some later) to the one or more offices of our company set forth opposite their respective names below as our new slate of officers:

Keith D. Spickelmier	Chairman of the Board
Keith J. McKenzie	Chief Executive Officer
Michael D. Dahlke	President and Chief Operating Officer
William E. Begley	Chief Financial Officer and Treasurer
Mark S. Thompson	Secretary

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\****Acquisition of Rights Under the Liberty Agreement.*** Pursuant to the terms, provisions and conditions of an assignment (the "Assignment") dated effective January 13, 2012 executed by Keith D. Spickelmier in our favor, we acquired all of Mr. Spickelmier's rights in a legal document (as amended and restated, the "Liberty Agreement") between Liberty Petroleum Corporation ("Liberty") and Mr. Spickelmier dated September 12, 2011. In the Liberty Agreement, Liberty granted to Mr. Spickelmier a 60-day exclusive right to negotiate an option (the "Option") to acquire the Prospect upon Liberty's acquisition of rights in it. Liberty was the winning bidder for the Prospect. In order for the Prospect to be vested in Liberty, it would need to complete negotiation of a Native Title land access and compensation agreement with the relevant Aboriginal native title holders and claimants, who have certain historic rights on the Prospect land, to provide consent to the license being issued to Liberty. The Liberty Agreement was later amended and restated several times to extend the exclusive right provided for thereby and to modify certain of its terms.

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 us, we paid an additional \$100,000 deposit to extend the exclusive right provided for by the Liberty Agreement, and an additional \$200,000 deposit to modify certain terms of the Liberty Agreement, including the further extension until January 31, 2012. The preceding amounts will be applied to the Option's exercise price upon exercise, or (as discussed below) will be refunded if the Option is not exercised for various reasons.

The purchase price for the assignment of Mr. Spickelmier's rights in the Liberty Agreement was as follows:

- \*\$50,000 in cash, which was paid during the quarter ended May 31, 2012
- \*\$100,000 payable upon notice from the South Australian Minister of Regional Development (the "Minister") that the Minister has granted and issued in our name a petroleum exploration license allowing the exploration and drilling rights related to the Prospect (the "License")
- \*20.0 million shares of our common shares issued upon delivery of the Assignment
- \*A convertible promissory note for \$55,000 convertible into 55.0 million common shares, such note being issuable upon notice from the Minister that the Minister has granted and issued the License in our name.

In the Assignment (as amended), Mr. Spickelmier agreed that, if the Minister ever definitively decides not to grant and issue the License in our name, or has failed to grant and issue the License in our name prior to August 31, 2012, whichever occurs first, then Mr. Spickelmier shall return immediately to us the 20.0 million shares issued to him in connection with the delivery of the Assignment.

\****Optioning of the Prospect.*** On January 31, 2012, per the Liberty Agreement, we entered into an Option to Purchase and Sale and Purchase Agreement (the "Option Agreement") with Liberty. The Option Agreement provides for the sale and transfer of the Prospect. The Option Agreement reflects the results of negotiations between us and Liberty including certain adjustments agreed to in June 2012, which are reflected in the paragraph below, and the Option Agreement supersedes the Liberty Agreement.

The Option Agreement provides that the Option's exercise price for the Prospect is a deemed total of \$3.95 million payable as follows:

- \*Cash in the amount of \$800,000 - As of the date of this Report, all of the \$800,000 cash amount has been deposited with Liberty; accordingly, once the License is issued to us, we will owe Liberty no further up-front cash amounts.

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\*Two promissory notes with an aggregate principal amount of \$650,000, one in the amount of \$500,000 becoming due six months after our acquisition of the Prospect, and the other in the amount of \$150,000 becoming due nine months after our acquisition of the Prospect. These notes will feature prepayment discounts if we pay the notes earlier than required. At best, these prepayment discounts could save us \$150,000 if the notes are paid within 60 days after the License is issued

\*Twelve million shares of our common stock, of which Liberty has agreed not to sell more than 10% in any three-month period

After any exercise of the Option, Liberty would retain a 7.0% royalty interest.

If the Minister does not grant the License allowing the exploration of and drilling on the Prospect within a certain period of time, we will have the option to cancel the transaction, and Liberty is required to refund all moneys paid to it.

The License involves a five-year work commitment involving expenditures of AU\$200,000 (US\$203,800) in the first year after the acquisition, AU\$1.25 million (US\$1,273,900) in the second year, and even greater amounts in subsequent years. Our inability to honor this work commitment could result in the reversion of the License to Liberty pursuant to the terms of the Option Agreement.

