DISCOVERY ENERGY CORP

QUARTERLY REPORT

Q1 FY20

UNAUDITED

For the quarter ending May 31, 2019

DISCOVERYENERGY.COM

About Discovery Energy

Discovery Energy is an emerging oil and gas explorer with a core focus on South Australian Cooper Basin oil projects. The Company's exploration program is underpinned and complemented by targeted corporate activity to take advantage of opportunities and build an extensive pipeline of exploration projects. Discovery's board and management have extensive technical and commercial experience in the oil and gas sector.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Discovery Energy Corp.
Consolidated Balance Sheets
(Unaudited)

	May 31, 2019	February 28, 2019
Assets		
Current Assets		
Cash	$ 123,633	$ 405,908
Prepaid expenses	116,696	23,246
Tax receivable	354	1,311
Total Current Assets	240,683	430,465
Oil and gas property – not subject to amortization (successful efforts method)	2,883,915	2,883,915
Other assets	34,580	35,730
Total Assets	$ 3,159,178	$ 3,350,110
Liabilities and Shareholders' Deficit		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,606,367	$ 1,409,658
Accounts payable – related parties, net	396,687	149,190
Total Current Liabilities	2,003,054	1,558,848
Convertible debentures payable, net of debt discount	3,560,596	3,182,027
Total Liabilities	5,563,650	4,740,875
Commitments and Contingencies		
Shareholders' Deficit		
Preferred stock – 10,000,000 shares authorized, zero issued and outstanding	-	-
Common stock – 500,000,000 shares authorized, $0.001 par value – 151,940,396 and 148,240,396 shares issued and outstanding, respectively	151,940	148,240
Additional paid-in capital	19,160,665	18,059,682
Accumulated other comprehensive income	159,137	76,205
Accumulated deficit	(21,876,214)	(19,674,892)
Total Shareholders' Deficit	(2,404,472)	(1,390,765)
Total Liabilities and Shareholders' Deficit	$ 3,159,178	$ 3,350,110

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

Discovery Energy Corp.
Consolidated Statements of Operations and Comprehensive Loss
For the Three Months Ended May 31, 2019 and 2018
(Unaudited)

	Three Months Ended May 31, 2019	Three Months Ended May 31, 2018
Operating Expenses		
General and administrative	$ 1,629,636	$ 327,082
Exploration costs	26,925	93,447
Total operating expenses	1,656,561	420,529
Operating loss	(1,656,561)	(420,529)
Other Income (Expense)		
Interest expense	(545,349)	(781,962)
Miscellaneous income	687	282
Gain (loss) on foreign currency transactions	(99)	1,251
Other income (expenses)	(544,761)	(780,429)
Net loss	$ (2,201,322)	$ (1,200,958)
Loss per common share – basic and diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding – basic and diluted	150,130,613	143,040,396
Comprehensive Income (Loss)		
Net loss	$ (2,201,322)	$ (1,200,958)
Other comprehensive income (loss) – gain (loss) on foreign currency translation	82,932	89,584
Total comprehensive loss	$ (2,118,390)	$ (1,111,374)

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

Discovery Energy Corp.
Consolidated Statements of Shareholders' Equity (Deficit)
For the Three Months Ended May 31, 2019 and 2018
(Unaudited)

	Common Stock		Additional		Accumulated Other	Total Shareholders'
	Number	Par Value	Paid-In Capital	Accumulated Deficit	Comprehensive Income	Equity (Deficit)
Balance, February 28, 2019	148,240,396	$ 148,240	$ 18,059,682	$ (19,674,892)	$ 76,205	$ (1,390,765)
Share-based compensation	3,700,000	3,700	736,300	-	-	740,000
Warrant modification expense	-	-	364,683	-	-	364,683
Gain on foreign currency translation	-	-	-	-	82,932	82,932
Net loss	-	-	-	(2,201,322)	-	(2,201,322)
Balance, May 31, 2019	151,940,396	$ 151,940	$ 19,160,665	$ (21,876,214)	$ 159,137	$ (2,404,472)

	Common Stock		Additional		Accumulated Other	Total Shareholders'
	Number	Par Value	Paid-In Capital	Accumulated Deficit	Comprehensive Income	Equity (Deficit)
Balance, February 28, 2018	143,040,396	$ 143,040	$ 4,520,275	$ (19,516,772)	$ 4,756	$ (14,848,701)
Modified retroactive adjustment for derivative liability	-	-	12,544,607	3,627,512	-	16,172,119
Gain on foreign currency translation	-	-	-	-	89,584	89,584
Net loss	-	-	-	(1,200,958)	-	(1,200,958)
Balance, May 31, 2018	143,040,396	$ 143,040	$ 17,064,882	$ (17,090,218)	$ 94,340	$ 212,044

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

Discovery Energy Corp.
Consolidated Statements of Cash Flows
For the Three Months Ended May 31, 2019 and 2018
(Unaudited)

	Three Months Ended May 31, 2019	Three Months Ended May 31, 2018
Cash flows from operating activities		
Net loss	$ (2,201,322)	$ (1,200,958)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discount	378,569	336,676
Interest expense related to derivative liabilities in excess of debt	-	295,662
Stock-based compensation	740,000	-
Warrant modification expense	364,683	-
Foreign currency transaction (gain) loss	99	(1,251)
Changes in operating assets and liabilities:		
Prepaid expenses	(93,450)	(39,220)
Tax receivable	957	(661)
Accounts payable and accrued liabilities	197,760	140,561
Accounts payable – related party, net	247,497	30,267
Net cash used in operating activities	(365,207)	(438,924)
Cash flows from financing activities		
Proceeds from issuance of convertible debentures	-	350,000
Net cash flows provided by financing activities	-	350,000
Effect of foreign currency translation on cash	82,932	89,584
Change in cash during the period	(282,275)	660
Cash, beginning of the period	405,908	261,141
Cash, end of the period	$ 123,633	$ 261,801
Supplemental disclosures:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
Noncash investing and financing activities:		
Modified retroactive adjustment for derivative liabilities	$ -	$ 16,172,119

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

1. Nature of Operations

The principal business of Discovery Energy Corp. ("Company") is the exploration and development of the 584,651 gross acres ("Prospect") in South Australia covered by Petroleum Exploration License PEL 512 ("License"). In May 2012, the Company incorporated a wholly-owned Australian subsidiary, Discovery Energy SA Ltd., for the purpose of acquiring a 100% working interest in the License. On May 25, 2016, its status changed from a public to a private legal entity and its name to Discovery Energy SA Pty Ltd. ("Subsidiary"). To date, the Company has not determined whether or not the Prospect, which overlies portions of the Cooper and Eromanga basins, contains any crude oil and/or natural gas reserves that are economically recoverable. While the Company's present focus is on the Prospect, it may consider pursuing other attractive crude oil and/or natural gas exploration opportunities.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the rules of the U.S. Securities and Exchange Commission ("SEC").

