



# QUARTERLY REPORT

FOR THE PERIOD ENDING MAY 31, 2016

UNAUDITED

**DENR | OTCQB**

*Development of Prime Acreage in Australia's Prolific  
Cooper Basin Western Oil Flank*

**DISCOVERY ENERGY CORP**

**CONSOLIDATED FINANCIAL STATEMENTS**

**PERIOD ENDED MAY 31, 2016**

*(EXPRESSED IN US DOLLARS, UNLESS OTHERWISE STATED)*

*UN-AUDITED*

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# Consolidated Financial Statements

## Discovery Energy Corp. Consolidated Balance Sheets

(Unaudited)	For the Period Ending	
	May 31, 2016	February 29, 2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 3,502,303	\$ 15,895
Prepaid expenses	11,706	17,059
<b>Total Current Assets</b>	<u>3,514,009</u>	<u>32,954</u>
Oil and gas property - unproved (successful efforts method)	2,421,415	2,421,415
<b>Total Assets</b>	<u>\$ 5,935,424</u>	<u>\$ 2,454,369</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 290,305	\$ 97,277
Accounts payable- related parties	151,151	123,508
Other liabilities	12,827	13,623
Promissory notes-related parties	146,353	139,953
Promissory notes	542,294	542,294
Derivative liability	7,837,081	-
<b>Total Current Liabilities</b>	<u>\$ 8,980,011</u>	<u>\$ 916,655</u>
Convertible note payable, net of dept discount and deferred financing costs of \$3,312,727 and \$179,671 at May31, 2016	7,667	-
<b>Total Liabilities</b>	<u>\$ 8,987,678</u>	<u>\$ 916,655</u>
<b>Stockholders' Equity</b>		
Preferred Stock- 10,000,000 shares authorized, zero issued and outstanding	-	-
Common Stock - 500,000,000 shares authorized, \$0.001 par value - 140,089,501 shares issued and outstanding as of May 31, 2016 and February 29, 2016	140,189	140,189
Additional paid in capital	3,952,947	3,952,947
Accumulated deficit	(7,149,339)	(2,543,592)
Accumulated other comprehensive income (loss)	3,949	(11,830)
<b>Total Stockholders' Equity</b>	<u>(3,052,254)</u>	<u>1,537,714</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 5,935,424</u>	<u>\$ 2,454,369</u>

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

## Consolidated Financial Statements (cont.)

### Discovery Energy Corp.

### Consolidated Statements of Expenses and Other Comprehensive Income (Loss)

(Unaudited)	Three Months Ended	
	May 31, 2016	May 31, 2015
<b>Expenses</b>		
General and administrative	\$ 27,589	\$ 25,616
Exploration costs	10,524	2,550
Professional fees	30,982	18,667
Rent	2,542	5,526
Travel	283	40,000
<b>Total expenses</b>	<u>71,920</u>	<u>92,359</u>
<b>Other (Income) Expenses</b>		
Interest expense	16,449	5,343
Loss on derivative liability	4,517,081	-
Miscellaneous income	(52)	(16)
Foreign exchange loss/(gain)	349	(5,567)
<b>Other (income) expenses</b>	<u>4,533,827</u>	<u>(240)</u>
<b>Net loss</b>	<u>\$ (4,605,747)</u>	<u>\$ (92,119)</u>
<b>Comprehensive loss</b>		
Net loss	(4,605,747)	(92,119)
Foreign currency translation adjustments	15,779	11,243
<b>Total comprehensive loss</b>	<u>\$ (4,589,968)</u>	<u>\$ (80,876)</u>
<b>Net loss per share - basic and diluted (in Dollars per Share)</b>	<u>\$ (0.03)</u>	<u>\$ (0.00)</u>
<b>Weighted average number of shares outstanding - basic and diluted (in Shares)</b>	<u>140,089,501</u>	<u>139,768,486</u>

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

# Consolidated Financial Statements (cont.)

## Discovery Energy Corp. Consolidated Statements of Cash Flows

(Unaudited)	Thress Months Ended	
	May 31, 2016	May 31, 2015
<b>Cash flows used in operating activities</b>		
Net loss	\$ (4,605,747)	\$ (92,119)
<b>Adjustments to reconcile net loss to net Cash used in operating activities</b>		
Loan amortization	7,667	-
Change in derivative liability	4,517,081	
<b>Changes in assets and liabilities:</b>		
Prepaid expenses	5,353	5,076
Accounts payable - related party	27,643	(21,379)
Interest payable	7,768	4,300
Accounts payable and accrued liabilities	4,463	(41,916)
<b>Net cash used in operating activities</b>	<u>(35,771)</u>	<u>(146,038)</u>
<b>Cash flows from financing activities</b>		
Proceeds from debenture	3,500,000	-
Common stock issued	-	200,000
Repayments on notes payable-related party	-	(50,000)
Proceeds from notes payable-related party	6,400	4,000
<b>Net cash flows from financing activities</b>	<u>3,506,400</u>	<u>154,000</u>
Foreign exchange effect on cash	15,780	11,244
Change in cash during the period	3,486,408	19,206
<b>Cash beginning of the period</b>	<u>15,895</u>	<u>859</u>
<b>Cash end of the period</b>	<u>\$ 3,502,303</u>	<u>\$ 20,065</u>
<b>Supplemental disclosures</b>		
Interest paid in the period	\$ -	\$ -
Income taxes paid in the period	\$ -	\$ -
<b>Noncash investing and financing activities</b>		
Deferred financing costs	<u>180,000</u>	<u>-</u>
Debt discount from beneficial conversion feature	<u>3,320,000</u>	<u>-</u>