In addition to the matters described above, the Option Agreement features various other agreements, representations, warranties and indemnities that we believe are customary and are commercially reasonable.

Effective May 15, 2012, Liberty and we entered into a Novation Deed, which is intended to supersede the Option Agreement. The Novation Deed attempts to place us (through our newly formed Australian subsidiary, Discovery Energy SA Ltd, referred to hereinafter as the "Subsidiary") in a direct contractual relationship with regard to the License and the Prospect for all purposes. For example, instead of the License's being issued to Liberty and then assigned to us, Liberty and we will strive to have the License issued directly in the Subsidiary's name. Furthermore, instead of Liberty, the Subsidiary will be the party to the Native Title land access and compensation agreement. The rationale for this action was to try to avoid regulatory delays in having documents and rights subsequently assigned to us, and to avoid transfer taxes that would result upon such assignments. The Novation Deed was intended to change only the form of our transaction with Liberty and not its substance. Accordingly, when possible, the original terms of the Option Agreement were preserved in the Novation Deed. The approach provided by the Novation Deed required approval by the appropriate regulatory agencies. On June 4, 2012, we received notice that the substitution of the Subsidiary for Liberty regarding the License was approved by the Executive Director of the Energy Resources Division of the Department of Manufacturing, Innovation, Trade Resources and Energy, which acts as a delegate of the Minister for Minerals and Energy Resources.

We believe that the following events must occur before we can acquire the License:

\*We must complete the execution of a Native Title land access and compensation agreement with the relevant Aboriginal native titleholders and claimants, who have certain historic rights over the License land, to provide consent to the License being issued to either to Liberty or the Subsidiary. We have commenced the execution of the preceding agreement, and have obtained signatures from most of the required native titleholders and claimants. We are working to obtain all final signatures.

\*We must receive and accept an offer from the Minister of a grant of the License.

We have no assurance that the preceding events will occur. Consequently, neither we nor anyone else has any assurance that we will be able to consummate the acquisition of the License.

We need no further up-front funds to acquire the License. Nevertheless, we will need to raise additional funds to satisfy the deferred payments to Liberty incurred in connection with the acquisition of the License, our obligations under the work commitment with respect to the License and other amounts required to explore and develop the Prospect, and other working capital needs. We have no assurance that we will be able to raise funds to satisfy the preceding amounts.

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\***Private Placement**. We completed a private placement as of May 1, 2012 in which we sold an aggregate of 10,070,000 shares at a price of US\$0.125 per share. The cash offering resulted in US\$1,258,750 in proceeds to us. The shares were issued to a total of 23 investors, all of whom were accredited.

\***Name Change**. We changed our corporate name from "Santos Resource Corp." to "Discovery Energy Corp." effective May 7, 2012.

\***Change in Shell Status**. As a result of the acquisition of the rights in the Liberty Agreement and the optioning of the Prospect, we are no longer a shell corporation as that term is defined in Rule 405 of the Securities Act and Rule 12b-2 under the Exchange Act.

## **Plan of Operation**

### ***General***

We intend to engage primarily in the exploration and development of oil and gas on the Prospect in an effort to develop oil and gas reserves. Our principal products will be crude oil and natural gas.

Our development strategy will be directed in the multi-pay target areas of South Australia, with principal focus on the prolific Cooper/Eromanga Basin, towards initiating and rapidly expanding production rates and proving up significant reserves primarily through exploratory drilling. Our mission will be to generate superior returns for our stockholders by working with industry partners, suppliers and the community to build a focused exploration and production company with strong development assets in the oil and gas sector.

In the right circumstances, we might assume the entire risk of the drilling and development of the Prospect. More likely, we will determine that the drilling and development of the Prospect can be more effectively pursued by inviting industry participants to share the risk and the reward of the Prospect by financing some or all of the costs of drilling wells. Such arrangements are frequently referred to as "farm-outs." In such cases, we may retain a carried working interest or a reversionary interest, and we may be required to finance all or a portion of our proportional interest in the Prospect. Although this approach will reduce our potential return should the drilling operations prove successful, it will also reduce our risk and financial commitment to a particular prospect. Prospective participants regarding possible "farm-out" arrangements have already approached us.