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and the Subsidiary. Inter-company transactions and balances have been eliminated upon consolidation.

Use of Estimates

The preparation of these financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of these financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of acquisition to be cash equivalents. The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits as guaranteed by the Federal Deposit Insurance Corporation. As of May 31, 2019, all the Company's cash balances were insured. The Company has not experienced any losses on such accounts.

Oil and Gas Property and Exploration Costs

The Company is in the exploration stage of evaluating the Prospect and has not yet realized any revenues from its operations. It applies the successful efforts method of accounting for crude oil and natural gas properties. Under this method, exploration costs such as exploratory geological and geophysical costs, delay rentals and exploratory overhead are expensed as incurred. Costs to acquire mineral interests in crude oil and/or natural gas properties, drill and equip exploratory wells that find proved reserves and drill and equip development wells are capitalized. Acquisition costs of unproved leaseholds are assessed for impairment during the holding period and transferred to proven crude oil and/or natural gas properties to the extent associated with successful exploration activities. Significant undeveloped leases are assessed individually for impairment, based on the Company's current exploration plans, and a valuation allowance is provided if impairment is indicated. Capitalized costs from successful exploration and development activities associated with producing crude oil and/or natural gas leases, along with capitalized costs for support equipment and facilities, are amortized to expense using the unit-of-production method based on proved crude oil and/or natural gas reserves on a field-by-field basis, as estimated by qualified petroleum engineers.

Long-lived Assets

The carrying values of long-lived assets are reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

Fair Value of Financial Instruments and Derivative Financial Instruments

The carrying amounts of cash, receivables, accounts payable, accrued liabilities and shareholder loans approximate their fair values due to the short maturity of these items. Certain fair value estimates may be subject to and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The Company does not hold or issue financial instruments for trading purposes, nor does it utilize derivative instruments in the management of its foreign exchange, commodity price, and/or interest rate market risks.

Income Taxes

Deferred income taxes are reported for timing differences between items of income or expense reported in these financial statements and those reported for income tax purposes. The Company uses the asset/liability method of accounting for income taxes. Deferred income taxes and tax benefits are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases, and for tax loss and credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company provides a valuation allowance for deferred taxes for the estimated future tax effects attributable to temporary differences and carry-forwards when realization is not more likely than not.

The Tax Cuts and Jobs Act of 2017 was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a federal corporate rate reduction from 34% to 21%. In accordance with ASC 740, the impact of a change in the tax law is recorded in the period of enactment.

The Company accounts for uncertain income tax positions by recognizing in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on examination by taxation authorities, based on the technical merits of the position.

Foreign Currency Translation

The Company's functional and reporting currency is the United States dollar. Monetary assets and liabilities denominated in foreign currencies are translated using exchange rates prevailing at the balance sheet date. Non-monetary assets are translated at historical exchange rates, and revenue and expense items at average rates of exchange prevailing during the period. Differences resulting from translation are presented in equity as accumulated other comprehensive income (loss). Gains and losses arising on settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in Canadian and Australian dollars. The Company has not, to the date of these financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

Fair Value Considerations

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

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

In accordance with ASC 815-40-25 and ASC 815-10-15 *"Derivatives and Hedging"* and ASC 480-10-25 " *Liabilities-Distinguishing Liabilities from Equity"* , the embedded derivative associated with the convertible note payable and warrant were accounted for as liabilities during the term of the related note payable and warrant as of February 28, 2018.

In July 2017, the FASB issued Accounting Standards Update ("ASU") 2017-11, *Earnings Per Share* (Topic 260); *Distinguishing Liabilities from Equity* (Topic 480); *Derivatives and Hedging* (Topic 815): (Part I) *Accounting for Certain Financial Instruments with Down Round Features* . These amendments simplify the accounting for certain financial instruments with down round features. The amendments require companies to disregard the down round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. The standard was adopted as of March 1, 2018.

Loss Per Share

Basic Earnings Per Share ("EPS") is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used to determine the number of shares assumed to be purchased from the exercise of stock options and/or warrants. Diluted EPS excludes all dilutive potential shares if their effect is anti-dilutive.

For the quarters ended May 31, 2019 and 2018, the following share equivalents related to convertible debt and warrants to purchase shares of common stock were excluded from the computation of diluted net loss per share, as the inclusion of such shares would be anti-dilutive.

Common Shares Issuable for:	Quarter Ended May 31, 2019	Quarter Ended May 31, 2018
Convertible debt	51,054,769	47,169,554
Stock warrants	19,125,000	19,125,000
	70,179,769	66,294,554

Comprehensive Income (Loss)

The Company recognizes currency translation adjustments as a component of comprehensive income (loss).

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-15, " *Statement of Cash Flows* (Topic 230): *Classification of Certain Cash Receipts and Cash Payments* " ("ASU 2016-15"). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Company adopted this standard on March 1, 2019, and determined that it had no receipts or payments meeting the criteria of the ASU. Therefore, the adoption had no impact on the Company's May 31, 2019 consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *"Leases (Topic 842)"* . The new lease guidance supersedes Topic 840. The core principle of the guidance is that entities should recognize the assets and liabilities that arise from leases. Topic 840 does not apply to leases to explore for or use minerals, oil, natural gas and similar nonregenerative resources, including the intangible right to explore for those natural resources and rights to use the land in which those natural resources are contained. In July 2018, the FASB issued ASU No. 2018-11, *"Leases (Topic 842): Targeted Improvements"* , which provides entities with an alternative modified transition method, for which, comparative periods, including the disclosures related to those periods, are not restated.

In addition, the Company elected practical expedients provided by the new standard whereby, the Company has elected to not reassess its prior conclusions about lease identification, lease classification, and initial direct costs and to retain off-balance sheet treatment of short-term leases (i.e., 12 months or less and does not contain a purchase option that the Company is reasonably certain to exercise). As a result of the short-term expedient election, the Company has no leases that require the recording of a net lease asset and lease liability on the Company's consolidated balance sheet or have a material impact on consolidated earnings or cash flows as of May 31, 2019. Moving forward, the Company will evaluate any new lease commitments for application of Topic 842.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share* (Topic 260); *Distinguishing Liabilities from Equity* (Topic 480); *Derivatives and Hedging* (Topic 815): (Part I) *Accounting for Certain Financial Instruments with Down Round Features* . These amendments simplify the accounting for certain financial instruments with down round features. The amendments require companies to disregard the down round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. The Company adopted the standard as of March 1, 2018.

The Company does not anticipate that the adoption of other recently issued accounting pronouncements will have a significant impact on its financial statements.

