

OMB APPROVAL
OMB Number: 3235-0042
Expires: April 30, 2009
Estimated average burden hours per response: 1646

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

**FORM 10-KSB**

☒ Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934  
**For the Fiscal Year Ended December 31, 2007**

☐ Transaction Report Under Section 13 or 15(d) of Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**DISCOVERY OIL, LTD.**  
(Name of Small Business Issuer in its Charter)

**DELAWARE**                      **333-06718**                      **83-0207909**  
(State or other jurisdiction of incorporation or organization)      Commission File Number      (I.R.S. Employer Identification Number)

**6127 Ramirez Canyon Road,  
Malibu, CA 90265  
(310) 457-1967**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered under Section 12(b) of the Exchange Act: None  
Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 par value.  
(Title of Class)

Check whether the issuer: (1) filed all reports to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **YES [X]** No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. **[X]**

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

State issuer's revenues for its most recent fiscal year: **\$0.00**

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. **Based upon the price at close of market on April 10, 2008 of \$0.008, the aggregate market value of the Registrant's common stock held by non-affiliates was \$65,651.**

State the number of shares outstanding of each of the issuer's classes of common equity: **as of April 10, 2008, 25,245,921 shares of common stock were outstanding.**

No documents are incorporated by reference.

Transitional small business disclosure format: Yes [ ] **No [X]**

SEC 2337 (11-06) Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

DISCOVERY OIL, LTD.  
Form 10-KSB  
December 31, 2006

TABLE OF CONTENTS

	<u>Page No.</u>
Forward-Looking Statements	3
Part I	
Item 1. Description of Business.	4
Item 2. Description of Properties.	9
Item 3. Legal Proceedings.	9
Item 4. Submission of Matters to a Vote of Security Holders	9
Part II	
Item 5. Market for Common Equity and Related Stockholder Matters	10
Item 6. Management's Discussion and Analysis or Plan of Operation	10
Item 7. Audited Financial Statements.	13
Item 8. Changes in and Disagreement with Accountants on Accounting and Financial Disclosure	26
Item 8A. Controls and Procedures	26
Item 8B. Other Events	27
Part III	
Item 9. Directors, Executive Officers, Promoters and Control Persons, Compliance Section 16(a) of the Exchange Act.	28
Item 10. Executive Compensation.	29
Item 11. Security Ownership of Certain Beneficial Owners and Management	30
Item 12. Certain Relationships and Related Transactions.	31
Item 13. Exhibits	32
Item 14. Principal Accountant Fees and Services	32
Signatures	33

## FORWARD-LOOKING STATEMENTS

This Report on Form 10-KSB contains certain forward-looking statements. These forward looking statements might include statements regarding (i) research and development plans, marketing plans, capital and operations expenditures, and results of operations; (ii) potential financing arrangements; (iii) potential utility and acceptance of the Registrant's existing and proposed products; and (iv) the need for, and availability of, additional financing.

Any forward-looking statements included herein are based on current expectations and involve a number of risks and uncertainties. These forward-looking statements are based on assumptions regarding the business of Discovery Oil, Ltd, the ("Company"), which involve judgments with respect to, among other things, future economic and competitive conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, actual results may differ materially from those set forth in the forward-looking statements.

EXPLANATORY NOTE: As used in this report, the terms "we", "us", and "our" are sometimes used to refer to Discovery Oil, Ltd. and, as the context requires, its management.

## **PART I**

### **Item 1. Description of Business**

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 a 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 formerly had a non-operating working interest in six producing oil wells having proved reserves. This interest was sold on August 12, 2004.

#### Current Strategy

Since the sale of previous interests, Discovery Oil has no revenue and has become a shell company. The Company is currently searching for a new investment opportunity in the oil industry, which would probably take the form of a merger, stock- for-stock exchange or stock-for-assets exchange. No assurances can be made that we will be successful in locating and negotiating with possible merger candidates.

The Company maintains an office in Malibu, California.

#### Selection of a Business

Since we have no current business, our plan of operation will be to seek one or more suitable business combinations or acquisitions to create value for our shareholders. Management has adopted a conservative policy of seeking opportunities that it considers to be of exceptional quality. Therefore, we may have to wait some time before consummating a suitable transaction. Management recognizes that the higher the standards it imposes upon us, the greater may be its competitive disadvantage when vying with other acquiring interests or entities.

The Company does not intend to restrict its consideration to any particular business or industry segment, though management intends to continue its focus on opportunities related to natural resources. Due to our lack of financial resources, the scope and number of suitable business ventures is limited. We are therefore most likely to participate in a single business venture. Accordingly, the Company will not be able to diversify and will be limited to one merger or acquisition. The lack of diversification will prevent us from offsetting losses from one business opportunity against profits from another.

The decision to participate in a specific business opportunity will be made upon management's analysis of the quality of the opportunity's management and personnel, the anticipated acceptability of products or marketing concepts, the merit of technological changes and numerous other factors which are difficult, if not impossible, to analyze through the application of any objective criteria. Further, it is anticipated that the historical operations of a specific venture may not necessarily be indicative of the potential for the future because of the necessity to substantially shift a marketing approach, expand operations, change product emphasis, change or substantially augment management, or make other changes. The Company will be partially dependent upon the management of any given business opportunity to identify such problems and to implement, or be primarily responsible for the implementation of required changes.

Since we may participate in a business opportunity with a newly organized business or with a business which is entering a new phase of growth, it should be emphasized that the Company may incur risk due to the failure of

the target's management to have proven its abilities or effectiveness, or the failure to establish a market for the target's products or services, or the failure to realize profits.

The Company will not acquire or merge with any company for which audited financial statements cannot be obtained. Management anticipates that any opportunity in which we participate will present certain risks. Many of these risks cannot be adequately identified prior to selection of a specific opportunity. Our shareholders must therefore depend on the ability of management to identify and evaluate such risks. Further, in the case of opportunities available to us, it may be anticipated that some opportunities are yet to develop as going concerns or that some opportunities are in the development stage and have not generated significant revenues from principal business activities prior to our participation.

