

**MD&A | Q3 2013**

**DISCOVERY**  
**ENERGY CORP**

*(FORMERLY SANTOS RESOURCE CORP.)*

**MANAGEMENT DISCUSSION  
AND ANALYSIS**

**FOR THE QUARTER ENDING NOVEMBER 30, 2013**

*(EXPRESSED IN US DOLLARS)*

***DENR | OTCBB***

***Discoveryenergy.com***

Quarterly Report Q3-2013

Morningstar Document Research™

Form 10-Q

Discovery Energy Corp. - DENR

Filed: January 21, 2014 (period ended: November 30, 2013)

Management Discussion and Analysis of the Company

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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended November 30, 2013

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 000-53520

**DISCOVERY ENERGY CORP.**  
**f/k/a "Santos Resource Corp."**

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**98-0507846**

(I.R.S. Employer Identification No.)

**One Riverway Drive, Suite 1700, Houston, Texas 77056**

(Address of principal executive offices)

**713-840-6495**

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 138,295,500 common shares as of January 15, 2014

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

### **CAUTIONARY STATEMENT FOR FORWARD-LOOKING STATEMENTS**

*This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue," or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a discrepancy include, but are not limited to, those described in our other Securities and Exchange Commission filings. The following discussion should be read in conjunction with our Financial Statements and related Notes thereto included elsewhere in this report.*

#### **General**

Our company, Discovery Energy Corp., f/k/a "Santos Resource Corp.," was incorporated under the laws of the state of Nevada on May 24, 2006. 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 changes in control of our company, our management, our corporate name, and 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.

During our fiscal 2013, we made significant strides in our new business plan, as the License was formally granted to us after the satisfaction of a number of significant preconditions to the grant. The one objective that we have yet to accomplish is the completion of a major capital raising transaction that would enable us to commence exploration on and the development of the Prospect. We are currently involved in efforts to complete a major capital raising transaction or to procure a major joint venture partner. 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 no assurance that we will be successful in achieving either of the preceding goals.

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 past year, that exchange rate has varied from a low of AU\$1.00/US\$0.8836 to a high of AU\$1.00/US\$1.0583.

#### **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 seismic surveying and 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 have already approached us regarding possible "farm-out" arrangements.

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 2013 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 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 or participate in one or more other crude oil and natural gas projects.

### ***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 field 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 Resources" below. The success of the initial phase of our plan of operation depends upon our ability to obtain additional capital to acquire seismic data with respect to the Prospect, and to drill exploratory and developmental wells. We cannot assure anyone that we will obtain the necessary capital.

The License is subject to a five-year work commitment, which involves the following:

- \* Year 1 – Conduct geological and geophysical studies including interpretation of existing seismic data. In management's view, the geotechnical work completed in year-one 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.
- \* Year 2 - Conduct a new 2D seismic survey totaling at least 250 kilometers (approximately 155 miles). We have had informal discussions with the relevant government regulators to substitute our planned 3D survey discussed below for this requirement, and we plan to apply for formal approval of the substitution.
- \* Year 3 - Acquire new 3D seismic data totaling at least 400 square kilometers (approximately 155 square miles) and drill two wells
- \* Year 4 - Drill five wells
- \* Year 5 - Drill five wells

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 have resulted in growing demand, which lends support to higher prices being charged by suppliers. Therefore, we have no assurance that the steps in the work plan can be accomplished at current or lower costs.

Based on our research and technical analysis to date, we believe that acceleration of the License work plan can be justified. The initial phase of our plan of operation involves (among other things) conducting a 3D seismic survey of 130 square kilometers (approximately 50 sq. miles) and drilling of at least four exploration wells. This activity will, in our view, meet the near-term work requirements under the License. Subject to the availability of funds plus proper equipment and personnel, management feels that US\$38.0 million or more can be productively invested within the next two years. Not only is this program contingent on our procurement of sufficient funds, it is subject to governmental approval to vary the work commitment already in place.