3. Going Concern

These financial statements were prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has not generated revenues since inception, and is unlikely to generate earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the ability of the Company to obtain necessary equity or debt financing to continue operations, successfully develop the Prospect and/or obtain producing properties, with a goal of attaining profitable operations. The Company is currently attempting to complete a significant financing, and in this connection might (a) place a significant amount of additional Debentures similar to those described below, (b) secure an alternative financing arrangement, possibly involving the Company's equity securities, or (c) some combination of (a) and (b). The Company has no assurance that it will be able to raise significant additional funds to develop the Prospect or the additional funds needed for general corporate purposes.

As of May 31, 2019, the Company had not generated any revenues and had an accumulated loss of $21,876,214 since inception. These factors raise substantial doubts regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

4. Oil and Gas Properties

The License covers 584,651 gross acres in the State of South Australia. The License grants a 100% working interest in the preceding acreage, which overlies portions of the Cooper and Eromanga basins.

On October 26, 2012, a 100% interest in the License was officially issued to the Subsidiary.

On May 19, 2014, the Company received notice from the Government of South Australia that it had issued certain modifications to the License and had suspended the License for a period of six months. Such a suspension functions like an extension. Under the amended License, the Company is required to drill 7 exploratory wells rather than 12, as originally required. The 7 required wells must be drilled in years 3, 4, and 5 (2, 2, and 3 wells, respectively). The amount of required 2D seismic was also reduced to 62 miles (100 km.) in year 3 from 155 miles (250 km.) in year 2 but the total 3D seismic work guarantee increased to 193 sq. miles (500 sq. km.) from 154 sq. miles (400 sq. km.). However, the 3D seismic survey requirement is spread over three years with 39 sq. miles (100 sq. km.) in year 2, 77 sq. miles (200 sq. km.) in year 3 and 77 sq. miles (200 sq. km.) in year 4. Subsequent to this modification and suspension, the Company received two additional six-month suspensions, one in February 2015 and one in July 2015 (this additional suspension commenced upon the conclusion of the suspension received in February 2015). In February 2016, the Company received a third additional suspension, which was for one year and which commenced upon the conclusion of the suspension received in July 2015. Combined, these three additional suspensions amount to an accumulated total suspension of two years.

On June 22, 2016, the Company terminated the February 2016 License suspension in preparation for a 3D seismic survey (the " *Survey* ") that was comprised of approximately 69 sq. miles (179 sq. km.) on the southwest portion of the Prospect. After archaeological and environmental reviews of the survey area, fieldwork by the seismic contractor began on July 26, 2016. The Survey and field work were completed on October 30, 2016 and the License was suspended again on November 1, 2016.

In July 2017, the License suspension was lifted in order to conduct a Work Area Clearance Survey (" *WAC* ") of several potential drill sites located in the southern portion of the License. After completing the Survey, the Company requested and received three additional six-month suspensions, one in July 2017, one in June 2018 and one in February 2019 resulting in a new expiration date of October 28, 2021.

As a result of the activities, modifications and suspensions described above, the remaining work commitments are now as follows:

* Year 3 ending October 28, 2019 - Shoot 2D seismic data totaling at least approximately 62 miles (100 km.) and shoot 3D seismic data totaling at a minimum approximately 77 sq. miles (200 sq. km.) and drill two wells.

* Year 4 ending October 28, 2020 - Shoot 3D seismic data totaling at a minimum approximately 77 sq. miles (200 sq. km.) and drill two wells.

* Year 5 ending October 28, 2021 - Drill three wells.

In four transactions, the Company acquired portions of the royalty interest associated with the PEL 512 License so that the Company now owns an aggregate 5.0% royalty interest, while the previous holders of the original 7.0% royalty interest continue to hold a 2.0% royalty interest.

5. Related Party Transactions

As of May 31, 2019 and February 28, 2019, the Company owed $396,687 and $149,190, respectively, to certain Company directors for reimbursement of expenses paid on behalf of the Company.

On November 1, 2017, but effective as of March 1, 2017, the Company entered into a consulting agreement with Keith Spickelmier, the Company's Chairman of the Board, to provide certain consulting services to the Company. The Company paid a consulting fee for the three months ended May 31, 2019 of $20,000.

During fiscal year 2019, the Company entered into a verbal consulting agreement with an affiliated entity owned by Keith McKenzie, the Company's Chief Executive Officer. Initially, varying amounts of consulting fees were paid depending on the type and amount of services provided. Since September 2018, a set monthly fee of $5,000 has been paid.

On April 15, 2019, the Board of Directors of the Company approved an award of shares of the Company's common stock to several of the Company's officers, each of whom is also a director of the Company. In approving these awards, each director abstained from participating in the consideration and approval of such director's own award. The shares were awarded for services provided to the Company as officers over the past seven years, and were made pursuant to the Company's 2012 Equity Incentive Plan. The awarded shares were fully vested at the time of the award and can be immediately sold, subject to applicable federal securities law restrictions on such sales. The following table provides information about the officers receiving an award and the number of shares awarded:

Name of Officer	Offices Held	Number of Award Shares
Keith D. Spickelmier	Chairman of the Board	1,250,000
Keith J. McKenzie	Chief Executive Officer	500,000
William E. Begley	President, Chief Financial Officer and Chief Operating Officer	750,000

The fair value of these shares was $500,000 based on the market price of $0.20 per share on the grant date.

6. Convertible Debentures Payable

From May 27, 2016 through May 31, 2019, the Company issued eleven rounds (I thru XI) of senior secured convertible debentures, the proceeds of which have funded the initial 3D seismic survey with respect to the Prospect, the interpretation of seismic data acquired, expenses associated with the seismic survey, costs associated with the debenture issuances, and general and administrative expenses. The debentures are secured by virtually all of the Company's assets owned, directly or indirectly, but for the License. As discussed elsewhere, the Company may in the future sell additional senior secured convertible debentures having the same terms as those currently outstanding. The table below provides a summary of the senior secured convertible debentures issued through May 31, 2019 and related debt discount and amortization details.