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

# Notes to the Financial Statements

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## 1. Nature of Operations and Basis of Presentation

The principal business of Discovery Energy, Inc. (the “Company”) is the proposed exploration and development of the 584,651 gross acres (the “Prospect”) in the State of South Australia covered by Petroleum Exploration License (PEL) 512 (the “License”). The Prospect involves a 100% working interest in the preceding acreage, which overlies portions of the Cooper and Eromanga basins. The Company has not presently determined whether the Prospect contains any crude oil and natural gas reserves that are economically recoverable. While the Company’s present focus is on the Prospect, the Company may consider the acquisition of other attractive oil and gas properties under the right circumstances.

In May 2012, the Company incorporated a wholly-owned Australian subsidiary, Discovery Energy SA Ltd. (the “Subsidiary”) for purposes of acquiring the License. On May 25, 2016 the Subsidiary changed its status from a public company to private company (as those forms of entities are provided under applicable Australian law) and, accordingly changed its name to Discovery Energy SA Pty Ltd.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

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, 2016 Annual Report on Form 10-K filed with the SEC. 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, 2016, as reported on Form 10-K, have been omitted.

### Fair Value Considerations

The Company follows ASC 820, “ Fair Value Measurements and Disclosures ,” as amended by Financial Accounting Standards Board (FASB) Financial Staff Position (FSP) No. 157 and related guidance. Those provisions relate to the Company’s financial assets and liabilities carried at fair value and the fair value disclosures related to financial assets and liabilities. ASC 820 defines fair value, expands related disclosure requirements, and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, assuming the transaction occurs in the principal or most advantageous market for that asset or liability.

There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs. The Company uses Level 1 inputs for its fair value measurements whenever there is an active market, with actual quotes, market prices, and observable inputs on the measurement date. The Company uses Level 2 inputs for fair value measurements whenever there are quoted prices for similar securities in an active market or quoted prices for identical securities

## Notes to the Financial Statements (cont.)

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in an inactive market. The Company uses observable market data whenever available.

### Derivative Liabilities

In accordance with ASC 815-40-25 and ASC 815-10-15 Derivatives and Hedging and ASC 480-10-25 Liabilities-Distinguishing Liabilities from Equity, the embedded derivative associated with the convertible note payable and warrant are accounted for as liabilities during the term of the related note payable and warrant.

### 3. Going Concern

The accompanying financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has not generated revenues since inception and has never paid dividends and is unlikely to pay dividends or generate earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary equity or debt financing to continue operations, the successful development of the Prospect or one or more alternative oil and gas properties, and the attainment of profitable operations. As of May 31, 2016, the Company has not generated any revenues and has an accumulated loss of \$7,149,339 since inception. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. In May 2016, we secured \$3.5 million in funding through a convertible debenture sale. We have an additional \$1.5 million in convertible debentures that we are seeking to sell for short-term funding. Moreover, the purchaser of the \$3.5 million convertible debentures has a right of first offer through the end of June 2017 to invest an additional \$20.0 million in our company. 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.

### 4. Related Party Transactions

As of May 31 and February 29, 2016, the Company owed \$151,151 and \$123,508, respectively, to certain Company directors for reimbursement of expenses paid on behalf of the Company. In addition, as of May 31 and February 29, 2016, the Company owed \$146,353 and \$139,953, respectively, for promissory notes issued to various related parties. These amounts are unsecured, non-interest bearing and due on demand. During the three months ended May 31, 2016, notes totaling \$6,400 were executed with two related parties as described in Note 6 below. Additionally, a related party payable of \$9,100 was created when a director advanced cash to settle payables to a third party.

### 5. Oil and Gas Properties

On May 19, 2014, the Company received notice from the Government of South Australia that this government had issued certain modifications to the License and suspended the License for a period of six months. Such a suspension functions like an extension. Under the amended License, the Company will be required to drill 7 exploratory wells rather than 12, as originally required. These required wells must be drilled in years 3, 4, and 5 (2, 2, and 3 wells, respectively). The amount of required 2D seismic was also reduced to 100 kilometers (in year 3) from 250 kilometers (in year 2) but the total 3D seismic work guaranteed increased to 500 square kilometers from 400 square kilometers. However, the 3D seismic survey requirement is spread over years 2, 3 and 4 (100, 200 and 200 sq. km. respectively). Subsequent to this modification and suspension, the Company received two additional six-month suspensions, one in February 2015 and one in July 2015, and a one-year suspension in February 2016. In view of these modifications and suspensions, the Company's remaining work commitment involves the following:

## Notes to the Financial Statements (cont.)

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- ▶ Year 2 ending April 27, 2017 - Conduct a new 3D seismic survey totaling at least 100 square kilometers.
- ▶ Year 3 ending April 27, 2018 - Acquire new 2D seismic data totaling at least 100 kilometers, acquire 3D seismic data totaling at least 200 square kilometers and drill two wells.
- ▶ Year 4 ending April 27, 2019 - Acquire new 3D seismic data totaling at least 200 square kilometers and drill two wells.
- ▶ Year 5 ending April 27, 2020 - Drill three wells.