There can be no assurance that we will be successful in our exploratory and production activities. The oil and gas business involves numerous risks, the principal ones of which are listed in our 2012 Annual Report on Form 10-K in "Item 1A. Risk Factors - RISKS RELATING TO OUR INDUSTRY - PARTICIPANTS IN THE OIL AND GAS INDUSTRY ARE SUBJECT TO NUMEROUS RISKS." As we become more involved in the oil and gas exploration and production business, we will give more detail information regarding these risks.

Although our primary focus is on the acquisition and development of the Prospect, we have received information about, and have had discussion regarding possible acquisition of or participation in, other oil or gas opportunities. None of these discussions has led to any agreement in principle. Nevertheless, given an attractive opportunity and our ability to consummate the same, we could acquire one or more other crude oil and natural gas properties, or participant in one or more other crude oil and natural gas opportunities.

### ***Proposed Initial Activities***

Currently, we are striving to close the acquisition of the Prospect. We have raised sufficient funds, and we have completed the execution and documentation, to do this. Nevertheless, to close the acquisition of the Prospect, we will need to complete execution of an access and royalty arrangement with the relevant Aboriginal native title holders, who have certain historic rights on the Prospect land. We have commenced the execution of the preceding agreement, and have obtained signatures from most of the required native titleholders and claimants. We are working to obtain all final signatures. Moreover, we receive and accept an offer from the Minister of a grant of the License. We have no assurance that we will be able to accomplish the preceding. Consequently, neither we nor anyone else has any assurance that we will be able to consummate the acquisition of the Prospect.

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We have just begun the initial phase of our plan of operation. To date we have not commenced any drilling or other exploration activities on any properties, and thus we do not have any estimates of oil and gas reserves. Consequently we have not reported any reserve estimates to any governmental authority. We cannot assure anyone that we will find commercially producible amounts of oil and gas. Moreover, at the present time, we cannot finance the initial phase of our plan of operation solely through our own current resources. Consequently, we plan on undertaking certain financing activities described in "Liquidity and Capital Resources" below. The success of the initial phase of our plan of operation depends upon our ability to obtain additional capital to acquire seismic data with respect to the Prospect, and to drill exploratory and developmental wells. We cannot assure anyone that we will obtain the necessary capital.

The initial phase of our plan of operation will involve the acquisition of the Prospect. For the terms of this acquisition, see the section captioned "Optioning of the Prospect" above. If this acquisition is completed, the Prospect will be subject to a five-year work commitment, which involves the following:

- \* Year 1 - AU\$200,000 (US\$203,800) must be expended for geological studies and interpretation of existing seismic
- \* Year 2 - AU\$1,250,000 (US\$1,273,900) must be expended to shoot 250 square kilometers (approximately 97 square miles) of new 2D seismic
- \* Year 3 - AU\$5,000,000 (US\$5,095,500) must be expended to shoot 400 square kilometers (approximately 154 square miles) of new 3D seismic and AU\$3,600,000 (US\$3,668,800) must be expended to drill two wells
- \* Year 4 - AU\$9,000,000 (US\$9,171,900) must be expended to drill five wells
- \* Year 5 - AU\$9,000,000 (US\$9,171,900) must be expended to drill five wells

The dollar amounts in the official work commitment are Australian currency. The US dollar amounts shown above calculated are approximate and based on the June 30, 2012 closing quoted exchange rate of AU\$1.0191/US\$1.00. The US dollar costs actually incurred in the future will be a function of the exchange rate that exists between the two currencies when expenditures are made. During the past year, that exchange rate has varied from a low of AU\$0.950/US\$1.00 to a high of AU\$1.1055/US\$1.00 .

The prices of the equipment and services that we must employ to fulfill the work commitment also vary based on both local and international demand for such products by others involved in exploration for and production of oil and gas. Recent high worldwide energy prices have resulted in growing demand, and frequent higher prices charged by suppliers. Therefore, we have no assurance that the steps in the work plan (e.g. shooting 250 square kilometers) can be accomplished at the cost estimates included in Liberty's original License bid, which has been accepted by the South Australian government.

Based on our technical analysis to date, we believe that acceleration of the PEL 512 work plan can be justified. Hence, we have begun outlining a more aggressive schedule for the first license year. It is expected this plan will involve an earlier 2D/3D seismic campaign (\$US5.5 - 6.5 million) and exploratory well drilling (\$US3.5 - 4.5 million). Subject to the availability of funds plus proper equipment and personnel, management feels that US\$10.0 million can be productively invested within the first two years. Not only is this program contingent on our procurement of sufficient funds therefore, it may also be subject to governmental approval to vary the work commitment already in place.

