



DISCOVERY
ENERGY CORP

FORM 10Q
Q1 | 2012



DISCOVERY ENERGY CORP
(FORMERLY SANTOS RESOURCE CORP.)

INTERIM FINANCIAL STATEMENTS

FOR THE QUARTER ENDING MAY 31, 2012

(EXPRESSED IN US DOLLARS)

UNAUDITED

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XBRL Content

**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 May 31, 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 Smaller reporting company

(Do not check if 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:
62,448,500 common shares as of July 16, 2012

Item 1. Financial Statements**Discovery Energy Corp.**

(an Exploration stage company)

Balance Sheets

(Unaudited)

	May 31, 2012	February 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>

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 May 31, 2012	Three Months Ended May 31, 2011	Cumulative from Inception (May 24, 2006) to May 31, 2012
Expenses			
General and administrative	\$ 16,178	\$ 46	\$ 18,349
Mineral property costs	47,511	29,740	146,940
Professional fees	70,075	4,845	329,420
Rent	2,065	-	2,266
Travel	3,161	-	3,292
Total expenses	<u>138,990</u>	<u>34,631</u>	<u>500,267</u>
Other Income			
Gain on debt for settlement of accounts payable	-	-	(17,980)
Sales tax refund	(2,821)		(2,821)
Foreign exchange loss (gain)	1,359	615	1,971
Other income (expenses)	<u>(1,462)</u>	<u>615</u>	<u>(18,830)</u>
Net loss	<u>\$ (137,528)</u>	<u>\$ (35,246)</u>	<u>\$ (481,437)</u>
Net loss per share - basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	
Weighted average number of shares outstanding - basic and diluted	<u>62,008,065</u>	<u>32,076,500</u>	

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

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

	Three Months Ended May 31, 2012	Three Months Ended May 31, 2011	Cumulative from Inception May 24, 2006 to May 31, 2012
Cash flows used in operating activities			
Net loss	\$ (137,528)	\$ (35,246)	\$ (481,437)
Adjustments to reconcile net loss to net cash used in operating activities			
Shares issued for property acquisition	-	-	11,250
Gain on debt for shares issued for settlement of accounts payable	-	-	(17,980)
Unrealized foreign exchange loss (gain)	-	615	2,496
Services provided by founders in exchange for shares	-	-	15,520
Changes in assets and liabilities:			
Prepaid expenses	(4,842)	-	(4,842)
Other receivable	-	(281)	(3,828)
Accounts payable and accrued liabilities	17,481	(4,068)	70,377
Net cash used in operating activities	<u>(124,889)</u>	<u>(38,980)</u>	<u>(408,444)</u>
Cash flows from investing activities			
Acquisition of oil and gas property	-	-	(550,000)
Net cash flows used in investing activities			<u>(550,000)</u>
Cash flows from financing activities			
Common Stock issued	198,750	-	1,408,496
Private placement fees	-	-	(4,713)
Advances from shareholders	(50,000)	37,716	84,061
Net cash flows from financing activities	<u>148,750</u>	<u>37,716</u>	<u>1,487,844</u>
Foreign exchange effect on cash	-	306	(797)
Change in cash during the period	23,861	(958)	528,603
Cash beginning of the period	504,742	1,909	-
Cash end of the period	<u>\$ 528,603</u>	<u>\$ 951</u>	<u>\$ 528,603</u>
Supplemental disclosures:			
Interest Paid in the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income Taxes Paid in the period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Noncash investing and financing activities:			
Shares issued for conversion of debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,066</u>
Shares issued for O&G property	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,000</u>

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 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.

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.

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.

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.

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.

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 km²) 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.

Contact Information

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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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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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Granville Island, BC
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For more information visit us at discoveryenergy.com