### 6. Notes Payables

Two promissory notes were issued on October 26, 2012 to Liberty Petroleum Corporation (“Liberty”) upon delivery of the License with an aggregate principal amount of \$650,000. The original terms of the note were:

- (i) One note in the original principal amount of \$500,000 was originally due on April 26, 2013.
- (ii) The other note in the original principal amount of \$150,000 was originally due on July 26, 2013.
- (iii) Both notes accrued interest at a floating rate equal to the one-month term LIBOR rate, plus an additional 3%.

Accrued interest of \$46,765 and \$42,065 is included in other liabilities as of May 31, 2016 and February 29, 2016, respectively

These promissory notes had undergone a number of amendments, including extensions of the due dates. On September 26, 2013, these promissory notes were combined into a single consolidation promissory note (the “Consolidated Note”) in the original principal amount of \$542,294, as some of the principal had been reduced and some interest had accrued. Effective May 5, 2016, the Company and Liberty amended the Consolidated Note so that all the outstanding principal of this note (\$587,724) and interest hereafter accrues on such Note shall be due in a single balloon payment on July 20, 2016, and provided that on or prior to the Due Date of July 20, 2016, the Note can be paid in its entirety by the Company’s a) payment in cash of \$300,000, plus the amount of accrued interest and b) issuance of 1,150,895 restricted shares of the Company’s common stock, which number of shares was determined by dividing \$287,724 by a per-share price of \$0.25.

On April 20, 2016, the Company entered into an unsecured corporate demand note with William E. Begley, a related party. The note was in the amount of \$1,800, and repayment can be demanded, with 5-days notice, at any time after the passage of 20 business days from the date of the note. If no demand is made on the note, the note becomes due and payable in full on its first anniversary. The note is non-interest bearing.

On May 13, 2016, the Company entered into an unsecured corporate demand note with Keith Spickelmier, a related party. The note was in the amount of \$4,600, and repayment can be demanded, with 5-days notice, at any time after the passage of 20 business days from the date of the note. If no demand is made on the note, the note becomes due and payable in full on its first anniversary. The note is non-interest bearing.

### 7. Convertible Note Payable

On May 27, 2016, the Company sold a \$3.5 million senior secured convertible debenture to DEC Funding LLC (the “Debenture”). The Debenture is due on May 27, 2021 and bears interest at 8% per annum. The use of these proceeds is limited to the payment of our and the Debenture purchaser’s costs of the transaction (including legal fees), the funding of our 3D seismic survey with respect



## Notes to the Financial Statements (cont.)

to our Prospect and the interpretation of such seismic survey, and the payment of our expenses associated with the seismic survey. The remainder of these proceeds may be used for general and administrative expenses with the Debenture purchaser's consent. The conversion price for the Debentures is \$0.16, subject to certain adjustments that are believed to be customary in transactions of this nature. Debentures are secured by virtually all of the Company's assets owned directly or indirectly but for the License.

Among other provisions, the sale transaction included warrants to purchase 13,125,000 shares of the Company's common stock at \$0.20 (the "Warrant"). The warrants have a three-year term. Further information regarding the details of this transaction is found in Form 8K filed with the Securities and Exchange Commission on June 3, 2016. The Company incurred legal and professional fees in the amount of \$180,000 related to the sale transaction. These costs have been discounted as deferred financing costs. During the three months ended May 31, 2016, the Company recorded \$394 in amortization expense related to the deferred financing costs. Related debt discount in the amount of \$3,320,000 was recorded. During the three months ended May 31, 2016, the Company recorded \$7,273 in amortization expense related to the debt discount.

The Debenture and the Warrant include a reset provision whereby the investor is entitled to reset the conversion price of the Debenture and the Warrant in the event that the Company issues securities priced below the conversion price of the Debenture or the Warrant. The Company has analyzed the reset provision of the Debenture and Warrant and calculated the fair market value of the ensuing derivative liability, as discussed in Note 8.

### 8. Derivative Liability

The debenture and related warrant issued by the Company contain a price reset provision (the Reset Provision) that gives rise to a derivative liability. The Company has measured its derivative liability at fair value and recognized the derivative value as a current liability and recorded the derivative value on its consolidated balance sheet. The derivative is valued primarily using a binomial latticed-based model based on unobservable inputs that are supported by little to no market activity. These inputs represent management's best estimate of what market participants would use in pricing the liability at the measurement date and thus are classified as Level 3. Changes in the fair values of the derivative are recognized as earnings or losses in the current period.