We intend to seek a joint venture partner that might act as the operator of our wells. If we are unsuccessful in procuring such a partner, we will engage the services of a third party once we have identified a proposed drilling site. Management foresees no problem in procuring the services of one or more qualified operators and drillers in connection with the initial phase of our plan of operation, although a considerable increase in drilling activities in the area of our properties could make difficult (and perhaps expensive) the procurement of operating and drilling services. In all cases, the operator will be responsible for all regulatory compliance regarding the well, including any necessary permitting for the well. In addition to regulatory compliance, the operator will be responsible for hiring the drilling contractor, geologist and petroleum engineer to make final decisions relative to the zones to be targeted, well design, and bore-hole drilling and logging. Should the well be successful, the operator would thereafter be responsible for completing the well, installing production facilities and interconnecting with gathering or transmission pipelines if economically appropriate we expect to pay third party operators (i.e. not joint venture partner with us) commercially prevailing rates.

The operator will be the caretaker of the well once production has commenced. Additionally, the operator will formulate and deliver to all interest owners an operating agreement establishing each participant's rights and obligations in that particular well based on the location of the well and the ownership. The operator will also be responsible for paying bills related to the well, billing working interest owners for their proportionate expenses in drilling and completing the well, and selling the production from the well. Unless each interest owner sells its production separately, the operator will collect sale proceeds from oil and gas purchasers, and, once a division order has been established and confirmed by the interest owners, the operator will issue the checks to each interest owner in accordance with its appropriate interest. The operator will not perform these functions when each interest owner sells its production separately, in which case the interest owners will undertake these activities separately. After production commences on a well, the operator also will be responsible for maintaining the well and the wellhead site during the entire term of the production or until such time as the operator has been replaced.

The principal oil, natural gas and gas liquids transportation hub for the region of South Australia surrounding the Prospect is located in the vicinity of Moomba. This processing and transportation center is approximately 60 km (36 miles) due east of the Prospect's eastern boundary. Large diameter pipelines deliver oil and gas liquids from Moomba south to Port Bonython (Whyalla). Natural gas is also moved south to Adelaide or east to Sydney. A gas transmission pipeline also connects Moomba to Ballera, which is located northeastward in the State of Queensland. From Ballera gas can be moved to Brisbane and Gladstone, where a Liquefied Natural Gas (LNG) project is under development. The Moomba treating and transportation facilities and the southward pipelines were developed and are operated by a producer consortium led by Santos Limited (no relation to us).

We cannot accurately predict the costs of transporting our production until we locate our first successful well. The cost of installing infrastructure to deliver our production to Moomba or elsewhere will vary depending upon distance traversed, negotiated handling/treating fees, and pipeline tariffs.

### Results of Operations

Financial results for the quarter ended May 31, 2012 are not directly comparable to financial results for the quarter ended May 31, 2011. During January 2012, we changed our business focus. This change in focus resulted in an elevated level of business activity and a corresponding increase in expenses.

#### Comparison of Quarter Ended May 31, 2012 to Quarter Ended May 31, 2011

	Three months Ended May 31, 2012	Three months Ended May 31, 2011
Revenue	\$ -	\$ -
Operating Expenses	\$ 138,990	\$ 34,631
Net Loss	\$ 137,528	\$ (35,246)

We did not earn any revenues for the three months ended May 31, 2012 and 2011. We do not anticipate earning revenues until such time as we have entered into commercial production of oil and natural gas. We are presently in the exploration stage of our business and we can provide no assurance that we will discover commercially exploitable levels of hydrocarbons on our properties, or if such resources are discovered, that we will enter the commercial production.

