

MD&A | Q2 2013

DISCOVERY
ENERGY CORP

(FORMERLY SANTOS RESOURCE CORP.)

**MANAGEMENT DISCUSSION
AND ANALYSIS**

FOR THE QUARTER ENDING ENDING AUGUST 31, 2013

(EXPRESSED IN US DOLLARS)

DENR | OTCBB

Discoveryenergy.com

Quarterly Report Q2-2013

Morningstar Document Research™

Form 10-Q

Discovery Energy Corp. - DENR

Filed: October 17, 2013 (period ended: August 31, 2013)

Quarterly Report with Financial Statements of the Company

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 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.

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. To further our new business plan, 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 "AUS\$" 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\$0.9449 to a high of AU\$1.00/US\$1.1225.

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 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 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 already completed is sufficient to satisfy this requirement, and we plan on filing with the South Australian government to obtain its approval in this regard.
- * Year 2 - Conduct a new 2D seismic survey totaling at least 250 kilometers (approximately 155 miles). We plan to seek approval to substitute our planned 3D survey discussed below for this requirement.
- * 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 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 two 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\$25.0 million or more can be productively invested within the first three 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 who or 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 third party 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

General

Financial results for the quarter ended August 31, 2013 reflect our continued technical evaluation of the License and ongoing efforts to raise capital from investors and/or to procure joint venture partners. This work began in earnest during the quarter ended May 31, 2012 after we changed our business focus in January 2012. This change in focus resulted in an elevated level of business activity and a corresponding increase in expenses.

Our results of operation for the three- and six-months month periods ended August 31, 2013 and 2012 are summarized in the table below:

	<u>Three months Ended August 31, 2013</u>	<u>Three months Ended August 31, 2012</u>	<u>Six months Ended August 31, 2013</u>	<u>Six months Ended August 31, 2012</u>
Revenue	\$ 0	\$ 0	\$ 0	\$ 0
Operating Expenses	\$ 124,808	\$ 205,327	\$ 303,885	\$ 344,098
Other (income)/expenses	\$ 4,162	\$ (6,480)	\$ 8,542	\$ (7,723)
Net Loss	\$ (128,970)	\$ (198,847)	\$ (312,427)	\$ (336,375)

Our operating expenses for the three-month periods ended August 31, 2013 and 2012 are outlined in the table below:

	<u>Three months Ended August 31, 2013</u>	<u>Three months Ended August 31, 2012</u>	<u>Six months Ended August 31, 2013</u>	<u>Six months Ended August 31, 2012</u>
General and Administrative	\$ 22,711	\$ 10,232	\$ 47,618	\$ 32,470
Exploration Costs	\$ 39,950	\$ 123,080	\$ 75,114	\$ 170,592
Professional Fees	\$ 36,748	\$ 69,931	\$ 105,167	\$ 133,723
Rent	\$ 2,735	\$ 1,104	\$ 5,898	\$ 3,170
Travel	\$ 22,664	\$ 980	\$ 70,088	\$ 4,143
Total Operating Expenses	\$ 124,808	\$ 205,327	\$ 303,885	\$ 344,098

Results of Operations for the Three-Month Periods Ended August 31, 2013 and 2012

Revenues. We did not earn any revenues for either the quarter ended August 31, 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 quarter ended August 31, 2013 was the fifth fiscal quarter since we repurposed our business to oil and gas exploration, and the third since we were granted an oil and gas exploration license in South Australian (PEL512) (the "License"). Going forward, the comparisons of operating results will reflect a similar business purpose from period to period. The total operating expenses incurred during the quarter ended August 31, 2013 were notably lower than those incurred during the similar period in 2012. As discussed below, the net decrease of approximately \$80,000 is attributable to lower Exploration Costs, with increases in Travel and General and Administrative expenses being offset by lower Professional Fees.

The reported decline of about \$83,000 in exploration costs during the quarter ended August 31, 2013 compared to the similar period in 2012 is mostly attributable to payments made in August 2012 to outside parties for 3D seismic reprocessing and independent resource assessment of the Prospect. Similar expenditures were not required during the quarter ended August 31, 2013. Payments to our ongoing geotechnical service providers were also somewhat lower during the quarter ended August 31, 2013 because support rendered to the reprocessing and resource assessment projects was not required. Exploration activity during the quarter ended August 31, 2013 focused on interpretation of reprocessed 3D seismic, acquisition and analysis of 3D seismic covering productive acreage immediately adjacent to the Prospect, and the acquisition, processing and analysis of electronic well file data from this same area.

