

## **DAYBREAK OIL AND GAS, INC.**

### **Board of Directors Standards of Independence**

The Board of Directors of Daybreak Oil and Gas, Inc. has adopted the following standards for determining the independence of its members. Independence determinations are made both in accordance with applicable laws and Securities and Exchange Commission rules as well as for purposes of the Company's Corporate Governance Guidelines, which state that the Company should strive to maintain a substantial independent and diverse viewpoint among members of its Board of Directors.

Members of the Board who fail any of the standards set forth below shall presumptively be deemed not independent. The presumption that any director is not independent may be overcome by the vote of a majority of the Board if, based on the totality of the facts and circumstances, the Board determines that the affected director's relationship does not violate any applicable law or Securities and Exchange Commission rule and is not in fact material notwithstanding its reference in these standards.

Members of the Board of Directors who meet all of the following standards shall be deemed to be independent for all purposes under applicable law and Securities and Exchange Commission rules.

- Neither the director nor any immediate family member is or has in the past three years been an employee of the Company.
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- Neither the director nor any immediate family member receives or has received compensation from the company in excess of \$100,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:
  - (i) compensation for board or board committee service,
  - (ii) compensation paid to an immediate family member who is an employee (other than an executive officer) of the company,
  - (iii) compensation received for former service as an interim executive officer (provided the interim employment did not last longer than one year), or
  - (iv) benefits under a tax-qualified retirement plan, or non-discretionary compensation;
- Neither the director nor any immediate family member is now or has during the past three years been employed by or affiliated with a present or former internal or external auditor of the Company.
- Neither the director nor any immediate family member is or has during the past three years been employed as an executive officer by a company on whose board of directors an executive officer of the Company serves.
- The director is not now, or during the past three years has been an executive officer or an employee of any company that makes payments to, or receives payments from the Company for

property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues, nor has any immediate family member been an executive officer of such other company during such period.

- Neither the director nor any immediate family member is now or has during the past three years been in a material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company), which material relationship can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships.

## DEFINITIONS

Please refer to the following definitions when completing the attached Independence Questionnaire.

- (1) The term "*immediate family member*" refers to a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than employees) who shares such person's home.
- (2) The term "*affiliate*" of, or a person "*affiliated*" with, a specified person, means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

A person will be deemed not to be in control of a specified person for purposes of this definition if the person:

- (i) Is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of the specified person; and
- (ii) Is not an executive officer of the specified person.

The following are deemed to be affiliates:

- (A) An executive officer of an affiliate;
  - (B) A director who also is an employee of an affiliate;
  - (C) A general partner of an affiliate; and
  - (D) A managing member of an affiliate.
- (3) The term "*control*" (including the terms "controlling," "controlled by," and under "common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.
  - (4) The term "*executive officer*" means a company's president, any vice president of the company in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policy making function or any other person who performs similar policy making functions for the company. Executive officers of a company's subsidiaries may be deemed executive officers of the company if they perform such policy-making functions for the company.