

DISCOVERY ENERGY CORP.

FORM 10-Q (Quarterly Report)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended May 31, 2020

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

For the transition period from _____ to _____

Commission file number 000-53520

DISCOVERY ENERGY CORP.

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

98-0507846
(I.R.S. Employer
Identification No.)

One Riverway Drive, Suite 1700, Houston, Texas 77056
(Address of principal executive offices)

713-840-6495
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act: None

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 154,090,396 as of July 20, 2020.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Discovery Energy Corp.
Consolidated Balance Sheets
(Unaudited)

	<u>May 31, 2020</u>	<u>February 29, 2020</u>
Assets		
Current Assets		
Cash	\$ 75,134	\$ 8,115
Prepaid expenses	101,056	34,480
Tax receivable	11	624
Total Current Assets	<u>176,201</u>	<u>43,219</u>
Oil and gas property – not subject to amortization (successful efforts method)	2,883,915	2,883,915
Other assets	33,295	32,620
Total Assets	<u>\$ 3,093,411</u>	<u>\$ 2,959,754</u>
Liabilities and Shareholders' Deficit		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,479,793	\$ 2,223,339
Accounts payable – related parties, net	1,037,588	814,399
Convertible debentures payable, net of debt discount – current portion	5,155,089	-
Total Current Liabilities	<u>8,672,470</u>	<u>3,037,738</u>
Convertible debentures payable, net of debt discount	-	4,744,804
Notes Payable	118,750	-
Total Liabilities	<u>8,791,220</u>	<u>7,782,542</u>
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 – 154,090,396 and 153,840,396 shares issued and outstanding, respectively	154,090	153,840
Additional paid-in capital	20,496,948	20,447,198
Accumulated other comprehensive income	226,989	154,199
Accumulated deficit	(26,575,836)	(25,578,025)
Total Shareholders' Deficit	<u>(5,697,809)</u>	<u>(4,822,788)</u>
Total Liabilities and Shareholders' Deficit	<u>\$ 3,093,411</u>	<u>\$ 2,959,754</u>

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, 2020 and 2019

(Unaudited)

	Three Months Ended May 31, 2020	Three Months Ended May 31, 2019
Operating Expenses		
General and administrative	\$ 404,888	\$ 1,629,636
Exploration costs	2,850	26,925
Total operating expenses	407,738	1,656,561
Operating loss	(407,738)	(1,656,561)
Other Income (Expense)		
Interest expense	(590,075)	(545,349)
Miscellaneous income	2	687
Gain (loss) on foreign currency transactions	-	(99)
Other income (expenses)	(590,073)	(544,761)
Net loss	\$ (997,811)	\$ (2,201,322)
Loss per common share – basic and diluted	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding – basic and diluted	154,044,200	150,130,613
Comprehensive Income (Loss)		
Net loss	\$ (997,811)	\$ (2,201,322)
Other comprehensive income – gain on foreign currency translation	72,790	82,932
Total comprehensive loss	\$ (925,021)	\$ (2,118,390)

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, 2020 and 2019

(Unaudited)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Shareholders' Equity (Deficit)</u>
	<u>Number</u>	<u>Par Value</u>				
Balance, February 29, 2020	153,840,396	\$ 153,840	\$ 20,447,198	\$ (25,578,025)	\$ 154,199	\$ (4,822,788)
Sale of common stock	250,000	250	49,750	-	-	50,000
Gain on foreign currency translation	-	-	-	-	72,790	72,790
Net loss	-	-	-	(997,811)	-	(997,811)
Balance, May 31, 2020	<u>154,090,396</u>	<u>\$ 154,090</u>	<u>\$ 20,496,948</u>	<u>\$ (26,575,836)</u>	<u>\$ 226,989</u>	<u>\$ (5,697,809)</u>
	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Shareholders' Equity (Deficit)</u>
	<u>Number</u>	<u>Par Value</u>				
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	<u>151,940,396</u>	<u>\$ 151,940</u>	<u>\$ 19,160,665</u>	<u>\$ (21,876,214)</u>	<u>\$ 159,137</u>	<u>\$ (2,404,472)</u>

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, 2020 and 2019

(Unaudited)

