

DISCOVERY ENERGY CORP



QUARTERLY REPORT

Q3 FY19

UNAUDITED

For the quarter ending November 30, 2018



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About Discovery Energy

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



DISCOVERY ENERGY CORP

CONSOLIDATED FINANCIAL STATEMENTS

Period ended November 30, 2018

UNAUDITED

(Expressed in US dollars, unless otherwise stated)

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Discovery Energy Corp.
CONSOLIDATED BALANCE SHEETS

(Unaudited)	For the Period Ended	
	November 30, 2018	February 28, 2018
ASSETS		
Current Assets		
Cash	\$ 610,493	\$ 261,141
Prepaid expenses	76,606	90,722
Tax receivable	1,712	1,537
Total Current Assets	688,811	353,400
Oil and gas property – not subject to amortization (successful efforts method)	2,883,915	2,883,915
Other assets	36,580	38,960
Total Assets	<u>\$ 3,609,306</u>	<u>\$ 3,276,275</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,261,762	\$ 813,738
Accounts payable – related parties, net	123,450	30,476
Total Current Liabilities	1,385,212	844,214
Derivative liabilities	8,955,697	15,526,457
Convertible debentures payable, net of debt discount	2,808,809	1,754,305
Total Liabilities	<u>13,149,718</u>	<u>18,124,976</u>
COMMITMENTS AND CONTINGENCIES		
Stockholders' Deficit		
Preferred Stock – 10,000,000 shares authorized, zero issued and outstanding	-	-
Common Stock – 500,000,000 shares authorized, \$0.001 par value – 148,240,396 and 143,040,396 shares issued and outstanding, respectively	148,240	143,040
Additional paid in capital	5,515,075	4,520,275
Accumulated other comprehensive loss	79,866	4,756
Accumulated deficit	(15,283,593)	(19,516,772)
Total Stockholders' Deficit	<u>(9,540,412)</u>	<u>(14,848,701)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 3,609,306</u>	<u>\$ 3,276,275</u>

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

Discovery Energy Corp.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the Three and Nine Months Ended November 30, 2018 and 2017 (Unaudited)	Three Months Ended		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
OPERATING EXPENSES				
General and administrative	\$ 59,664	\$ 18,594	\$ 295,518	\$ 199,789
Exploration costs	68,257	126,986	228,562	449,148
Professional fees	249,374	215,473	536,025	474,586
Rent	3,439	2,542	8,728	8,237
Travel	19,110	1,751	104,652	77,007
Total operating expenses	399,844	365,346	1,173,485	1,208,767
Operating Loss	(399,844)	(365,346)	(1,173,485)	(1,208,767)
OTHER INCOME (EXPENSES)				
Interest expense	(522,319)	(543,795)	(1,813,730)	(1,591,591)
Change in fair value of derivative liabilities	5,844,414	(7,831,616)	7,216,422	(5,311,422)
Miscellaneous income	948	732	1,688	2,233
Gain on foreign currency transactions	893	130	2,284	3,602
Total other income (expenses)	5,323,936	(8,374,549)	5,406,664	(6,897,178)
Net Income (loss)	\$ 4,924,092	\$ (8,739,895)	\$ 4,233,179	\$ (8,105,945)
Net income (loss) per common share – basic	\$ 0.03	\$ (0.06)	\$ 0.03	\$ (0.06)
Net income (loss) per common share – diluted	\$ 0.03	\$ (0.06)	\$ 0.02	\$ (0.06)
Weighted average number of common shares outstanding – basic	148,240,396	142,573,363	145,082,578	141,965,851
Weighted average number of common shares outstanding – diluted	202,895,221	142,573,363	201,482,385	141,965,851
COMPREHENSIVE INCOME (LOSS)				
Net Income (loss)	4,924,092	(8,739,895)	4,233,179	(8,105,945)
Other comprehensive income – gain (loss) on foreign currency translation	(6,175)	(605)	75,110	91,968
Total comprehensive income (loss)	\$ 4,917,917	\$ (8,740,500)	\$ 4,308,289	\$ (8,013,977)

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

Discovery Energy Corp.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended November 30, 2018 and 2017 (Unaudited)	Nine Months Ended	
	November 30, 2018	November 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 4,233,179	\$ (8,105,945)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of debt discount	1,054,504	797,617
Change in fair value of derivative liabilities	(7,216,422)	5,311,422
Interest expense related to derivative liabilities in excess of debt	295,662	415,483
Foreign currency transaction gain	2,284	3,602
Changes in assets and liabilities:		
Prepaid expenses	14,116	(20,006)
Tax receivable	(175)	2,237
Accounts payable and accrued liabilities	448,120	307,352
Accounts payable – related party, net	92,974	(70,670)
Net cash used in operating activities	<u>(1,075,758)</u>	<u>(1,358,908)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for interest in unproved oil and gas properties	-	(187,500)
Net cash flows used in investing activities	-	(187,500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of convertible debentures	350,000	1,125,000
Proceeds from sale of common stock	1,000,000	275,000
Net cash flows provided by investing activities	<u>1,350,000</u>	<u>1,400,000</u>
Effect of foreign currency translation on cash	<u>75,110</u>	<u>91,968</u>
Change in cash during the period	<u>349,352</u>	<u>(54,440)</u>
Cash, beginning of the period	<u>261,141</u>	<u>533,749</u>
Cash, end of the period	<u>\$ 610,493</u>	<u>\$ 479,309</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Fair value of new derivative liabilities	<u>\$ 645,662</u>	<u>\$ 1,457,914</u>

