



QUARTERLY REPORT

FOR THE PERIOD ENDING NOVEMBER 30, 2014

UNAUDITED

DENR | OTCQB

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

DISCOVERY ENERGY CORP

CONSOLIDATED FINANCIAL STATEMENTS

PERIOD ENDED NOVEMBER 30, 2014

(EXPRESSED IN US DOLLARS, UNLESS OTHERWISE STATED)

UN-AUDITED

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Consolidated Financial Statements

Discovery Energy Corp. Balance Sheets

(Unaudited)	For the Period Ending	
	November 30, 2014	February 28, 2014
Assets		
Current Assets		
Cash	\$ 5,365	\$ 2,483
Prepaid expenses	2,500	16,817
Total Current Assets	<u>7,865</u>	<u>19,300</u>
Oil and gas property - unproved (successful efforts method)	2,421,415	2,421,415
Total Assets	<u>\$ 2,429,280</u>	<u>\$ 2,440,715</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 48,394	\$ 74,970
Accounts payable- related parties	134,147	79,599
Other liabilities	10,386	6,860
Promissory notes-related parties	211,700	83,500
Promissory notes	542,294	542,294
Total Current Liabilities	<u>946,921</u>	<u>787,223</u>
Stockholders' Equity		
Preferred Stock- 10,000,000 shares authorized, zero issued and outstanding	-	-
Common Stock - 500,000,000 shares authorized, \$0.001 par value - 1139,837,500 and 138,451,200 shares issued and outstanding as of November 30, 2014 and February 28, 2014, respectively	139,837	138,452
Additional paid in capital	3,512,499	3,319,365
Accumulated deficit	(2,165,619)	(1,802,128)
Accumulated other comprehensive income (loss)	(4,358)	(2,197)
Total Stockholders' Equity	<u>1,482,359</u>	<u>1,653,492</u>
Total Liabilities and Stockholders' Equity	<u>\$ 2,429,280</u>	<u>\$ 2,440,715</u>

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

Consolidated Financial Statements (cont.)

Discovery Energy Corp.

Statements of Expenses and Other Comprehensive Income (Loss)

(Unaudited)	Three Months Ended		Nine Months Ended	
	November 30, 2014	November 30, 2013	November 30, 2014	November 30, 2013
Expenses				
General and administrative	\$ 9,792	\$ 18,116	\$ 56,880	\$ 64,222
Exploration costs	14,550	11,100	23,645	86,214
Professional fees	20,672	25,537	231,591	130,957
Rent	3,744	3,291	10,085	8,926
Travel	1,496	23,600	30,862	93,689
Total expenses	<u>50,254</u>	<u>81,644</u>	<u>353,063</u>	<u>384,008</u>
Other (Income) Expenses				
Interest expense	4,306	4,276	13,709	13,146
Miscellaneous income	(8)	(6)	(42)	(156)
Foreign exchange loss/(gain)	(1,721)	(200)	(3,239)	(367)
Other (income) expenses	<u>2,577</u>	<u>4,070</u>	<u>10,428</u>	<u>12,623</u>
Net loss	<u>\$ (52,831)</u>	<u>\$ (85,714)</u>	<u>\$ (363,491)</u>	<u>\$ (396,631)</u>
Comprehensive loss				
Net loss	(52,831)	(85,714)	(363,491)	(396,631)
Foreign currency translation adjustments	(2,258)	(496)	(4,358)	(496)
Total comprehensive loss	<u>\$ (55,089)</u>	<u>\$ (86,210)</u>	<u>\$ (367,849)</u>	<u>\$ (397,127)</u>
Net loss per share - basic and diluted (in Dollars per Share)	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of shares outstanding - basic and diluted (in Shares)	<u>138,754,212</u>	<u>138,295,500</u>	<u>138,754,212</u>	<u>138,295,500</u>

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

Consolidated Financial Statements (cont.)

