DISCOVERY ENERGY CORP

FS | Q3 2011

DISCOVERY ENERGY CORP

(FORMERLY SANTOS RESOURCE CORP.)

INTERIM FINANCIAL STATEMENTS

FOR THE QUARTER ENDING NOVEMBER 30, 2011

(EXPRESSED IN US DOLLARS)

UNAUDITED

DENR | OTCBB

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended November 30, 2011

☐ **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

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)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 (Check one).

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 55,378,500 common shares as of January 19, 2012

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Santos Resource Corp.

(An Exploration Stage Company)

Interim Financial Statements

November 30, 2011

(Presented In US Dollars)

(unaudited – prepared by management)

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

		November 30, 2011 (Unaudited)		February 28, 2011
Assets				
Current Assets				
Cash	$	2,783	$	1,909
Amounts receivable		3,438		2,278
Total Assets	$	6,221	$	4,187
Liabilities and Stockholders' Equity (Deficiency)				
Current Liabilities				
Accounts payables and accrued liabilities	$	30,580	$	40,330
Shareholder loan - Note 3(b)		81,839		30,804
Total Current Liabilities		112,419		71,134
Stockholders' Equity (Deficiency)				
Common stock - 75,000,000 shares authorized, $0.001 par value - 32,076,500 shares issued		32,077		32,077
Additional paid in capital		149,871		149,871
Deficit accumulated during the exploration stage		(288,146)		(248,895)
Total Stockholders' Equity (Deficiency)		(106,198)		(66,947)
Total Liabilities and Stockholders' Equity (Deficiency)	$	6,221	$	4,187

Nature of operations and continuance of Business - Note 1

Subsequent event – Note 6

On Behalf of the Board:

____________________________________ Director

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

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

	Three months Ended November 30, 2011	Three months Ended November 30, 2010	Nine months Ended November 30, 2011	Nine months Ended November 30, 2010	Cumulative to November 30, 2011
Expenses					
General and administrative	$ 16	$ 81	$ 90	$ 511	$ 1,089
Foreign exchange loss (gain)	(6,170)	967	(5,555)	527	(3,059)
Mineral property costs		-	29,740	-	99,429
Professional fees	8,649	2,023	14,976	4,604	190,687
Total expenses	2,495	3,071	39,251	5,642	288,146
Net loss and comprehensive loss	$ (2,495)	$ (3,071)	$ (39,251)	$ (5,642)	$ (288,146)
Net loss per share					
Basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)	
Weighted average number of shares outstanding - basic and diluted	32,076,500	32,076,500	32,076,500	32,076,500	

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

Santos Resource Corp.
(an Exploration Stage Company)
Interim Statements of Stockholders' Equity (Deficiency)
At November 30, 2011
(Expressed in US Dollars)
(Unaudited)

		Common Stock Number	Common Stock Par Value	Additional Paid-in Capital	Deficit Accumulated During the Exploration Stage	Total Stockholders' Equity (Deficiency)
Balance, May 24, 2006 (date of inception), and **February 28, 2007**		-	$ -	$ -	$ -	$ -
Capital Stock issued for subscriptions receivable at $0.0005 per share and services at $0.0005 per share	19-Jun-07	31,040,000	31,040	(15,520)	-	15,520
Mineral Property Option - Starfire Minerals at $0.15 per share	25-Jun-07	75,000	75	11,175	-	11,250
Private Placement at $0.15 per share	1-Feb-08	961,500	962	143,264	-	144,226
Private Placement Fees	1-Feb-08	-	-	(4,568)	-	(4,568)
Net loss for the year		-	-	15,520	(70,888)	(55,368)
Balance, February 29, 2008		32,076,500	32,077	149,871	(70,888)	111,060
Net loss for the year		-	-	-	(92,777)	(92,777)
Balance, February 28, 2009		32,076,500	32,077	149,871	(163,665)	18,283
Net loss for the year		-	-	-	(54,305)	(54,305)
Balance, February 28, 2010		32,076,500	32,077	149,871	(217,970)	(36,022)
Net loss for the year		-	-	-	(30,925)	(30,925)
Balance, February 28, 2011		32,076,500	32,077	149,871	(248,895)	(66,947)
Net loss for the period		-	-	-	(39,251)	(39,251)
Balance, November 30, 2011		32,076,500	$ 32,077	$ 149,871	$ (288,146)	$ (106,199)