### Acquisition of Business

Implementation of a structure for any particular business acquisition may involve a merger, consolidation, reorganization, joint venture, franchise or licensing agreement with another corporation or entity. The Company may also purchase stock or assets of an existing business. On the completion of a transaction, it is possible that present management and shareholders of the Company would not remain in control of the Company. Further, our sole officer and director may, as part of the terms of any transaction, resign, to be replaced by new officers and directors without a vote of our shareholders.

We anticipate that any securities issued in any such reorganization would be issued in reliance on exemptions from registration under applicable federal and state securities laws. However, in certain circumstances, as a negotiated element of any transaction, the Company may agree to register securities either at the time a transaction is consummated, under certain conditions, or at a specified time thereafter. The issuance of substantial additional securities and their potential sale into any trading market may have a depressive effect on such market.

While the actual terms of a transaction to which the Company may be a party cannot be predicted, it may be expected that the parties to a business transaction will find it desirable to avoid the creation of a taxable event and thereby structure the acquisition in a so called "tax-free" reorganization under Section 368(a)(1) of the Internal Revenue Code of 1986, as amended (the "Code"). In order to obtain tax-free treatment under the Code, it may be necessary for the owners of the acquired business to own 80% or more of the voting stock of the surviving entity. In such event, our shareholders would retain less than 20% of the issued and outstanding shares of the surviving entity, which could result in significant dilution in the equity of such shareholders.

Our due diligence process will require that management meet personally with the personnel involved in any given transaction, visit and inspect material facilities, obtain independent analysis or verification of the information provided, check references for management and key persons, and take other reasonable investigative measures, to the extent of our limited financial resources and management expertise.

The manner in which we participate in an opportunity will depend on the nature of the opportunity, the respective needs and desires of the Company and other parties, the management of the opportunity, and the our relative negotiating strengths. Negotiations that involve mergers or acquisitions will focus on the percentage of the Company that the target company shareholders would acquire in exchange for their shareholdings in the target company. Depending upon, among other things, the target company's assets and liabilities, our shareholders will in all likelihood hold a lesser percentage ownership interest in the Company following any merger or acquisition. The percentage ownership may be subject to significant reduction in the event the Company acquires a target company with substantial assets. Any merger or acquisition effected by the Company can be expected to have a significant dilutive effect on the percentage of shares held by our current shareholders.

### Operation of Business After Acquisition

The Company's operation following its merger or acquisition of a business will be dependent on the nature of the business and the interest acquired. We are unable to determine at this time whether the Company will be in control of the business or whether present management will be in control of the Company following the acquisition. We may expect that any future business will present various challenges that cannot be predicted at the present time.

### Government Regulation

The Company cannot anticipate the government regulations, if any, to which we may be subject until we have acquired an interest in a business. The use of assets to conduct a business that we may acquire could subject us to environmental, public health and safety, land use, trade, or other governmental regulations and state or local taxation. Our selection of a business in which to acquire an interest will include an effort to ascertain, to the extent of the limited resources of the Company, the effects of any government regulation on the prospective business of the Company. However, in certain circumstances, such as the acquisition of an interest in a new or start-up business activity, it may not be possible to predict with any degree of accuracy the impact of government regulation.

### Competition

We will be involved in intense competition with other business entities, many of which will have a competitive edge over us by virtue of their stronger financial resources and prior experience in business. The Company can provide no assurance that we will be successful in obtaining a suitable business opportunity.

### Marketability

As we currently are not involved in selling products or services, there can be no assurance that we will be successful in marketing any such products or services or whether a market will develop.

### Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements and Labor Contracts

We currently have no patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts.

### Research and Development

We spent no amounts on research and development activities during each of the last two fiscal years.

### Employees

The Company has no employees. Neither of the Company's executive officers are employed by the Company. Management services are provided on an "as needed" basis. The Company has no oral or written contracts for services with any member of management.

### Perceived Benefits

There are certain perceived benefits to being a reporting company with a class of publicly-traded securities. These are commonly thought to include the following:

- the ability to use registered securities to make acquisitions of assets or businesses;
- increased visibility in the financial community;
- the facilitation of borrowing from financial institutions;
- improved trading efficiency;

- shareholder liquidity;
- greater ease in subsequently raising capital;
- compensation of key employees through stock options for which there may be a market valuation;
- enhanced corporate image;
- presence in the United States capital market.

## **Risk Factors**

An investment in our common stock involves a high degree of risk. You should carefully consider the following material risks, together with the other information contained in this report on Form 10KSB, before you decide to buy our common stock. If any of the following risks actually occur, you might lose all or part of your investment.

The Shares are highly speculative and stockholders should carefully consider the following risk factors, which are illustrative of the risks pertaining to the Company, but which should not be construed as representing all of the possible risks to be considered:

*The company lacks operations and has losses which are expected to continue into the future.*

The Company ceased operations August 12, 2004 when substantially all its operating assets were sold. The Company's operating history is not a useful measure upon which an evaluation of its future success or failure can be made. The Company's ability to achieve and maintain profitability and positive cash flow is dependent upon:

- the ability to generate revenues; and,
- the ability to raise the capital necessary to acquire an operating entity or engage in a merger or other transaction with an operating entity.

The Company is a "shell" corporation as that is defined under Rule 12b-2. Based upon current plans, the Company expects to incur operating losses in future periods. The Company cannot guarantee that it will be successful in generating revenues in the future.

*If the company does not successfully consummate a business combination, the company will require additional funds.*

For the Company to once again engage in operations, it will either need to raise additional funds through public or private debt or sale of equity, or it will need to acquire or enter into a merger transaction with an operating entity. Company is currently seeking to engage in such a merger with an operating entity, but there is no guarantee that this merger will reach a successful completion. If the merger fails and the Company seeks additional financing, this financing may not be available when needed. Even if this financing is available, it may be on terms that the Company deems unacceptable or are materially adverse to its interests with respect to dilution of book value, dividend preference, liquidation preference, or other terms.