Discovery Energy Corp. Statements of Cash Flows

(Unaudited)	Nine Months Ended	
	November 30, 2014	November 30, 2013
Cash flows used in operating activities		
Net loss	\$ (363,491)	\$ (396,631)
Adjustments to reconcile net loss to net Cash used in operating activities		
Shares issued for service	99,520	-
Changes in assets and liabilities:		
Prepaid expenses	14,317	26,041
Accounts payable - related party	54,548	-
Deferred expenses	-	(3,100)
Accounts payable and accrued liabilities	(22,854)	52,388
Net cash used in operating activities	<u>(217,960)</u>	<u>(321,302)</u>
Cash flows from investing activities		
Acquisition of oil and gas property	-	-
Cash flows from financing activities		
Repayments on promissory notes	-	(125,000)
Subscription proceeds	95,000	-
Proceeds from notes payable-related party	128,200	18,500
Net cash flows from financing activities	<u>223,200</u>	<u>(106,500)</u>
Foreign exchange effect on cash	(2,358)	(496)
Change in cash during the period	2,882	(428,298)
Cash beginning of the period	2,483	430,007
Cash end of the period	<u>\$ 5,365</u>	<u>\$ 1,709</u>
Noncash investing and financing activities:		
Reclass of accrued interest to promissory note	\$ -	\$ 17,294

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

Notes to the Financial Statements

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. for purposes of acquiring the License.

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 28, 2014 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 28, 2014, as reported on Form 10-K, have been omitted.

The Company has limited operations and is considered to be in the development stage. In the quarter ended May 31, 2014, the Company has elected to early adopt Accounting Standards Update No. 2014-10, *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements*. The adoption of this ASU allows the company to remove the inception to date information and all references to development stage.

2. Going Concern

The accompanying financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has not generated revenues since inception and has never paid dividends and is unlikely to pay dividends or generate earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary equity or debt financing to continue operations, the successful development of the Prospect or one or more alternative oil and gas properties, and the attainment of profitable operations. As of November 30, 2014, the Company has not generated any revenues and has an accumulated loss of \$2,165,619 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.

On May 15, 2013, the Company modified an October 2012 capital raising agreement with Chrystal Capital Partners LLP, a corporate finance firm based in London regulated by the British Financial Services Authority. While the Company no longer pays a monthly fee to Chrystal, it is obligated for a period of 18 months beginning May 1, 2013 to pay Chrystal a success fee for any

Notes to the Financial Statements (cont.)

transaction completed with any prospect previously introduced by Chrystal. Subsequent to the agreement modification, Chrystal has introduced the Company to a very small number of further potential investors or joint venture partners. If the Company consummates a transaction with any of these persons, it generally expects to pay to this firm the success fees originally agreed upon.

On May 14, 2014, the Company entered into a second amendment with Chrystal Capital Partners LLP. This amendment eliminated from success fee consideration certain parties that had previously been eligible for such treatment had any one of them invested in Discovery's equity, debt or other capital instrument before October 31, 2014. On May 21, 2014, 6,472,425 shares held by Chrystal were canceled and 248,800 shares issued.

On March 31, 2014, the Company engaged on a non-exclusive basis the services of ERB Enterprises, LLC, a consulting firm based in San Francisco, California to introduce the Company to sources of debt or equity capital, on a "Best Efforts" basis. The Company has no material obligations under this agreement, unless a successful financing is completed with a party or parties connected to the Company through ERB, in which event it will owe success fees the Company believes to be reasonable and customary.

3. Related Party Transactions

As of November 30 and February 28, 2014, the Company owed \$134,147 and \$79,599, respectively, to certain Company directors for reimbursement of expenses paid on behalf of the Company. In addition, as of November 30 and February 28, 2014, the Company owed \$211,700 and \$83,500, respectively, for promissory notes issued to various related parties. These amounts are unsecured, non-interest bearing and due on demand.

4. Oil and Gas Properties

On May 19, 2014, the Company received notice from the Government of South Australia that had issued certain modifications to the License and suspended the License for a period of six months. 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, respectively). The amount of required 2D seismic was also reduce 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). The effect of the suspension is to move the end date of the four years remaining in the initial term of the License six months into the future. Hence, year 2 will now end on April 27, 2015, year 3 on April 27, 2016, year 4 on April 27, 2017 and the fifth and final year of the initial term will end April 27, 2018.

5. Notes Payables

Two promissory notes were issued on October 26, 2012 to Liberty upon delivery of the License with 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 bear interest at a floating rate equal to the one month term LIBOR rate, plus an additional 3%.

These promissory notes had undergone a number of amendments, including extensions of the due dates. On September 26, 2013,

Notes to the Financial Statements (cont.)

these promissory notes were combined into a single consolidation promissory note in the original principal amount of \$542,294, as some of the principal had been reduced and some interest had accrued. As extended and as heretofore amended, this consolidation promissory note is due and payable on or before January 12, 2015, provided that if we make prepayments in the aggregate amount of \$250,000 prior to the due date, then the due date for the remainder of the principal amount of and accrued interest on the note will be extended until March 3, 2015.