The fair values of derivative liability related to the Reset Provision contained within the debenture as of May 27, 2016, the date of issuance, and as of May 31, 2016 were estimated on the transaction dates and balance sheet dates under the following assumptions:

	May 27, 2016	Issuances/ changes	May 31, 2016
Shares of common stock issuable upon exercise of warrant	21,875,000	-	21,875,000
Estimated market value of common stock on measurement date	\$ 0.26	\$ -	\$ 0.26
Exercise price	\$ 0.16	\$ -	\$ 0.16
Risk free interest rate	1.37%	0.00%	1.37%
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	306.96%	0.00%	306.96%
Expected exercise term in years	5.000	0.01	4.992

The fair values of derivative liability related to the Reset Provision contained within the warrant as of May 27, 2016, the date of issuance, and as of May 31, 2016 were estimated on the transaction dates and balance sheet dates under the following assumptions:

	May 27, 2016	Issuances/ Changes	May 31, 2016
Shares of common stock issuable upon exercise of warrant	13,125,000	-	13,125,000
Estimated market value of common stock on measurement date	\$ 0.26	\$ -	\$ 0.26
Exercise price	\$ 0.20	\$ -	\$ 0.20
Risk free interest rate	1.37%	0.00%	1.37%
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	306.96%	0.00%	306.96%
Expected exercise term in years	3.000	0.00	2.992

The changes in fair values of the derivative liabilities related to the debenture and warrant for the three months ended May 31, 2016 are summarized as follows:

Fair value of derivative liabilities at inception (May 27, 2016)	\$ 4,522,016
Discount on debenture	3,320,000
Conversion of derivative liabilities	-
Change in fair value of derivative liabilities	(4,935)
Fair value of derivative liabilities at May 31, 2016	\$ 7,837,081

The Company recognized a net loss on derivative liability of \$4,517,081 during the three months ended May 31, 2016.

## 9. Subsequent Events

Effective July 11, 2016, the Subsidiary, entered into a seismic services agreement (the "Seismic Agreement") with Terrex Pty Ltd. ("Terrex"). The material terms, provisions and conditions of the Seismic Agreement are as follows:

- ▶ Per the terms of the Seismic Agreement, Terrex is to conduct a 3D seismic survey (the "Survey") comprised of from approximately 175 to approximately 200 square kilometers on the southwest portion of the Prospect. The Company believes that after regulatory approvals have been acquired and an archeological review of the survey area has been completed Terrex will start the 3D seismic fieldwork on or about August 10, 2016. It is expected the field data acquisition will require about 2 months to complete, after which the data will then be processed and interpreted by other contractors. Once this Survey project has been completed and the results reported to the South Australian government, the Company's work commitment for the second year of the License and a portion of the Company's work commitment for the third year will have been satisfied.
- ▶ For Terrex's services, the Company will pay a "turnkey price" of approximately AU\$3,057,000 (approximately US\$2,287,000 based on the average exchange rate for the five business days preceding July 12, 2016). The Company expects that the Survey, in combinations with the expenses associated with required pre- and post-field work, will largely deplete the funds raised in the Company's recent sale and issuance of its Senior Secured Convertible Debenture due May 27, 2021 having an original principal amount of US\$3,500,000.

Effective July 16, 2016, a director's demand note in the amount of \$10,000 was amended to extend the term to July 16, 2017.

**DISCOVERY ENERGY CORP**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**PERIOD ENDED MAY 31, 2016**

*(EXPRESSED IN US DOLLARS, UNLESS OTHERWISE STATED)*  
*UN-AUDITED*

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# Management Discussion and Analysis

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## Cautionary Statement For Forward-Looking Statements

*This Quarterly Report 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.*

## Overview

Our company, Discovery Energy Corp., was incorporated under the laws of the state of Nevada on May 24, 2006 under the name “Santos Resource Corp.” Our current business plan is to explore for and produce oil and gas from a tract of land comprising approximately 584,651 gross acres (the “Prospect”) covered by Petroleum Exploration License (PEL) 512 (the “License”) in the State of South Australia. We adopted this business plan near the end of our fiscal 2012, after having previously abandoned our initial business plan involving mining claims in Quebec, Canada and after we had been dormant from a business perspective for a period of time. In connection with the adoption of our current business plan, we had a change in control of our company, a change in our management, a change in our corporate name, and a change of our status from a “shell” company, as that term is defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 under the Securities Exchange Act of 1934.

Beginning in the second quarter of fiscal 2015 a significant decline in the price of oil has affected the oil and gas industry worldwide. This decline began in June 2014 when the price of Brent oil was above US\$110 per barrel and continued to a low of US\$28 per barrel in January of 2016. Since then prices have recovered somewhat with the recent Nymex Futures trading near US\$50 per barrel. Current oil prices have made our ability to complete a capital raising transaction or procure a joint venture partner more difficult. As a result of the decline in oil prices we and most other Cooper Basin exploration companies curtailed activities or reduced capital budgets until oil markets stabilize. In light of market conditions, we changed our ongoing business strategy to best position ourselves for when the markets improve.

