

June 11, 2010

To Our Valued Shareholders:

The fiscal year ended February 28, 2010 was a year of foundation building for the Company, as Daybreak Oil and Gas continued to strive towards the goal of positive cash flow and profitability. At the beginning of the last fiscal year, we made the strategic decision to focus our resources on exploring and developing the East Slopes acreage located in Kern County, California. The recent disposition of the Company-operated Gilberttown properties in Alabama, allows Daybreak to focus totally on the prospects and projects in California. Much of the last year was spent designing and building an infrastructure to support our ever-growing oil production operations in Kern County. This infrastructure has simplified processing and handling of our oil production, thus significantly reducing our operating cost per barrel. The Sunday prospect area was fully developed during the fiscal year as three development wells were drilled, completed, and put on production. At the end of the fiscal year, we began developing the Bear prospect discovery area; and, drilled, completed and put on production, three additional development wells. At least two more development wells remain to be drilled in the Bear prospect area. Through these operations, we have learned valuable lessons and employed the best drilling and completion techniques for the type of reservoirs encountered at Sunday and Bear. As a result of our successful development in these discovery areas, we have established Daybreak's first sustainable oil production and proven oil reserves. The significant accomplishments during the fiscal 2010 year has built a foundation in one of the most prolific oil resource basins in California. This a foundation on which we plan to grow the Company.



As we look toward the future, the Company is gearing up for new exploration opportunities along the extension of the same fault trend as the Bear, Sunday and Black discoveries. Realization of the real value of Daybreak's assets may begin as we build upon our oil-based foundation. This summer the Dyer Creek and Ball prospects will be drilled. Interpretation of 3-D seismic, and supporting nearby well data, indicates that the productive Vedder sands are likely present in both prospects. At Dyer Creek and Ball we have a usable production facility already in place from previous operations. This existing infrastructure will service both prospects, which will allow us to put production on line in a more efficient, timely, and cost effective manner than we experienced at the start-up of the Sunday Facility. We have also expanded exploration focus on the southern part of the East Slopes acreage position. There, we have two moderate-risk prospects which are ready to drill. These prospects will be drilled in the latter half of the 2011 fiscal year. Portions of the 2008 3-D seismic survey that covers our acreage position has been re-processed and will be utilized to further define the existing oil reservoirs and potential areas of new oil reservoirs.

Along with cash raised from non-strategic property sales, Daybreak also raised \$595,000 through a 5- year 12% Subordinated Notes offering to help finance the active drilling program. This financing was achieved during a difficult economic time which has been very challenging for small-cap companies.

All the employees and contractors that worked for the Company put in an extraordinary effort over the past year to build this new foundation for Daybreak. I commend them for their efforts in getting their jobs done in a very effective manner; and, I am looking forward to working with them as we continue to enhance the current position and achieve future growth.

I would also like thank you for your investment in Daybreak Oil and Gas; and, your continued support of our efforts in building this company.

Regards,

A handwritten signature in black ink, appearing to read 'Jim Westmoreland', is written over a circular stamp or seal that is partially visible and mostly obscured by the signature.

Jim Westmoreland
President and Chief Executive Officer