

OMB APPROVAL
OMB Number: 3235-0416 Expires: February 28, 2006 Estimated average burden hours per response 182.00

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-QSB**

(Mark One)

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2004**

or

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-06541

**DISCOVERY OIL, LTD.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**83-0207909**

(IRS Employer Identification Number)

6127 Ramirez Canyon Road  
Malibu, CA  
(Address of principal executive offices)

90265  
(Zip Code)

(310) 457-1967  
(Registrant's Telephone Number, Including Area Code)  
(Former name, former address and former fiscal year, if changed since last report)

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: At August 18, 2004, the registrant had outstanding 20,245,921 shares of par value \$0.001 common stock.

Transitional Small Business Disclosure format (check one): Yes [ ] No [X]

**Discovery Oil Ltd**  
**Form 10-QSB**  
**Table of Contents**

**Part I – Financial Information**

**Item 1. Financial Statements (Unaudited)**

Balance Sheet at June 30, 2004 (Unaudited)	3
Statements of Operations For the Six Month Periods Ended June 30, 2004 and 2003 (Unaudited)	4
Statement of Stockholder's Equity (Deficit)	5
Statements of Cash Flows For the Six Month Periods Ended June 30, 2004 and 2003 (Unaudited)	6
Notes to Financial Statements (Unaudited)	7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
---	---

Item 3. Controls and Procedures	10
---------------------------------	----

**Part II – Other Information**

Item 1. Legal Proceedings	(a)
---------------------------	-----

Item 2. Changes in Securities and Use of Proceeds	(a)
---	-----

Item 3. Defaults Upon Senior Securities	(a)
---	-----

Item 4. Submission of Matters to a Vote of Security Holders	(a)
---	-----

Item 5. Other Information	(a)
---------------------------	-----

Item 6. Exhibits and Reports on Form 8-K	11
--	----

Signature Page	12
----------------	----

Index to Exhibits	13
-------------------	----

(a) There are no issues requiring disclosure for these items and they have therefore been omitted

## PART I - FINANCIAL INFORMATION

### ITEM 1: FINANCIAL STATEMENTS

#### DISCOVERY OIL, LTD. BALANCE SHEETS

	June 30, 2004 (unaudited)	December 31, 2003
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 486	\$ 1,722
Total Current Assets	<u>486</u>	<u>1,722</u>
<b>TOTAL ASSETS</b>	<u>\$ 486</u>	<u>\$ 1,722</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 22,509	\$ 20,009
Related party payable	3,855	3,855
Advances payable	7,000	-
State tax liability	<u>22,613</u>	<u>21,193</u>
Total Current Liabilities	<u>55,977</u>	<u>45,057</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	<u>-</u>	<u>-</u>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Common stock, \$0.001 par value; 200,000,000 shares authorized, 20,245,921 shares issued and outstanding	20,247	20,247
Additional paid-in capital	607,575	607,575
Accumulated deficit	<u>(683,313)</u>	<u>(671,157)</u>
Total Stockholders' Equity (Deficit)	<u>(55,491)</u>	<u>(43,335)</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<u>\$ 486</u>	<u>\$ 1,722</u>

See accompanying condensed notes to these interim financial statements.

**DISCOVERY OIL, LTD.**  
**STATEMENTS OF OPERATIONS**

	Three Months Ended		Six Months Ended	
	June 30, 2004 (unaudited)	June 30, 2003 (unaudited) (restated)	June 30, 2004 (unaudited)	June 30, 2003 (unaudited) (restated)
<b>REVENUES</b>				
Royalty income	\$ 7,343	\$ 6,435	\$ 11,311	\$ 10,007
<b>OPERATING EXPENSES</b>				
State tax expense	710	611	1,420	1,222
General and administrative expenses	17,676	3,594	22,047	6,559
Total operating expenses	18,386	4,205	23,467	7,781
<b>INCOME (LOSS) FROM OPERATIONS</b>	(11,043)	2,230	(12,156)	2,226
<b>INCOME TAX EXPENSE</b>	-	-	-	-
<b>NET INCOME (LOSS)</b>	\$ (11,043)	\$ 2,230	\$ (12,156)	\$ 2,226
<b>NET LOSS PER COMMON SHARE, BASIC AND DILUTED</b>	\$ nil	\$ nil	\$ nil	\$ nil
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED</b>	20,245,921	20,245,921	20,245,921	20,245,921

See accompanying condensed notes to these interim financial statements.