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

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The principal business of Discovery Energy Corp. ("Company") is the exploration and development of the 584,651 gross acres ("Prospect") in South Australia covered by Petroleum Exploration License PEL 512 ("License"). In May 2012, the Company incorporated a wholly-owned Australian subsidiary, Discovery Energy SA Ltd., for the purpose of acquiring a 100% working interest in the License. On May 25, 2016, its status changed from a public to a private legal entity and its name to Discovery Energy SA Pty Ltd. ("Subsidiary"). The Company has not presently 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 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"), and should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's February 28, 2018 Annual Report on Form 10-K filed with the SEC. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial position and results of operations for the interim periods presented are reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to these financial statements, which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year ended February 28, 2018, as reported on the related Form 10-K, have been omitted.

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 at the date of these financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturities 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. At November 30, 2018, approximately \$360,493 of the Company's cash balances were uninsured. These accounts have not incurred losses as of the date of this report.

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 expenditures associated with 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 are 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%. The impact of a tax law change is recorded in the period of enactment.

The Company accounts for uncertain income tax positions by recognizing 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

The Company follows 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 derivatives associated with the convertible debenture payable and warrants are accounted for as liabilities during the term of the related debenture payable and warrants.

Net Income (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 give effect to all dilutive potential common shares outstanding during the period using the treasury stock method and to 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.

Comprehensive Income (Loss)

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

Recent Accounting Pronouncements

In April 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing" (Topic 606). In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" (Topic 606). These amendments provide additional clarification and implementation guidance on the previously issued ASU 2014-09, "Revenue from Contracts with Customers". The amendments in ASU 2016-10 provide clarifying guidance on materiality of performance obligations; evaluating distinct performance obligations; treatment of shipping and handling costs; and determining whether an entity's promise to grant a License provides a customer with either a right to use an entity's intellectual property or a right to access an entity's intellectual property. The amendments in ASU 2016-08 clarify how an entity should identify the specified good or service for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The adoption of ASU 2016-10 and ASU 2016-08 is to coincide with an entity's adoption of ASU 2014-09, which would be adopted for interim and annual reporting periods beginning after December 15, 2017. The Company has evaluated and adopted the standard and, due to the nature of the Company's oil and gas revenue agreements, there was no impact of the standard on its consolidated financial statements.

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 impacts 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 requires adoption on a retrospective basis unless it is impracticable to apply, in which case it requires application of the amendments prospectively as of the earliest date practicable. The Company has evaluated the impact of ASU 2016-15 on its consolidated financial statements and determined that none of the cash flow activity addressed under

this ASU occurred during the current or prior period.

In February 2016, the FASB issued ASU 2016-02, a new lease standard requiring lessees to recognize lease assets and lease liabilities for most leases classified as operating leases under previous U.S. GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company will be required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company has evaluated the adoption of the standard and, due to only one operating lease currently in place, believes that there will be minimal impact of the standard 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 operating 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 the goal of attaining profitable operations. The Company has no assurance that it will be able to raise significant additional funds to explore and develop the Prospect.

As of November 30, 2018, the Company had not generated any revenues and had an accumulated loss of \$15,283,593 since inception. These factors raise substantial doubts regarding the Company's ability to continue as a going concern for the twelve months following the filing date 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.

Additional convertible debenture and common stock sales

completed during the nine-month period ended November 30, 2018 were as follows:

- ▶ On April 2, 2018, the Company sold a Senior Secured Convertible Debenture due May 27, 2021 with an original principal amount of \$137,500. This new debenture bears an interest rate of 8% per annum and a conversion price of \$0.20 per common share.
- ▶ On May 16, 2018, the Company sold a Senior Secured Convertible Debenture due May 27, 2021 with an original principal amount of \$212,500. This new debenture bears an interest rate of 8% per annum and a conversion price of \$0.20 per common share.
- ▶ On August 15, 2018, the Company sold 5,200,000 shares of common stock, at a price of \$0.20 per common share, to private investors in exchange for gross proceeds of \$1,040,000 pursuant to private placements, net of associated costs of \$40,000.

4. OIL AND GAS PROPERTIES

The License covers 584,651 gross acres in the Cooper and Eromanga basins situated in the State of South Australia.

On October 26, 2012, a 100% working interest in a 15-year License (three 5-year terms) 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 100 kilometers (in year 3) from 250 kilometers (in year 2) but the total 3D seismic work guarantee increased to 500 square kilometers from 400 square kilometers. However, the 3D seismic survey requirement is spread over years 2, 3 and 4 (100, 200 and 200 sq. km. respectively). Subsequent to this modification and suspension, the Company received two additional six-month suspensions, one in February 2015 and one in July 2015 (this additional suspension commenced upon the conclusion of the suspension received in February 2015). In February 2016, the Company received a third additional

suspension, which was for one year and which commenced upon the conclusion of the suspension received in July 2015. Combined, these three additional suspensions amount to an accumulated total suspension of two years.