Round	Issue Date	Maturity Date	Interest Rate	Conversion Price	Principal Amount	Debt Discount	Debentures, net of Debt Discount
Outstanding as of February 28, 2019:							
I	May 27, 2016	May 27, 2021	8%	$ 0.16	$ 3,500,000	$ 3,500,000	
II	Aug 16, 2016	May 27, 2021	8%	$ 0.16	200,000	199,999	
	Aug 16, 2016	May 27, 2021	8%	$ 0.16	250,000	250,000	
III	Dec 30, 2016	May 27, 2021	8%	$ 0.16	287,500	237,587	
IV	Feb 15, 2017	May 27, 2021	8%	$ 0.16	1,000,000	1,000,000	
V	Mar 31,2017	May 27, 2021	8%	$ 0.16	200,000	200,000	
VI	Jul 5, 2017	May 27, 2021	8%	$ 0.20	137,500	137,500	
	Jul 5, 2017	May 27, 2021	8%	$ 0.16	150,000	150,000	
VII	Sept 19, 2017	May 27, 2021	8%	$ 0.16	400,000	400,000	
	Sept 19, 2017	May 27, 2021	8%	$ 0.16	100,000	82,125	
VIII	Oct 10, 2017	May 27, 2021	8%	$ 0.20	137,500	72,806	
IX	Jan 3, 2018	May 27, 2021	8%	$ 0.20	137,500	137,500	
X	April 2, 2018	May 27, 2021	8%	$ 0.20	137,500	137,500	
XI	May 16, 2018	May 27, 2021	8%	$ 0.20	212,500	212,500	
Amortized discount as of February 28, 2019						(3,049,544)	
Balance as of February 28, 2019					**6,850,000**	**3,667,973**	**$ 3,182,027**
Activity for the three months ended May 31, 2019:							
Amortization of discount for the quarter ended May 31, 2019						(378,569)	
Balance as of May 31, 2019					**$ 6,850,000**	**$ 3,289,404**	**$ 3,560,596**

The Company recognized $378,569 and $336,676 in debt discount amortization debt discount amortization during the three months ended May 31, 2019 and 2018, respectively.

7. Derivative Liabilities

Historically, the Company accounted for certain instruments as derivative instruments in accordance with FASB ASC 815-40, *Derivative and Hedging – Contracts in Entity's Own Equity* . This was due to the debentures and related warrants issued by the Company containing a price-reset provision. The Company measured its derivative liability at fair value and recognized the derivative value as a current liability and recorded the derivative value on its consolidated balance sheet. Changes in the fair values of the derivative were recognized as earnings or losses in the current period in other income (expenses) on the consolidated statement of operations and other comprehensive income (loss).

As of March 1, 2018, the Company early adopted ASU 2017-11, which revised the guidance for instruments with price-reset provisions. As such, the Company treats outstanding warrants as free-standing equity-linked instruments that are recorded to equity in the consolidated balance sheet as of March 1, 2018.

The impact of the adoption was as follows:

Derivative liabilities	$ (16,172,119)
Additional paid-in capital	12,544,607
Accumulated deficit	3,627,512
Total stockholders' deficit	$ 16,172,119

8. Commitments and Contingencies

Office Lease

Change in Accounting Policy. The Company adopted ASU No. 2016-02, *"Leases (Topic 842)"* and ASU NO. 2018-11, *"Leases (Topic 842): Targeted Improvements"* , March 1, 2019, using the alternative modified transition method, for which, comparative periods, including the disclosures related to those periods, are not restated as of March 1, 2019. Refer to Note 2 – Summary of Significant Accounting Policies above for additional information.

The Company leases virtual office space in Houston, Texas, with a 6-month term ending June 30, 2019 for $161 per month and has a remaining obligation as of May 31, 2019 of $161. The lease has been renewed for another six months ending December 31, 2019 for $193 per month. The Subsidiary leases virtual office space in Melbourne, Australia, on a month-to-month basis for AU$175. The Company's server space is also leased on a month-to-month basis for CA$800 inside the office of Keith McKenzie, an officer and director of the Company.

For the three months ended May 31, 2019 and 2018, the Company incurred lease expense of $2,725 and $2,673, respectively, for the combined leases.

9. Shareholders' Deficit

During the three months ended May 31, 2019, the Company issued 3,700,000 shares of its common stock for services at a price of $0.20 per share to certain officers, board members, employees and professional service providers, based on the stock price on the date of grant with a total grant date fair value of $740,000 (of which 2,500,000 shares were issued to the certain related parties as discussed in Note 5).

Warrants

The table below presents information about the Company's outstanding warrants as of February 28, 2019 and May 31, 2019. Pursuant to debenture agreements dated May 27, 2016 and August 16, 2016, warrants to purchase 13,875,000 shares of the Company's common stock had an original expiration date of May 27, 2019. On May 27, 2019, the Company entered into agreements to extend the related expiration dates to July 27, 2019. As a result of the modification, the Company recorded additional expense of approximately $365,000 for the incremental fair value of the warrants, calculated using the Black-Scholes option-pricing model. Variables used in the Black-Scholes option-pricing model include: (1) risk free interest rate of 2.35%, (2) expected life of 2 months, (3) expected volatility of 80%, and (4) zero expected dividends.

No expense was recorded by the Company for the incremental fair value of the warrants due to the early adoption of ASU 2017-11 as noted in Footnote 2.

Warrant activity during the three months ended May 31, 2019

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Term (Years)
Outstanding at February 28, 2019	19,125,000	$ 0.20	0.49
Expired/Cancelled	-		
Outstanding as of May 31, 2019	19,125,000	$ 0.20	0.36
Exercisable at May 31, 2019			

The intrinsic value of warrants outstanding at May 31, 2019 and February 28, 2019 was $191,250 and $-0-, respectively.

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. These forward-looking statements are based on current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about the Company that may cause 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, forward-looking statements can be identified by the use of terminology such as "may," "might," "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 the Company's other Securities and Exchange Commission filings. The following discussion should be read in conjunction with the Company's financial statements and related notes thereto included elsewhere in this report.

General

Discovery Energy Corp. (the **" *Company"*** *or* ***"Discovery"***) was incorporated under the laws of the state of Nevada on May 24, 2006 under the name "Santos Resource Corp". The Company's current business is the exploration and development of the 584,651 gross acres (914 square miles) area in South Australia (" ***Prospect*** ") held under Petroleum Exploration License PEL 512 (" ***License*** "). In May 2012, the Company incorporated a wholly owned Australian subsidiary, Discovery Energy SA Ltd. (" ***Subsidiary***), for the purpose of acquiring a 100% working interest in the License. The Company is in the initial exploration phase of determining whether or not the Prospect contains economically recoverable volumes of crude oil, natural gas and/or natural gas liquid (collectively " ***Hydrocarbons*** "). Although the Company's primary focus is on the exploration and development of the Prospect, the Company has received information about, and has had discussion regarding, possible acquisition of or participation in, other crude oil and/or natural gas opportunities. None of these discussions has led to any agreement in principle. Nevertheless, given an attractive opportunity and its ability to consummate the transaction, the Company could acquire one or more other crude oil and/or natural gas properties, or participate in one or more other crude oil and/or natural gas opportunities.

Historical Milestones

To date, the Company has achieved the following milestones:

* On October 26, 2012, the License was granted to the Subsidiary. After the License grant, the Company's primary focus was on completing a financing to raise sufficient funds so that the Company could undertake a required proprietary seismic acquisition program. After exploring a number of possible financings, the precipitous decline in crude oil prices starting in the summer of 2014 delayed the Company's ability to successfully complete a financing of the type being sought.

