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)

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

For the quarterly period ended May 31, 2021

[ ] **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 [X] 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 [X] 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	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[X]	Smaller reporting company	[X]
		Emerging growth company	[ ]

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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 154,365,396 as of July 15, 2021.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.
Discovery Energy Corp.
Consolidated Balance Sheets
(Unaudited)

	May 31, 2021	February 28, 2021
Assets		
Current Assets		
Cash	$ 14,979	$ 9,752
Prepaid expenses	45,353	7,909
Tax receivable	654	14
Total Current Assets	60,986	17,675
Oil and gas property – not subject to amortization (successful efforts method)	2,883,915	2,883,915
Other assets	38,740	39,145
Total Assets	$ 2,983,641	$ 2,940,735
Liabilities and Shareholders' Deficit		
Current Liabilities		
Accounts payable and accrued liabilities	$ 3,582,725	$ 3,322,321
Accounts payable – related parties, net	1,438,438	1,273,030
Notes payable	118,750	-
Total Current Liabilities	5,139,913	4,595,351
Notes payable	120,000	118,750
Convertible debentures payable, net of debt discount	5,500,516	5,394,596
Total Liabilities	10,760,429	10,108,697
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 – 154,365,396 and 154,365,396 shares issued and outstanding, respectively	154,365	154,365
Additional paid-in capital	24,199,651	24,199,651
Accumulated other comprehensive income	141,697	139,760
Accumulated deficit	(32,272,501)	(31,661,738)
Total Shareholders' Deficit	(7,776,788)	(7,167,962)
Total Liabilities and Shareholders' Deficit	$ 2,983,641	$ 2,940,735

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, 2021 and 2020
(Unaudited)

	Three Months Ended May 31, 2021	Three Months Ended May 31, 2020
Operating Expenses		
General and administrative	$ 309,953	$ 404,888
Exploration costs	-	2,850
Total operating expenses	309,953	407,738
Operating loss	(309,953)	(407,738)
Other Income (Expense)		
Interest expense	(300,810)	(590,075)
Miscellaneous income	-	2
Total other expenses	(300,810)	(590,073)
Net loss	$ (610,763)	$ (997,811)
Loss per common share – basic and diluted	$ (0.00)	$ (0.01)
Weighted average number of common shares outstanding – basic and diluted	154,365,396	154,044,200
Comprehensive Income (Loss)		
Net loss	$ (610,763)	$ (997,811)
Other comprehensive income – gain on foreign currency translation	1,937	72,790
Total comprehensive loss	$ (608,826)	$ (925,021)

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

Discovery Energy Corp.
Consolidated Statements of Shareholders' Deficit
For the Three Months Ended May 31, 2021 and 2020
(Unaudited)

	Common Stock		Additional		Accumulated	Total
					Other	Shareholders'
		Par	Paid-In	Accumulated	Comprehensive	Equity
	Number	Value	Capital	Deficit	Income	(Deficit)
Balance, February 28, 2021	154,365,396	$ 154,365	$ 24,199,651	$ (31,661,738)	$ 139,760	$ (7,167,962)
Gain on foreign currency translation	-	-	-	-	1,937	1,937
Net loss	-	-	-	(610,763)	-	(610,763)
Balance, May 31, 2021	154,365,396	$ 154,365	$ 24,199,651	$ (32,272,501)	$ 141,697	$ (7,776,788)

	Common Stock		Additional		Accumulated	Total
					Other	Shareholders'
		Par	Paid-In	Accumulated	Comprehensive	Equity
	Number	Value	Capital	Deficit	Income	(Deficit)
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	154,090,396	$ 154,090	$ 20,496,948	$ (26,575,836)	$ 226,989	$ (5,697,809)

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, 2021 and 2020
(Unaudited)

	Three Months Ended May 31, 2021	Three Months Ended May 31, 2020
Cash flows from operating activities		
Net loss	$ (610,763)	$ (997,811)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discount	105,920	410,285
Changes in operating assets and liabilities:		
Prepaid expenses	(37,444)	(66,576)
Tax receivable	(640)	613
Accounts payable and accrued liabilities	260,809	255,779
Accounts payable – related party, net	165,408	223,189
Net cash used in operating activities	(116,710)	(174,521)
Cash flows from financing activities		
Proceeds from borrowings on notes payable	120,000	118,750
Proceeds from sale of common stock	-	50,000
Net cash flows provided by financing activities	120,000	168,750
Effect of foreign currency translation on cash	1,937	72,790
Change in cash during the period	5,227	67,019
Cash, beginning of the period	9,752	8,115
Cash, end of the period	$ 14,979	$ 75,134
Supplemental disclosures:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

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 (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 audited 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, 2021, approximately $2,800 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.