On March 18, 2014, the Company entered into an unsecured corporate demand note with a related party, William Begley. The note was in the amount of \$45,500, which included the amounts of \$5,500 advanced by Mr. Begley in December 2013 and January 2014. Repayment of this note 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 annual anniversary. The note is non-interest bearing.

On March 31, 2014, the Company entered into unsecured corporate demand notes with two related parties, William Begley and Keith Spickelmier. Each note was in the amount of \$25,000, 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 a note, the note becomes due and payable in full on its first anniversary. The notes are non-interest bearing.

On May 5, 2014, the Company entered into unsecured corporate demand notes with two related parties, William Begley and Keith Spickelmier. Each note was in the amount of \$3,100, 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 a note, the note becomes due and payable in full on its first anniversary. The notes are non-interest bearing.

On July 16, 2014, the Company entered into unsecured corporate demand notes with a related party, Keith Spickelmier. The note was in the amount of \$10,000, 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 July 18, 2014, the Company entered into unsecured corporate demand notes with a related party, William Begley. The note was in the amount of \$6,000, 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 September 26, 2014, the Company entered into amendments of two previous unsecured corporate demand notes with related parties Keith Spickelmier and William Begley. Each note was in the amount of \$7,500 and the maximum term was amended and extended to the second anniversary from the date of the note. None of the other provisions of the original notes were changed.

On September 29, 2014, the Company entered into unsecured corporate demand note with a related party, Keith Spickelmier. The note was in the amount of \$16,000, 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.

Notes to the Financial Statements (cont.)

6. Common Stock

On May 8, 2014, the board of directors approved a private placement of up to 750,000 common shares at a price of \$0.40 per share. As of May 23, 2014, the Company had received from three separate investors funds totaling \$55,000 pursuant to this offering and subsequently issued 137,500 common shares.

On May 21, 2014 the Company issued 248,800 common shares at a deemed fair market value of \$.40 per share to Chrystal Capital Partners, LLP for services rendered.

On September 25, 2014, the board of directors approved a private placement of up to 1,500,000 Common Shares at a price of \$0.40 per share. As of October 10, 2014, the Company had received funds totaling \$40,000 from one investor pursuant to this offering and subsequently issued 100,000 Common Shares.

7. Subsequent Events

On December 16, 2014, the Company entered into an amendment of a previous unsecured corporate demand note with related party, Keith Spickelmier. The note was in the amount of \$17,500 and the maximum term was amended and extended to the second anniversary from the date of the note. None of the other provisions of the original notes were changed.

On December 17, 2014, the Company entered into unsecured corporate demand note with two related parties, William Begley and Keith Spickelmier. Both of the notes were in the amount of \$6,000, 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 December 20, 2014, the Company entered into an amendment of a previous unsecured corporate demand note with related party, Mark Thompson. The note was in the amount of \$17,000 and the maximum term was amended and extended to the second anniversary from the date of the note. None of the other provisions of the original notes were changed.

On December 29, 2014 the Company issued 302,000 common shares at a deemed fair market value of \$.30 per share to William Begley, in exchange for the cancellation of all Promissory Notes owed, amounting to a \$90,600 reduction in Promissory notes-related parties.

On January 6, 2015, the Company entered into an amendment of a previous unsecured corporate demand note with related party, Keith Spickelmier. The note was in the amount of \$25,000 and the maximum term was amended and extended to the second anniversary from the date of the note. None of the other provisions of the original notes were changed.

On January 12, 2015, the Company and Liberty amended the Consolidation Note so that the Initial Due Date will be March 2, 2015, and provided that if the Company makes prepayments in the aggregate amount of \$250,000 prior to the new Initial Due Date of March 2, 2015, then the due date for the remainder of the principal amount of and accrued interest on the Consolidation Note would be extended until April 21, 2015.

On January 15, 2015, the Company entered into an unsecured corporate demand note with William Begley. The note was in the amount of \$6,000, 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.

DISCOVERY ENERGY CORP
MANAGEMENT DISCUSSION AND ANALYSIS
PERIOD ENDED NOVEMBER 30, 2014

(EXPRESSED IN US DOLLARS, UNLESS OTHERWISE STATED)

UN-AUDITED

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Management Discussion and Analysis

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 (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.