Our expenses for the three-month periods ended May 31, 2012 and 2011 are outlined in the table below:

	Three months Ended May 31, 2012	Three months Ended May 31, 2011
General and Administrative	\$ 16,178	\$ 46
Mineral Property Costs	\$ 47,511	\$ 29,740
Professional Fees	\$ 70,075	\$ 4,845
Travel	\$ 3,161	\$ -
Rent	\$ 2,065	\$ -
Foreign exchange (gain)/loss	\$ 1,359	\$ 615
Other (income)/expenses	\$ (2,821)	
Total	<u>\$ 137,528</u>	<u>\$ 35,246</u>

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*Expenses.* During the first three months of fiscal 2013, we had expenses in the amount of \$138,990 compared to expenses in the amount of \$34,361 during the same period in fiscal 2012. The fiscal 2013 expenses represent an increase of \$104,359 from a year earlier. Generally, the increase reflects a continuation of multiple initiatives begun at the end of our last fiscal year to repurpose the Company as an oil and gas exploration and production enterprise. Growth in Professional Fees accounted for nearly two-thirds of our increased expenses. These costs were primarily for legal services incurred in the process of acquiring a exploration license in South Australia and raising the initial capital necessary for that acquisition. Mineral Property Costs during the current reporting period reflect the ongoing geologic evaluation and analysis of our optioned South Australian exploration area. General and Administrative expenses during the current reporting period reflect in part the costs associated with changing the Company's name and establishing its Australian subsidiary.

*Other Income.* During the three months ended May 31, 2012, we receive a Goods and Services Tax refund that was related to prior period Canadian invoices paid through the Company's previous headquarters in British Columbia.

*Net loss.* In view of the increase in expenses during the first three months of fiscal 2013, our net loss during the period increased to \$137,528 (or \$0.00 per-share) compared to our net loss during the same period in fiscal 2012 of \$35,246 (or \$0.00 per-share).

#### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

#### Liquidity and Capital Requirements

We will need to obtain additional financing before we can implement the initial phase of our current plan of operation. To acquire the Prospect, we will incur a deferred payment in the form of two promissory notes in the aggregate amount of US\$50,000 payable to Liberty, one becoming due six months after our acquisition of the Prospect, and the other becoming due nine months after our acquisition of the Prospect. Furthermore, the acquisition of the Prospect will obligate us to pay US\$100,000 in cash to Keith D. Spickelmier for his assignment to us of the ability to acquire the Prospect. Moreover, after the acquisition, we will have a work commitment with respect to the Prospect requiring us to expend AU\$200,000 (US\$203,800) in the first year after the acquisition and AU\$1.25 million (US\$1,273,900) in the second year. Some of these amounts will become due before we are able to commence production on the Prospect. Accordingly, some of these amounts must be raised. Moreover, we expect to need a substantial amount of funds to develop the Prospect. In addition to the preceding, we will need working capital in amounts not now determinable.

Our plan is to try to satisfy a large portion of the post-acquisition amounts and develop the Prospect by selling a portion of our interest in the Prospect to a joint venture partner for a substantial cash payment or work commitment. We will strive to procure in such a sale a combination of cash and work commitment sufficient for us to meet our financial obligations for about three years after the Prospect is acquired. We have had very preliminary discussions with several companies to become joint venture partners. To obtain the maximum combination of cash and work commitment in connection with the sale of an interest in the Prospect, we may seek to add value by completing a 3D seismic survey over a portion of the property and/or re-processing existing seismic data related to the Prospect. Unless we are able to sell such an interest for such a payment, we will need to raise additional funds in an institutional financing to satisfy the deferred payments and to develop the Prospect. The amount sought would be expected to be US\$10 to US\$15 million.

We believe at least US\$3.0 million would be required to satisfy our obligations in connection with the acquisition of the Prospect and for two years after the Prospect is acquired, but this amount would not allow us to develop the Prospect in any meaningful way. About US\$1.0 million would need to be raised within about the next 12 months to satisfy amounts becoming due within such time period, while the remaining US\$2.0 million amount would need to be raised within about the next 24 months to satisfy amounts becoming due near the end of such time period.

If institutional financing were required, we would need to identify various sources of such capital, including private sales of equity securities or the incurrence of indebtedness. However, we currently do not have any binding commitments for, or readily available sources of, additional financing. Moreover, additional financing may not be available on favorable terms or at all.

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If required financing is not available on acceptable terms, we could be prevented from satisfying our debt obligations or developing the Prospect. In such event, we would be forced to seek an extension of the due date of the amount owed to Liberty, or else default on one or more of these amounts. If a default occurs, Liberty could exercise the rights of an unsecured creditor and possibly levy encumbrances on all or a large part of our assets. Moreover, our failure to honor our work commitment could result in our loss of the Prospect. If any of the preceding events were to occur, we could be forced to cease our new business plan altogether, which could result in a complete loss of stockholders' equity.