We intend to seek a joint venture partner, which might act as the operator of our wells. If we are unsuccessful in procuring such a partner, we will engage the services of a contract driller once we have identified a proposed drilling site. Management foresees no problem in procuring the services of one or more qualified operators and drillers in connection with the initial phase of our plan of operation, although a considerable increase in drilling activities in the area of our property 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.

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

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

We cannot accurately predict the costs of transporting any production that we realize until the drill site for any well is selected. 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- month periods ended November 30, 2013 and 2012 are summarized in the table below:

	<b>Three months Ended</b>	<b>Three months Ended</b>	<b>Nine months Ended</b>	<b>Nine months Ended</b>
	<b>November 30, 2013</b>	<b>November 30, 2012</b>	<b>November 30, 2013</b>	<b>November 30, 2012</b>
Revenue	\$ 0	\$ 0	\$ 0	\$ 0
Operating Expenses	\$ 81,644	\$ 289,315	\$ 384,008	\$ 633,412
Other (income)/expenses	\$ 4,070	\$ 1,972	\$ 12,623	\$ (5,750)
Net Loss	\$ (85,714)	\$ (291,287)	\$ (396,631)	\$ (627,662)

Our operating expenses for the three- and –nine-month periods ended November 30, 2013 and 2012 are outlined in the table below:

	Three months Ended	Three months Ended	Nine months Ended	Nine months Ended
	November 30, 2013	November 30, 2012	November 30, 2013	November 30, 2012
General and Administrative	\$ 18,116	\$ 49,154	\$ 64,222	\$ 81,623
Exploration Costs	\$ 11,100	\$ 51,487	\$ 86,214	\$ 222,079
Professional Fees	\$ 25,537	\$ 106,975	\$ 130,957	\$ 240,698
Rent	\$ 3,291	\$ 4,086	\$ 8,926	\$ 7,256
Travel	\$ 23,600	\$ 77,613	\$ 93,689	\$ 81,756
Total Operating Expenses	\$ 81,644	\$ 289,315	\$ 384,008	\$ 633,412

#### Results of Operations for the Three-Month Periods Ended November 30, 2013 and 2012

*Revenues* . We did not earn any revenues for either the quarter ended November 30, 2013 or the similar period in 2012. 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 operating expenses incurred during the quarter ended November 30, 2013 were markedly lower than those incurred during the similar period in 2012. As discussed below, the net decrease of approximately \$207,000 (\$81,644 versus \$289,315) is attributable to reduced expenditures in all cost categories. This net decrease resulted from our more limited business focus during the quarter ended November 30, 2013, which focus was almost exclusively on capital raising activities.

Professional fees for the quarter ended November 30, 2013 were lower by approximately \$81,000 (\$25,537 versus \$106,975) compared to the same period in 2012. Virtually all of this improvement was associated with two cost elements. First the current period did not include any investment banking retainer fee payments, as compared to the quarter ended November 30, 2012. Secondly, legal and other professional fees were notably lower in the current period because such services were not required to complete the acquisition of PEL512 License, as was the case in the quarter ended November 30, 2012. The South Australian government issued the License to us at the end of October 2012.

The reported decline of about \$40,000 (\$11,100 versus \$51,487) in exploration costs during the quarter ended November 30, 2013 compared to the similar period in 2012 is attributable to lower payments made to those providing geological and geophysical services. During the quarter ended November 30, 2012, our consultants were engaged in the interpretation and evaluation of reprocessed 3D seismic information that was received in August 2012. There was no similar work ongoing during the quarter ended November 30, 2013. The timing of payments for geotechnical work also raised somewhat the exploration expenditures during the quarter ending November 30, 2012 compared to the current period.

Travel expenses decreased by 70% to \$23,600 from \$77,613 during the quarter ended November 30, 2013 compared to those incurred during the quarter ending November 30, 2012.

General and administrative expenses were lower by about \$31,000 (\$18,116 versus \$49,154) during the quarter ended November 30, 2013 compared to the same period last fiscal year. About two-thirds of this decline was specifically related to the payment timing of certain administrative fees associated with maintenance of the PEL512 License. Obligations were invoiced and paid during the quarter ended November 30, 2012 but were not invoiced until December of 2013, after the end of the current reporting period, which ended November 30, 2013.