After having made significant strides in our business plan during our fiscal 2013 (including the formal grant of the License after the satisfaction of a number of significant preconditions), during our fiscal 2014 and thus far in our fiscal 2015 we focused and are continuing to focus our efforts to complete a major capital raising transaction or procure a major joint venture partner to further our business plan. The achievement of either of these goals (or some combination of the two) would likely enable us to start the development of the Prospect in a meaningful way. We have not been able to achieve either of these goals so far, although we are continuing concerted efforts to do so. Our inability to achieve either of these goals and the recent dramatic decline in oil prices have placed significant pressure on us, as we have certain pressing payments and expenditures with respect to which we will suffer material adverse effects if we fail to make. These payments, expenditures and consequences are discussed in detail herein. We have no assurance that we will be successful in completing a major capital raising transaction, procuring a major joint venture partner, or avoiding the materially adverse effects resulting from a failure to do so.

A very negative development starting in the second quarter of fiscal 2015 and continuing to the present has been the significant decline in the price of oil. This decline started in June 2014 when the price of Brent oil was above \$110 per barrel and has continued to date, with a recent public quotes below \$50 per barrel. This drop has impaired our ability to complete a major capital raising transaction or procure a joint venture partner. Although we believe that we will continue to be challenged by low oil prices for the near future, we are not now in a position to determine the extent that impact.

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

Management Discussion & Analysis (cont.)

given as equivalents of Australian dollar amounts, such United States dollar amounts are approximations only and not exact figures. During the 12 months ended November 30, 2014, that exchange rate has varied from a low of US\$1.00/AU\$1.057 to a high of US\$1.00/AU\$1.172. On January 15, 2015 the rate stood at US\$1.00/AU\$1.219.

Plan of Operation

General

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

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

There can be no assurance that we will be successful in our exploratory and production activities. The oil and gas business involves numerous risks, the principal ones of which are listed in our 2014 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

Management Discussion & Analysis (cont.)

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.

In May 2014, we received from the South Australian Minister for Mineral Resources and Energy notice of the approval of our application for the modification to suspend the license for six months resulting in an extension of the Year 2 work commitment relating to the License to April 27, 2015. Until this modification and extension, our remaining work commitment involved the following:

- ▶ Year 2 ending about October 26, 2014 - Conduct a new 2D seismic survey totaling at least 250 kilometers.
- ▶ Year 3 ending about October 26, 2015 - Acquire new 3D seismic data totaling at least 400 square kilometers and drill two wells
- ▶ Year 4 ending about October 26, 2016 - Drill five wells
- ▶ Year 5 ending about October 26, 2017 - Drill five wells

As modified and extended, our remaining work commitment involves the following:

- ▶ Year 2 ending about April 27, 2015 - Conduct a new 3D seismic survey totaling at least 100 square kilometers.
- ▶ Year 3 ending about April 27, 2016 - 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 about April 27, 2017 - Acquire new 3D seismic data totaling at least 200 square kilometers and drill two wells
- ▶ Year 5 ending about April 27, 2018 - Drill three wells

The modification reduces our obligations under the work commitment, and management had believed that it would improve our ability to complete a major capital raising transaction, or procure a joint venture partner, or both, although we have no assurance of this. Thus far, this has not proved to be the case, as the recent dramatic decline in oil prices has seemingly offset the benefit of the modification.

Since the modification the company has been engaged in ongoing discussions with potential joint venture partners and investors. In addition, the Company has been engaged with two international seismic acquisition and processing company’s regarding the planning, design, project scheduling, cost proposals and contract reviews for the initial seismic program. The recent decline in Brent oil prices has had an adverse effect for operators globally including the Cooper Basin where the Company plans to commence seismic operations. The resulting effect on potential Cooper Basin joint venture partners is a tightening of near term capital budgets and expenditures. The company remains optimistic that it will eventually secure a joint venture partner with existing operations

Management Discussion & Analysis (cont.)

and capacity in the Cooper Basin, however we cannot assure anyone that we will be successful in obtaining a joint venture partner.

The Company also continues to pursue financing in the form of equity, debt, bridge facilities and various combinations thereof, however we cannot assure anyone that we will be successful in obtaining the necessary funding. Management believes that under the current global oil market conditions that an application for the modification to suspend the license for an additional six months should be submitted for the South Australian Minister for Mineral Resources and Energy. Until we receive a formal notice approving such an application for the modification to extend the current suspension relating to the License for the Year-2 work commitment remains in effect. We have no assurance that we will be successful in completing a major capital raising transaction, procuring a major joint venture partner, obtaining approval of a further suspension of the License, or avoiding the materially adverse effects resulting from the failure to do so.