After having made significant strides in our business plan during our fiscal 2013 (including the formal grant of the License), we spent the bulk of our business efforts during our fiscal years 2014, 2015 and 2016 trying to complete a major capital raising transaction or procure one or more major joint venture partners to further our business plan. We were not able to achieve these objectives, especially after the significant decline in oil prices described above. During these fiscal years, we were able to extend our five-year work commitment relating to the License, allowing us additional time to pursue capital raising transactions or procure a major joint venture partner, and perhaps benefit from a recovery in the price of oil. However, after the end of our fiscal 2016, we experienced a couple of significant positive developments as follows:

On May 27, 2016, we completed a debt financing transaction that provides to us funds to commence our 3D seismic survey and complete a significant portion of it, while also providing operating capital for a number of months. This financing is discussed in the section captioned “Liquidity and Capital Requirements - Financing History and Immediate, Short-Term Capital Needs” below.

## Management Discussion & Analysis (cont.)

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Effective July 12, 2016, we entered into a seismic services agreement (the “ Seismic Agreement “) with Terrex Pty Ltd. (“ Terrex ”). Per the terms of the Seismic Agreement, Terrex is to conduct a 3D seismic survey (the “ Survey ”) comprised of from approximately 175 to approximately 200 square kilometers on the southwest portion of the Prospect. We believe that Terrex will start the 3D seismic fieldwork on or about August 10, 2016, after regulatory approvals have been acquired and an archeological review of the survey area has been completed. It is expected the field data acquisition will require about two months to complete, after which the data will then be processed and interpreted by other contractors. Once this Survey project has been completed and the results reported to the South Australian government, our work commitment for the second year of the License and a portion of our work commitment for the third year will have been satisfied. For Terrex’s services, we will pay a “turnkey price” of approximately AU\$3,057,000 (approximately US\$2,287,000 based on the average exchange rate for the five business days preceding the date of this Report). We expect that the Survey, in combinations with the expenses associated with required pre- and post-field work, will largely deplete the funds raised in our recent debt financing transaction completed on May 27, 2016. As a result, we will continue the activities described in the section captioned “Liquidity and Capital Requirements.”

In the remainder of this Report, Australian dollar amounts are prefaced by “AU\$” 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. During the three months ended May 31, 2016 exchange rate has varied from a low of US\$1.00/AU\$1.2801 to a high of US\$1.00/AU\$1.4021.

### Plan of Operation

#### General

We intend to engage primarily in the exploration and conventional development of oil and gas on the Prospect in an effort to develop oil and gas reserves, and related natural gas liquids and condensates. 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, and we continue to have discussions with some of these persons.

There can be no assurance that we will be successful in our exploratory and production activities. The oil and gas business involves

## Management Discussion & Analysis (cont.)

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numerous risks, the principal ones of which are listed in our 2016 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 exploration 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

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 the Prospect, 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. Therefore, we have undertaken certain financing activities described in “Liquidity and Capital Requirements - Major Financing Efforts and Other Sources of Capital” 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 License is subject to a five-year work commitment. We have completed the first year of this work commitment and in this first year we conducted geological and geophysical studies including interpretation of existing seismic data. In management’s view, the geotechnical work completed in the first year was sufficient to satisfy this requirement, and we filed our report in this connection with the South Australian government. We have received no comments from the government relating to this report.

We received from the South Australian Minister for Mineral Resources and Energy three six-month extensions of the work commitment relating to the License, the first in May 2014, the second in February 2015 and the third in July 2015 and a one-year suspension in February 2016. In view of these modifications and suspensions, our remaining work commitment involves the following:

- ▶ Year 2 ending April 27, 2017 - Conduct a new 3D seismic survey totaling at least 100 square kilometers.
- ▶ Year 3 ending April 27, 2018 - Acquire new 2D seismic data totaling at least 100 kilometers, acquire 3D seismic data totaling at least 200 square kilometers and drill two wells.
- ▶ Year 4 ending April 27, 2019 - Acquire new 3D seismic data totaling at least 200 square kilometers and drill two wells.
- ▶ Year 5 ending April 27, 2020 - Drill three wells.

Although our remaining work commitment has been reduced and extended, we have no assurance that we will be able to extend the work commitment again or to fulfill it timely, as we need to complete capital raising transactions, or procure a joint venture partner, or both, to do so.

## Management Discussion & Analysis (cont.)

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The prices of the equipment and services that we must employ to fulfill the work commitment vary based on both local and international demand for such products by others involved in exploration for and production of oil and gas. Previous high worldwide energy prices had resulted in growing demand, which lent support to higher prices being charged by suppliers. Prices being charged by suppliers have declined with the decline in energy prices. Nevertheless, we have no assurance that the steps in the work plan (e.g. shooting 100 square kilometers of 3D seismic) can be accomplished at current or lower costs.