	Three Months Ended May 31, 2020	Three Months Ended May 31, 2019
Cash flows from operating activities		
Net loss	\$ (997,811)	\$ (2,201,322)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discount	410,285	378,569
Stock-based compensation	-	740,000
Warrant modification expense	-	364,683
Foreign currency transaction (gain) loss	-	99
Changes in operating assets and liabilities:		
Prepaid expenses	(66,576)	(93,450)
Tax receivable	613	957
Accounts payable and accrued liabilities	255,779	197,760
Accounts payable – related party, net	223,189	247,497
Net cash used in operating activities	(174,521)	(365,207)
Cash flows from financing activities		
Proceeds from borrowings on notes payable	118,750	-
Proceeds from sale of common stock	50,000	-
Net cash flows provided by financing activities	168,750	-
Effect of foreign currency translation on cash	72,790	82,932
Change in cash during the period	67,019	(282,275)
Cash, beginning of the period	8,115	405,908
Cash, end of the period	\$ 75,134	\$ 123,633
Supplemental disclosures:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

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

Discovery Energy Corp.
Notes to the 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 (914 sq. miles) in South Australia (“Prospect”) 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 changed 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, 2020, approximately \$5,300 of the Company’s cash balances were uninsured, related to the Company’s Australian subsidiary. 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 three months ended May 31, 2020 and 2019, 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.

	Three Months Ended May 31, 2020	Three Months Ended May 31, 2019
Common Shares Issuable for:		
Convertible debt	55,276,694	51,054,769
Stock warrants	19,125,000	19,125,000
	<u>74,401,694</u>	<u>70,179,769</u>

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, 2020 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.

On March 1, 2019, the Company adopted Topic 842 and 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 March 1, 2019 or May 31, 2020. 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, 2020, the Company had not generated any revenues and had an accumulated loss of \$26,575,836 since inception. The cash balance of the Company was \$75,134 as of May 31, 2020. These factors raise substantial doubt regarding the Company’s ability to continue as a going concern for the 12 months following the issuance of these financial statements. 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.

The current COVID-19 pandemic could continue to, and future similar epidemics or pandemics could also, materially and adversely impact our ability to finance and conduct our business once it becomes operational, and could materially and adversely impact our operations, financial condition and results. The COVID-19 pandemic has had no material impact on the Company’s current business activities which are primarily focused on compliance and fund raising tasks. The Company has had and continues to have the same staff, same service providers and same processes as was the case prior to the pandemic.

4. Oil and Gas Properties

The License covers 584,651 gross acres (914 sq. miles) 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 “*Nike 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 Nike 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 Nike Survey, the Company requested and received five additional six-month suspensions, one in each of July 2017, June 2018, February 2019, July 2019, and January 2020 resulting in a new expiration date of October 29, 2022.

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

- * Year 3 ending October 28, 2020 - 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 29, 2021 - Shoot 3D seismic data totaling at a minimum approximately 77 sq. miles (200 sq. km.) and drill two wells.
- * Year 5 ending October 29, 2022 - 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. The Company does not believe that it will be able to complete its Year 3 Commitment obligations by October 28, 2020 due date. Accordingly, the Company expects to seek an extension of such obligations prior to the due date. While the Company has to date been successful in obtaining such extensions, it has no assurance that any further extensions will be obtained.

5. Related Party Transactions

As of May 31, 2020, and February 29, 2020, the Company owed \$1,037,588 and \$814,399, respectively, to certain Company directors for accrued compensation and reimbursement of expenses paid on behalf of the Company.

6. Notes Payable

In connection with the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security Act, on April 27, 2020 the Company borrowed approximately \$118,750 at a 1% interest rate per annum. The loan matures on April 27, 2022. In due course, the Company intends to apply for the forgiveness of this indebtedness to the maximum extent permitted by applicable law. For the three months ended May 31, 2020, the Company accrued \$114 in interest at a rate of 1% per annum.

7. Convertible Debentures Payable

From May 27, 2016 through May 16, 2018, the Company issued eleven rounds (I thru XI) of senior secured convertible debentures, the proceeds of which have funded the initial Nike Survey with respect to the Prospect, the interpretation of seismic data acquired, expenses associated with the Nike 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, 2020 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 29, 2020:								
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%	\$ 0.20	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		
<i>Amortized discount as of February 29, 2020</i>						(4,612,321)		
Balance as of February 29, 2020						6,850,000	2,105,196	\$ 4,744,804
Activity for the three months ended May 31, 2020:								
<i>Amortization of discount for the three months ended May 31, 2020</i>						(410,285)		
Balance as of May 31, 2020						\$ 6,850,000	\$ 1,694,911	\$ 5,155,089

The Company recognized \$410,285 and \$378,569 of debt discount amortization during the three months ended May 31, 2020 and May 31, 2019, respectively. During the quarters ended May 31, 2020 and 2019, the Company incurred interest expense directly related to the Convertible Debentures of \$179,487 and \$166,780, respectively, at a rate of 8% per year, compounded quarterly.