*The company is not an operating company and does not have any significant capital.*

Because the Company does not have significant capital, it must limit its operations and there is little chance that operations will begin at any time soon, as a result of such limited capital, unless the Company obtains additional funding to acquire an operating entity or enters into a merger transaction with an operating entity.

Risk factors related to operations:

*Independent Certified Public Accountants' Opinion - Going Concern.*

The Company's financial statements for the year ended December 31, 2007, 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.

*The Company has no working capital.*

We have no working capital and are dependent upon our officers, directors and major shareholders to provide funds to the Company in order to satisfy our reporting and other obligations as a public company. Our long term success is ultimately dependent on our ability to create a new revenue base through the acquisition of producing properties or negotiating a business combination with a profitable business entity. We have commenced on a limited basis to investigate new business opportunities but there can be no assurance of our success.

*There may be unforeseen risks associated with any new business venture.*

The Company may be dependent upon existing or new management of the business venture ultimately acquired, and may lack the control necessary to adjust the direction of the venture in the event such operating management fails to cope with business problems. Because the Company may participate in ventures with newly-organized firms or with firms which are attempting to expand through new products, markets or methods of distribution, Discovery Oil may face additional special risks associated with development stage operations.

*Participating in a business merger may result in a change of control.*

Our current management jointly owns and controls 67.4% of our outstanding stock. At the effective date, Andrew and Jeanette Ippolito are in majority control of Discovery Oil. Control of the Company may change in the event of a business re-organization resulting in the issuance of additional common stock or other voting securities of the Company. Such change of control might result from the reduction of stock ownership of the present stockholders, and/or from the issuance of additional shares in connection with a business re-organization. It is possible that the Company's limited financial resources will restrict its participation in business opportunities to those which require the issuance of substantial additional Shares.

*Our two majority shareholders may take action without shareholder vote.*

Under certain circumstances, our two major shareholders, who are also our officers and directors, may authorize or take corporate action without the notice, approval, consent or vote of the remaining stockholders, subject only to their obligation to timely notify the minority stockholders of the action taken.

Dependence on Key Personnel:

*The Company has no employees.*

The Company is heavily dependent on our officers and directors for the successful implementation of our business plans, which are to seek out investment opportunities and acquisition candidates. Officers and directors are not required to devote any specified amount or percentage of its business time to the Company affairs, and to the extent that they spend time, it will be only a minimal amount seeking out acquisition candidates, performing necessary administrative paperwork and keeping Discovery Oil current in our filing



obligations under the Exchange Act. Officers and directors are entitled to reimbursement for any out-of-pocket disbursements incurred on the Company's behalf in the investigation of potential business ventures.

*The loss of any of our officers and directors would have an adverse effect on our business.*

Our future success depends, to a significant extent, on the continued management of our existing officers and directors. No contractual relationship exists between the Company and our officers and directors, and no key person life insurance has been or is intended to be obtained covering any such person. Current management has a limited amount of time to devote to the operations of the Company. No assurance can be made that any successful acquisition will be negotiated.

*There may be potential conflicts of interest.*

Our officers and directors may be involved in other ventures and activities and may continue such activities in the future. If a specific business opportunity should become available, conflicts of interest may arise in the selection between the Company and the other ventures of the officers and directors. Since no policy has been formulated for the resolution of such potential conflicts, any conflicts which arise will be settled on a case-by-case basis. There is no guarantee that such a conflict will not result in the Company's inability to participate in particular ventures.

## **Item 2. Description of Properties**

We currently own no properties. The Company leased furnished office space from our President, Andrew Ippolito for \$1,300 per month through December 31, 2006. The lease expired and has not been renewed.

### Oil and gas interests

In April of 1984, the Company purchased a non-operating working interest in six producing oil wells near the city of Signal Hill, California. The working interest granted the Company a 12.5% working interest, or a 9.32% net revenue interest after underlying royalty payments, in the oil and gas produced and sold from each well. Said working interest was sold on August 12, 2004.

Discovery is actively seeking new investment opportunities.

## **Item 3. Legal Proceedings**

None.

## **Item 4. Submission of Matters to a Vote of Security Holders**

None.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The following table sets forth the range of high and low bid prices as reported by the Over the Counter Bulletin Board (OTCBB) for the periods indicated. The quotations reflect inter-dealer prices without retail mark-up, markdown, or commission, and may not necessarily represent actual transactions. Currently the stock is traded on the OTCBB under the symbol "DSCY.OB".

	HIGH	LOW
Quarter ended 3-31-2006	\$0.08	\$0.05
Quarter ended 6-30-2006	\$0.05	\$0.045
Quarter ended 9-30-2006	\$0.04	\$0.03
Quarter ended 12-31-2006	\$0.03	\$0.025
Quarter ended 3-31-2007	\$0.0275	\$0.0125
Quarter ended 6-30-2007	\$0.0275	\$0.02
Quarter ended 9-30-2007	\$0.025	\$0.0125
Quarter ended 12-31-2007	\$0.02	\$0.01
At April 10, 2008	0.008	0.008

Currently, there are eight broker-dealers making a market on the Company's common stock.

#### *Holder.*

The number of stockholders of record at April 10, 2008 was 5,894.

#### *Dividends.*

No dividends have been paid or declared during the last five years; and the registrant does not anticipate paying dividends on its common stock in the foreseeable future.

#### *Securities Authorized for Issuance Under Equity Compensation Plans*

The company does not have securities authorized for issuance under a equity compensation plan.

#### *Purchases of Equity Securities by the Small Business Issuer and Affiliated Purchasers.*

The company did not effect any repurchases of securities during the years ended December 2007 or 2006.

#### *Recent Sales of Unregistered Securities; Use of Proceeds From Registered Securities:*

During the period covered by this report the Company sold no equity securities that were registered under the Security Act of 1933, as amended.

### Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis is intended to be read in conjunction with the Company's audited financial statements and notes thereto. The following statements may be forward-looking in nature and actual results may differ materially.

#### Plan of Operation

Since the sale of previous interests, Discovery Oil has no revenue and has become a shell company. The Company is currently search for a new investment opportunity in the oil industry, which would probably take

the form of a merger, stock-for-stock exchange or stock-for-assets exchange. No assurances can be made that we will be successful in locating and negotiating with any possible merger candidates.