* In May 2016, the Company completed its first closing under a financing arrangement pursuant to which the Company issued to two investors Senior Secured Convertible Debentures (each a " ***Debenture*** " and collectively the " ***Debentures*** "). To date, the Company has issued a total of 14 Debentures having an aggregate original principal amount of $6,850,000. The Debentures are due and payable on or before May 27, 2021. Interest on the Debentures to date has been accrued and added to principal, thereby increasing the outstanding balance on the Debentures to approximately $8,441,228 as of the date of this Report. Interest will continue to be accrued until such time as the Debentures are repaid or converted. Among other uses, the proceeds from the Debentures enabled us to undertake required seismic work. In conjunction with certain issuances of Debentures, warrants (" ***Warrants*** ") were issued that give the holder the right to purchase up to a maximum of 19,125,000 shares of the Company's common stock, par value $0.001 per share at an initial per-share exercise price of $0.20. For more information about the Debentures and the Warrants, see the section captioned "Liquidity and Capital Resources - Financing History and Immediate, Short-Term Capital Needs - Debenture Financing" below.

* On October 30, 2016, fieldwork was completed on the Company's proprietary Nike 3D seismic survey (the " ***Nike 3D Survey*** ") covering an approximately 69 square mile (179 square kilometers) section of the southwest portion of the Prospect. The Nike 3D Survey was completed at a "turnkey price" of approximately $2,379,000.

* The raw data from the Nike 3D Survey was converted to analytical quality information, processed and interpreted by the Company's geophysical advisor. Interpretation of the processed data included advanced technical analysis by specialized consultants. This technical work identified an inventory of more than 30 leads judged to be potential areas of crude oil accumulations. The Company has prioritized these initial prospective locations for presentations to potential sources of significant capital. Technical analysis is on-going.

Current Primary Activities

The Company's current primary activity is to complete either a major financing or a major joint venture relationship, or both, so that it can execute the remaining work commitment as described below, and develop the Prospect.

The License is subject to a five-year work commitment, which imposes certain financial obligations on the Company. In management's view, the geotechnical work completed in Years 1 and 2 of the commitment was sufficient to satisfy the License requirements for those two years. Required reports in connection with these activities were timely filed. To date, no comments from the government have been received, and management understands that the overseeing government agency is required by law to furnish comments within 30 days after the reports are filed. Moreover, such agency has extended and modified the work commitment a number of times since the filing of the reports, and has been very accommodating with the Company's requests to it.

Over the last several years, a number of extensions and modifications of the work commitment have been granted. The current remaining work commitment is as follows:

* Year 3 ending October 28, 2019 - Shoot 2D seismic data totaling at least approximately 62 miles (100 km.) and shoot 3D seismic data totaling at a minimum approximately 77 sq. miles (200 sq. km.) and drill two wells.

* Year 4 ending October 28, 2020 - Shoot 3D seismic data totaling at a minimum approximately 77 sq. miles (200 sq. km.) and drill two wells.

* Year 5 ending October 28, 2021 - Drill three wells.

Management realizes that the Company will not be able to complete the Year 3 requirements of the work commitment by the current deadline for doing so. Accordingly, management intends to seek a further extension of the work commitment in a timely manner such that the Company does not default on its Year 3 requirements. While the Australian authorities have historically accommodated the Company in this regard, no assurance can be given that the needed extension will be granted. If such an extension is not granted, the Company and its stockholders could be materially and adversely affected in ways that are discussed in the section captioned "Liquidity and Capital Resources - Consequences of a Financing Failure" below.

The Company needs a significant amount of capital to fulfill its obligations under the work commitment. Moreover, the Debentures mature in May 2021, and the Company will need to raise additional funds or generate sufficient revenues through Hydrocarbon production to timely repay the Debentures. The Company's capital requirements and financing activities are described in the section captioned "Liquidity and Capital Requirements" below. The success of the initial phase of the Company's plan of operation depends upon the Company's ability to obtain additional capital or enter into a suitable joint venture arrangement in order to acquire additional seismic data and successfully drill commitment wells. Failure to obtain required additional capital or enter into a suitable joint venture arrangement will materially and adversely affect the Company and its stockholders in ways that are discussed in the section captioned "Liquidity and Capital Resources - Consequences of a Financing Failure" below. The Company cannot provide assurance that it will obtain the necessary capital and/or enter into a suitable joint venture agreement.

Results of Operations

Results of operations for the three-month periods ended May 31, 2019 and 2018 are summarized in the table below:

	Three Months Ended May 31, 2019	Three Months Ended May 31, 2018
Revenue	$ -	$ -
Operating expenses	(1,656,561)	(420,529)
Other income (expenses)	(544,761)	(780,429)
Net income (loss)	$ (2,201,322)	$ (1,200,958)

Operating expenses for the three-month periods ended May 31, 2019 and 2018 are outlined in the table below:

	Three Months Ended May 31, 2019	Three Months Ended May 31, 2018
Stock-based compensation expense	$ 740,000	$ -
General and administrative	524,953	327,082
Warrant modification expense	364,683	-
Exploration costs	26,925	93,447
Total Operating Expenses	$ 1,656,561	$ 420,529

Results of Operations for the Three-Month Periods Ended May 31, 2019 and 2018

Revenues . The Company did not earn any revenues for either the quarter ended May 31, 2019, or the similar period in 2018. Sales revenues are not anticipated until such time as the Prospect has commenced commercial production of Hydrocarbons. As the Company is presently in the exploration stage of its operations, no assurance can be provided that commercially exploitable levels of hydrocarbons on the Prospect will be discovered, or if such resources are discovered, that the Prospect will commence commercial production.

Operating Expenses. Total operating expenses incurred during the quarter ended May 31, 2019 increased by approximately $1,236,000 (294%), compared to those incurred during the quarter ended May 31, 2018. During the quarter ended May 31, 2019, stock-based compensation expense totaled $740,000, compared to $0 for the quarter ended May 31, 2018. During the quarter ended May 31, 2019, warrant modification expense totaled approximately $365,000, compared to $0 for the quarter ended May 31, 2018. Professional fees increased 98% to approximately $315,000 for the quarter ended May 31, 2019, due to an increase in consulting fees related to the Company's preparations for drilling and financing for those efforts, compared to approximately $159,000 for the quarter ended May 31, 2018. These expense increases were partially offset by a 71% decrease in exploration costs, reflecting the completion of most geological and geophysical analysis activities in the quarter ended May 31, 2018.