If we do not obtain additional financing through an equity or debt offering, we may be constrained to attempt to sell some portion of the Prospect under unfavorable circumstances and at an undesirable price. However, we cannot assure anyone that we will be able to find interested buyers or that the funds received from any such sale would be adequate to fund our activities. Our future liquidity will depend upon numerous factors, including the success of our business efforts and our capital raising activities.

We presently intend to develop a more aggressive work plan for the Prospect than has been included in the License bid. This plan is expected include acceleration in the shooting of new 2D/3D seismic (US\$5.5-6.5 million) and early (versus the bid work plan) exploratory drilling (US\$3.5-4.5 million). Assuming availability of funding, timely governmental approvals, and access to proper equipment and trained personnel, we feel that US\$ 10.0 million or more can be productively invested within the Prospect during the first two years following the issuance of the License.

If we are successful with the early wells, we will continue with a full development plan, the scope of which is now uncertain but will be based on technical analysis of acquired seismic data collected and/or reprocessed, field drilling reports and well log reports. However, all of the preceding plans are subject to the availability of sufficient funding and the procurement of all governmental approvals. We do not now have sufficient available funds to undertake these tasks, and will need to procure a joint venture partner or raise additional funds as described above. The failure to procure a joint venture partner or raise additional funds will preclude us from pursuing our business plan, as well as exposing us to the loss of the Prospect, as discussed immediately above. Moreover, if our business plan proceeds as just described, but our first wells do not prove to hold producible reserves, we could be forced to cease our exploration efforts on the Prospect.

Production from our exploration and drilling efforts would provide us with cash flow. The proven reserves associated with production would increase the value of our rights in the Prospect. This, in turn, should enable us to obtain bank financing (after the wells have produced for a period of time to satisfy the related lender). Both of these results would enable us to continue with our initial drilling activities. In fact, cash flow and conventional bank financing are as critical to our plan of operation in the long run as the procurement of a joint venture partner or completion of a significant institutional financing. Management believes that, if our plan of operation progresses (and production is realized) as planned, sufficient cash flow and conventional bank financing will be available for purposes of properly pursuing our plan of operation, although we can make no assurances in this regard.

We have already raised "seed" capital in the amount of US\$1,258,750 in a private placement.

To conserve on our cash requirements, we may try to satisfy our obligations by issuing shares of our common stock, which will result in dilution to our existing stockholders.

#### **Item 4T. Controls and Procedures.**

##### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have 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 our 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.

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## Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also 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; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

## Changes in Internal Controls over Financial Reporting

There have not been any changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the period of this report that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 6. Exhibits.

- (a) The following exhibits are filed with this Quarterly Report or are incorporated herein by reference:

Exhibit Number	Description
31.01	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.02	Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.01	Certification Pursuant to 18 U.S.C. Section 1350, as pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.02	Certification Pursuant to 18 U.S.C. Section 1350, as pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Labels Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

\*XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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### Document and Entity Information

Document and Entity Information (USD \$)	3 Months Ended 05/31/2012	07/16/2012
Document Type	10-Q	
Amendment Flag	false	
Document Period End Date	2012-05-31	
Document Fiscal Year Focus		2,013
Document Fiscal Period Focus	Q1	
Trading Symbol	DENR	
Entity Registrant Name	DISCOVERY ENERGY CORP.	
Entity Central Index Key	0001435387	
Current Fiscal Year End Date	--02-29	
Entity Filer Category	Smaller Reporting Company	
Entity Common Stock, Shares Outstanding		62,448,500

## Balance Sheets

Balance Sheets  
(USD \$)

05/31/2012 02/29/2012

### Assets

#### Current Assets

Cash	\$ 528,603	\$ 504,742
Other receivables	3,828	3,828
Deposit for acquisition of oil and gas license	730,000	730,000
Prepaid expenses	4,842	
Total Current Assets	<u>1,267,273</u>	<u>1,238,570</u>
Total Assets	<u>1,267,273</u>	<u>1,238,570</u>

### Liabilities and Stockholders' Equity

#### Current Liabilities

Accounts payable and accrued liabilities	51,696	34,215
Accounts payable- related party		50,000
Total Current Liabilities	<u>51,696</u>	<u>84,215</u>

#### Stockholders' Equity

Preferred Stock- 10,000,000 shares authorized, zero issued and outstanding		
Common Stock - 500,000,000 shares authorized, \$0.001 par value - 62,448,500 and 60,858,500 shares issued and outstanding, respectively	62,449	60,859
Additional paid in capital	1,634,565	1,437,405
Deficit accumulated during the exploration stage	(481,437)	(343,909)
Total Stockholders' Equity	<u>1,215,577</u>	<u>1,154,355</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,267,273</u>	<u>\$ 1,238,570</u>