The Company's major shareholders have undertaken to make funds available to the Company in amounts sufficient to enable us to satisfy our reporting and other obligations as a public Company, and to commence, on a limited basis, the process of investigating possible merger and acquisition candidates.

Given our lack of cash or other assets, Discovery Oil will be extremely limited in our attempts to locate potential business situations for investigation. We do not know when, or if, we may be able to locate investment opportunities or potential merger candidates. Business opportunities, if any arise, are expected to become available to the Company principally from the personal contacts of our officers and directors. Although the current focus of management is to find investment opportunities or merger candidates within the oil industry, we will also consider other ventures and reserve the right to evaluate and to enter into any type of business opportunity, in any stage of development, in any location.

We may seek a business opportunity with a firm which only recently commenced operations, or a developing company in need of additional funds for expansion into new products or markets, an entity seeking to develop a new product or service, or an established business which may be experiencing financial or operating difficulties and is in need of additional capital which is perceived to be easier to raise by a public company. In some instances, a business opportunity may involve the acquisition or merger with a corporation which does not need substantial additional cash but which desires to establish a public trading market for its common stock.

We may purchase assets and establish wholly owned subsidiaries in various businesses or purchase existing businesses as subsidiaries. We anticipate that the selection of a business opportunity in which to participate will be complex and extremely risky. Because of general economic conditions, rapid technological advances being made in some industries, and shortages of available capital, management believes that there are numerous firms seeking the benefits of a publicly traded corporation. Such perceived benefits of a publicly traded corporation may include facilitating or improving the terms on which additional equity financing may be sought, providing liquidity for the principals of a business, creating a means for providing incentive stock options or similar benefits to key employees, providing liquidity (subject to restrictions of applicable statutes) for all shareholders, and other factors. Potentially available business opportunities may occur in many different industries and at various stages of development, all of which will make the task of comparative investigation and analysis of such business opportunities extremely difficult and complex. At the present time, management does not anticipate paying any finder's fee for locating an acquisition prospect.

As part of our investigation of acquisition possibilities, we may meet with executive officers of the business and its personnel, inspect its facilities, obtain independent analysis or verification of the information provided and conduct other reasonable measures, to the extent permitted by the Company's limited resources and management's limited expertise. Generally, we intend to analyze and make a determination based upon all available information without reliance upon any single factor as controlling. We can give no assurance that we will be able to find suitable a suitable business opportunity which may desire to combine with Discovery Oil.

### Results of Operations

*For the year ended December 31, 2007, compared to the year ended December 31, 2006.*

The Company reported a net loss of \$51,982 for the year ended December 31, 2007, compared to a net loss of \$64,791 for the year ended December 31, 2006. Revenues were \$0 in both years.

### Financial Condition and Liquidity

Total assets at December 31, 2007 were \$5,887, stockholder's deficit was \$231,611, and the accumulated deficit was \$1,159,433. Net loss from operations was \$41,919 during the year ended December 31, 2007. The

majority of the cash was expended for normal company operations as well as the continuing search for new investment opportunities.

The Company's liabilities increased to \$237,498 at December 31, 2007 compared to \$181,731 at December 31, 2006, primarily due to an increase in a related party payable.

The Company plans to fund its operations during fiscal year 2008 through advances from related parties, and possibly through the sale of the Company's common stock, although there can be no assurance that the Company would be successful in selling its common stock. It is anticipated that any revenue from oil sales in 2008 would be negligible as the Company has yet to locate a new investment opportunity.

#### Off Balance-Sheet Arrangements

During the 12 months ended December 31, 2007, the Company did not engage in any off-balance sheet arrangements as defined in Item 303(c) of the SEC's Regulation S-B.

#### Contractual Obligations

None.

#### Inflation

We do not believe that inflation has had a significant impact on our results of operations or financial condition.

#### Critical Accounting Policies

We have identified our critical accounting policies, the application of which may materially affect the financial statements, either because of the significance of the financial statement item to which they relate, or because they require management's judgment in making estimates and assumptions in measuring, at a specific point in time, events which will be settled in the future.

#### Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

#### Fair Value of Financial Instruments

The Company's financial instruments as defined by Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," include cash, trade accounts receivable, accounts payable and related party payables. All instruments are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at December 31, 2007 and 2006.

#### Significant Equipment Purchases and Requirements

None.

**Item 7. Financial Statements and Supplementary Data**

**DISCOVERY OIL, LTD.**

**AUDITED FINANCIAL STATEMENTS  
December 31, 2007 and 2006**

# *Williams & Webster, P.S.*

*Certified Public Accountants & Business Consultants*

Bank of America Financial Center • 601 W. Riverside, Suite 1940 • Spokane, WA 99201 • Phone (509) 838-5111 • Fax (509) 838-5114

Discovery Oil, Ltd.  
Malibu, California

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have audited the accompanying balance sheet of Discovery Oil, Ltd. as of December 31, 2007 and 2006, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Discovery Oil, Ltd as of December 31, 2007 and 2006, and the results of its operations, stockholders equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's significant and ongoing operating losses raise substantial doubt about its ability to continue as a going concern. Management's plans regarding the resolution of this issue are also discussed in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Williams & Webster, P.S.*

Williams & Webster, P.S.  
*Certified Public Accountants*  
Spokane, Washington  
April 14, 2008



**DISCOVERY OIL, LTD.**  
**BALANCE SHEETS**

	December 31, 2007	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,920	\$ 1,323
Prepaid expense	3,500	-
Total Current Assets	5,420	1,323
<b>PROPERTY AND EQUIPMENT, NET OF DEPRECIATION</b>	467	778
<b>TOTAL ASSETS</b>	<u>\$ 5,887</u>	<u>\$ 2,101</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 84,996	\$ 58,293
Related party payable	113,768	88,268
Advances payable	7,000	7,000
Accrued expense	165	-
State tax liability	31,569	28,170
Total Current Liabilities	237,498	181,731
<b>COMMITMENTS AND CONTINGENCIES</b>	-	-
<b>STOCKHOLDERS' DEFICIT</b>		
Common stock, \$0.001 par value; 200,000,000 shares authorized, 25,245,921 shares issued and outstanding, respectively	25,247	25,247
Additional paid-in capital	902,575	902,575
Accumulated deficit	(1,159,433)	(1,107,451)
Total Stockholders' Equity Deficit	(231,611)	(179,629)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY DEFICIT</b>	<u>\$ 5,887</u>	<u>\$ 2,101</u>