Other Income (Expense). Other income (expense) consists primarily of interest expense related to the Debentures (which will be settled in shares of common stock, not cash). The Company had other expenses of approximately $545,000 for the quarter ended May 31, 2019, compared to other expenses of approximately $780,000 for the quarter ended May 31, 2018, a decrease of 30% primarily due to a reduction in debt discount expense of approximately $297,000 incurred in the quarter ended May 31, 2018 with the issuance of the last two debentures.

Net Loss . The Company had a net loss of approximately $2,201,000 for the quarter ended May 31, 2019, compared to a net loss of approximately $1,201,000 for the quarter ended May 31, 2018. Loss per common share, on both a basic and fully diluted basis, was ($0.01) for quarter ended May 31, 2019, compared to ($0.01) in quarter ended May 31, 2018.

Cash Flow for the Three-Month Periods Ended May 31, 2019 and 2018

Cash Used in Operating Activities: Operating activities for the quarter ended May 31, 2019 used cash of $365,207, compared to $438,924 for the quarter ended May 31, 2018, primarily due to a 71% decrease in exploration costs due to the completion of most geological and geophysical analysis activities in the quarter ended May 31, 2018.

Cash Used in Investing Activities: No cash was used for investing activities during the quarter ended May 31, 2019 and the quarter ended May 31, 2018.

Cash Provided by Financing Activities: There was no cash provided by financing activities for the quarter ended May 31, 2019. Financing activities totaled $350,000 during the quarter ended May 31, 2018 due to the Texican purchase of its remaining additional Debentures with an aggregate original principal amount of $350,000.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Liquidity and Capital Resources

Financing History and Immediate, Short-Term Capital Needs

Early Financings . From January 2012 through May 27, 2016, business activities were financed primarily through private placements of Common Shares. During that period, several rounds of equity financing were conducted which raised total "seed" capital in the amount of $2,723,750 resulting in the issuance of 19,657,501 Common Shares. Moreover, from time to time, members of management provided short-term bridge funding. These advances were repaid out of proceeds from the Debenture financings described below.

Debenture Financing . Since May 2016, the Company has relied on a series of placements of Debentures (debt instruments convertible into Common Shares). The 14 Debentures comprising this series were issued pursuant to a Securities Purchase Agreement executed on May 27, 2016. Debentures having an aggregate original principal amount of $6,850,000 have been placed. In conjunction with certain Debentures, Warrants were issued that give the holder the right to purchase up to a maximum of 19,125,000 Common Shares at an initial per-Common Share exercise price of $0.20.

Each of the Debentures includes the following features:

* The Debentures bear interest at the rate of eight percent (8%) per annum, compounded quarterly. However, upon the occurrence and during the continuance of a stipulated event of default, the Debentures will bear interest at the rate of twelve percent (12%) per annum.

* Interest need not be paid on the Debentures until the principal amount of the Debentures becomes due and payable. Instead, accrued interest is added to the outstanding principal amount of the Debentures quarterly. Nevertheless, the Company may elect to pay accrued interest in cash at the time that such interest would otherwise be added to the outstanding principal amount of the Debentures.

* The principal amount of and accrued interest on the Debentures are due and payable in a single balloon payment on or before May 27, 2021.

* We are not entitled to prepay the Debentures prior to their maturity.

* The Debentures are convertible, in whole or in part, into Common Shares at the option of Holder, at any time and from time to time. The conversion price for Debentures having an aggregate original principal amount of $5,887,500 is $0.16, while the conversion price for a Debenture with an original principal amount of $962,500 is $0.20. All conversion prices are subject to certain adjustments that are believed to be customary in transactions of this nature, including so-called "down round" financing adjustments. The Company is subject to certain liabilities and liquidated damages for its failure to honor timely a conversion of the Debentures, and these liabilities and liquidated damages are believed to be customary in transactions of this nature.

* The holders of the Debentures are entitled to have them redeemed completely or partially upon certain events (such as a change of control transaction involving the Company or the sale of a material portion of the Company's assets) at a redemption price equal to 120% of the then outstanding principal amount of the Debenture and 100% of accrued and unpaid interest on the outstanding principal amount of this Debenture, *plus* all liquidated damages and other amounts due thereunder in respect of the Debenture.

* The Debentures feature negative operating covenants, events of defaults and remedies upon such events of defaults that are believed to be customary in transactions of this nature. One of the remedies upon an event of default is the Debenture holders' ability to accelerate the maturity of the Debenture such that all amounts owing under the Debenture would become immediately due and payable. The Debenture holders would then be able to resort to the collateral securing the Debentures, if the Company did not pay the amount outstanding, which is likely to be the case.

* The Debentures are secured by virtually all of the Company's assets owned directly or indirectly but for the License, which is held by the Subsidiary Moreover, the Company has separately guaranteed the Debentures and has pledged all of its stock in the Subsidiary to secure such guarantee. The essential effect of these security arrangements is that, if the Company defaults on or experiences an event of default with respect to the Debentures, the holders of the Debentures could exercise the rights of a secured creditor, which could result in the partial or total loss of nearly all of the Company's assets, in which case its business could cease and all or substantially all stockholders' equity could be lost.

Each of the Warrants includes the following features:

* The initial per-Common Share exercise price of the Warrants is $0.20 and is subject to certain adjustments that are generally believed to be customary in transactions of this nature. Subject to certain exceptions, the exercise price of the Warrants involves possible adjustments downward to the price of any Common Shares or their equivalents sold by the Company during the term of the Warrants for less than the then applicable exercise price of the Warrants. Upon the adjustment of the exercise price, the number of Common Shares issuable upon exercise of the Warrants is proportionately adjusted so the aggregate exercise price of the Warrants remains unchanged.

* All of the Warrants are currently exercisable and remain so until their extended expiration date of July 27, 2019 with respect to 13,875,000 warrant shares, February 15, 2020 with respect to 3,750,000 warrant shares, or September 19, 2020 with respect to 1,500,000 warrant shares.

* The Company is subject to certain liabilities and liquidated damages for failure to honor timely an exercise of the Warrants, and these liabilities and liquidated damages are believed to be customary in transactions of this nature.

The largest holder of the Debentures has the right to have elected to the Company's Board of Directors one nominee, but this holder has not yet exercised this right. However, a representative of the largest holder of the Debentures may be added to the Company's Board of Directors soon at the request of the Company.

Moreover, the holders of the Debentures have the right to require the Company to register with the SEC the resale of the Common Shares into which Debentures can be converted, the Common Shares that can be acquired upon the exercise of the Warrants and possibly other Common Shares.

The proceeds from the Debenture placements were generally used to fund the acquisition, processing and interpretation of the Nike 3D Survey data and payment of the Company's and the Debenture holders' expenses associated with the placements. A portion of these proceeds were used to retire all of the then outstanding indebtedness (including the amounts owed to Liberty Petroleum for allowing us to be issued the License in its place, and loans made by management), and to acquire a 5.0% overriding royalty interest relating to the Prospect. Funds were also used for payment of general and administrative expenses. In addition to the preceding, a portion of the proceeds was used to pay Rincon Energy, LLC pursuant to a geophysical consulting agreement.