8. Commitments and Contingencies

Office Lease

The Company leases virtual office space in Houston, Texas, with a term ending September 30, 2020 for \$193 per month and has a remaining obligation as of May 31, 2020 of \$772. 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\$500 inside the office of Keith McKenzie, an officer and director of the Company.

During the three months ended May 31, 2020 and 2019, the Company incurred lease expense of \$2,000 and \$2,725, respectively, for the combined leases.

9. Shareholders' Deficit

The Company received gross proceeds of \$50,000 from the private placement of 250,000 shares of common stock during the three months ended May 31, 2020 at a price of \$0.20 per common share. On February 2, 2020, the Company received proceeds of \$6,250 in a private placement for 25,000 shares of common stock at \$0.25 per share. As of May 31, 2020, the 25,000 shares had not been issued.

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).

Warrants

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. On July 27, 2019, the Company entered into agreements to further extend the related expiration dates to December 31, 2019. As a result of the modification, the Company recorded additional expense of approximately \$371,000 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 2.1%, (2) expected life of 5 months, (3) expected volatility of 80%, and (4) zero expected dividends. On December 31, 2019, the Company entered into agreements to further extend the related expiration dates to February 29, 2020. As a result of the modification, the Company recorded additional expense of approximately \$26,000 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 1.48%, (2) expected life of 2 months, (3) expected volatility of 80%, and (4) zero expected dividends. On February 29, 2020, the Company entered into agreements to further extend the related expiration dates to August 31, 2020. As a result of the modification, the Company recorded additional expense of approximately \$340,000 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 1.11%, (2) expected life of 6 months, (3) expected volatility of 100%, and (4) zero expected dividends. The expense related to these modifications was included in general and administrative expense on the statement of operations.

Pursuant to debenture agreements dated February 15, 2017, warrants to purchase 3,750,000 shares of the Company's common stock had an original expiration date of February 15, 2020. On February 15, 2020, the Company entered into agreements to extend the related expiration dates to August 31, 2020. As a result of the modification, the Company recorded additional expense of approximately \$82,000 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 1.55%, (2) expected life of 6.5 months, (3) expected volatility of 101%, and (4) zero expected dividends. The expense related to these modifications was included in general and administrative expense on the statement of operations.

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, 2020 is as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Term (Years)
Outstanding at February 29, 2020	19,125,000	\$ 0.20	0.51
Expired/Cancelled	-		
Outstanding and exercisable as of May 31, 2020	19,125,000	\$ 0.20	0.26

The intrinsic value of warrants outstanding at May 31, 2020 and 2019 were \$ 956,250 and \$ 191,250, respectively.

10. Subsequent Events

On July 15, 2020, the Company sold 250,000 shares of common stock, at a price of \$0.20 per common share, to a private investor in exchange for gross proceeds of \$50,000 pursuant to private placements.

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 Discovery 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 Discovery’s other Securities and Exchange Commission filings. The following discussion should be read in conjunction with Discovery’s financial statements and related notes thereto included elsewhere in this report.

General

Discovery Energy Corp. (the “**Company**”) was incorporated under the laws of the state of Nevada on May 24, 2006 under the name “Santos Resource Corp”. The current business of the Company is the exploration and development of the 584,651 gross acres (914 sq. miles) area in South Australia (“**Prospect**”) held under Petroleum Exploration License PEL 512 (“**License**”). The Prospect is located in the “Western Flank” area, which is the southwest Permian edge of the Cooper and Eromanga Basins, the most prolific producing onshore region in Australia. There are three separate acreage blocks in the Prospect: West (~400,000 acres), South (~181,000 acres) and Lycium (~4,000 acres). 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. In May 2016, the Subsidiary’s legal entity status changed from public to private and its name changed to Discovery Energy SA Pty Ltd. 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 liquids (collectively “**Hydrocarbons**”). Although the Company’s current focus is primarily on the Prospect, management from time-to-time exchanges information with other industry participants regarding additional investment opportunities in Australia.