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

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

	Year Ended	
	December 31 2007	December 31 2006
<b>REVENUES</b>		
Royalty income	\$ -	\$ -
<b>OPERATING EXPENSES</b>		
State tax expense	3,398	4,357
Legal and accounting	24,539	23,867
Stock transfer expense	8,339	7,268
General and administrative expenses	5,643	20,746
Total operating expenses	41,919	56,238
<b>LOSS FROM OPERATIONS</b>	(41,919)	(56,238)
<b>OTHER INCOME (EXPENSES)</b>		
Interest income	464	-
Other Income	200	-
Interest expense	(10,727)	(8,553)
<b>TOTAL OTHER INCOME (EXPENSES)</b>	(10,063)	(8,553)
<b>LOSS BEFORE TAXES</b>	(51,982)	(64,791)
<b>INCOME TAX EXPENSE</b>	-	-
<b>NET LOSS</b>	\$ (51,982)	\$ (64,791)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	\$ nil	\$ nil
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	25,245,921	25,245,921

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



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

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Stockholders' Equity (Deficit)
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 income for the year ended December 31, 2004	-	-	-	3,115	3,115
Balance December 31, 2004	20,245,921	20,247	607,575	(668,042)	(40,220)
Common stock issued for consulting expense at \$.065 per share	5,000,000	5,000	295,000		300,000
Net loss for the year ended December 31, 2005				(374,618)	(374,618)
Balance December 31, 2005	25,245,921	25,247	902,575	(1,042,660)	(114,838)
Net loss for the year ended December 31, 2006				(64,791)	(64,791)
Balance December 31, 2006	25,245,921	25,247	902,575	(1,107,451)	(179,629)
Net loss for the year ended December 31, 2007				(51,982)	(51,982)
Balance December 31, 2007	25,245,921	\$ 25,247	\$ 902,575	\$ (1,159,433)	\$ (231,611)

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

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

	Year Ended	
	December 31	December 31
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net gain (loss)	\$ (51,982)	\$ (64,791)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	311	505
Prepaid expense	(3,500)	
Checks in excess of cash	-	(865)
Accounts payable	26,704	16,616
Related party payables	25,500	45,719
Accrued expense	165	
State tax liability	3,399	4,357
Net cash provided (used) by operating activities	597	1,540
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:</b>		
Cash paid for fixed assets	-	(217)
	-	(217)
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:</b>		
Net cash provided by financing activities	-	-
Net increase (decrease) in cash and cash equivalents	597	1,323
<b>Cash at beginning of period</b>	1,323	-
<b>Cash at end of period</b>	\$ 1,920	\$ 1,323
	-	
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Income taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -

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

**DISCOVERY OIL, LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION**

Discovery Oil, Ltd. (hereinafter “the Company”) was originally organized in the State of Wyoming in 1964 and 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. On August 12, 2004, the Company sold all of its 12.5% non-operating working interest in six oil wells for \$62,850.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Accounting Methods

The Company’s financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (SFAS No. 133), as amended by SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB No. 133”, and SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities”, and SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”. These statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

Historically, the Company has not entered into derivatives contracts to hedge existing risks or for speculative purposes.

**DISCOVERY OIL, LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

At December 31, 2007, the Company has not engaged in any transactions that would be considered derivative instruments or hedging activities.

Earnings (Loss) Per Share

On January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 128, which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. The Company had no outstanding options or warrants at December 31, 2007 and 2006; accordingly, only basic earnings (loss) are presented.

Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Fair Value of Financial Instruments

The Company's financial instruments as defined by Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," include cash, trade accounts receivable, accounts payable and related party payables. All instruments are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at December 31, 2007 and 2006.

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 limited cash, negative working capital, and has suffered material recurring losses from operations since inception. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management estimates that the Company will need to raise an additional \$60,000 to continue operations for the upcoming year.

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.

**DISCOVERY OIL, LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

Provision for Taxes

Income taxes are provided based upon the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by SFAS No. 109 to allow recognition of such an asset.

At December 31, 2007 and December 31, 2008, the Company had deferred tax assets calculated at an expected rate of 34% of approximately \$387,000 and \$369,000, respectively, principally arising from operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the deferred tax asset, a valuation allowance equal to the net deferred tax asset has been established at December 31, 2007. The significant components of the deferred tax asset at December 31, 2007 and 2006 were as follows:

	December 31, 2007	December 31, 2006
Net operating loss carryforward	\$ <u>1,139,000</u>	\$ <u>1,087,000</u>
Deferred tax asset	\$ <u>387,000</u>	\$ <u>369,000</u>
Deferred tax asset valuation allowance	\$ <u>(387,000)</u>	\$ <u>(369,000)</u>

At December 31, 2007 and December 31, 2006, the Company has net operating loss carryforwards of approximately \$1,139,000 and \$1,087,000 respectively, which expire in the years 2021 through 2027. Utilization of the net operating losses is contingent upon the Company's filing of federal income tax returns, currently in arrears. See Note 6 regarding Company's liability for state income tax reporting. The Company's valuation allowance increased \$18,000 from December 31, 2006 to December 31, 2007.

Effective November 1, 2007, the Company adopted the Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 did not have a material impact on the Company's financial position, results of operation or liquidity.