*Net loss* . Our net loss for the quarter ended November 30, 2013 decreased by approximately \$205,000 (\$85,714 versus \$291,287) as compared to the similar period in 2012. This primarily reflects the reduction in total operating costs. On a per share basis, our losses for both the three-month periods ended November 30, 2013 and November 30, 2012 were less than \$0.01

## Results of Operations for the Nine-Month Periods Ended November 30, 2013 and 2012

*Revenues* . We did not earn any revenues for either the nine months ended November 30, 2013 or the similar period in 2012. 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* . The total operating expenses incurred during the nine months ended November 30, 2013 were about 39% lower (\$384,008 versus \$633,412) than those incurred in the comparable period ended November 30, 2012. Broadly, this reduction reflects markedly lower exploration costs and professional fees. Small increases in travel and rent expense were offset by a 20% decrease in general and administrative costs.

Exploration expenditures declined by nearly \$136,000 (\$86,214 versus \$222,079) during the nine-month period ended November 30, 2013 compared the similar period that ended November 30, 2012. Nearly 60% of this reduction reflects the lack of need for outside-party work related to reprocessing of seismic data and analyzing the resource potential of the PEL512 Prospect. Most of the remaining decrease was associated with lower internal costs of managing these projects and interpreting their results. The reduction of about \$110,000 to \$130,957 from \$240,698 in professional fees during the period ended November 30, 2013 reflects 1) a decline in legal expenses because no such services were required to complete the acquisition of the PEL512 License, which included concluding the Native Title Agreement negotiations and restructuring of the agreements between us and Liberty Petroleum Corporation, and 2) a lower level of investment banker retainer fee payments during the current period.

*Net loss* . Our net loss for the nine months ended November 30, 2013 decreased by approximately 37% to \$396,631 from \$627,662 as compared to the similar period in 2012. This primarily reflects the net reduction in total operating costs. On a per share basis, our loss was less than \$0.01 for the nine month period ended November 30, 2013 compared to the nine month period ended November 30, 2012 when the per share loss was \$0.01.

### **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. During this fiscal year ended February 28, 2013, we completed three rounds of financing in which we raised total "seed" capital in the amount of \$2,308,750 resulting in the issuance of 18,470,00 shares of our common stock. As of November 30, 2013, we had drawn \$8,900 in funds against the Company's bank credit card . From time to time, short term funds have been advanced by our officers and directors. At the end of September 2013, we received loans totalling \$15,000 from two directors, during December 2013, we received loans totalling \$34,500 from a director and from an officer and in January 2014 we received \$25,000 from a director.. These advances 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 one other time, and this loan was subsequently converted in shares of our common stock.

As of November 30, 2013, we had cash in the approximate amount of \$1,709, and we had a working capital deficit of \$728,136. As of January 14, 2013, we had the US dollar equivalent of approximately \$1,300 of cash on hand. This amount of cash represents our lowest amount of available cash since we changed our business focus in January 2012. The bulk of the current working capital deficit is associated with two promissory notes totaling \$525,000 in outstanding principal made payable to Liberty Petroleum Corporation ("Liberty"). The two original notes were consolidated into a single note as of September 26, 2013. The new note's balance due is \$542,294 which reflects the sum of the outstanding balances and accrued interest amounts of the two old notes, at the time of consolidation. The new note (as amended) is due on March 10, 2014 (the "Initial Due Date"); provided, however, that if we make prepayments in the aggregate amount of \$250,000 prior to the Initial Due Date, then the due date for the remainder of the principal amount of and accrued interest on the new note shall be extended until May 2, 2014.