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. Recent high worldwide energy prices had resulted in growing demand, which lends support to higher prices being charged by suppliers. However, the effect of the recent dramatic decline in oil prices in this area cannot now be determined. 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 a 3D seismic surveys totaling 300 square kilometers (approximately 116 sq. miles), conducting a 2D seismic survey of 100 kilometers (approximately 62 miles) and drilling of at least two exploration wells. This activity will take place on the south portion of the Prospect and meets the near-term work requirements under the License. Subject to the availability of funds plus proper equipment and personnel or a farm-out arrangement, management feels that US\$19 million or more can be productively invested under the license as defined in the Year 2 and Year 3 work commitments.

We are seeking a joint venture partner who or which might act as the operator to conduct seismic work and drill our wells. Our ability to accomplish this seemingly has been impaired by the recent dramatic decline in oil prices. 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. 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 responsible for the well(s) 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

Management Discussion & Analysis (cont.)

purchasers, and, once a division order has been established and confirmed by the interest owners, the operator will issue the checks to each interest owner in accordance with its appropriate interest. The operator will not perform these functions when each interest owner sells its production separately, in which case the interest owners will undertake these activities separately. After production commences on a well, the operator also will be responsible for maintaining the well and the wellhead site during the entire term of the production or until such time as the operator has been replaced.

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

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

Results of Operations

Our results of operation for the three- and nine-months month periods ended November 30, 2014 and 2013 are summarized in the table below:

	Three Months Ended		Nine Months Ended	
	November 30, 2014	November 30, 2013	November 30, 2014	November 30, 2013
Revenue	\$ 0	\$ 0	\$ 0	\$ 0
Operating Expenses	50,254	81,644	353,063	348,008
Other (income)/expenses	2,577	4,070	10,428	12,623
Net Loss	\$ (52,831)	\$ (85,714)	\$ (363,491)	\$ (396,631)

Our operating expenses for the three- and nine-month periods ended November 30, 2014 and 2013 are outlined in the table below:

	Three Months Ended		Nine Months Ended	
	November 30, 2014	November 30, 2013	November 30, 2014	November 30, 2013
General and Administrative	\$ 9,792	\$ 18,116	\$ 56,880	\$ 64,222
Exploration Costs	14,550	11,100	23,645	86,214
Professional Fees	20,672	25,537	231,591	130,957
Travel	3,744	3,291	10,085	8,926
Rent	1,496	23,600	30,862	93,689
Total	\$ 50,254	\$ 81,644	\$ 353,063	\$ 384,008

Management Discussion & Analysis (cont.)

Results of Operations for the Three-Month Periods Ended November 30, 2014 and 2013

Revenues - We did not earn any revenues for either the quarter ended November 30, 2014 or quarter ended November 30, 2013. We do not anticipate earning revenues until such time as we have entered into commercial production of oil and natural gas. We are presently in the exploration stage of our business, and we can provide no assurance that we will discover commercially exploitable levels of hydrocarbons on our properties, or if such resources are discovered, that we will enter the commercial production.

Expenses - Total expenses incurred during the quarter ended November 30, 2014 were approximately \$31,000 less than those incurred during the quarter ended November 30, 2013. This decrease reflects decreases in general and administrative, travel and professional fees offset by much smaller increases in exploration costs and rent. The bulk of our activities during the quarter ended November 30, 2014 were aimed at raising capital and involved primarily local meetings, Internet-based video meetings and electronic data exchange.

The reported increase of about \$3,500 in exploration costs during the quarter ended November 30, 2014 compared to the similar period in 2013 reflects both timing differences in consultant billings and the work done to complete a preliminary report regarding the unconventional (shale) resource potential. Data related to this study have been submitted to a major oil field service company for further scientific evaluation.

Professional fees for the quarter ended November 30, 2014 declined approximately \$4,900 compared to the quarter ended November 30, 2013 primarily due to lower costs for audit, tax and financial reporting services.

Travel expenses decreased dramatically during the quarter ended November 30, 2014 compared to the quarter ended November 30, 2013. This reflect the focus of financing efforts in close proximity to the Company's office in Houston, TX.

General and administrative expenses were lower by about \$8,300 during the quarter ended November 30, 2014 compared to the same period in the last fiscal year. The timing and level of certain costs associated with securities regulatory compliance and reporting were a prominent part of this difference.

Net loss - Our net loss for the quarter ended November 30, 2014 decreased by approximately \$31,400, as compared to the quarter ended November 30, 2013. While various operating cost components moved up or down, as discussed above, the net decline in the loss is mostly attributed to lower general and administrative expenses and travel expenses during the period ended November 30, 2014. On a per share basis, our losses for both the three-month periods ended November 30, 2014 and November 30, 2013 were less than \$0.01.