**DISCOVERY OIL, LTD.****STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)**

	Common Stock		Additional Paid-in Capital		Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance, December 31, 2001 as presented previously	20,039,971	\$ 20,041	\$ 563,961	\$ (590,623)	\$ (6,621)	
Correction for state taxes not properly accrued	-	-	-	(16,461)	(16,461)	
Balance, December 31, 2001 as restated	20,039,971	20,041	563,961	(607,084)	(23,082)	
Issuance of common stock	205,950	206	43,614	-	43,820	
Net loss for the year ended, December 31, 2002	-	-	-	(57,312)	(57,312)	
Balance, December 31, 2002	20,245,921	20,247	607,575	(664,396)	(36,574)	
Net loss for the year ended, December 31, 2003	-	-	-	(6,761)	(6,761)	
Balance, December 31, 2003	20,245,921	20,247	607,575	(671,157)	(43,335)	
Net loss for the six months ended June 30, 2004 (unaudited)	-	-	-	(12,156)	(12,156)	
Balance, June 30, 2004 (unaudited)	20,245,921	\$ 20,247	\$ 607,575	\$ (683,313)	\$ (55,491)	

See accompanying condensed notes to these interim financial statements.

**DISCOVERY OIL, LTD.**  
**STATEMENTS OF CASH FLOWS**

	Six Months Ended	
	June 30, 2004 (unaudited)	June 30, 2003 (unaudited) (restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (12,156)	\$ 2,226
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Accounts receivable	-	1,850
Accounts payable	2,500	(1,967)
State tax liability	1,420	1,222
Net cash provided (used) by operating activities	(8,236)	3,331
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:</b>	-	-
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:</b>		
Advances payable	7,000	-
Related party payable proceeds	-	800
Net cash provided by financing activities	7,000	800
Net increase (decrease) in cash and cash equivalents	(1,236)	4,131
<b>Cash at beginning of period</b>	1,722	-
<b>Cash at end of period</b>	\$ 486	\$ 4,131
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Income taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

See accompanying condensed notes to these interim financial statements.

**DISCOVERY OIL, LTD.**  
**Condensed Notes to Interim Financial Statements**  
**June 30, 2004**

**NOTE 1 - BASIS OF PRESENTATION**

The financial statements have been prepared in accordance with generally accepted accounting principles for the interim financial information with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, all adjustments (consisting of only normal accruals) considered necessary for a fair presentation have been included.

For further information refer to the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2003.

**NOTE 2 – GOING CONCERN**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has suffered material recurring losses from operations since inception. At June 30, 2004, the Company has a deficit of \$683,313 and has negative cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's management is currently exploring new business opportunities, which will, if successful, mitigate these factors that raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

**NOTE 3 - COMMITMENTS AND CONTINGENCIES**

In connection with its previous purchase of its 12.5% non-operating working interest in six oil wells, the Company entered into an operating agreement with the majority owner and operator of the wells. This agreement, modeled after agreements standard and customary to the oil industry, commits the Company to pay its share of joint interest operating costs incurred in the operation, maintenance and potential future development of the wells. Oil prices are extremely volatile and instances may occur where the Company's revenues from oil sales are less than its corresponding production expenses. In addition, oil well repair and maintenance activities may interrupt oil sale revenue and add to overall operation costs.

Domestic oil operations are also subject to extensive federal regulation and potential interruption or termination by governmental authorities on account of environmental and other regulatory considerations. The recent trend towards stricter standards in environmental legislation and regulation may continue, and this could increase the overall costs to the Company.

**DISCOVERY OIL, LTD.**  
**Condensed Notes to Interim Financial Statements**  
**June 30, 2004**

**NOTE 4 – CORRECTION OF AN ERROR**

Subsequent to the issuance of the original financial statements for the year ended December 31, 2002, management discovered that accounting for certain transactions was incorrect and incomplete. The correction necessary to fairly restate the financial statements for years prior to 2002 was the recording of a previously unrecorded state tax liability of approximately \$16,460.

The financial statements for the three and six months ended June 30, 2003 were also corrected due to an understatement of state tax expense in the amounts of \$611 and \$1,222, respectively. The effects of the restatement were to decrease net income by \$611 in the three months ended March 31, 2003 and increase the accumulated deficit by \$611 and to decrease net income by \$1,222 in the six months ended June 30, 2003 and increase the accumulated deficit by \$1,222. This correction had no material effect upon the loss per share reported in 2003.

**NOTE 5 – STATE TAX LIABILITY**

In the six months ended June 30, 2004, the Company's state tax liability increased by \$710. See Note 4.

**NOTE 6 – ADVANCES PAYABLE**

In the six months ended June 30, 2004, the Company was loaned \$7,000 from an unrelated party. This advance is uncollateralized, bears 8% interest and is payable upon demand.