On June 22, 2016, the Company terminated the February 2016 License suspension in preparation for a 3D seismic survey (the “Survey”) that was comprised of approximately 179 square kilometers 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, but was halted at the beginning of September due to weather conditions. Even though only security personnel remained in the area, the Survey was considered an active project. As a result, License Year 2 ran to the 365th day on October 5, 2016. The work crew returned thirteen days later and completed the Survey on October 30, 2016. The License was suspended again on November 1, 2016.

On June 20, 2017, the Company completed its archaeological, environmental and operational surveys of the prospective drilling locations identified as a result of the interpretation work associated with the Survey. Initial reports from this Work Area Clearance (“WAC”) survey identified minor issues that will not materially affect operational planning, well design or estimated costs.

Subsequent to completing the WAC, management requested that the government suspend the License for a period of nine months to allow sufficient time to finalize drilling plans, complete financing arrangements and contract the services required to drill multiple exploratory wells in the southern portion of the License area. This request was granted on July 17, 2017, resulting in a six-month extension from South Australian Energy Resources Division (“SAERD”) effective from July 5, 2017 to January 4, 2018, resulting in a new expiration date of October 28, 2020. The preceding suspension ended after January 4, 2018, and thus the time during which the work commitment must be completed began running after such date. To ensure the Company has sufficient time to completely formulate its drilling plans and procure financing to pursue the same, the Company requested a further suspension. This request was granted on June 19, 2018, resulting in a six-month extension from SAERD effective from May 31, 2018 to November 30, 2018, resulting in a new expiration date of April 30, 2021.

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

- ▶ Year 3 ending April 30, 2019 – Acquire 2D seismic data totaling at least 100 kilometres and acquire 3D seismic data totaling at least 200 square kilometres, and drill two wells.
- ▶ Year 4 ending April 30, 2020 – Acquire 3D seismic data totaling at least 200 square kilometres and drill two wells.
- ▶ Year 5 ending April 30, 2021 – Drill three wells.

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

5. RELATED PARTY TRANSACTIONS

As of November 30, 2018 and February 28, 2018, the Company owed \$123,450 and \$30,476, respectively, to certain Company directors for reimbursement of expenses paid on behalf of the Company.



6. CONVERTIBLE DEBENTURES PAYABLE

From May 27, 2016 through November 30, 2018, the Company issued eleven rounds (I through XI) of senior secured convertible debentures, the proceeds of which have funded the initial 3D seismic survey with respect to the Prospect, the interpretation of seismic data acquired, expenses associated with the seismic survey, costs associated with the debenture issuances and general and administrative expenses. The debentures are secured by virtually all of the Company's assets owned, directly or indirectly, but for the License. The table on page below provides a summary of the senior secured convertible debentures issued through November 30, 2018 and related debt discount and amortization details.

Round	Issue Date	Maturity Date	Interest Rate	Conversion Price	Principal Amount	Debt Discount	Debentures Net of Discount
Outstanding as of February 28, 2018:							
I	27-May-2016	27-May-2021	8%	\$0.16	\$ 3,500,000	\$ 3,500,000	
II	16-Aug-2016	27-May-2021	8%	\$0.16	200,000	199,999	
	16-Aug-2016	27-May-2021	8%	\$0.16	250,000	250,000	
III	30-Dec-2016	27-May-2021	8%	\$0.16	287,500	237,587	
IV	15-Feb-2017	27-May-2021	8%	\$0.16	1,000,000	1,000,000	
V	31-Mar-2017	27-May-2021	8%	\$0.20	200,000	200,000	
VI	5-Jul-2017	27-May-2021	8%	\$0.20	137,500	137,500	
	5-Jul-2017	27-May-2021	8%	\$0.16	150,000	150,000	
VII	19-Sept-2017	27-May-2021	8%	\$0.16	400,000	400,000	
	19-Sept-2017	27-May-2021	8%	\$0.16	100,000	82,125	
VIII	10-Oct-2017	27-May-2021	8%	\$0.20	137,500	72,806	
IX	3-Jan-2018	27-May-2021	8%	\$0.20	137,500	137,500	
<i>Amortized Discount as of February 28, 2018:</i>						<i>(1,621,822)</i>	
Balance as of February 28, 2018					\$ 6,500,000	\$ 4,745,695	\$ 1,754,305
Activity for the nine months ended November 30, 2018:							
X	2-Apr-2018	27-May-2021	8%	\$0.20	137,500	137,500	
XI	16-May-2018	27-May-2021	8%	\$0.20	212,500	212,500	
<i>Amortization for the quarter ended November 30, 2018:</i>						<i>(1,054,504)</i>	
Balance as of November 30, 2018					\$ 6,850,000	\$ 4,041,191	\$ 2,808,809

The Company recognized \$364,671 and \$294,936 in debt discount amortization related to all of the debentures during the three months ended November 30, 2018 and 2017, respectively. The Company recognized \$1,054,504 and \$797,617 in debt discount amortization related to all of the debentures during the nine months ended November 30, 2018 and 2017, respectively.