Recent Developments and Events

Coronavirus Pandemic. In December 2019, a novel strain of coronavirus, SARS-CoV-2, which causes coronavirus disease 2019 (“COVID-19”), surfaced in Wuhan, China. Since then, SARS-CoV-2 and COVID-19 spread to many countries, including the U.S. The COVID-19 pandemic led to the implementation of various responses, including government-imposed quarantines, travel restrictions and other public health safety measures. It resulted in a significant spike in unemployment and a concomitant decline in economic activity in the U.S. and many other countries, and any future outbreak of a health epidemic or other adverse public health developments may have similar effects. Although the effects of the COVID-19 pandemic had been lessening in the U.S. and other parts of the world overall, these effects recently started worsening again in the U.S. and elsewhere, creating renewed uncertainty regarding the future. The current COVID-19 pandemic could continue to, and future similar epidemics or pandemics could also, materially and adversely impact our ability to finance and conduct our business once it becomes operational, and could materially and adversely impact our operations, financial condition and results.

Severe Hydrocarbons Price Decline. Another recent development occurring more or less simultaneously with the COVID-19 pandemic is a Hydrocarbons price war that began in early March 2020. At the time that this event started on March 8, 2020, the price of Brent crude was \$45.27 per barrel, which was already down from a recent high of \$68.91 on January 6, 2020. Such price declined to a low of \$19.33 on April 21, 2020. On July 10, 2020, the posted price of Brent crude was \$43.17. Prices of Hydrocarbons are volatile and entail certain risks. The Company has no assurance that the price of Hydrocarbons will recover to adequate levels or that the Company will not be harmed by prolonged low levels of Hydrocarbon prices.

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 due May 27, 2021 (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 \$9,139,000 as of June 30, 2020. Interest will be accrued until such time as the Debentures are repaid or converted. Among other uses, the proceeds from the Debentures enabled the Company to undertake required seismic work. In conjunction with certain issuances of Debentures, warrants ("**Warrants**") were issued that grant the holder the right to purchase up to a maximum of 19,125,000 common shares 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 Survey**") covering an approximately 69 sq. mile (179 sq. km.) section of the western portion of the South Block of the Prospect and directly on trend and in close proximity to mature producing oilfield and recent discoveries on the blocks to the north. The Nike Survey was completed at a "turnkey price" of approximately \$2.4 million.
- * The raw data from the Nike 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 presentation to potential sources of significant capital. Technical analysis is on-going.
- * In June 2017, the Company completed the archeological and environmental field surveys of seven prospective drilling locations as required by applicable laws and regulations. It subsequently filed reports on these surveys with the South Australian government; no material issues were identified at any of the prospective drilling sites.
- * In addition to the amounts raised pursuant to the Debentures arrangements, since the Company adopted its current business plan, the Company has raised funds totaling approximately \$4.3 million through private placements of the Company's common shares.
- * In several transactions to date, the Company (through the Subsidiary) purchased portions of an original 7.0% royalty interest relating to the Prospect retained by the party that, in effect, transferred and sold the License to the Company. As a result, the Company (through the Subsidiary) now owns an aggregate 5.0% royalty interest, while the previous holder of the original 7.0% royalty interest continues to hold a 2.0% royalty interest. The aggregate purchase price for the aggregate 5.0% royalty interest was \$540,500.

Current Primary Activity

Discovery'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 on the Prospect's five-year work commitment (the "**Commitment**") as described below, and develop the Prospect.

The License is subject to a 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.

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

- * Year 3 ending October 28, 2020 - 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 29, 2021 - Shoot 3D seismic data totaling a minimum of approximately 77 sq. miles (200 sq. km.) and drill two wells.
- * Year 5 ending October 29, 2022 - Drill three wells.

Discovery does not believe that it will be able to complete its Year 3 Commitment obligations by their due date of October 28, 2020. Accordingly, the Company expects to seek an extension of such obligations prior to the due date. While the Company has to date been successful in obtaining such extensions, it has no assurance that any further extensions will be obtained. The failure to obtain the required extension will materially and adversely impact the Company. See the section captioned "Liquidity and Capital Resources - Consequences of a Financing Failure" below.

Discovery needs a significant amount of capital to fulfill its obligations under the Commitment. Moreover, the Debentures mature in May 2021, and the Company will need to raise additional funds or generate sufficient revenues through Hydrocarbons 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 operations 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, 2020 and 2019 are summarized in the table below:

	Three Months Ended May 31, 2020	Three Months Ended May 31, 2019
Revenue	\$ -	\$ -
Operating expenses	(407,738)	(1,656,561)
Other income (expenses)	(590,073)	(544,761)
Net income (loss)	<u>\$ (997,811)</u>	<u>\$ (2,201,322)</u>

Operating expenses for the three-month periods ended May 31, 2020 and 2019 are outlined in the table below:

	Three Months Ended May 31, 2020	Three Months Ended May 31, 2019
Stock-based compensation expense	\$ -	\$ 740,000
General and administrative	404,888	524,953
Warrant Modification Expense	-	364,683
Exploration costs	2,850	26,925
Total Operating Expenses	<u>\$ 407,738</u>	<u>\$ 1,656,561</u>

Results of Operations for the Three-Month Periods Ended May 31, 2020 and 2019

Revenues. The Company did not earn any revenues in either of the comparative quarter years. 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, 2020 decreased by approximately \$1,250,000 (75%), compared to those incurred during the quarter ended May 31, 2019. The decrease is primarily due to the absence of any stock-based compensation or warrant modification expense for the quarter ended May 31, 2020, while the Company had such expenses of approximately \$740,000 and \$365,000, respectively, for the quarter ended May 31, 2019. Other cost reductions included:

- * \$63,000 – Travel related expenses (as travel was curtailed to avoid exposure to COVID-19 virus)
- * \$57,000 – Professional and General and Administrative (paid to 3rd party service providers)
- * \$24,000 – Exploration (due to reduced activity in Australia)

Net Income (Loss). The Company had a net loss of \$997,811 for the quarter ended May 31, 2020, compared to a net loss of \$2,201,000 for the quarter ended May 31, 2019. The primary driver of this change is attributable to the absence of stock-based compensation expense and warrant modification expense in the quarter ended May 31, 2020, compared to the quarter ended May 31, 2019. Loss per common share, on both a basic and fully diluted basis, was \$0.01 in the first quarter of each of fiscal 2021 and fiscal 2020.

Cash Flows for the Three-Month Periods Ended May 31, 2020 and 2019

Cash Used in Operating Activities: Operating activities for the three months ended May 31, 2020 used cash of \$174,521, versus \$365,207 for the three months ended May 31, 2019, primarily due to a decrease travel, use of third party providers and exploration activities as further described above, in the three months ended May 31, 2020.

Cash Used in Investing Activities: No cash was used for investing activities during each of the three month periods ended May 31, 2020 and May 31, 2019.

Cash Provided by Financing Activities: Financing activities totaled \$168,750 during the three months ended May 31, 2020, resulting from the private placement of 250,000 common shares at \$0.20 per common share for gross proceeds of \$50,000, and proceeds from a Paycheck Protection Program loan in the amount of \$118,750. There was no cash provided by financing activities for the three-month period May 31, 2019.

Off-Balance Sheet Arrangements

Discovery 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, officers and directors of the Company provided short-term bridge funding. These advances were repaid out of proceeds from the Debenture financings described below.

Debenture Financing. Beginning in May 2016 and continuing through August 2018, the Company 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 (“*Warrants*”) were issued that grant to the holder the right to purchase from the Company up to a maximum of 19,125,000 common shares at an initial per-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 holders, 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 Company’s Australian subsidiary, Discovery Energy SA Pty Limited (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. For more information about this, see the section captioned “Consequences of a Financing Failure” below.

Each of the Warrants includes the following features:

- * The initial per-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 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 expiration date of August 31, 2020 with respect to 17,625,000 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 the right to nominate or have one director elected.

Moreover, persons holding a majority of the outstanding Debentures have the right to require the Company to register with the SEC the resale of the shares into which Debentures can be converted, the shares that can be acquired upon the exercise of the Warrants and possibly other shares owned by such persons as wells.

The proceeds from the Debenture placements were generally used to fund the acquisition, processing and interpretation of the Nike 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 a geophysical advisor.

More Recent Equity Placements. Subsequent to the start of the Debentures placements, the Company continued certain private capital raising transactions involving the Company's common shares. Beginning in November 2016 and concluding in March 2020, the Company closed on a series of private placements of its common shares in which an aggregate of 8.8 million shares were issued for an aggregate purchase price of \$1,830,000.

Paycheck Protection Program Loan. In connection with the Payroll Protection Program established by the Coronavirus Aid, Relief, and Economic Security Act, the Company borrowed the sum of approximately \$118,750. In due course, the Company intends to apply for the forgiveness of this indebtedness to the maximum extent permitted by applicable law.

Available Cash. As of July 10, 2020, the Company had cash of approximately \$20,000, and had negative working capital of about \$3,300,000. Management believes that the cash on hand, as of the preceding date, will be sufficient to finance general and administrative expenses through September 30, 2020 although no assurance of this can be provided. However, this amount of cash will be insufficient to allow the Company to fulfill 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 \$10.0 million through a private placement of common shares. If successful in raising \$10.0 million in the private placement, it is estimated that the related net proceeds will be sufficient to finance both general and administrative expenses, and a number of work commitment obligations through December 2022. 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.