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 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. The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. Once it is determined that the position meets the recognition threshold, the second step requires us to estimate and measure the largest amount of tax benefit that is more likely than not to be realized upon ultimate settlement. The difference between the amount of recognizable tax benefit and the total amount of tax benefit from positions filed or to be filed with the tax authorities is recorded as a liability for uncertain tax benefits. It is inherently difficult and subjective to estimate such amounts, as the Company has to determine the probability of various possible outcomes. The Company reevaluates uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an additional charge to the tax provision.

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, 2021 and 2020, 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:	**Three Months Ended May 31, 2021**	**Three Months Ended May 31, 2020**
Convertible debt	59,833,262	55,276,694
Stock warrants	27,877,058	19,125,000
	87,710,320	74,401,694

Comprehensive Income (Loss)

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

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. ASU 2019-12 is intended to simplify accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. The Company is currently evaluating and assessing the impact this guidance will have on its consolidated financial statements.

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, 2021, the Company had not generated any revenues and had an accumulated deficit of $32,272,501 since inception. As of May 31, 2021, the cash balance of the Company was $14,979 and had negative working capital of $5,078,927. 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 the Company's business once it becomes operational and could materially and adversely impact its operations, funding, and/or financial performance. 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 Prospect, 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 in each of July 2017, June 2018, February 2019, July 2019 and January 2020 and one additional twelve-month suspension in August 2020 resulting in a new expiration date of October 29, 2023.

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

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

* Year 5 ending October 29, 2023 - 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. 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, 2021 and February 28, 2021, the Company owed $1,438,438 and $1,273,030, 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 and March 3, 2021 the Company borrowed $118,750 and $120,000, respectively, at an annual interest rate of 1 percent. The loans dated April 27, 2020 and March 3, 2021 mature on April 27, 2022 and March 3, 2026, respectively. Accrued interest as of May 31, 2021 and 2020 were $1,594 and $114, respectively, at a rate of 1% per annum. On April 27, 2021, the Company applied forgiveness for the loan dated April 27, 2020 for the amount of $75,448. Currently, the application is still in process.

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 Maturity Date of the Debentures was extended to December 31, 2023. Due to the extension, a debt modification was determined and the amortization of discount was recorded accordingly to the new Maturity Date of December 31, 2023. Table below provides a summary of the senior secured convertible debentures issued through May 31, 2021 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	December 31, 2023	8%	$ 0.16	$ 3,500,000	$ 3,500,000	
II	Aug 16, 2016	December 31, 2023	8%	$ 0.16	200,000	199,999	
	Aug 16, 2016	December 31, 2023	8%	$ 0.16	250,000	250,000	
III	Dec 30, 2016	December 31, 2023	8%	$ 0.16	287,500	237,587	
IV	Feb 15, 2017	December 31, 2023	8%	$ 0.16	1,000,000	1,000,000	
V	Mar 31,2017	December 31, 2023	8%	$ 0.20	200,000	200,000	
VI	Jul 5, 2017	December 31, 2023	8%	$ 0.20	137,500	137,500	
	Jul 5, 2017	December 31, 2023	8%	$ 0.16	150,000	150,000	
VII	Sept 19, 2017	December 31, 2023	8%	$ 0.16	400,000	400,000	
	Sept 19, 2017	December 31, 2023	8%	$ 0.16	100,000	82,125	
VIII	Oct 10, 2017	December 31, 2023	8%	$ 0.20	137,500	72,806	
IX	Jan 3, 2018	December 31, 2023	8%	$ 0.20	137,500	137,500	
X	April 2, 2018	December 31, 2023	8%	$ 0.20	137,500	137,500	
XI	May 16, 2018	December 31, 2023	8%	$ 0.20	212,500	212,500	
Debt discount from warrant grant from debt modification						942,812	
Amortized discount as of February 28, 2021						(6,204,925)	
Balance as of February 28, 2021					**6,850,000**	**1,455,404**	**$ 5,394,596**
Activity for the three months ended May 31, 2021:							
Amortization of discount for the three months ended May 31, 2021						(105,920)	
Balance as of May 31, 2021					**$ 6,850,000**	**$ 1,349,484**	**$ 5,500,516**