7. DERIVATIVE LIABILITIES

The debentures and related warrants issued by the Company contain a price-reset provision ("*Reset Provision*") that gives rise to a derivative liability. The Company has measured its derivative liability at fair value and recognized the derivative value as a current liability and recorded the derivative value on its consolidated balance sheet. The derivative is valued primarily using a binomial latticed-based model based on unobservable inputs that are supported by little to no market activity. The Level 1 input is the stock price on the valuation date. The Level 2 inputs are the interest rate and expected volatility. There are no Level 3 inputs. These inputs represent management's best estimate of what market participants would use in pricing the liability at the measurement date. Changes in the fair values of the derivative are recognized as earnings or losses in the current period in other income (expenses) on the consolidated statement of operations and comprehensive income (loss).

The changes in fair values of the derivative liabilities related to the debentures and warrants for the nine months ended November 30, 2018 are summarized below:

	Number of Shares Subject to Warrants and Debentures	Fair Value
Balance, February 28, 2018	63,066,617	\$ 15,526,457
Issuances	1,750,000	645,662
Changes	2,739,724	(7,216,422)
Balance, November 30, 2018	66,599,055	\$ 8,955,697

The fair values of derivative liability related to the Reset Provision contained within the debentures and warrants as of November 30, 2018 and February 28, 2018 were estimated on the transaction dates and balance sheet dates under the following assumptions:

	November 30 2018	February 28, 2018
Market value of common stock on measurement date	\$ 0.25	\$ 0.35
Adjusted exercise price	\$ 0.16 - 0.20	\$ 0.16 - 0.20
Risk free interest rate	2.68% - 2.80%	2.10% - 2.43%
Debenture/warrant lives in years	0.49 - 2.49 years	1.24 - 3.24 years
Expected volatility	64.57% - 89.08%	83.02% - 100.06%
Expected dividend yield	-	-
Probability of stock offering in any period over 5 years	100%	100%
Offering price	\$ 0.20	\$ 0.20

The Company recognized net gains (losses) on the change in fair value of derivative liabilities of \$5,844,414 and (\$7,831,616) during the three months ended November 30, 2018 and 2017, respectively. The Company recognized net gains (losses) on the change in fair value of derivative liabilities of \$7,216,422 and (\$5,311,422) during the nine months ended November 30, 2018 and 2017, respectively.

8. STOCKHOLDERS' DEFICIT

As of November 30, 2018 and February 28, 2018, the Company had 148,240,396 and 143,040,396 shares of its common stock issued and outstanding, respectively.

The Company received gross proceeds of \$1,040,000 from the private placement of 5,200,000 shares of common stock during the nine months ended November 30, 2018 at a price of \$0.20 per common share, net of associated costs of \$40,000. The Company received total proceeds of \$275,000 from the private placement of 1,375,000 shares of common stock during the nine months ended November 30, 2017 at a price of \$0.20 per common share.

Warrants

A summary of the activity in the Company's warrants during the six months ended August 31, 2018 is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding and exercisable at February 28, 2018	19,125,000	\$ 0.20
Issued	-	\$ -
Outstanding and exercisable at November 30, 2018	19,125,000	\$ 0.20

The intrinsic value of warrants outstanding at November 30, 2018 was \$2,868,750.

9. EARNINGS (LOSS) PER SHARE

The net income (loss) per common share amounts were determined as follows:

	Three Months Ended		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Net income (loss) available to common share holders	\$ 4,924,092	\$ (8,739,895)	\$ 4,233,179	\$ (8,105,945)
Effect of common stock equivalents:				
Interest expense on convertible debt	157,648	-	462,595	-
Net income (loss) adjusted for common stock equivalents	\$ 5,081,740	\$ (8,739,895)	\$ 4,695,774	\$ (8,105,945)
Weighted average shares – basic	148,240,396	142,573,363	145,082,578	141,965,851
Dilutive effect of common stock equivalents:				
Warrants	6,223,484	-	7,968,466	-
Convertible debt	48,431,341	-	48,431,341	-
Weighted average number of common shares – dilutive	202,895,221	142,573,363	201,482,385	141,965,851
Net income (loss) per common share – basic	\$ 0.03	\$ (0.06)	\$ 0.03	\$ (0.06)
Net income (loss) per common share – diluted	\$ 0.03	\$ (0.06)	\$ 0.02	\$ (0.06)

Notes to the Unaudited Consolidated Financial Statements

For the three and nine months ended November 30, 2018 and 2017, the following share equivalents related to convertible debt and warrants to purchase shares of common stock were excluded from the computation of diluted net income (loss) per share, as the inclusion of such shares would be anti-dilutive.

	Three Months Ended		Nine Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Common Shares Issuable for:				
Convertible debt	-	43,733,765	-	43,733,765
Stock warrants	-	19,125,000	-	19,125,000
Total	-	62,858,765	-	62,858,765



DISCOVERY ENERGY CORP

MANAGEMENT DISCUSSION & ANALYSIS

Period ended November 30, 2018

UNAUDITED

(Expressed in US dollars, unless otherwise stated)

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CAUTIONARY STATEMENT FOR FORWARD-LOOKING STATEMENTS

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

GENERAL

Discovery Energy Corp. (the “Company” or “Discovery”) was incorporated under the laws of the state of Nevada on May 24, 2006 under the name “Santos Resource Corp”. The Company’s current business plan is to explore for and develop crude oil and natural gas on the 584,651 gross acres prospect (the “Prospect”) in the State of South Australia covered by Petroleum Exploration License PEL 512 (the “License”). The License grants a 100% working interest in the preceding acreage, which overlies portions of the Cooper and Eromanga basins. The Company adopted this business plan near its fiscal 2012 year-end, after having previously abandoned its initial business plan involving mining claims in Quebec, Canada

and after it had been dormant, from a business perspective, for a period of time. In connection with the adoption of the current business plan, it had a change of control, a change of management, a change of corporate name, and a change of status from a “shell” company, as that term is defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 under the Securities Exchange Act of 1934.