Equity Placements . Subsequent to the start of the Debenture placements, the Company continued certain private capital raising transactions involving the Company's Common Shares. Beginning in November 2016 and concluding in August 2018, the Company closed on a series of placements of its Common Shares in which an aggregate of 6.9 million Common Shares were issued for an aggregate purchase price of $1,380,000.

Available Cash . As of May 31, 2019, the Company had cash of approximately $124,000 and had negative working capital of approximately $1,762,000. As of July 14, 2019, the Company had approximately $45,000 of cash on-hand. Management believes that the cash on hand, as of the preceding date, will be sufficient to finance general and administrative expenses through August 31, 2019. However, this amount of cash will be insufficient to allow the Company to fulfill its work commitment obligations in a timely manner. A plan for financing these obligations is discussed below. Management intends to finance all of the general and administrative expenses beyond available cash on hand by undertaking to raise up to $1.0 million through a private placement of its common shares. If successful in raising $1.0 million in the private placement, it is estimated that the related net proceeds will be sufficient to finance general and administrative activities through June 2020. However, no assurance can be given that the amounts will be adequate. Moreover, no assurance can be provided of successfully raising any additional funds for this purpose. Furthermore, as previously stated, the funds from the private placement will not be sufficient to satisfy the work commitment for future years in any meaningful way.

Long-Term Capital Needs

The five-year work commitment relating to the License imposes certain obligations on the Company. The work requirements of the first two years, which included geotechnical studies and the Nike 3D Survey, have been completed and reports and certain work materials have been submitted as required by the South Australian government. Going forward, additional funds will be required to meet the seismic and drilling obligations of License Years 3, 4 and 5. Working capital will also be needed to satisfy general and administrative expenses. Between July 2019 and October 2021, it is estimated that the Company will need to raise an additional $23 million to have sufficient capital to meet the remaining work commitments specified in the License and to fund operations. Net revenues produced from successful wells could provide some of the funds required to meet these capital needs. However, no assurance can be given that this or any other amount of financing will be obtained or that any revenue will be earned.

If successful with the early wells, work will continue with a full development plan, the scope of which is now uncertain but will be based on technical analysis of seismic data, field drilling and log reports, production history and cost estimates. However, all of the preceding plans are subject to the availability of sufficient funding and the receipt of all governmental approvals. Without sufficient available funds to undertake these tasks, additional financings or a joint venture partner will be required.

Failure to procure a joint venture partner or raise additional funds will preclude the Company from pursuing its business plan, as well as exposing the Company to the loss of the License, as discussed below. Moreover, if the business plan proceeds as just described, but the initial wells do not prove to hold producible reserves, the Company could be forced to cease its initial exploration efforts on the Prospect.

Major Financing Efforts and Other Sources of Capital

The Company's capital strategy for most of its past four fiscal years has been, and continues to be, to attempt to engage in a single major capital raising transaction to provide sufficient funds to satisfy its capital needs for a number of years to come. While management did not completely abandon this strategy, the Company did shift its emphasis in an effort to try to engage in one or more smaller capital raising transactions to provide sufficient funds to satisfy ongoing and future capital needs. During the two-year period beginning in May 2016, the Company completed a series of placements of its Debentures having an aggregate original principal amount of $6,850,000. The Company's plan for financing its future general and administrative expenses is described in the section captioned "Financing History and Immediate, Short-Term Capital Needs" above. The Company's plan for financing the work commitment is described in the following paragraph.

The interpretation and analysis of the Nike 3D Survey resulted in an inventory of more than 30 leads judged to be potential areas of crude oil accumulations. These initial prospective locations were prioritized and the results are being presented to prospective investors with a view to securing the capital to commence the Company's initial drilling program. The Company needs to complete a major capital raising transaction to continue moving its business plan forward. In the interim, the Company is continuing efforts to raise comparably smaller amounts to cover general and administrative expenses. The Company has no assurance that it will be able to raise any required funds. The Company has also resumed and continues its efforts to secure one or more joint venture partners.

Sales from production as a result of successful exploration and drilling efforts would provide the Company with incoming cash flow. The proved reserves associated with production would most likely increase the value of the Company's rights in the Prospect. This, in turn, should enable the Company to obtain bank financing (after the wells have produced for a period of time to satisfy the lenders requirements). Both of these results would enable the Company to continue with its development activities. Significant positive cash flow will be critical success factor for the Company's plan of operation in the long run. Management believes that, if the Company's plan of operation successfully progresses (and production is realized) as planned, sufficient cash flow and debt financing will be available for purposes of properly pursuing its plan of operation, although the Company can make no assurances in this regard.

Finally, to reduce its cash requirements, the Company might attempt to satisfy some of its obligations by issuing Common Shares, which would result in dilution in the percentage ownership interests of the Company's existing stockholders and could result in dilution of the net asset value per Common Share of the Company's existing stockholders.

Consequences of a Financing Failure

If required financing is not available on acceptable terms, the Company could be prevented from satisfying its work commitment obligations or developing the Prospect to the point that the Company is able to repay the Debentures, which become due in May 2021. Failure to satisfy work commitment obligations could result in the eventual loss of the License and the total loss of the Company's assets and properties. Failure to timely pay the Debentures could result in the eventual exercise of the rights of a secured creditor and the possible partial or total loss of the Company's assets and properties. Failure to procure required financing on acceptable terms could prevent the Company from developing the Prospect. If any of the preceding events were to occur, the Company could be forced to cease its operations, which could result in a complete loss of stockholders' equity. If additional financing is not obtained through an equity or debt offering, the Company could find it necessary to sell all or some portion of the Prospect under unfavorable circumstances and at an undesirable price. However, no assurance can be provided that the Company will be able to find interested buyers or that the funds received from any such partial sale would be adequate to fund additional activities. Future liquidity will depend upon numerous factors, including the success of the Company's exploration and development program, satisfactory achievement of License commitment obligations and capital raising activities.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the evaluation of the effectiveness of the design and operation of 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 was completed. Based on this evaluation, the principal executive officer and principal financial officer have determined that the lack of segregation of accounting duties as a result of limited personnel resources is a material weakness and an ineffective element of the Company's financial procedures. Therefore, the principal executive officer and principal financial officer believe that disclosure controls and procedures are not effective to ensure that information required to be disclosed by the Company in the reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and that disclosure and controls designed to ensure that information required to be disclosed in Company filings or submitted under the Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Limitations on Effectiveness of Controls and Procedures

Company management, including the Chief Executive Officer and Chief Financial Officer do not expect that disclosure control procedures and/or internal controls will prevent all potential errors and/or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but 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 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 the 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 errors or mistakes. Additionally, controls can be circumvented by the actions or inactions of one or more individuals and/or by management override of various controls. The design of any system of controls 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 stated goals under all potential future conditions. Over time, controls could become inadequate due to changes in internal and/or external conditions, or a deterioration in the degree of staff and/or systems compliance with the standards, policies and procedures of the Company.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 6. Exhibits.