Based on our research and technical analysis to date, we believe that the License work plan can be justified. Hence, the initial phase of our plan of operation involves (among other things) conducting 3D seismic surveys totaling 300 square kilometers (approximately 115 sq. miles), conducting a 2D seismic survey of 100 kilometers (approximately 62 miles) and drilling of at least two exploration wells. We recently entered into a seismic services agreement, which we believe will satisfy our work commitment for the second year of the License and a portion of our work commitment for the third year. For more information about this agreement, see the section captioned “General” above.

We intend to seek a joint venture partner who or which might act as the operator to conduct seismic work and drill our wells. If we are unsuccessful in procuring such a partner, we will engage the services of a qualified seismic company to acquire additional 3D seismic data and once we have identified proposed drilling sites a third party contractor for drilling operations. 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

## Management Discussion & Analysis (cont.)

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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

Our results of operation for the three- and nine-months month periods ended November 30, 2015 and 2014 are summarized in the table below:

	Three Months Ended	
	May 31, 2016	May 31, 2015
Revenue	\$ -	\$ -
Operating Expenses	71,920	92,359
Other (income)/expenses	4,533,827	(240)
<b>Net Loss</b>	<b>\$ 4,605,747</b>	<b>\$ 92,119</b>

Our operating expenses for the three- and nine-month periods ended November 30, 2015 and 2014 are outlined in the table below:

	Three Months Ended	
	May 31, 2016	May 31, 2015
General and Administrative	\$ 27,589	\$ 25,616
Exploration Costs	10,524	2,550
Professional Fees	30,982	18,667
Rent	2,542	5,526
Travel	283	40,000
<b>Total Operating Expenses</b>	<b>\$ 71,920</b>	<b>\$ 92,359</b>

### Results of Operations for the Three-Month Periods Ended May 31, 2016 and 2015

*Revenues* - We did not earn any revenues for either the three months ended May 31, 2016 or the similar period in 2015. 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 into commercial production.

The largest component of the decline in our expenses was the reduction in travel fees for the quarter ended May 31, 2016 compared to the quarter ended May 31, 2015. Travel expense was approximately \$300 during the quarter ended May 31, 2016 and \$40,000



## Management Discussion & Analysis (cont.)

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during the quarter ended May 31, 2015. The major source of difference is the timing of costs associated with sending our executives to represent the company at Australia's annual petroleum conference. This event where potential partners, service providers and energy regulators gather has typically been held during the quarter ended May 31st, but the most recent conference was held in June, which falls in our quarter that will end on August 31, 2016. Therefore, travel expenses for the first six months of the current fiscal year are expected to be much more comparable to those incurred during the same period in fiscal 2016.

Our professional fees during the quarter ended May 31, 2016 increased by approximately \$12,000 compare to the quarter ended May 31, 2015 due to services rendered in connection with the convertible debt financing, IT security improvements, and geophysical seismic contract negotiations.

Our exploration costs during the quarter ended May 31, 2016 increased by about \$8,000 compared to those costs incurred during the comparable period ended May 31, 2015 primarily for additional work in support of the convertible debt financing and geophysical seismic contract negotiations.

*Net loss* - Despite a reduction in operating expenses of about \$20,000, our net loss for the quarter ended May 31, 2016 increased significantly as compared to the quarter ended May 31, 2015. This result was primarily due to the non-cash derivative liability loss in the amount of \$4,517,081. The derivative liability represents the estimated settlement cost of issuing additional common shares of our common stock if the price reset provisions of the debenture and warrants are triggered. It is a non-cash liability that will be recomputed each quarter while the debenture and warrants are outstanding. Interest expense also increased due to accrued interest on the convertible debt and amortization of the debt discount and deferred financing costs that added an additional \$11,000 to the quarterly loss. On a per share basis (basic and diluted), our loss for the three-month period ending May 31, 2016 was \$0.03 compared to a loss of less the \$0.01 for the three-month period ended May 31, 2015.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

## Liquidity and Capital Requirements

### Financing History and Immediate, Short-Term Capital Needs

Since the change in our corporate direction in January 2012, we have financed our business primarily through private placements of common stock. Since January 2012 through the end of fiscal 2016, we had conducted several rounds of financing in which we raised total "seed" capital in the amount of \$2,723,750 resulting in the issuance of 19,657,501 shares of our common stock. From time to time, our officers and directors have advanced short-term funds. As of July 8, 2016, we had outstanding loans totaling \$146,353 from two directors and an entity controlled by one officer. These loans are each evidenced by demand notes, which are non-interest bearing.

As of May 31, 2016, we had cash of approximately \$3,500,000, we had drawn \$9,690 in funds against our bank credit card, and we had working capital of about \$2,370,000, excluding the derivative liability. The bulk of the current working capital surplus reflects the cash raised through the debenture sale described below.