Historical Milestones

To date, the Company has achieved the following milestones:

- ▶ On October 26, 2012, the License was granted to the Company’s current sole subsidiary. After the grant of the License, the Company’s primary focus was on completing a financing to raise sufficient funds so that the Company could undertake required seismic work. 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 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 (singly a “**Debenture**” and collectively the “**Debentures**”). To date, the Company has issued Debentures having an aggregate original principal amount of \$6,850,000. All of the Debentures are due and payable on or before May 27, 2021. Among other uses, the proceeds from the Debentures enabled the Company to undertake required seismic work. For more information about the Debentures, see “Item 1. Business - Debenture Financing” in the Company’s Annual Report on Form 10-K for the Company’s fiscal year ended February 28, 2018, and the section captioned “Liquidity and Capital Resources - Financing History and Immediate, Short-Term Capital Needs” below.
- ▶ On October 30, 2016, fieldwork was completed on the Company’s 3D seismic survey (the “**Survey**”) covering an approximately 179 square kilometers section of the south-west portion of the Prospect. The Survey was completed on a “turnkey price” of approximately AU\$3,057,000 (approximately US\$2,379,000 based on the average exchange rate actually received on US\$ funds advanced to pay for the survey).

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

PEL 512 Seismic Map



- ▶ In June 2017, the Company completed the archaeological and environmental field surveys of 7 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 Debenture arrangement, to date the Company has raised funds totaling \$3,763,750 through private placements of the Company's common stock.
- ▶ In three transactions to date, the Company has acquired portions of an original 7.0% royalty interest relating to the Prospect retained by the person who, in effect, transferred and sold the License to the Company. As a result, 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.

Although the Company's primary focus is on the exploration and development of the Prospect, the Company has received information about, and has had discussion regarding, possible acquisition of or participation in, other crude oil and / or natural gas opportunities. None of these discussions has led to any agreement in principle. Nevertheless, given an attractive opportunity and its ability to consummate the transaction, the Company could acquire one or more other crude oil and / or natural gas properties, or participate in one or more other crude oil and / or natural gas opportunities.

Current Primary Activities

The Company's current primary activity is to complete either a major financing or a major joint venture relationship, or both, so that the Company can commence its initial drilling program and fulfill obligations imposed on the Company by the work commitment relating to the License.

The License is subject to a five-year work program commitment, which imposes certain financial obligations on the Company. The Company is currently in Year 3 of the work commitment. In management's view, the geotechnical work completed in the Years 1 and 2 was sufficient to satisfy the License work requirements, and the Company's reports in connection with these activities were filed in a timely manner with the South Australian government. To date, the Company has received no comments from the government relating to work described in those reports. The Company has received a number of extensions and modifications of the work commitment. In view of these extensions and modifications, the remaining work commitment involves the following

- ▶ Year 3 ending April 30, 2019 - Acquire 2D seismic data totaling at least 100 kilometres and acquire 3D seismic data totaling at least 200 square kilometres, and drill two wells.
- ▶ Year 4 ending April 30, 2020 - Acquire 3D seismic data totaling at least 200 square kilometres and drill two wells.
- ▶ Year 5 ending April 27, 2021- Drill three wells.

The Company needs a significant amount of capital to fulfill its obligations under the work commitment. Moreover, the Debentures mature in May 2021, and the Company will need

to raise additional funds or generate sufficient revenues through oil and gas production to timely repay the Debentures. Alternatively, all or a significant part of the Company's obligations under the work commitment could be satisfied by a properly structured joint venture agreement. In view of the preceding, the Company is currently pursuing various financing activities and efforts to establish a material joint venture relationship. The Company's capital requirements, and the Company's financing and joint venture activities are described in the section captioned "Liquidity and Capital Requirements" below. The success of the initial phase of the Company's plan of operation depends upon its ability to obtain additional capital or enter into a suitable joint venture arrangement in order to acquire additional seismic data with respect to the Prospect, and to successfully drill exploratory and developmental wells. The Company's 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 below. The Company cannot provide assurance that it will obtain the necessary capital or enter into a suitable joint venture agreement.