### Balance Sheets (Parenthetical)

Balance Sheets (Parenthetical) (USD \$)	05/31/2012	02/29/2012
Preferred Stock, shares authorized	10,000,000	10,000,000
Preferred Stock, issued	0	0
Preferred Stock, outstanding	0	0
Common Stock, shares authorized	500,000,000	500,000,000
Common Stock, par value	\$ 0.001	\$ 0.001
Common Stock, shares issued	62,448,500	60,858,500
Common Stock, shares outstanding	62,448,500	60,858,500

## Statements of Expenses

Statements of Expenses (USD \$)	05/31/2012	3 Months Ended 05/31/2012	3 Months Ended 05/31/2011
<b>Expenses</b>			
General and administrative	\$ 18,349	\$ 16,178	\$ 46
Mineral property costs	146,940	47,511	29,740
Professional fees	329,420	70,075	4,845
Rent	2,266	2,065	
Travel	3,292	3,161	
Total expenses	<u>500,267</u>	<u>138,990</u>	<u>34,631</u>
<b>Other Income</b>			
Gain on debt for settlement of accounts payable	(17,980)		
Sales tax refund	(2,821)	(2,821)	
Foreign exchange loss (gain)	1,971	1,359	615
Other income (expenses)	<u>(18,830)</u>	<u>(1,462)</u>	<u>615</u>
Net loss	<u>\$ (481,437)</u>	<u>\$ (137,528)</u>	<u>\$ (35,246)</u>
Net loss per share - basic and diluted		\$ 0	\$ 0
Weighted average number of shares outstanding - basic and diluted		62,008,065	32,076,500

## Statements of Cash Flows

Statements of Cash Flows (USD \$)	05/31/2012	3 Months Ended 05/31/2012	3 Months Ended 05/31/2011
<b>Adjustments to reconcile net loss to net cash used in operating activities</b>			
Shares issued	\$ 15,520		
Mining Properties And Mineral Rights [Member]			
<b>Adjustments to reconcile net loss to net cash used in operating activities</b>			
Shares issued	11,250		
<b>Cash flows used in operating activities</b>			
Net loss	(481,437)	(137,528)	(35,246)
<b>Adjustments to reconcile net loss to net cash used in operating activities</b>			
Gain on debt for shares issued for settlement of accounts payable	(17,980)		
Unrealized foreign exchange loss (gain)	2,496		615
<b>Changes in assets and liabilities:</b>			
Prepaid expenses	(4,842)	(4,842)	
Other receivable	(3,828)		(281)
Accounts payable and accrued liabilities	70,377	17,481	(4,068)
Net cash used in operating activities	(408,444)	(124,889)	(38,980)
<b>Cash flows from investing activities</b>			
Acquisition of oil and gas property	(550,000)		
Net cash flows used in investing activities	(550,000)		
<b>Cash flows from financing activities</b>			
Common Stock issued	1,408,496	198,750	
Private placement fees	(4,713)		
Advances from shareholders	84,061	(50,000)	37,716
Net cash flows from financing activities	<u>1,487,844</u>	<u>148,750</u>	<u>37,716</u>
Foreign exchange effect on cash	(797)		306
Change in cash during the period	<u>528,603</u>	<u>23,861</u>	<u>(958)</u>
Cash beginning of the period		504,742	1,909
Cash end of the period	528,603	528,603	951
<b>Supplemental disclosures:</b>			
Interest Paid in the period			
Income Taxes Paid in the period			
<b>Noncash investing and financing activities:</b>			
Shares issued for conversion of debt	85,066		
Shares issued for OGproperty	\$ 180,000		

## Nature of Operations and Basis of Presentation

Nature of Operations and Basis of Presentation  
(USD \$)

3 Months Ended  
05/31/2012

### 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 acquisition, exploration and development of the Petroleum Exploration License (PEL) 512 (the "Prospect") in the State of South Australia. 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.

## Going Concern

Going Concern  
(USD \$)

3 Months Ended  
05/31/2012

### 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 acquisition of the Prospect or one or more alternative oil and gas properties, and the attainment of profitable operations. As of May 31, 2012, the Company has not generated any revenues and has an accumulated loss of \$481,437 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.