## **ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

### ***General***

Discovery Oil, Ltd. (the "Company", "Registrant", or "Discovery Oil"), was originally organized under the laws of the State of Wyoming in 1964. The Company became a Delaware corporation through a merger with a wholly owned subsidiary in 1981. Prior to 1992, the Company was involved as a general partner in several limited partnerships for the purpose of drilling oil and gas wells in Ohio, Wyoming, Colorado, Kansas, and Texas. In 1988 the Company filed a petition in Bankruptcy pursuant to Chapter 11 of the Bankruptcy code in the United States Bankruptcy Court. On July 10, 1996, the Court entered its order and Final Decree, confirming the execution of the Company's reorganization plan and concluding all proceedings and jurisdiction of the bankruptcy.

The Company has a non-operating working interest in six producing oil wells having proved reserves. The working interest grants the Company a 12.5% working interest, or a 9.32% net revenue interest after underlying royalty payments, in the oil produced and marketed from each well. The oil wells are near the city of Signal Hill, California; the Company maintains an office in Malibu, California.

The financial statements are presented on the basis that the Company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. The Company has incurred operating losses for several years and has a stockholders' deficit. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. The Company's financial statements for the year ended December 31, 2003, were audited by the Company's independent certified public accountants, whose report includes an explanatory paragraph stating that the financial statements have been prepared assuming the Company will continue as a going concern and that the Company has incurred operating losses since its inception that raise substantial doubt about its ability to continue as a going concern.

This report contains both historical and prospective statements concerning the Company and its operations. Prospective statements (known as "forward-looking statements") may or may not prove true with the passage of time because of future risks and uncertainties. The Company cannot predict what factors might cause actual results to differ materially from those indicated by prospective statements.

### ***Results of Operations***

*For the six month period ended June 30, 2004 compared to the six month period ended June 30, 2003.*

For the six months ended June 30, 2004, the Company had a net loss of \$12,156 compared to a net gain of \$2,226 during the comparable period in the previous year. Oil revenue increased from \$10,007 during the first six months of 2003 to \$11,311 during the same period in 2004. The increase in revenue was due to a slight increase in oil production. General and administrative expenses during this period increased from \$6,559 in 2003 to \$22,047 in 2004.

### ***Financial Condition and Liquidity***

During the six month period ended June 30, 2004, the Company generated a loss of \$12,156 from operating activities. Management plans to fund future short-term operating needs through profits from its oil producing properties and advances from related party shareholders, although there can be no assurances that oil production profits and advances from related parties will be sufficient to fund the Company's operations.

The Company's management hopes to acquire an interest in a business opportunity presented to it by persons or entities who or which desire the perceived advantages of an Exchange Act registered corporation. There are no assurances, however, that management will be successful in its plans in acquiring such interests.

### **ITEM 3. CONTROLS AND PROCEDURES**

Based on their most recent evaluation, which was completed within 90 days of the filing of this Form 10-QSB, the Company's president and principle financial officer believes the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. There were no significant changes in the Company's internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation and there were no corrective actions with regard to significant deficiencies and material weaknesses.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

NONE

### **ITEM 2. CHANGES IN SECURITIES**

NONE

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

NONE

### **ITEM 5. OTHER INFORMATION**

NONE

### **ITEM 6. EXHIBITS AND REPORTS ON FORM 8K.**

#### *(a) Exhibits*

Exhibit 31.1 – Certification required by Rule 13a-14(a) or Rule 15d-14(a).

Exhibit 32.1 – Certification required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

*(b) Reports on Form 8K.* – The company filed no Forms 8K during the period covered by this report.

## SIGNATURES

Pursuant to the requirements of Section 13 of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Discovery Oil, LTD.  
(Registrant)

By: /s/Andrew V. Ippolito

Date: August 19, 2004

Andrew V. Ippolito  
President, Director and  
Chief Financial Officer

## INDEX TO EXHIBITS

Exhibit 31.1 – Certification required by Rule 13a-14(a) or Rule 15d-14(a).

Exhibit 32.1 – Certification Required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Andrew Ippolito, President, Director, & Chief Financial Officer of Discovery Oil Ltd. ("Discovery"), certify that:

- (1) I have reviewed this report on Form 10-QSB of Discovery Oil Ltd.;
- (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 operation and cash flows of Discovery as of, and for, the periods represented in this report;
- (4) I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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
  - (c) Disclosed in this report any change in Discovery's internal control over financial reporting that occurred during Discovery's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, Discovery's internal control over financial reporting; and
- (5) I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Discovery's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control 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.

**/s/ Andrew Ippolito**  
Andrew Ippolito  
President & Chief Executive Officer

Date: August 19, 2004

**Exhibit 32**

**CERTIFICATION REQUIRED BY RULE 13a-14(b) OR RULE 15d-14(b) AND SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350**

**Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Discovery Oil Ltd, a Delaware corporation, (the “Company”) hereby certifies to such officer’s knowledge that:**

1. This quarterly report on Form 10-QSB of the Company 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 this quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 19, 2004

/s/ Andrew Ippolito

---

Andrew Ippolito  
President, Director, and Chief Financial Officer