Results of Operations for the Nine-Month Periods Ended November 30, 2014 and 2013

Revenues - We did not earn any revenues for either the nine months ended November 30, 2014 or nine months ended November 30, 2013. 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.

Management Discussion & Analysis (cont.)

Expenses - The total expenses incurred during the nine months ended November 30, 2014 were approximately \$31,000 less than those incurred during the nine months ended November 30, 2013. This decrease reflects the net of increased professional fees offset by reductions in exploration costs and travel expenses. The bulk of our activities during the nine months ended November 30, 2014 were aimed raising capital efforts conducted from Houston, Texas . If we had not made the extraordinary non-cash professional fee payment with common stock described below, total expenses would have been 35% less in the nine months ended November 30, 2014 compared to the nine months ended November 30, 2013.

The largest component of our expenses was professional fees during both of the periods shown above. For the nine months ended November 30, 2014, investment banking and financial advisory fees (third party fund raising assistance) were substantially higher than the comparable nine month period ended November, 2013. Additionally, we made a one-time non-cash payment of common stock to a former advisor for the early release of certain potential funding sources from their post-termination non-circumvent status. Such non-circumvention arrangements are customary and in management's judgment the probabilities of success with the parties released under the agreement were enhanced absent the advisor's potential compensation claim. This increase was partially offset by lower legal billings. The net result was an increase of approximately \$101,000 in professional fees during the nine months ended November 30, 2014 compared to the nine months ended November 30, 2013.

Our exploration costs during the nine months ended November 30, 2014 declined by about 72% compared to those costs incurred during the comparable nine month period ended November, 2013. Because the License work program is currently suspended, there was very little technical work required during the most recent nine-month period compared to the nine months ended November, 2013.

Travel expenses during the nine months ended November 30, 2014 were nearly \$63,000 lower than for the nine months ended November 30, 2013. This savings reflects an increased basing of fund raising work in Houston, Texas and increased usage of Internet-enabled video meetings and technical discussions. The principal exception was a visit to Australia for face-to-face meetings with both investment bankers and potential farm-in partner.

Rent and general and administrative expenses were essentially unchanged in the nine months ended November 30, 2014 compared to the nine months ended November 30, 2013.

Net loss - Our net loss for the nine months ended November 30, 2014 was comparable to the nine months ended November 30, 2013. This result was driven by higher non-cash professional fee payment to a financial advisor, partially offset by lower exploration and general corporate expenses. If we had not made the extraordinary non-cash professional fee payment with common stock described above, the net loss for the nine months ended November 30, 2014 would have been approximately 35% less than for the nine months ended November 30, 2013.

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 we conducted several rounds of financing in which we raised total “seed” capital in the amount of \$2,403,750 resulting in the issuance of 18,707,500 shares of our common stock. As of November 30, 2014, we had drawn approximately \$15,600 in funds against our bank credit card. From time to time, our officers and directors have advanced short-term funds. As of November 30, 2014 these advances totaled \$211,700. In December 2014, this balance was reduced as one of the directors agreed to exchange \$90,600 owed by us to him for 302,000 shares of our common stock. Our directors made additional advances totaling \$18,000 in December 2014 and January 2015. As of January 15, 2015, we had outstanding loans totaling \$139,100 from two directors and an entity controlled by one officer. These remaining loans are each evidenced by demand notes, which are non-interest bearing. Since we changed our business focus in January 2012, we entered into a related party loan transaction only two other times, and subsequently these loans were either paid off quickly or converted into shares of our common stock.

As of November 30, 2014, we had cash in the approximate amount of \$5,400, and we had a working capital deficit of about \$939,000. As of January 15, 2015, we had the US dollar equivalent of approximately \$8,600 of cash on hand. The bulk of the current working capital deficit is associated with the consolidation promissory note in the original principal amount of \$542,294 made payable to Liberty Petroleum Corporation (“Liberty”). As extended, this consolidation promissory note is due and payable on or before March 2, 2015, provided that if we make prepayments in the aggregate amount of \$250,000 prior to the due date, then the due date for the remainder of the principal amount of and accrued interest on the note would be extended until April 21, 2015. Short term loans from related parties noted above were also a notable contributor to our working capital deficit.