Effective May 27, 2016, we sold the following securities:

## Management Discussion & Analysis (cont.)

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\* a Senior Secured Convertible Debenture due May 27, 2021 having an original principal amount of \$3,500,000 (singly a “ Debenture “ and collectively with any similar securities issued in the future, the “ Debentures “), and

\* warrants to purchase up to a maximum of 13,125,000 shares (prior to any required adjustment) of our common stock (at an initial per-share exercise price of \$0.20).

We received proceeds from the sale of these securities in the amount of \$3,500,000. The use of these proceeds is limited to the payment of our and the Debenture purchaser’s costs of the transaction (including legal fees), the funding of our 3D seismic survey with respect to our 584,651 gross acre oil and gas prospect in the State of South Australia and the interpretation of such seismic survey, and the payment of our expenses associated with the seismic survey. The remainder of these proceeds may be used for general and administrative expenses with the Debenture purchaser’s consent. Because of the cash infusion resulting from the sale of this initial Debenture, as of July 15, 2016, we had the US dollar equivalent of approximately \$3,330,000 of cash on hand. We are currently seeking to sell additional Debentures having an original principal amount of up to \$1,500,000. Any net proceeds from these additional Debentures will be used for the following purposes:

- \* The payment of the debt that we owe to Liberty Petroleum Corporation
- \* The payment of the debt that we owe to members of management
- \* General and administrative expenses

If the full \$1,500,000 of these additional Debentures is raised, we believe that the related net proceeds will be sufficient to pay the debts noted above and finance all of our business for the next year, although it has no assurance of this. We have no assurances that we will be successful in raising required additional funds. If we are unsuccessful in raising required additional funds in the immediate future, we will need (among other things) to seek a further extension of the Liberty note. While Liberty has accommodated us in the past in this regard, we have no assurance that they would accommodate us again. Our failure to raise required additional funds and our subsequent failure to obtain an extension of the Liberty note and our work commitment under the License and our ultimate inability to repay the Debentures when they become due could have adverse consequences for us, including our inability to continue our business plan, which could result in a complete loss of stockholders’ equity.

### Major Financing Efforts and Other Sources of Capital

Starting in October 2012, we have entered into engagement agreements with several financial intermediaries to assist us in completing a major capital raising transaction. None of these engagements resulted in the completion of such a transaction, and we are not now bound by any such engagement agreement. We are now pursuing our own independent capital raising initiatives, and we have several prospects in this regard.

Our capital strategy for most of the past two years or so has been to try to engage in a single major capital raising transaction to provide sufficient funds to satisfy our capital needs for a number of years to come. While did not completely abandoning this strategy, we shifted our emphasis in an effort to try to engage in one or more smaller capital raising transactions to provide sufficient funds to satisfy our capital needs through April 2017. Effective May 27, 2016, we sold a \$3,500,000 Debenture. We estimate that the proceeds from this sale will be sufficient to finance our seismic survey required for our second year license work commitment of 100 km<sup>2</sup>. Moreover we believe that the remainder of these proceeds will be sufficient (provided the Debenture holder’s consent

## Management Discussion & Analysis (cont.)

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is obtained) to finance all of our other business expenses through the end of October 2016, although we have no assurance of this. In the view of the preceding, we will need to raise more funds, and we are continuing efforts to raise another \$1,500,000 by selling additional Debentures. Moreover, in the future we will need significant additional funds to undertake the development of our oil and gas prospect in Australia, and we will need to raise these funds to do this. We have no assurance that it will be able to raise these significant additional funds or the additional funds needed for our general operation.

The purchaser of our \$3,500,000 Debenture has a right of first offer through the end of June 2017 to invest an additional \$20.0 million in our company. We view this arrangement as a prospect for meeting our major capital needs in the future, although we have no assurance that the purchaser will elect to invest any further amounts. However, we expect to pursue other possible sources of capital. For example, we expect to pursue smaller, equity placements for short-term needs and an alternative major capital raising transaction for long-term needs. Moreover, one source of funding being pursued is the sale of a portion of our interest in the Prospect to a joint venture partner for a cash payment and/or a work commitment. We have had 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 have conducted extensive geological and geophysical work, including the reprocessing of existing 3D seismic data relating to a portion of the Prospect, and we may seek to add further value by completing a 3D seismic survey over other portions of the Prospect. We have no assurance that we will secure a joint venture partner. A joint venture arrangement is unlikely to help with our immediate cash needs, but (if secured) one would help with our longer-term cash needs. Moreover, any joint venture arrangement would need to be approved by the purchaser of our \$3,500,000 Debenture.

Production from successful 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 development activities. Cash flow is a critical factor to our plan of operation in the long run. Management believes that, if our plan of operation progresses (and production is realized) as planned, sufficient cash flow and debt financing will be available for purposes of properly pursuing our plan of operation, although we can make no assurances in this regard.

Finally, to conserve on our cash requirements, we may try to satisfy some of our obligations by issuing shares of our common stock, which will result in dilution in the percentage ownership interests of our existing stockholders and could result in dilution of the net asset value per share of our existing stockholders.