The current company policy is to recognize accrued interest and penalties related to uncertain tax positions as a component of income tax expense. The Company files income tax returns in the U.S. federal jurisdiction and in various state jurisdictions. The statute of limitations remains open for U.S. and certain state income tax examinations for tax years from 1991 and forward, due to non filing. State Income tax expense for the year ended December 31, 2007 includes \$16,569 interest and penalties. As of December 31, 2007, we have no accrued interest and penalties related to uncertain tax positions. As of December 31, 2007, we do not expect our unrecognized tax benefits to change significantly over the next 12 months. As a result of the adoption of FIN 48, we did not recognize any adjustment to the liability for uncertain tax position and therefore did not record any adjustment to the beginning balance of accumulated deficit on the consolidated balance sheet.

**DISCOVERY OIL, LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 ("SFAS 160"), "Noncontrolling Interests in Consolidated Financial Statements", this statement requires that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. A parent's ownership interest in a subsidiary changes if the parent purchases additional ownership interests in its subsidiary or if the parent sells some of its ownership interests in its subsidiary. It also changes if the subsidiary reacquires some of its ownership interests or the subsidiary issues additional ownership interests. All of those transactions are economically similar, and this Statement requires that they be accounted for similarly, as equity transactions. When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment. Entities provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this Statement is the same as that of the related Statement 141(R)

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, "Business Combinations", (SFAS No. 141R"). This statement changes the accounting for business combinations. Under this statement, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. This statement changes the accounting treatment and disclosure for certain specific items in a business combination. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, any business combinations we engage in will be recorded and disclosed following existing generally accepted accounting principles (GAAP) until January 1, 2009. We expect SFAS No. 141R will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at that time.

In February, 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115" (SFAS No. 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, although earlier adoption is permitted. Management has not determined the effect that adopting this statement would have on the Company's financial condition or results of operation.

**DISCOVERY OIL, LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

In September, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158). This statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not for profit organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year end statement of financial position, with limited exceptions. The adoption of this statement had no immediate material effect on the Company's financial condition or results of operations.

In September, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. This statement does not require any new fair value measurements, but for some entities, the application of this statement may change current practice. The adoption of this statement had no immediate material effect on the Company's financial condition or results of operations.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of FIN 48 to have a material impact on its financial reporting, and the Company is currently evaluating the impact, if any the adoption of FIN 48 will have on its disclosure requirements.

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140." This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: a transfer of the servicer's financial assets that meets the requirements for sale accounting; a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities; or an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. The statement also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable and permits an entity to choose either the amortization or fair value method for subsequent measurement of each class of servicing assets and liabilities. The statement further permits, at its initial adoption, a one-time reclassification of available for sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available for sale securities under Statement 115, provided that the available for sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management believes the adoption of this statement will have no immediate impact on the Company's financial condition or results of operations.

**DISCOVERY OIL, LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Standards No. 133 and 140" (SFAS No. 155). This statement established the accounting for certain derivatives embedded in other instruments. It simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133 as well as eliminating a restriction on the passive derivative instruments that a qualifying special-purpose entity ("SPE") may hold under SFAS No. 140. This statement allows a public entity to irrevocably elect to initially and subsequently measure a hybrid instrument that would be required to be separated into a host contract and derivative in its entirety at fair value (with changes in fair value recognized in earnings) so long as that instrument is not designated as a hedging instrument pursuant to the statement. SFAS No. 140 previously prohibited a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management believes the adoption of this statement will have no immediate impact on the Company's financial condition or results of operations.

**NOTE 4 - STOCKHOLDERS' DEFICIT**

Common Stock

The Company has one class of issued and outstanding common stock. Prior to 2001, the par value of the common stock was \$0.01, and 25 million shares were authorized for issue. Pursuant to a majority shareholders meeting held in August 2001, the Company's Certificate of Incorporation was amended to increase the number of shares of common stock authorized for issue to 200 million shares, to decrease the par value of the Company's common stock to \$0.001 per share and to eliminate the provision authorizing preferred stock of the Company.

In prior years, the Company issued common stock at per-share amounts less than the common stock's par value. As a result, at December 31, 2000, a common stock discount of \$4,643 was recorded in the Company's stockholders' deficit account, which was subsequently extinguished during 2001 when the Company reduced the par value of its common stock and converted certain debts into common stock.

In the year ended December 31, 2002, the Company issued 205,950 shares of restricted common stock for \$43,820 to various investors.

In the year ended December 31, 2005, the Company issued 5,000,000 shares of common stock for \$300,000 to directors for services.

In the year ended December 31, 2006, the Company issued no stock.

In the year ended December 31, 2007, the Company issued no stock.



**DISCOVERY OIL, LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The useful lives of property, plant and equipment for purposes of computing depreciation are five to forty years. The following is a summary of property, equipment, and accumulated depreciation:

	December 31, 2007	December 31, 2006
Office equipment	2,037	2,037
Total assets	2,037	2,037
Less accumulated depreciation	(1,570)	(1,259)
Total Net Equipment	\$ 467	\$ 778

Depreciation and amortization expense for the year ended December 31, 2007 was \$311. The Company evaluates the recoverability of property and equipment when events and circumstances indicate that such assets might be impaired. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by these assets to their respective carrying amounts. Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The cost and related reserves of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in results of operations.

**NOTE 6 - RELATED PARTY TRANSACTIONS**

At December 31, 2002, the Company had a related party payable to its, president and director, for funds advanced on an unsecured and noninterest-bearing basis to the Company. The amount due to the president at December 31, 2007 and 2006 is \$113,768 and \$88,268, respectively.

The Company signed a lease with its president for the use of office space for \$1,300 per month, or \$15,600 per year. This lease expired at the December 31, 2006 and the President and the Company did not renew it. The Company also agreed to pay mileage for his travels relating to the Company. During 2007 and 2006, the Company accrued approximately \$0 and \$51,073 for rent, travel, general and administrative expenses incurred, respectively.

**NOTE 7 – STATE TAX LIABILITY**

For the years ended December 31, 2007 and 2006, the Company estimated its California corporate tax liability to be \$31,569 and \$27,914, respectively and the Delaware corporate tax liability to be \$0, and \$0, respectively. The Company has not filed a return with the State of California for several years and because of that the Company has been suspended from operating as a corporation in California. In order to revive its authorized corporation status in California, the Company must file all delinquent tax returns and pay all related California corporate income taxes, penalties and interest.