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

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

	Nine Months Ended November 30, **2011**	Nine Months Ended November 30, **2010**	Cumulative to November 30, **2011**
Cash flows used in Operating Activities			
Net loss for the period	$ (39,251)	$ (5,642)	$ (288,146)
Adjustments to net loss for non-cash activities			
Shares issued for property acquisition	-	-	11,250
Services provided by founders in exchange for shares	-	-	15,520
Unrealized foreign exchange loss (gain)	(5,555)	527	(3,059)
Change in amounts receivable	(1,160)	(682)	(3,438)
Change in accounts payable and accrued liabilities	(8,178)	(11,794)	25,586
Net cash used in operating activities	(54,144)	(17,591)	(242,287)
Cash flows from financing activities			
Common stock issued	-	-	159,746
Private placement fees	-	-	(4,568)
Advances from shareholders	55,267	19,989	85,066
Net cash flows from financing activities	55,267	19,989	240,244
Foreign exchange effect on cash	(249)	(788)	(740)
Cash increase (decrease) during the period	874	1,610	2,783
Cash beginning of the period	1,909	307	-
Cash end of the period	$ 2,783	$ 1,917	$ 2,783
Interest Paid in the period	$ -	$ -	$ -
Income Taxes Paid in the period	$ -	$ -	$ -

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

1. Nature of Operations and Continuance of Business

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

The accompanying financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has not generated revenues since inception and has never paid dividends and is unlikely to pay dividends or generate earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations, confirmation of the Company's interests in the underlying properties, and the attainment of profitable operations. As at November 30, 2011, the Company has not generated any revenues and has an accumulated loss of $288,146 since inception. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Summary of Significant Accounting Policies

Basis of Presentation

These interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Item 310(b) of Regulation S-B. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods ended November 30, 2011 and 2010 are not necessarily indicative of the results that may be expected for any interim period or the entire year. These interim financial statements should be read in conjunction with the audited financial statements for the year ended February 28, 2011.

3. Related Party Transactions

a) On June 25, 2007, the Company issued 75,000 shares of common stock at $0.15 per share to Starfire Minerals Inc. (“Starfire”) as part of its contract to Option to Purchase Property in Quebec. Richard Pierce, President of Santos Resource Corp. is a director on the board of each company.

b) A shareholder loaned the Company $81,839 during the period April 2007 to November 30, 2011. The loan is non interest bearing and unsecured and is payable upon request from the shareholder; accordingly fair value cannot be reliably determined.

c) A shareholder of the Company contributed services to the Company. The amounts are not recorded as it is not material.

4. Mineral Properties

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

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

5. Financial Instruments

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

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

At November 30, 2011 the Company had the following financial assets and liabilities in Canadian dollars:

	USD equivalent		CDN Dollars	
Cash on deposit	$	2,783	$	2,839
Shareholder loan	$	81,839	$	83,500
Accounts payable and accrued liabilities	$	20,867	$	21,291

At November 30, 2011 US dollar amounts were converted at a rate of $1.0203 Canadian dollars to $1.00 US dollar.

6. Subsequent Event

The Company has evaluated subsequent events and has determined that the following subsequent events should be reported.

Change in Company's Business. The Company's 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. The Company had abandoned this original plan of business, and had been looking for another business opportunity. Until the completion of the acquisition described herein, the Company 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, as amended (the "Exchange Act"). For reasons given hereinafter, the Company has adopted a significant change in its corporate direction. It has decided to focus its 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. This prospect is 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. Further information about the Prospect is contained in a Current Report on Form 8-K that the Company filed during the week of January 16, 2012.

(Expressed in U.S. dollars)

Change of Control. In connection with the change in the Company's business focus, a change of the control of the 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 the Company's common stock ("Shares"), $.001 par value, theretofore owned separately by Sellers at a price of $0.0001 per Share. This number of Shares represents 78.9% of the Company's outstanding Shares, prior to taking into account the other transactions described in this footnote, and 19.7% of the Company's outstanding Shares, after taking into account the other transactions described in this footnote. As of the date of the Quarterly Report in which this footnote has been included (the "Report"), 18,240,000 Shares had been transferred to Purchasers, and Sellers have agreed to transfer an additional 7,070,000 Shares to Purchasers as soon as is possible after the date of the Report.

After the sale and purchase of the Shares and the issuance of 20.0 million Shares to Keith D. Spickelmier in connection with the Company's acquisition of all of Mr. Spickelmier's rights in the Liberty Agreement (as defined and described below), Keith J. McKenzie and Mr. Spickelmier probably hold primary control of the Company, although they have not agreed to act in concert. Mr. McKenzie is now a director of the Company, and it is expected that Mr. Spickelmier will be elected as a director of the Company in the fairly near future.

In connection with the change of control, the following events occurred:

1. The number of directors constituting the Board of Directors of the Company was expanded from one to two, and Keith J. McKenzie was elected to the Board of Directors of the Company to fill the newly created vacancy.