### Consequences of a Financing Failure

The amount of cash on hand, the pending maturity of the Liberty note, and the issuance of the Debenture have all heightened our need to raise a significant amount of additional capital in the near future. If required financing is not available on acceptable terms, we could be prevented from satisfying our debt or work commitment obligations (including the repayment of the Debenture, which becomes due in May 2021), or developing the Prospect. Our failure to pay timely the Debenture could result in the partial or total loss of our assets and properties. Our failure to pay timely the Liberty note could result in Liberty's exercise of the rights of an unsecured creditor and possibly levy encumbrances on all or a large part of our assets. Our failure to honor our work commitment could result in our loss of the Prospect. Our failure to procure required financing on acceptable terms could prevent us from developing the Prospect. If any of the preceding events were to occur, we could be forced to cease our 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

## Management Discussion & Analysis (cont.)

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offering, we may be constrained to attempt to sell all or 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 partial 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.

### 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 our 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 and an ineffective element of our financial procedures. Therefore, the principal executive officer and principal financial officer believe the disclosure controls and procedures are not 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.

#### 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 our 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)

# Management Discussion & Analysis (cont.)

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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.

## Item 6. Exhibits

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### Exhibits

The following exhibits are filed with this Quarterly Report or are incorporated herein by reference:

<b>Exhibit Number</b>	<b>Description</b>
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

### SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DISCOVERY ENERGY CORP.  
(Registrant)

By: /s/ Keith J. McKenzie  
Keith J. McKenzie,  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ William E. Begley  
William E. Begley,  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

Date: July 19, 2016

### CERTIFICATIONS

**I, Keith J. McKenzie, certify that:**

1. I have reviewed this quarterly report on Form 10-Q of Discovery Energy Corp. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company’s internal controls over financial reporting that occurred during the Company’s most recent fiscal quarter (the company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company’s internal controls over financial reporting; and
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the company’s auditors and the audit committee of the company’s Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal controls over financial reporting.

**Date: July 19, 2016**

By: /s/ Keith J. McKenzie  
Keith J. McKenzie,  
Chief Executive Officer

### CERTIFICATIONS

**I, William E. Begley, certify that:**

1. I have reviewed this quarterly report on Form 10-Q of Discovery Energy Corp. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company’s internal controls over financial reporting that occurred during the Company’s most recent fiscal quarter (the company’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company’s internal controls over financial reporting; and
5. The Company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the company’s auditors and the audit committee of the company’s Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal controls over financial reporting.

**Date: July 19, 2016**

By: /s/ William E. Begley  
William E. Begley,  
Chief Financial Officer





**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Discovery Energy Corp. (the "Company") on Form 10-Q for the quarter ended November 30, 2015 as filed with the Securities and Exchange Commission on or about the date hereof ("Report"), the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**Date: July 19, 2016**

By: /s/ William E. Begley

William E. Begley,  
Chief Financial Officer

## Forward Looking Statements

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FORWARD LOOKING STATEMENTS: Certain information regarding the Company contained herein may constitute forward looking statements within the meaning of applicable securities laws. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company cautions that actual performance will be affected by a number of factors, many of which are beyond the Company's control, and that future events and results may vary substantially from what the Company currently foresees. Discussion of the various factors that may affect future results is contained in the Company's Annual Report which is available at [www.sec.gov](http://www.sec.gov) or [www.sedar.com](http://www.sedar.com). The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.



Australia Subsidiary



## HEAD OFFICE

### Discovery Energy Corp.

Suite 1700 – One Riverway Place  
Houston, Texas USA 77056  
Tel: (713) 840 6495  
Fax: (713) 622 1937  
Email: [info@discoveryenergy.com](mailto: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

## AUDITORS

Malone Bailey LLP  
Certified Public Accountants  
Suite 800, 10350 Richmond Ave.  
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

## LISTING

Exchange: OTC Markets  
Trading Symbol: "DENR"  
Cusip Number: 25470P 102  
ISIN Number: US25470P1021

## SUBSIDIARY COMPANY

### Discovery Energy SA Ltd.

Level 8 - 350 Collins Street  
Victoria 3000 AUS  
Tel: 61 (0) 3 8601 1131  
Fax: 61 (0) 3 8601 1180  
Email: [info@discoveryenergy.com.au](mailto:info@discoveryenergy.com.au)

## DIRECTORS

Keith McKenzie  
Mike Dahlke  
William Begley  
Andrew Adams  
Melanie Leydin

## LEGAL COUNSEL - USA

Gillis, Paris & Heinrich, PLLC  
Suite 818 - 8 Greenway Plaza,  
Houston, Texas USA 77046

## LEGAL COUNSEL - AUSTRALIA

GJ King & Associates  
216 Stadtmillers Lane  
Bowling NSW 2582 Australia

## SHARE CAPITAL AUTHORIZED AND ISSUED AS AT JULY 19, 2016

Authorized: 500,000,000 common shares without par value  
Issued and Outstanding: 140,089,501

## TRANSFER AGENT

Transfer Online, Inc.  
512 SE Salmon St.  
Portland, OR 97214  
Website: [www.transferonline.com](http://www.transferonline.com)

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