The Company recognized $105,920 and $410,285 of debt discount amortization during the three months ended May 31, 2021 and 2020, respectively. During the three months ended May 31, 2021 and 2020, the Company incurred interest expense directly related to the Convertible Debentures of $194,296 and $179,487, 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, on a month to month basis 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 is located in the personal office of Keith McKenzie, an officer and director of the Company. The office space is leased on a month-to-month basis for CA$500.

During the three months ended May 31, 2021 and May 31, 2020, the Company incurred office lease expense of $2,228 and $2,000, respectively.

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.

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% based on the applicable US Treasury bill rate, (2) expected life of 2 months, (3) expected volatility of 80% based on the trading history of the Company, 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 this extension, 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% based on the applicable US Treasury bill rate, (2) expected life of 5 months, (3) expected volatility of 80% based on the trading history of the Company, 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% based on the applicable US Treasury bill rate, (2) expected life of 2 months, (3) expected volatility of 80% based on the trading history of the Company, 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 this extension, 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% based on the applicable US Treasury bill rate, (2) expected life of 6 months, (3) expected volatility of 100% based on the trading history of the Company, and (4) zero expected dividends. The expense related to these modifications was included in general and administrative expense on the statement of operations. On August 31, 2020 the Company entered into agreements to further extend the related expiration dates to February 28, 2021. As a result of this extension, the Company recorded additional expense of approximately $559,000 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 0.105% based on the applicable US Treasury bill rate, (2) expected life of 6 months, (3) expected volatility of 76% based on the trading history of the Company, 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 this extension, 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% based on the applicable US Treasury bill rate, (2) expected life of 6.5 months, (3) expected volatility of 101% based on the trading history of the Company, and (4) zero expected dividends. The expense related to these modifications was included in general and administrative expense on the statement of operations. On August 31, 2020, the Company entered into agreements to further extend the related expiration dates to February 28, 2021. As a result of this extension, the Company recorded additional expense of approximately $151,000 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 0.105% based on the applicable US Treasury bill rate, (2) expected life of 6 months, (3) expected volatility of 76% based on the trading history of the Company, 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 a debenture agreement dated September 19, 2017, warrants to purchase 1,500,000 shares of the Company's common stock had an original expiration date of September 19, 2020. On August 31, 2020, the Company entered into an agreement to extend the related expiration date to February 28, 2021. As a result of this extension, the Company recorded additional expense of approximately $60,000 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 0.105% based on the applicable US Treasury bill rate, (2) expected life of 6 months, (3) expected volatility of 76% based on the trading history of the Company, and (4) zero expected dividends. The expense related to this modification was included in general and administrative expense on the statement of operations.

Pursuant to debenture agreements dated May 27, 2016, August 16, 2016, February 10, 2017, and September 19, 2017, warrants to purchase 19,125,000 shares of the Company's common stock had an expiration date of May 27, 2021. On February 4, 2021, the Company entered into an agreement to extend the related expiration date to December 31, 2023. As a result of this extension, the Company recorded additional expense of approximately $1,940,278 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 0.17% based on the applicable US Treasury bill rate, (2) expected life of 35 months, (3) expected volatility of 152% based on the trading history of the Company, and (4) zero expected dividends. The expense related to this modification was included in general and administrative expense on the statement of operations.