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

000$	thousands
Mcf	thousand cubic feet
000	thousand dollars
Mcf/d	thousand cubic feet/day
AOF	absolute open flow
MD	millidarcies
AOFP	absolute open flow potential
mKB	meters from Kelly Bushing
API	American Petroleum Institute
MM	million(s)
APO	after payout
MMbbl	million barrels of oil
NGLs	natural gas liquids
CDN	Canadian Dollars
MMbbl/d	million barrels of oil or NGLS/day
Bbl	barrel(s)
MMboe	million barrels of oil equivalent
Bbl/d	barrels per day
MMboe/d	million barrels of oil equivalent/day
Bbl/MMcf	barrels per million cubic feet
MMBtu	million British thermal units
Bcf	billions of cubic feet
MMcf	million cubic feet
BHP	bottom hole pressure
MMcf/d	million cubic feet per day
Boe	barrels of oil equivalent
MMcfe/d	million cubic feet equivalent/day
Boe/d b	barrels of oil equivalent/day
MMscf/d	million standard cubic feet per day
Bopd	barrels of oil per day
Mstb	thousands of stock tank barrels
BPO	before payout
MWO	minimum work obligations
Btu	British thermal unit
NCGORR	non-convertible gross overriding
Bwpd	barrels of water per day royalty
CBM	coal bed methane
NGLS	natural gas liquids
Cf	cubic foot/feet
NPV	net present value at various discount
OCM	oil-cut mud
Cum	cumulative
OGIP	original gas in place
D&A	drilled and abandoned
OOIP	original oil in place
DST	drillstem test
P&NG	petroleum and natural gas
GIP	gas in place
PDP	proved developed producing
GOP	gross oil pay
GOR	gas/oil ratio System
GORR	gross overriding royalty
GPP	good production practices
GTS	gas to surface
HVP	high vapour pressure
IP	initial production of
MD	measured depth
M	thousand(s)
PNP	proved non-producing reserves
m3	cubic meter(s)
Ppm	parts per million
M$	thousands of dollars
PUD	proved undeveloped reserves
Mbbl	thousand barrels of oil or NGLs
PSI	pounds per square inch
Mbbl/d	thousand barrels of oil or NGLS Per day
RT	resistivity
RLI	reserve life index
Mboe	thousand barrels of oil equivalent
RW	water resistivity
Mboe/d	thousand barrels of oil equivalent per day
Scf/stb	standard cubic feet per standard barrel
SP	spontaneous potential
STOOIP	stock tank original oil in place
Sw	water saturation
Tcf	trillion cubic feet
TD	total depth
TOC	total organic content
TVD	true vertical depth
WI	working interest
NRI	net revenue interest
WTI	West Texas Intermediate

DEFINITION OF PROSPECTIVE RESOURCES

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates, assuming their discovery and development, and may be sub-classified based on project maturity. Not all exploration projects will result in discoveries. The chance that an exploration project will result in the discovery of petroleum is referred to as the "chance of discovery." Thus, for an undiscovered accumulation, the chance of commerciality is the product of two risk components; the chance of discovery and the chance of development.

UNCERTAINTY CATEGORIES

Estimates of resources always involve uncertainty, and the degree of uncertainty can vary widely between accumulations/projects and over the life of a project. Consequently, estimates of resources should generally be quoted as a range according to the level of confidence associated with the estimates. An understanding of statistical concepts and terminology is essential to understanding the confidence associated with resources definitions and categories. These concepts, which apply to all categories of resources uses the definition of resources and follows the guidelines from the Canadian Oil and Gas Evaluation (COGE) Handbook.

The range of uncertainty of estimated recoverable volumes may be represented by either deterministic scenarios or by a probability distribution. Resource should be provided as low, best and high estimates as follows:

Low Estimate: This is considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90 percent probability (P90) that the quantities actually recovered will equal or exceed the low estimate.

Best Estimate: This is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50 percent probability (P50) that the quantities actually recovered will equal or exceed the best estimate.

High Estimate: This is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10 percent probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

This approach to describing uncertainty may be applied to reserves, contingent resources and prospective resources. There may be significant risk that sub-commercial and undiscovered accumulations will not achieve commercial production. However, it is useful to consider and identify the range of potentially recoverable quantities independently of such risk.

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. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Discovery's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements.

All forward-looking statements herein are expressly qualified in their entirety by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law and / or regulation. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law. Discussion of the various factors that may affect future results is contained in Section 1. under the heading Risk Factors located in the Company's Annual Report which is also available at www.sec.gov or www.sedar.com.

DISCOVERY ENERGY CORP

Australia Subsidiary

DISCOVERY ENERGY SA PTY LTD

HEAD OFFICE (USA)

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

DIRECTORS

Keith Spickelmier, Chairman
Keith McKenzie
William Begley

OFFICERS

Keith McKenzie, Chief Executive Officer
William Begley, President, CFO and COO
Sean Austin, Secretary/Treasurer

AUDITORS

Marcum LLP
Certified Public Accountants
Suite 300, 6002 Rogerdale Road
Houston, Texas USA 77072

INCORPORATION

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

LISTING

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

SUBSIDIARY COMPANY (AUS)

Discovery Energy SA Pty Ltd.
Level 8- 350 Collins Street
Melbourne, VIC 3000
Tel: 61 (0) 3 8601 1131
Fax: 61 (0) 3 8601 1180
Email: info@discoveryenergy.com.au

DIRECTORS/OFFICERS

Andrew Adams, Managing Director
Keith McKenzie
William Begley
Melanie Leydin, Secretary/Treasurer

LEGAL COUNSEL - USA

Gillis, Paris & Heinrich, PLLC
Two Riverway, Suite 1080
Houston, Texas USA 77056

LEGAL COUNSEL - AUSTRALIA

Graeme K. Alexander
PO Box 739, Rangiora 7440
North Canterbury, New Zealand

SHARE CAPITAL AUTHORIZED AND ISSUED AS AT JULY 19, 2019

Authorized: 500,000,000 common shares without par value Issued and Outstanding: 151,940,396

TRANSFER AGENT

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

For more information, visit us at DiscoveryEnergy.com

COPYRIGHT © 2019 DISCOVERY ENERGY CORP. ALL RIGHTS RESERVED.