Given the amount of cash on hand, we anticipate the need to raise an estimated \$6.3 million of additional funds by October 2014 for operating expenses, retirement of the Liberty note and completion of the second year License work commitment. We intend to try to do this by common stock private placements. or through short-term loans. 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 it would accommodate us again. Our failure to raise required additional funds or obtain an extension of the Liberty notes in the immediate future could have adverse consequences for us, including our inability to continue our new 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. We believe that our exploration work met or exceeded the first-year work requirement under the License. However, we will need to obtain additional financing above that discussed above before we can fully implement our current plan of operation. This includes monies to meet the second-year work commitment with respect to the License, which began late in October 2013. Moreover, we expect to need a substantial amount of funds to develop the Prospect. In addition to the preceding, we will need working capital to satisfy our general and administrative expenses.

Between January 2014 and the end of October 2014, we estimate that at least US\$6.3 million of additional capital will be required to continue operations and satisfy our year-two obligations in connection with the maintenance of the License. This amount will be needed before we are able to commence production on the Prospect. Accordingly, this amount must be raised. Moreover, this amount would not allow us to develop the Prospect in any meaningful way.

Beyond the second License year, we have developed a work plan for the Prospect that is expected to include additional 3D seismic surveying, new 2D 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\$38.0 million of outside capital can be productively invested across the Prospect during the next two years.

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 immediately above. Moreover, if our business plan proceeds as just described, but our first wells do not prove to hold producible reserves, we could be forced to cease our exploration efforts on the Prospect.

### 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, we and this firm 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 will 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. Moreover, despite our agreements, this firm has introduced us to a very small number of further potential investors or joint venture partners. If we consummate 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.

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 & 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 the Company's Transaction Agent to complete a transaction 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 ("Advisory Services"). As the Transaction Agent, Headwaters role will be to identify, contact, evaluate and solicit potential debt and equity investment interest in the Company. We have no material obligations under this agreement, unless a successful financing is completed, in which event we will owe what we believe to be reasonable and customary.

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 August 2014. We are engaged in discussions regarding smaller financings at this time, but we have not reached an agreement in principle, much less a definitive agreement, in this regard. 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 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. 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.

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 notes, and the need to raise additional capital of at least US\$6.3 million by the end of October 2014 to continue operations and satisfy our year-two obligations 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 obligations or developing the Prospect. In such event, we would be forced to seek a further extension of the note to Liberty, or else default on the note. If a default occurs, Liberty could exercise the rights of an unsecured creditor and possibly levy encumbrances on all or a large part of our assets. Moreover, our failure to honor our work commitment could result in our loss of the License. If any of the preceding events were to occur, we could be forced to cease our new business plan altogether, which could result in a complete loss of stockholders' equity. If we do not obtain additional financing through an equity or debt offering, we may be constrained to attempt to sell some portion of the Prospect under unfavorable circumstances and at an undesirable price. However, we cannot assure anyone that we will be able to find interested buyers or that the funds received from any such sale would be adequate to fund our activities. Our future liquidity will depend upon numerous factors, including the success of our business efforts and our capital raising activities.

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

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

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

##### **Limitations on Effectiveness of Controls and Procedures**

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

##### **Changes in Internal Controls over Financial Reporting**

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

## PART II – OTHER INFORMATION

### Item 6. Exhibits.

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

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

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

### 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)

January 20, 2014

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, 2014

/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, 2014

/s/ William E. Begley  
William E. Begley,  
Chief Executive 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, 2013 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.

Dated: January 20, 2014

/s/ Keith J. McKenzie  
Keith J. McKenzie,  
Chief Executive 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, 2013 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.

Dated: January 20, 2014

/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](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



# Contact Information

## HEAD OFFICE

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## 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

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Certified Public Accountants  
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Houston, Texas USA 77042

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## DIRECTORS

Keith McKenzie  
Mike Dahlke  
William Begley  
Andrew Adams

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## LEGAL COUNSEL - AUSTRALIA

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Bowning NSW 2582 Australia

## INCORPORATION

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

## LISTING

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

## SHARE CAPITAL AUTHORIZED AND ISSUED AS AT JANUARY 15, 2014

Authorized: 500,000,000 common shares without par  
value Issued and Outstanding: 138,295,500

## 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)*