Given the amount of cash on hand, we anticipate the need to raise an estimated \$4.9 million of additional funds by April 2015 for operating expenses, retirement of the Liberty note and completion of the second year of our work commitment. We intend to try to do this by common stock private placements to individual and institutional investors. Our ability to accomplish this seemingly has been impaired by the recent dramatic decline in oil prices. 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 and our work commitment. While Liberty has accommodated us in the past in this regard, we have no assurance that it would accommodate us again. While Australian government officials have accommodated us on in the past regarding the extension of our work commitment, we have no assurance that they would accommodate us again. Our failure to raise required additional funds or obtain an extension of the Liberty note and our work commitment in the immediate future could have severely adverse consequences for us, including our inability to continue our business plan, which could result in a complete loss of stockholders’ equity.

Long-Term Capital Needs

The five-year work commitment relating to the License imposes certain financial obligations on us. In management’s view, the geotechnical work completed in year-one was sufficient to satisfy the requirement for year-one, 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. However, we will need to obtain additional financing beyond that discussed above before we can fully implement our current plan

Management Discussion & Analysis (cont.)

of operation. This includes monies to meet the second year requirements of the work commitment. This second year will end near the end of April 2015.

Management believes that under the current global oil market conditions that an application for the modification to suspend the license for an additional six months should be submitted for the South Australian Minister for Mineral Resources and Energy. Until we receive formal notice of the approval of an application for the modification to suspend the license for a further six months the current modification and extension relating to the License as approved for the Year 2 work commitment remains in effect. Moreover, we expect to need a substantial amount of funds to develop the Prospect. In addition to the preceding, we will require working capital to meet our general and administrative expenses. We have no assurance that we will be successful in raising development funds and working capital, obtaining approval of a further suspension of the License, or avoiding the materially adverse effects resulting from a failure to do so.

Between May 2015 and the end of April 2016, we estimate that at least US\$16.0 million of additional capital will be required to continue operations and satisfy our obligations for the third year of our work commitment. This amount will be needed before we are able to commence production on the Prospect. Accordingly, this amount must be raised. Our ability to raise funds seemingly has been impaired by the recent dramatic decline in oil prices. Moreover, this amount would not allow us to develop the Prospect in any meaningful way.

Beyond the third License year, we have developed a work plan for the Prospect that is expected to include additional 3D seismic surveying and exploratory drilling. Assuming availability of funding, timely governmental approvals, and access to proper equipment and trained personnel, we feel that a total of about US\$21.6 million of outside capital must be invested across the Prospect the final two work years of the initial 5 Year License term.

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

Major Financing Efforts and Other Sources of Capital

During October 2012, we engaged the services of a corporate finance firm based in London regulated by the British Financial Services Authority. This firm assisted us in connections with our efforts to complete a major capital raising transaction by introducing us to a number of potential investors and joint venture partners. In May 2013, this firm and we modified our agreements so that this firm is not expected to introduce us to a meaningful number of further potential investors or joint venture partners, and we no longer pay a monthly fee to it. However, we may have future discussions with potential investors and joint venture partners introduced to us by this firm, although these are expected to be few in number. If we consummate before November 2014 a transaction with any person introduced to us by this firm, we generally expect to pay to this firm the success fees to which we originally agreed. In May 2014, we reached an agreement that reduced somewhat the number of potential companies for which the firm can potentially earn

Management Discussion & Analysis (cont.)

success fees in exchange for which we issued the firm 248,800 shares of Common Stock.

After the modification of our engagement with the London-based corporate finance firm described above, our major capital raising efforts began focusing on a transaction with Global Energy International Inc. (“Global”), with which we entered into a letter of intent dated May 28, 2013 (the “Letter of Intent”). Although the Letter of Intent is generally non-binding, it contained certain agreements that we regarded as material and definitive. Specifically, the Letter of Intent contained a binding agreement on our part to afford to Global the exclusive right to consider making a major investment in us in consideration of a payment that Global agreed to make to us. The Letter of Intent was amended several times, ultimately giving Global the preceding exclusive right until August 31, 2013 in consideration of a contractual US\$7.0 million payment that Global had already acknowledged that it owed to us by virtue of previous earlier exclusive rights given by us. Global has failed to make timely the US\$7.0 million payment. Accordingly, we believe that we no longer owe any obligations to Global with respect to any exclusive right. While we may have future discussions with Global, we have shifted our capital raising emphasis in the manner described in the following paragraph. We are currently evaluating our plans with regard to the delinquent US\$7.0 million payment. However, we have no assurance that we will be able to collect all or any portion of this amount, and the anticipated costs in pursuing it (in view of the likelihood of a recovery) may not justify such a pursuit.