RESULTS OF OPERATIONS

Results of operations for the three- and nine-month periods ended November 30, 2018 and 2017 are summarized in the table below:

	Three Months Ended		Six Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
Revenue	\$ -	\$ -	\$ -	\$ -
Operating expenses	(399,844)	(365,346)	(1,173,485)	(1,208,767)
Other income (expenses)	5,323,936	(8,374,549)	5,406,664	(6,897,178)
Net income (loss)	\$ 4,924,092	\$ (8,739,895)	\$ 4,233,179	\$ (8,105,945)

Operating expenses for the three- and nine-month periods ended November 30, 2018 and 2017 are outlined in the table below:

	Three Months Ended		Six Months Ended	
	November 30, 2018	November 30, 2017	November 30, 2018	November 30, 2017
General and administrative	\$ 59,664	\$ 18,594	\$ 295,518	\$ 199,789
Exploration costs	68,257	126,986	228,562	449,148
Professional fees	249,374	215,473	536,025	474,586
Rent	3,439	2,542	8,728	8,237
Travel	19,110	1,751	104,652	77,007
Total Operating Expenses	\$ 399,844	\$ 365,346	\$ 1,173,485	\$ 1,208,767

Results of Operations for the Three-Month Periods Ended November 30, 2018 and 2017

Revenues

The Company did not earn any revenues for either the quarter ended November 30, 2018 or the similar period in 2017. Sales revenues are not anticipated until such time as the Prospect has commenced commercial production of crude oil and / or natural gas. As the Company is presently in the exploration stage of its plan, no assurance can be provided that commercially exploitable hydrocarbon reserves on the Prospect will be discovered, or if such amounts are discovered, that the Prospect will commence

commercial production.

Operating Expenses

Total operating expenses incurred during the quarter ended November 30, 2018 rose approximately 9% from those incurred during the quarter ended November 30, 2017. General and administrative expenses increased by approximately 221% to \$59,664 during the quarter ended November 30, 2018 from \$18,594 during the quarter ended November 30, 2017, due to substantially increased fund-raising efforts. Travel expenses increased by approximately 991% to \$19,110 during the quarter ended November 30, 2018 from \$1,751 during the quarter ended November 30, 2017 for the same reason. However, these increased expenses were largely offset by a decrease of approximately 46% to \$68,257 in exploration costs during the quarter ended November 30, 2018 from \$126,986 during the quarter ended November 30, 2017, reflecting the completion of most geological and geophysical analyses in prior periods. The next phase of the exploration program, the drilling of the initial commitment wells, is currently forecasted to commence in the second half 2019.

Other Income (Expense)

Other income (expense) consists of interest expense related to the Debentures (which will be settled in shares of common stock, not cash) and a mandated non-cash derivative valuation calculated using an externally developed financial model and assumptions provided by third party financial markets experts. The Company had other income in the amount of \$5,323,936 for the quarter ended November 30, 2018 compared to other expenses in the amount of \$8,374,549 for the quarter ended November 30, 2017, representing a change of \$13,698,485, nearly all of which is attributable to a change in the valuation of the derivative liability associated with the Debentures. The calculated values are highly volatile, have no impact on the cash balance, operations or management of the Company.

Net Income (Loss)

The Company had net income in the amount of \$4,924,092 for the quarter ended November 30, 2018, compared to a net loss in the amount of (\$8,739,895) for the quarter ended November 30, 2017, representing a change of \$13,663,987

(156% increase). Nearly all of this increase is attributable to the change in the calculated value of the derivative liability associated with the Debentures. On a per share basis, net income (loss) was \$0.03 for the three-month period ended November 30, 2018 and (\$0.06) for the three-month period ended November 30, 2017 on an undiluted basis, and \$0.03 and (\$0.06), respectively on a fully diluted basis.

Results of Operations for the Nine-Month Periods Ended November 30, 2018 and 2017

Revenues

The Company did not earn any revenues for either the nine months ended November 30, 2018 or the similar period in 2017. Sales revenues are not anticipated until such time as the Prospect has commenced commercial production of crude oil and / or natural gas. As the Company is presently in the exploration stage of its plan, 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 nine months ended November 30, 2018 decreased by approximately \$35,000 (3%) from those incurred during the nine months ended November 30, 2017. General and administrative expenses increased by 48% to \$295,518 during the nine months ended November 30, 2018 from \$199,789 during the nine months ended November 30, 2017. Travel expenses and professional fees also increased, but by smaller magnitudes. However, all of these expense increases were more than offset by an almost 50% decrease in exploration costs to \$228,562 during the nine months ended November 30, 2018 from \$449,148 during the nine months ended November 30, 2017, reflecting the completion of most geological and geophysical analyses in prior periods. The next phase of the exploration program, the drilling of the initial commitment wells, is currently forecasted to commence in the second half of calendar year 2019.

Other Income (Expense)

Other income (expense) consists of interest expense related to the Debentures (which will be settled in shares of common stock, not cash) and a mandated non-cash derivative valuation calculated using an externally developed financial model and assumptions provided by third party financial markets experts. The Company had other income in the amount of \$5,406,664 for the nine months ended November 30, 2018 compared to other expenses of \$6,897,178 for the nine months ended November 30, 2017, representing a change of \$12,303,842, nearly all of which is attributable to a change in the valuation of the derivative liability associated with the Debentures. The calculated values are highly volatile, have no impact on the cash balance, operations or management of the Company.

Net Income (Loss)

The Company had net income in the amount of \$4,233,179 for the nine months ended November 30, 2018, compared to a net loss in the amount of \$8,105,945 for the nine months ended November 30, 2017, representing a change of \$12,339,124. Most of this change is attributable to the change in the calculated value of the derivative liability associated with the Debentures, although part of this change is also attributable to increased interest expense, offset to some extent by decreased operating expenses. On a per share basis, net income (loss) was \$0.03 for the nine-month period ended November 30, 2018 and (\$0.06) for the nine-month period ended November 30, 2017 on an undiluted basis, and \$0.02 and (\$0.06), respectively on a fully diluted basis.