On February 4, 2021, the Termination Date of the then outstanding Warrants was also extended to December 31, 2023. In connection with this extension, the Company agreed to issue to the Original Purchaser 8,752,058 additional common shares at an initial per-share exercise price of $0.20, subject to adjustment upon the occurrence of certain customary events. The additional warrants were issued on May 28, 2021, and have an expiration date of December 31, 2023. As a result of this agreement, the Company capitalized as debt discount $942,812 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 0.17% based on the applicable US Treasury bill rate, (2) expected life of 35 months, (3) expected volatility of 152% based on the trading history of the Company, 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, 2021 is as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Term (Years)
Outstanding at February 28, 2021	27,877,058	$ 0.20	2.84
Expired/Cancelled	-		
Outstanding and exercisable as of May 31, 2021	27,877,058	$ 0.20	2.59

The intrinsic value of warrants outstanding at May 31, 2021 and 2020 were $-0- and $956,250 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 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. The Company's internet address is https://discoveryenergy.com.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the "***SEC***"). The SEC maintains an internet site that contains our public filings with the SEC and other information regarding the Company, at http://www.sec.gov.

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.
* The Company completed the Debentures and Warrants financing described in the section captioned "Liquidity and Capital Resources - Financing History and Immediate, Short-Term Capital Needs - Debentures Financing" below. Among other uses, the proceeds from the Debentures enabled the Company to undertake required seismic work. The original terms of the Debentures and Warrants provided that the Debentures were to become due, and the Warrants were to expire, on May 27, 2021. However, on February 4, 2021, the parties to the Debentures and Warrants extended the maturity date of the Debentures and the expiration date of the Warrants to December 31, 2023. Moreover, in this connection, the Company issued additional Warrants to purchase 8,752,058 additional common shares at a per-share exercise price of $0.20, subject to adjustment upon the occurrence of certain customary events. 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 - Debentures 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 and directly on trend and in close proximity to mature producing oilfields 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 $4.6 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

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 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 relevant 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 Company requests.

Over the term of the License thus far, 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, 2021 - 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, 2022 - Shoot 3D seismic data totaling a minimum of approximately 77 sq. miles (200 sq. km.) and drill two wells.
* Year 5 ending October 29, 2023 - Drill three wells.

Discovery believe that it will not be able to complete its Year 3 Commitment obligations by their due date of October 28, 2021. Accordingly, the Company has already initiated efforts to obtain 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.

The Company needs a significant amount of additional capital to fulfill its obligations under the work commitment. Moreover, the Debentures will mature in December 2023, and the Company will need to raise additional funds or generate sufficient revenues through Hydrocarbon production to timely repay the Debentures, if they are not converted. 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 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, 2021 and 2020 are summarized in the table below:

	Three Months Ended May 31, 2021	Three Months Ended May 31, 2020
Revenue	$ -	$ -
Operating expenses	(309,953)	(407,738)
Other income (expenses)	(300,810)	(590,073)
Net income (loss)	$ (610,763)	$ (997,811)

Operating expenses for the three-month periods ended May 31, 2021 and 2020 are outlined in the table below:

	Three Months Ended May 31, 2021	Three Months Ended May 31, 2020
General and administrative	$ 309,953	$ 404,888
Exploration costs		2,850
Total Operating Expenses	$ 309,953	$ 407,738

<u>Results of Operations for the Three-Month Periods Ended May 31, 2021 and 2020</u>

Revenues. The Company did not earn any revenues for either of the three-month periods ended May 31, 2021 and 2020. Sales revenues are not anticipated until such time as the Prospect has commenced commercial operations. 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 operations.

Operating Expenses. Total operating expenses incurred during the three-month period ended May 31, 2021 decreased by $97,785 (24%), compared to those incurred during the three-month period ended May 31, 2020. The decrease of general and administrative expense is primarily due to the pandemic impact on travel and lower third-party professional service fees.

Net Income (Loss). The Company had a net loss of $610,763 for three-month periods ended May 31, 2021, compared to a net loss of $997,811 for three-month periods ended May 31, 2020. Due to the extension of the Maturity Date of the Debentures to December 31, 2023, Other Expenses decreased by approximately $300,000 in amortization expense relating to the Debentures. Loss per common share was $0.00 for three-month periods ended May 31, 2021, and $0.01 for the three-month periods ended May 31, 2020.

Cash Flows for the Three-Month Periods Ended May 31, 2021 and 2020

Cash Used in Operating Activities: Operating activities for the three-month periods ended May 31, 2021 used cash of $116,710, compared to $174,521 for the three-month periods ended May 31, 2020 primarily due to lower travel and third party professional service fees during the three-month periods ended May 31, 2021.