During November 2013, we engaged on a non-exclusive basis the services of SourceRock Advisors, LLC, an oil and gas finance advisory firm based in Washington, DC and Houston, Texas, and Headwaters BD, LLC, a registered broker dealer and member of FINRA/SIPC, to act as our transaction agent to secure senior debt, subordinated debt, or equity capital on a “best efforts” basis. SourceRock’s role under the agreement will be to provide advisory services with respect to asset valuation, marketing, and capital budgeting. As the transaction agent, Headwaters role will be to identify, contact, evaluate and solicit potential debt and equity investment interest in us. We have no material obligations under this agreement, unless a successful financing is completed, in which event we will owe fees, which we believe to be reasonable and customary.

In addition to the preceding efforts using firms that specialize in capital procurement, we are pursuing our own independent capital raising initiatives, and we have several prospects in this regard.

Our capital strategy for most of the past year 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 we are not completely abandoning this strategy, we are shifting 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 2015. We are engaged in discussions regarding smaller financings at this time, but we have not reached an agreement in principle or a definitive agreement in this regard. Our ability to raise funds seemingly has been impaired by the recent dramatic decline in oil prices. We have no assurance that we will be successful in obtaining required funds.

In addition to smaller, equity placements for short-term needs and a major capital raising transaction for long-term needs, we expect to have available other possible sources of capital. For example, one source of funding under investigation 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 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. Our ability to procure a joint venture

Management Discussion & Analysis (cont.)

partner seemingly has been impaired by the recent dramatic decline in oil prices. We have no assurance that we will secure a joint venture partner. A joint venture arrangement is likely to help with our immediate cash needs, and (if secured) would help with our longer-term cash needs.

In May 2014 we placed 137,500 Common Shares with accredited investors at a price of \$0.40 per share. As a result, we raised \$55,000 to meet our immediate cash needs. In September 2014 we placed an additional 100,000 Common Shares with accredited investors at a price of \$0.40 per share, which was also used to meet our immediate cash needs. In December 2014 we exchanged 302,000 shares of our common stock for \$90,600 of debt represented by Promissory Notes held by an officer and director of the company.

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 to our existing stockholders.

Consequences of a Financing Failure

The amount of cash on hand, the pending maturity of the Liberty note, the pending end of the second year of our work commitment, and the need to raise additional capital of at least US\$4.8 million by the end of April 2015 to continue operations and satisfy our obligations for the second year of our work commitment have all heightened our need to raise a significant amount of additional capital in the immediate future or else obtain extensions of the maturity date of the Liberty note and the end of the second year of our work commitment. If the required financing is not available on acceptable terms, we could be prevented from satisfying our debt or work commitment obligations, or developing the Prospect. 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 offering, we may be constrained to attempt to sell some portion of the Prospect under unfavorable circumstances and at an undesirable price. However, we cannot assure anyone that we will be able to find interested buyers or that the funds received from any such sale would be adequate to fund our activities. Our future liquidity will depend upon numerous factors, including the success of our business efforts and our capital raising activities.

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

Management Discussion & Analysis (cont.)

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

Limitations on Effectiveness of Controls and Procedures

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

Changes in Internal Controls over Financial Reporting

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

PART II OTHER INFORMATION

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

During October 2014, we effected a private placement of 100,000 of our shares of common stock ("Shares") with one investor at a price of \$0.40 per Share. The issuances of these Shares are claimed to be exempt pursuant to Section 4(2) of the Act and Rule 506 of Regulation D under the Act. No advertising or general solicitation was employed in offering these securities. The offering and sale

Management Discussion & Analysis (cont.)

was made only to accredited investors, and subsequent transfers were restricted in accordance with the requirements of the Act.

Item 6. Exhibits

Exhibits

The following 10 exhibits are filed with this Quarterly Report or are incorporated herein by reference:

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

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: January 20, 2015

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: January 20, 2015

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: January 20, 2015

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, 2014 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: January 20, 2015

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

Forward Looking Statements

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 or www.sedar.com. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.



Australia Subsidiary



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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: NASD OTCQB
Trading Symbol: "DENR"
Cusip Number: 25470P 102
ISIN Number: US25470P1021

SUBSIDIARY COMPANY

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SHARE CAPITAL AUTHORIZED AND ISSUED AS AT JANUARY 20, 2014

Authorized: 500,000,000 common shares without
par value Issued and Outstanding: 139,239,500

TRANSFER AGENT

Transfer Online, Inc.
512 SE Salmon St.
Portland, OR 97214
Website: www.transferonline.com

For more information visit us at Discoveryenergy.com