## Related Party Transactions

Related Party Transactions  
(USD \$)

3 Months Ended  
05/31/2012

### 3. Related Party Transactions

- a) During the quarter, \$50,000 was repaid to a related party pursuant to the Liberty Agreement, as defined below.
- b) A shareholder loaned the Company \$85,066 during the period April 2007 to February 29, 2012. In January 2012, the amount was repaid through the issuance of 147,000 common shares. The shares were valued at \$0.009 per share.
- c) A related party transaction involving our current Chairman of the Board is discussed in footnote 4 immediately below.

## Oil and Gas Properties

Oil and Gas Properties  
(USD \$)

3 Months Ended  
05/31/2012

### 4. Oil and Gas Properties

On September 12, 2011, Keith D. 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, which is located in the State of South Australia. The Prospect involves 584,651 gross acres overlaying portions of the Cooper and Eromanga basins. On January 13, 2012, the Company bought Mr. Spickelmier's rights in the Liberty Agreement. On January 31, 2012, the Company bought an option directly from Liberty. Under ASC 932, costs incurred to purchase, lease or otherwise acquire a property (whether unproved or proved) are capitalized when incurred. Per the terms of the Liberty Agreement, Mr. Spickelmier, a related party, paid \$50,000 to Liberty for the exclusive right. In anticipation of the assignment of the Liberty Agreement to the Company, the Company agreed to pay an additional \$100,000 to extend the exclusive right provided for by the Liberty Agreement, and an additional \$200,000 deposit to modify certain terms.

As of February 29, 2012, the Company capitalized \$730,000 as a deposit for the acquisition of the oil and gas license.

The purchase price of Spickelmier's rights in the Liberty Agreement was as follows:

- a) \$100,000 payable upon notice from the Minister that the Minister has granted and issued the License in the name of the Company;
- b) \$50,000 payable as of February 29, 2012 for reimbursement, which was paid during the quarter;
- c) 20 million common shares issued at \$0.009, total fair value of \$180,000 which is capitalized as a deposit for the acquisition of the oil and gas license;
- d) A convertible promissory note for \$55,000 convertible at \$0.001 into 55 million common shares of the Company issuable upon delivery of the license.

The purchase price for the Liberty option is as follows:

- a) \$550,000 paid to Liberty as of February 29, 2012 for the acquisition of the License. An additional \$250,000 was paid to Liberty after February 29, 2012.
- b) Two promissory notes issuable upon delivery of the license with an aggregate principal amount of \$650,000:
  - (i) \$500,000 due 6 months after the Company's acquisition of the Prospect
  - (ii) \$150,000 due 9 months after the Company's acquisition of the Prospect
- c) 12 million common shares issuable upon delivery of the license

The License requires a five-year work commitment involving expenditures of \$203,000 in the first year after the acquisition, \$1,273,900 in the second year, and even greater amounts 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 AUS Government.

## Common stock

Common stock  
(USD \$)

3 Months Ended  
05/31/2012

### 5. Common stock

During the three months ended May 31 2012, the Company sold an aggregate 1.59 million common shares from a private placement offering at a price of \$0.125 per share for total proceeds of \$198,750.

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.

## Subsequent Events

Subsequent Events  
(USD \$)

3 Months Ended  
05/31/2012

### 6. Subsequent Events

After the quarter ending May 31, 2012, the Company made an early deposit of the final \$250,000 to become due to Liberty upon issuance of the License, in consideration of the Liberty's agreement to modify the promissory notes due to Liberty upon issuance of the License by reducing the 9 month note principal from \$250,000 to \$150,000 and agreeing to an early payment reduction schedule that allows the Company to earn additional reductions of principal of up to \$150,000. The combined principal of the two notes now totals \$650,000.

# Contact Information

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✉ info@discoveryenergy.com

## DIRECTORS

Keith Spickelmier, Chairman  
Keith McKenzie  
William Begley

## OFFICERS

Keith McKenzie, Chief Executive Officer  
Mike Dahlke, President and COO  
William Begley, Chief Financial Officer  
Mark Thompson, Corporate Secretary

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## AUDITORS

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Certified Public Accountants  
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Houston, Texas USA 77042

## 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.  
2469 E. Fort Union Blvd, Ste 214  
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: 62,448,500

## MEDIA COMMUNICATIONS

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*For more information visit us at [discoveryenergy.com](http://discoveryenergy.com)*