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 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 2020 and October 2022 (the month in which the Company's work commitments are currently required to be completed), the Company estimates that it will need to raise an additional \$20.0 million to have sufficient capital to meet the remaining work commitments specified in the License and to fund operations. Net revenues produced from successful oil 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 oil 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 costs 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 a 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 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 its work commitments is described in the following paragraph.

The interpretation and analysis of the Nike 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 been and is also exploring 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. Positive cash flow is a 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 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's and capital raising activities.

COVID-19

The Company has experienced no obvious impact from the COVID-19 pandemic with respect to Liquidity and Capital Resources. However, the result of the pandemic may create greater uncertainty or challenges in the Company's ability to raise capital. For further risk discussion, see the risk factor captioned "PANDEMICS OR DISEASE OUTBREAKS (SUCH AS THE NOVEL CORONAVIRUS, ALSO KNOWN AS THE COVID-19 VIRUS) COULD MATERIALLY AND ADVERSELY AFFECT US IN A VAREITY OF WAYS" in the Company's Annual Report on Form 10-K for the Company's fiscal year ended February 29, 2020.

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 (the "**CEO**") and principal financial officer (the "**CFO**"), 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 CEO and CFO 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 CEO and CFO 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 CEO and CFO, 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 CEO and CFO 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. Furthermore, 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.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) is a process designed by, or under the supervision of, the Company's principal executive officer and principal financial officer and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("**GAAP**"). Internal control over financial reporting includes those policies and procedures that:

- * pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets;
- * provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of management and the Company's Board of Directors; and
- * provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Management Plan to Remediate Material Weaknesses

Management is continuing to pursue additional corrective measures to address the material weaknesses described above. In an effort to remediate the identified material weaknesses and other deficiencies and enhance its internal controls, the Company has initiated, or plans to initiate, the following series of

measures:

- * The Company will create a position to further segregate duties consistent with control objectives within the accounting function when funds are available.
- * The Company plans to add independent directors and an independent audit committee when funding is available for remuneration to induce experienced professionals to serve as such, thereby creating oversight over executive management.
- * Each professional engaged to fill one of these additional positions will have the necessary knowledge and experience to properly prepare, review and/or approve the Company's Financial Statements.

The Company believes the measures described above will remediate the material weaknesses the Company has identified and strengthen its internal control over financial reporting. The Company is committed to continuing to improve its internal control processes and will continue to diligently and vigorously review its financial reporting controls and procedures.

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal controls 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 controls over financial reporting.

The COVID-19 pandemic has had no impact on the Company's internal controls over financial reporting. The Company has had and continues to have the same staff, same service providers and same processes as was the case prior to the pandemic.

PART II OTHER INFORMATION

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

During March 2020, the Company completed a private placement of 250,000 its common shares with one investor for an aggregate purchase price of \$50,000. The issuance of these securities is claimed to be exempt pursuant to Section 4(a)(2) of the Securities Act of 1933 (the "*Act*") and Rule 506(b) of Regulation D under the Act. No advertising or general solicitation was employed in offering these securities. The offering and sale were made only to an accredited investor, and subsequent transfers were restricted in accordance with the requirements of the Act. None of the securities were registered under the Act, and none of them may be offered or sold in the United States in the absence of an effective registration statement or exemption from registration requirements.

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

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)

July 20, 2020

CERTIFICATIONS

I, Keith J. McKenzie, certify that:

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

July 20, 2020

/s/ Keith J. McKenzie

Keith J. McKenzie,
Chief Executive Officer

CERTIFICATIONS

I, William E. Begley, certify that:

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

July 20, 2020

/s/ William E. Begley

William E. Begley,
Chief Financial Officer

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

In connection with the Quarterly Report of Discovery Energy Corp. (the "Company") on Form 10-Q for the quarter ended May 31, 2020 as filed with the Securities and Exchange Commission on or about the date hereof ("Report"), the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

July 20, 2020

/s/ Keith J. McKenzie

Keith J. McKenzie,
Chief Executive Officer

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

In connection with the Quarterly Report of Discovery Energy Corp. (the "Company") on Form 10-Q for the quarter ended May 31, 2020 as filed with the Securities and Exchange Commission on or about the date hereof ("Report"), the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

July 20, 2020

/s/ William E. Begley

William E. Begley,
Chief Financial Officer