Cash Flows for the Nine-Month Periods Ended November 30, 2018 and 2017

Cash Used in Operating Activities: Operating activities for the nine months ended November 30, 2018 used cash of \$1,075,758 compared to \$1,358,908 for the nine months ended November 30, 2017, primarily due to a 50% decrease in exploration costs.

Cash Use in Investing Activities: No cash was used for investing activities during the nine months ended November 30, 2018. \$187,500 was used during the nine months ended November 30, 2017 to acquire an additional 1.5% royalty interest

associated with the PEL 512 license.

Cash Provided by Financing Activities: Net cash provided by financing activities totaled \$1,350,000 for the nine months ended November 30, 2018, compared to \$1,400,000 for the nine months ended November 30, 2017.

The Company received gross proceeds of \$1,040,000 from the private placement of 5,200,000 shares of common stock during the nine months ended November 30, 2018 at a price of \$0.20 per common share, net of associated costs of \$40,000. The Company received total proceeds of \$275,000 from the private placement of 1,375,000 shares of common stock during the nine months ended November 30, 2017 at a price of \$0.20 per common share. The Company also issued Debentures having an aggregate original principal amount of \$350,000 in the nine months ended November 30, 2018, compared to issuances of Debentures having an aggregate original principal amount of \$1,125,000 in the comparative prior year period.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

LIQUIDITY AND CAPITAL REQUIREMENTS

FINANCING HISTORY

From January 2012 through May 27, 2016, the Company financed its business activities primarily through private placements of shares of common stock. During that period, it conducted several rounds of equity financing. Moreover, from time to time, officers and directors of the Company provided short-term bridge funding. These advances were repaid out of the proceeds from the Debenture financings described below. Since May 27, 2016, Debentures have been the Company's primary source of financing, although the Company continued to place additional shares of common stock privately from time to time. Private placement of shares of common stock again became a significant source of financing for the Company in August 2018 when the Company placed 5.2 million shares of the Company's common stock privately to four investors for

Management Discussion & Analysis

an aggregate purchase price of \$1.04 million. Thus far, the Company has raised total capital in the amount of \$3,763,750 from private placements of the Company's common stock, resulting in the issuance of 24,857,501 of such shares.

Starting in May 2016 through May 2018, the Company successfully completed a series of placements of Debentures (debt instruments convertible into shares of the Company's common stock). The Debentures were issued pursuant to a Securities Purchase Agreement executed on May 27, 2016. Debentures having an aggregate original principal amount of \$6.85 million were placed. In conjunction with certain Debentures, warrants were issued that give the related Debenture holder the right to purchase up to a maximum of 19,125,000 shares of the Company's common stock at an initial per-share exercise price of \$0.20. Each of the Debentures involves 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.
- ▶ The Company is 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 each holder, at any time and from time to time. The conversion price for Debentures having an aggregate original principal amount of \$5,887,500 is \$0.16, while the conversion price for a Debenture with an original principal amount of \$962,500 is \$0.20. All conversion prices are subject to certain adjustments that are believed to be customary in transactions of this nature,

including so-called "down round" financing adjustments. The Company is subject to certain liabilities and liquidated damages for its failure to timely honor 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 redeem them 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 each Debenture and 100% of accrued and unpaid interest on the outstanding principal amount of the Debenture, plus all liquidated damages and other amounts due hereunder in respect of the Debentures.
- ▶ The Debentures feature operating covenants, events of default and remedies upon such events of default that are believed to be customary in transactions of this nature. One of the remedies upon an event of default is the holders' ability to accelerate the maturity of a Debenture such that all amounts owing under the Debentures would become immediately due and payable. The Debenture holders would then be able to claim 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*").

The proceeds from the Debenture placements have generally been used for processing and interpretation of the Survey data and payment of the Company's and the holders' expenses associated with the placements. A portion of the proceeds was used for the acquisition of a 5.0% royalty interest relating to the Prospect. Funds were also used for payment of general and administrative expenses.

Immediate, Short-Term Capital Needs

As of November 30, 2018, the Company had \$610,493 of cash on hand and had negative working capital of approximately \$696,401. Management believes that the current cash on hand will be sufficient to finance general and administrative expenses through September 2019, although no assurance of this can be provided. However, this amount of cash will

PROJECT HIGHLIGHTS

Large acreage position

Our PEL 512 Licence covers over 584,000 acres in the western flank of Australia's Cooper Basin, one of the world's most profitable oil provinces

World class reservoirs

Multiple regionally productive oil reservoirs with strong recovery driven by the Great Artesian Aquifer that covers 23% of the Australian continent

Right address

Low geopolitical risk, favourable royalty & tax regime with government support of resource development and access to source seismic and well data

Strong economics

Low cost shallow vertical wells with high flow rates of sweet, light oil that delivers rapid payback, compelling IRRs and significant value creation

be insufficient to allow the Company to fulfill current work commitment obligations in a timely manner. A plan for financing these obligations is discussed below. Moreover, if the Company significantly increases its business activities as management wishes to do, additional amounts for general and administrative expenses will be needed. Management intends to finance all of the general and administrative expenses beyond available cash on hand through private placements of shares of common stock. However, no assurance can be given that any amounts raised will be in this manner.