2. All the Company's officers resigned from their positions as such.

3. The following persons were elected to the one or more offices of the Company set forth opposite their respective names below as the Company's new slate of officers:

Keith J. McKenzie	Chief Executive Officer
Michael D. Dahlke	President and Chief Operating Officer
William E. Begley	Chief Financial Officer, Treasurer & Secretary

Acquisition of Asset. In addition to the change of control, pursuant to the terms, provisions and conditions of an assignment (the "Assignment") dated effective January 13, 2012 executed by Keith D. Spickelmier and the Company, the Company 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 to acquire the Prospect (the "Option"). Liberty was the winning bidder for the Prospect. In order for the Prospect to be vested in Liberty, it needs only to complete negotiation of an access and royalty arrangement with the relevant Aboriginal native title holders, who have certain historic rights on the Prospect land. The Liberty Agreement was later amended and restated so that the exclusive right provided for thereby remained in effect until January 28, 2012. Moreover, in anticipation of the assignment of the Liberty Agreement to it, on December 29, 2011 the Company and Liberty entered into an agreement modifying certain terms of the Liberty Agreement, including extending the exclusive right to remain in effect until January 31, 2012.

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 it, the Company 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. If the South Australian Minister of Regional Development (the "Minister") does not grant the petroleum exploration license allowing the exploration and drilling rights related to the Prospect (the "License") within a certain period of time, the Company will have the option to cancel the transaction, and Liberty is required to refund all moneys paid to it.

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

* $50,000 in cash, payable as soon as the Company has funds therefore
* $100,000 payable upon notice from the Minister that the Minister has granted and issued the License in the name of the Company
* 20.0 million shares of the Company's common shares issued upon delivery of the Assignment
* A convertible promissory note for $55,000 convertible at $0.001 into 55.0 million common shares at any time after the Company has increased its authorized common shares to at least 125.0 million or has undertaken a reverse stock split in which at least two or more shares are combined into one share, issuable upon notice from the Minister that the Minister has granted and issued the License in the name of the Company.

In the Assignment, Mr. Spickelmier agreed that, if the Minister ever definitively decides not to grant and issue the License in the name of the Company, or has failed to grant and issue the License in the name of the Company prior to April 30, 2012, whichever occurs first, then Mr. Spickelmier shall return immediately to the Company the 20.0 million shares issued to him in connection with the delivery of the Assignment.

In the Assignment, the Company immediately assumed Mr. Spickelmier's obligations under the Liberty Agreement, and the Company agreed that, if it ever realizes that it will be unable to honor this assumption agreement, the Company would give written notice to Mr. Spickelmier to such effect, and Mr. Spickelmier would be entitled to require a re-assignment of the rights under the Liberty Agreement to him, provided that prior to any re-assignment Mr. Spickelmier reimburse the Company for any cash deposits that it has made directly to Liberty pursuant to the Liberty Agreement and Mr. Spickelmier return to the Company the 20.0 million Shares issued to him in connection with the delivery of the Assignment.

The Company is striving to close the acquisition of the Prospect pursuant to the Liberty Agreement as soon as possible. To do this, the Company will need to raise additional funds, and to complete the negotiations and documentation of the acquisition. The Company is currently involved in serious negotiations with Liberty regarding the documentation of the acquisition, and the Company is currently attempting to raise sufficient funds to complete the acquisition. The Company has no assurance that it will be able to accomplish the preceding. Consequently, neither the Company nor anyone else has any assurance that the Company will be able to consummate the acquisition of the Prospect.

Other Issuances of Shares. In addition to the issuances of the shares described elsewhere in this footnote, in a private placement commencing November 17, 2011 and continuing through the date of the Report, the Company has sold an aggregate of 3.0 million Shares at a price of $0.125 per Share. The cash offering has thus far resulted in $375,000 in proceeds to the Company. The Shares were issued to a total of six investors, all of whom are accredited.

Moreover, the Company issued to three persons an aggregate of 302,000 shares in full satisfaction of indebtedness owed by the Company to them separately in the aggregate amount of approximately $92,875.

Change in Shell Status. As a result of the acquisition of the Prospect, the Company is 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.

Contact Information

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DIRECTORS

Keith Spickelmier, Chairman
Keith McKenzie
William Begley

OFFICERS

Keith McKenzie, Chief Executive Officer
Mike Dahlke, President and C0O
William Begley, Chief Financial Officer
Mark Thompson, Corporate Secretary

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INCORPORATION

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

TRANSFER AGENT

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 MARCH 23rd 2012

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

MEDIA COMMUNICATIONS

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For more information visit us at discoveryenergy.com