In the year ended December 31, 2007, the Company's state tax liability increased by \$3,655.

**NOTE 8 – ADVANCES PAYABLE**

In the year ended December 31, 2004, the Company was loaned \$7,000 from an unrelated party. This advance is uncollateralized, bears no interest and is payable upon demand. As of December 31, 2007, the outstanding balance remains unpaid.

## **Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

### **Item 8a. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures.**

In connection with the preparation of this annual report on Form 10-KSB, an evaluation was carried out by the company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of Discovery Oil, Ltd.'s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")) as of December 31, 2007. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

During the evaluation of disclosure controls and procedures as of December 31, 2007, management identified material weaknesses in internal control over financial reporting, which management considers an integral component of disclosure controls and procedures. As a result of these material weaknesses, management concluded that the company's disclosure controls and procedures were ineffective.

#### **Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, a company's principal executive and principal financial officers and effected by a company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable, 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 their 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 our company have been detected. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the

Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in *Internal Control – Integrated Framework*. In the course of the evaluation, management identified a material weakness in internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified is disclosed below:

*Insufficient Knowledgeable and Competent Personnel in Key Positions.* There are insufficient knowledgeable and competent personnel in key positions within the Company. Because Discovery Oil is a shell corporation, the Company has virtually no operations. The two Directors are the only individuals who remain involved with the Company, with the exception of the Company’s outside accountant providing bookkeeping services. The two Directors are not independent, and have insufficient technical and reporting expertise to provide adequate oversight of financial reporting. In addition, fundamental elements of an effective control environment were not present as of December 31, 2007, including independent oversight of management and financial reporting, a code of conduct or ethics, and controls to address the risk of management override. This deficiency led to identification by the auditors of required material adjustments to the financial statements.

Based on the material weakness described above, management concluded that, as of December 31, 2007, internal control over financial reporting was not effective.

This annual report does not include an attestation report of the company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the company’s registered public accounting pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management’s report in this annual report.

We do not intend to remedy the material weakness identified, because the company has virtually no operations and is, at present, in existence for the purposes of a reverse merger, if a candidate should arise.

### **Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Item 8b. Other Events**

None.

### PART III

#### Item 9. Directors and Executive Officers of the Registrant

<u>Name of Executive Officers and Directors and Positions Held</u>	<u>Age</u>	<u>Principal Occupation, Five-Year Business History and Directorships</u>
Andrew V. Ippolito, President and Chairman of the Board of Directors	76	Currently and for the past 30 years, Mr. Ippolito functioned as a business executive, diplomat, Honorary Consul General of Liberia and General Secretary of the Los Angeles Consular Corps, representing more than 86 countries and providing access to international finance and trade markets. Current President and Chairman of the Board of Discovery Oil, LTD.
M. Jeanett Ippolito, Secretary	66	Mrs. Ippolito has been a real estate broker and a Director for over 20 years.

#### Identification of Certain Significant Employees

The company has no employees.

#### Family Relationships

Andrew Ippolito and M. Jeanette Ippolito are husband and wife. There are no other family relationships known to the Company.

#### Involvement in Certain Legal Proceedings

So far as the Company is aware, no Director or Executive Officer has been involved in any material legal proceedings during the past five years.

#### Audit Committee

Due to our inactivity, the Company has not established an Audit Committee and has no audit committee financial expert. When we resume active operations, the Board of Directors will review current requirements and establish an Audit Committee as soon as practicable.

#### Section 16(a) Beneficial Ownership Reporting Compliance.

Officers, Directors, and beneficial owners of 10% or more of the Registrant's Common Stock are required to file on a timely basis the reports required by section 16(a) of the Exchange Act based on a review of Forms 3, 4, and 5.

To the Company's knowledge, the required Forms 3, 4, and 5 have been filed.

## Code of Ethics

Due to the inactivity of the Company, the Board of Directors has not yet adopted a Code of Ethics other than such direction as is supplied in our by-laws, a copy of which is was filed with the Company's Report on Form 10KSB on April 17, 2006 and is hereby incorporated by reference.

When we resume active operations, the Board of Directors will review current requirements and establish a Code of Ethics as soon as practicable.

## **Item 10. Executive Compensation**

No executive officers received compensation of any kind during the fiscal year ended December 31, 2007.

(a) Name and Principal Position	Annual Compensation				Long Term Compensation			
	(b) Year	(c) Salary (\$)	(d) Bonus (\$)	(e) Other Annual Compensa- tion (\$)	(f) Restricted Stock Award (\$)	(g) Securities Underlying Options/ SARs	(h) LTIP Payouts (\$)	(i) All Other Compensa- tion (\$)
Andrew Ippolito President and Director	2007	0	0	0	0	0	0	0
M. Jeanett Ippolito Secretary and Director	2007	0	0	0	0	0	0	0

The following table sets forth information with respect to the executive officer listed above, concerning the grants of options and Stock Appreciation Rights ("SAR") during the fiscal year ended December 31, 2006:

### **Option/SAR Grants In Last Fiscal Year**

Name	Number of Securities Underlying Options/SARs Granted (1)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date
Andrew Ippolito	0	0	0	0
M. Jeanette Ippolito	0	0	0	0

## Exercise of Options:

The Company has no stock options outstanding.

## Long-Term Incentives

The Company has no long term incentive plan at this time.

## Compensation of Directors:

Directors are not compensated for their activity as directors. The Board of Directors is empowered to vote compensation to directors for their performance of duties to the Company. In addition, directors are reimbursed for their accountable expenses incurred in attending meetings and conducting their duties on behalf of the Company. No director received compensation for services during the year ended December 31, 2006.

There are no compensatory plans or arrangements for compensation of any Director in the event of his termination of office, resignation or retirement.

There is no employment agreement between the Company and our other executive officers. See Risk Factors in Item 1 and Item 6, Plan of Operations, for additional discussion of the Company's relationship with our officers and directors.

### Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the beneficial ownership of shares of the Company's common stock as of December 31, 2007 by:

- each person who is known by us to beneficially own more than 5% of the Company's issued and outstanding shares of common stock;
- the Company's named executive officers;
- the Company's directors; and
- all of the Company's executive officers and directors as a group.

Name of Shareholder	Amount and Nature of Beneficial Ownership	Percent of Class (1)
<b>Directors and Executive Officers</b>		
Andrew V. Ippolito, President and Chairman of the Board	4,480,173	17.7%
M. Jeanett Ippolito, Secretary	2,500,000	9.9%
Andrew and Jeanett Ippolito	10,059,350	39.8%
All current executive officers and directors as a group	17,039,523	67.4%
<b>5% or greater shareholders</b>		
CEDE & CO PO Box 222, Bowling Green Station New York NY 10274	2,859,155	11.4%

Andrew V. Ippolito, president and a director, and his wife M. Jeanett Ippolito, secretary and a director, collectively own 17,039,523 shares of the Registrant's common stock representing 67.4% of the total outstanding shares as of April 10, 2008.

The Company has no knowledge of any other arrangements, including any pledge by any person of the Company's securities, the operation of which may at a subsequent date result in a change in control of the company.

The Company is not, to the best of its knowledge, directly or indirectly owned or controlled by another corporation or foreign government.

#### Changes in Control

There are no arrangements known to the Company the operation of which may at a subsequent time result in the change of control of the Company. We are presently engaged in a search for new investment or merger opportunities. Control of the Company may change in the event of a business re-organization resulting in the issuance of additional common stock or other voting securities of the Company.

**Item 12. Certain Relationships and Related Transactions**

At December 31, 2002, the Company had a related party payable to its president and director for funds advanced on an unsecured and noninterest-bearing basis to the Company. The amount due to the president at December 31, 2007 and 2006 is \$113,768 and \$88,268, respectively.

The Company signed a lease with its president for the use of office space for \$1,300 per month, or \$15,600 per year. The lease expired at December 31, 2006 and has not been renewed. The Company also agreed to pay mileage for his travels relating to the Company. During 2007 and 2006, the Company accrued approximately \$0 and \$51,073 for rent, travel, general and administrative expenses, respectively.

## Item 13. Exhibits

### (A) Exhibits

Exhibit Number	Description
3.1	Amended Articles of Incorporation*
3.2	By-laws*
10.1	Lease Agreement*
31	Rule 13a-14(a)/15d-14(a) Certifications (31)(i) Certification of Andrew V. Ippolito (31)(ii) Certification of M. Jeanett Ippolito
32	Section 1350 Certifications (32)(i) Certification of Andrew V. Ippolito (32)(ii) Certification of M. Jeanett Ippolito

\*Incorporated by reference to Form 10KSB filed April 17, 2006

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Company's board of directors reviews and approves audit and permissible non-audit services performed by the authorized independent public accountants as well as the fees charged by the authorized independent public accountants for such services. In its review of non-audit service fees and its appointment of the authorized independent public accountants as the Company's independent accountants, the board of directors considered whether the provision of such services is compatible with maintaining the authorized independent public accountants independence. All of the services provided and fees charged by the authorized independent public accountants in 2005 were pre-approved by the board of directors.

### *Audit Fees*

The aggregate fees billed by the authorized independent public accountants for professional services for the audit of the annual financial statements of the Company and the reviews of the financial statements included in the Company's quarterly reports on Form 10-QSB for 2007 and 2006 were \$27,776 and \$18,421 respectively, net of expenses.

### *Audit-Related Fees*

There were no other fees billed by the authorized independent public accountants during the last two fiscal years for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements and not reported under "Audit Fees" above.

### *Tax Fees*

The aggregate fees billed by the authorized independent public accountants during the last two fiscal years for professional services rendered by the authorized independent public accountants for tax compliance for 2007 and 2006 were \$0 and \$0, respectively.

### *All Other Fees*

There were no other fees billed by the authorized independent public accountants during the last two fiscal years for products and services provided by authorized independent public accountants.



## SIGNATURES

Pursuant to the requirements of Section 143 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf of the undersigned, thereunto duly authorized.

### DISCOVERY OIL, LTD.

/s/ Andrew V. Ippolito

By \_\_\_\_\_

Andrew V. Ippolito

President, Chairman of the Board

Date: April 14, 2008

Pursuant to the requirements of the Securities Act of 1934 this report signed below by the following person on behalf of the Registrant and in the capacities on the date indicated.

/s/ M. Jeanett Ippolito

By \_\_\_\_\_

M. Jeanett Ippolito

Secretary

Date: April 14, 2008

### **Certification**

I, Andrew V. Ippolito, certify that:

(1) I have reviewed this annual report on Form 10-KSB 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 operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

(4) The small business issuer's other certifying officer(s) 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 small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

(5) The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 the small business issuer'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 small business issuer's internal control over financial reporting.

/s/ Andrew V. Ippolito

By \_\_\_\_\_

Andrew V. Ippolito

President, Chairman of the Board

Date: April 14, 2008

## Exhibit 31.2

### Certification

I, M. Jeanett Ippolito, certify that:

(1) I have reviewed this annual report on Form 10-KSB 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 operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

(4) The small business issuer's other certifying officer(s) 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 small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

(5) The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 the small business issuer'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 small business issuer's internal control over financial reporting.

/s/ M. Jeanett Ippolito

By \_\_\_\_\_

M. Jeanett Ippolito

Secretary

Date: April 14, 2008

**Exhibit 32.1**

**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 Annual Report of Discovery Oil, Ltd, (the "Company") on Form 10-KSB for the period ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew V. Ippolito, President and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (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.

/s/ Andrew V. Ippolito

By \_\_\_\_\_

Andrew V. Ippolito

President, Chairman of the Board

Date: April 14, 2008

**Exhibit 32.2**

**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 Annual Report of Discovery Oil, Ltd, (the "Company") on Form 10-KSB for the period ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Jeanett Ippolito, Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (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.

/s/ M. Jeanett Ippolito

By \_\_\_\_\_  
M. Jeanett Ippolito  
Secretary  
Date: April 14, 2008