Professional fees for the quarter ended August 31, 2013 were lower by approximately \$33,000 compared to the same period in 2012. All of this improvement reflects lower legal fees paid both in the US and Australia. During the quarter ended August 31, 2012, considerable legal work performed in conjunction with finalizing the Native Title Agreement required for the issuance of the License and the restructuring of PEL512 acquisition arrangement with Liberty Petroleum Corporation to allow that License to be issued directly to us. Lower legal fees in the quarter ended August 31, 2013 were somewhat offset with professional fee payments made by our Australian subsidiary. This entity incurred few costs prior to the License being issued to it in October of 2012. During the past quarter ended August 31, 2013, the subsidiary was required to address certain operational issues initiated by adjacent operators that impacted parts of the License area.

Travel expenses dramatically increased during the quarter ended August 31, 2013. This reflects the costs associated with our ongoing efforts to raise capital both inside and outside of North America. Also included in the quarter ended August 31, 2013 are some expenses associated with Australian meetings with potential joint venture and farm-in partners that occurred very near the end of May 2013.

General and administrative expenses were higher by about \$12,500 during the quarter ended August 31, 2013 compared to the same period last fiscal year. The increase primarily reflects costs associated with insurance and administration of our Australian subsidiary. There were no expenses associated with either of these items for the quarter ended August 31, 2012.

Net loss. Our net loss for the quarter ended August 31, 2013 decreased by approximately \$70,000 as compared to the similar period in 2012. While various operating cost components moved up or down, as discussed above, the net decline in the loss can be attributed to lower exploration expenditures during the period ended August 31, 2013. On a per share basis, our losses for both the three-month periods ended August 31, 2013 and August 31, 2012 were less than \$0.01

Results of Operations for the Six-Month Periods Ended August 31, 2013 and 2012

Revenues. We did not earn any revenues for either the six months ended August 31, 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 six months ended August 31, 2013 were about 12% lower than those incurred in the comparable period ended August 31, 2012. Broadly, this reduction reflects lower exploration and legal costs that were partially offset by higher travel and administrative expenses.

As noted above, major exploration expenditures for seismic reprocessing and resource analysis made in the first six-month period ended August 31, 2012 were not replicated during the six-month period ended August 31, 2013. Legal expenses were lower during the six-month period ended August 31, 2013 because the work associated with acquiring the License occurred during the six-month period ended August 31, 2012. Professional fees paid by our Australian subsidiary during the six-month period ended August 31, 2013 offset to some extent lower legal expenditures. The costs of administering the Australian subsidiary and premiums for insurance contributed to the increase in General and Administrative expenditure during the six-month period ended August 31, 2013. The substantial increase in Travel expenses during the six-month period ended August 31, 2013 compared to the similar period in 2012 reflects the international effort to raise capital for our exploration and development program.

Net loss. Our net loss for the six months ended August 31, 2013 decreased by approximately 7% 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 six month period ended August 31, 2013 compared to the six month period ended August 31, 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. At the end of the current reporting period, June to August 2013, we drew \$8,200 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. These advances are 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 August 31, 2013, we had cash in the approximate amount of \$6,000, and we had a working capital deficit of \$637,530. As of October 11, 2013, we had the US dollar equivalent of approximately \$1,700 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 is due on December 10, 2013 (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 February 3, 2014.

Given the amount of cash on hand, we anticipate the need to raise an estimated \$700,000 of additional funds by December 31, 2013 for operating expenses and to retire the Liberty notes. 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. Our exploration work this year meets or exceeds the first year work requirement under the License, in management's view. 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 begins 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\$25.0 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 any 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.

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.

Our capital strategy for 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 reach 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. It is unlikely that a joint venture arrangement will 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 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\$7.0 million by the end of October 2014 to continue operations and satisfy our year-two obligations have all heightend 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)

October 17, 2013

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



Contact Information

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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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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 OCTOBER 16, 2013

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

TRANSFER AGENT

Transfer Online, Inc.
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For more information visit us at Discoveryenergy.com