Cash Used in Investing Activities: No cash was used for investing activities during each of the three-month periods ended May 31, 2021 and May 31, 2020.

Cash Provided by Financing Activities: Proceeds from a Paycheck Protection Program loan in the amount of $120,000 was received for the three-month periods ended May 31, 2021. For the three-month periods ended May 31, 2020, financing activities totaled $168,750 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.

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

Debentures Financing. Beginning in May 2016 and continuing through August 2018, the Company relied on a series of placements of convertible 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 and the February 2021 extension of the maturity date of the Debentures, Warrants were issued that give the holder the right to purchase up to a maximum of 27,877,058 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 December 31, 2023.
* The Company is not entitled to prepay the Debentures.
* 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 Debentures and 100% of accrued and unpaid interest on the outstanding principal amount of the Debentures, *plus* all liquidated damages and other amounts due thereunder in respect of the Debentures.
* 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 Debentures holders' right to accelerate the maturity of the Debentures such that all amounts owing under the Debentures would become immediately due and payable. The Debentures 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. 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 will remain so until their expiration date of December 31, 2023.
* 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. To date, the holder has not exercised this right.

The proceeds from the Debentures placements were generally used to fund the acquisition, processing and interpretation of the Nike Survey data and payment of the Company's and the Debentures holders' expenses associated with the placements. A portion of these proceeds were used to retire all of the then outstanding indebtedness, and to 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 for geophysical consulting services.

COVID-19. The Company initially experienced no material impacts from the COVID-19 pandemic with respect to liquidity and capital. However, the negative impact on financial markets was significant. Initially, the pandemic resulted in a severe decrease in demand for Hydrocarbons, in particular transportation fuels. This decrease resulted in a major drop in the price of crude oil and its resulting impact on financial markets in general and in particular, the energy industry. Demand has now recovered substantially, and crude oil prices have increased to above $70 per barrel for the next three years based on the forward curve. Exploration and production operations are recovering and funding is becoming more widely available. However, the recent increase in infection rates is concerning though there has, to date, been no negative Hydrocarbons sector activity impact. 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 28, 2021.

Equity Placements. Subsequent to the start of the Debentures placements, the Company continued certain private capital raising transactions involving its common shares. Beginning in November 2016 and concluding in July 2020, the Company closed on a series of private placements in which an aggregate of 9,075,000 shares were issued for an aggregate purchase price of $1,886,250.

Paycheck Protection Program Loan. In connection with the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security Act, the Company borrowed an initial loan during fiscal year 2021 in the amount of $118,750 and a second loan during fiscal year 2022 in the amount of $120,000. The Company is in the process of applying for the forgiveness of the first draw to the maximum extent permitted by applicable law. The Company is also planning on applying for forgiveness of the second draw to the maximum extent permitted.

Available Cash. As of July 7, 2021, the Company had cash of approximately $10,200 and had negative working capital of approximately $5,163,600. Management believes that the cash on hand, as of the preceding date, will be sufficient to finance general and administrative expenses through August 31, 2021 although no assurance of this can be provided. This amount of cash on hand stresses the Company's need to raise additional funds in the immediate future. 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 2021 and October 2023 (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 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, costs estimates and sales prices. 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 expose 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 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. While management has not completely abandoned this strategy, the Company did shift its emphasis in an effort 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 also re-commenced 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 its 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 December 2023. 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 commitments 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 (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 internal controls over financial reporting as well as disclosure controls and 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. 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 cost. 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 Control over Financial Reporting

There have been no significant 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.

The COVID-19 pandemic has had no impact on the Company's internal controls over financial reporting. The Company 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 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 15, 2021

Exhibit 31.01

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 15, 2021

/s/ Keith J. McKenzie

Keith J. McKenzie,
Chief Executive Officer

Exhibit 31.02

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 15, 2021

/s/ William E. Begley

William E. Begley,
Chief Financial Officer

Exhibit 32.01

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, 2021 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 15, 2021

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

Exhibit 32.02

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, 2021 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 15, 2021

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