LONG-TERM CAPITAL NEEDS

The five-year work commitments relating to the License impose certain obligations on the Company. The work requirements of the first two years, which included geotechnical studies and the 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 October 2018 and April 2021, it is estimated that the Company will need to raise approximately \$23 million to have sufficient capital to meet the remaining work commitments specified in the License and to fund operations. Net revenues produced from successful crude oil and/or natural gas 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 crude oil and or natural gas revenue will be earned.

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

Failure to procure a joint venture partner or raise additional funds will preclude the Company from pursuing its business plan, as well as exposing it 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 exploration efforts on the Prospect.

Major Financing Efforts and Other Sources of Capital

The Company's capital strategy for most of its past three fiscal years and fiscal 2019 thus far has been to secure a single or series of major capital raising transactions to provide sufficient funds to satisfy its capital needs for a number of years. The Company also continues its efforts to engage in smaller financing transactions to provide sufficient funds to satisfy ongoing and future general capital needs. Since May 2016, the Company has 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 commitment is described in the remainder of this section.

The interpretation and analysis of the 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 have been and are currently being presented to prospective investors and farm-in candidates with a view to securing the capital investment to commence the Company's initial drilling program.

In addition to smaller equity placements for short-term needs and a major capital raising transaction for long-term needs, the Company continues its efforts to secure one or more joint venture partners. An arrangement with such a partner could involve the sale or farmout of a portion of the Company's interest in the Prospect to a joint venture partner for a cash payment or an agreement to perform some of the Company's obligations under the License work commitment. No assurance can be provided that the Company will secure a joint venture partner.

Management is engaged in discussions with several prospective investors, financial intermediaries and potential industry partners at this time. Some of these discussions are in an advanced stage, but the Company has no assurance that any of them will move forward to a conclusion. In the interim,

the Company is also continuing efforts to raise comparably smaller amounts to cover general and administrative expenses. The Company can provide no assurance that it will be able to raise required funds. The Company needs to complete a major capital raising transaction or a major joint venture arrangement to continue moving its business plan forward and to avoid materially adverse consequence that could result if it fails to do so.

Sales of 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 potential 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 shares of its common stock, 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 it is not 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 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.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the evaluation of the effectiveness of the design and operation of disclosure controls and procedures pursuant to Exchange Act Rule 13a 15(e) and Rule 15d 15(e) as of the end of the period covered by this quarterly report was completed. Based on this evaluation, the principal executive officer and principal financial officer have determined that the lack of segregation of accounting duties as a result of limited personnel resources is a material weakness and an ineffective element of the Company's financial procedures. Therefore, the principal executive officer and principal financial officer believe that disclosure controls and procedures are not sufficiently effective to ensure that information required to be disclosed by the Company in the reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and that disclosure and controls designed to ensure that information required to be disclosed in Company filings or submitted under the Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. With the recent implementation of a number of revised accounting

and financial statement preparation and review processes, the financial controls of the Company have been improved. However, additional improvements in internal controls will be necessary to fully address significant deficiencies and material weaknesses.

Limitations on Effectiveness of Controls and Procedures

Company management, including the Chief Executive Officer and Chief Financial Officer do not expect that disclosure control procedures and/or internal controls will prevent all potential errors and/or all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the actions or inactions of one or more individuals and/or by management override of various controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving stated goals under all potential future conditions. Over time, controls could become inadequate due to changes in internal and/or external conditions, or a deterioration in the degree of staff and/or systems compliance with the standards, policies and procedures of the Company.

Changes in Internal Controls over Financial Reporting

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

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)

Date: January 15, 2019

CERTIFICATIONS

I, Keith J. McKenzie, certify that:

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

Date: January 15, 2019

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

CERTIFICATIONS

I, William E. Begley, certify that:

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

Date: January 15, 2019

By: /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 November 30, 2018 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.

Date: January 15, 2019

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

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

In connection with the Quarterly Report of Discovery Energy Corp. (the “Company”) on Form 10-Q for the quarter ended November 30, 2018 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:

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

Date: January 15, 2019

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

Glossary of Oil and Gas Terms

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

DEFINITION OF PROSPECTIVE RESOURCES

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

UNCERTAINTY CATEGORIES

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

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

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

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

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

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

FORWARD LOOKING STATEMENTS

Certain information regarding the Company contained herein may constitute forward looking statements within the meaning of applicable securities laws. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company cautions that actual performance will be affected by a number of factors, many of which are beyond the Company's control, and that future events and results may vary substantially from what the Company currently foresees. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Discovery's actual results, performance or achievements to be materially different from any of its future results, performance or achievements expressed or implied by forward-looking statements.

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



Australia Subsidiary



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Keith McKenzie
William Begley

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William Begley, Chief Financial Officer, Interim President and COO
Sean Austin, Secretary/Treasurer

AUDITORS

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INCORPORATION

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

LISTING

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

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SHARE CAPITAL AUTHORIZED AND ISSUED AS AT JANUARY 10, 2019

Authorized: 500,000,000 common shares without
par value Issued and Outstanding: 148,240,396

TRANSFER AGENT

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

For more information, visit us at DiscoveryEnergy.com

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