

DAYBREAK OIL AND GAS, INC.

Corporate Governance Guidelines

These Guidelines should be interpreted in the context of all applicable laws and Daybreak Oil and Gas, Inc.'s certificate of incorporation, bylaws and other corporate governance documents.

1. Board Mission

The mission of the Board of Directors (the "**Board**") of Daybreak Oil and Gas, Inc. (the "**Company**") is to represent the interests of the shareholders of the Company in achieving superior business performance and value. The Board recognizes the importance of having in place at all times a quality management team focused on achieving this result.

2. Director Responsibilities

The Board is expected to fulfill its mission by:

- a. providing advice and counsel to the Chief Executive Officer ("**CEO**") and other principal senior executives;
- b. selecting, regularly evaluating and setting the compensation of the CEO;
- c. addressing succession planning both in the ordinary course of business and contingency planning in case of unexpected events;
- d. overseeing the conduct of the Company's business and strategic plans to evaluate whether the business is being properly managed;
- e. reviewing and approving the Company's financial objectives and major corporate plans and actions;
- f. reviewing and approving major changes in auditing and accounting principles and practices;
- g. providing oversight of internal and external audit processes and financial reporting;
- h. providing oversight of risk assessment and protection processes and processes designed to promote legal compliance; and
- i. performing such other functions as the Board believes appropriate or necessary.

The primary responsibility of the directors is to exercise their business judgment in good faith and to act in what they believe to be the best interests of the Company and its shareholders. The Board may consider, among other pertinent factors, the effect of its actions on the Company's employees, customers, suppliers and communities in which the Company operates. In carrying out their responsibilities, the directors recognize that they

have the obligation, individually and collectively as the Board, to exercise due diligence in executing their responsibilities.

The Board may discharge its responsibilities either directly or by delegating them to its committees, except that the Board may not so delegate any of its responsibilities which, under applicable law or the Company's certificate of incorporation, may not be delegated to a committee of the Board.

The Board recognizes that the actual management of the business and affairs of the Company should be conducted by the CEO and other senior managers under his or her supervision and that, in performing the management function, the CEO and other senior managers are obliged to act in a manner that is consistent with the oversight functions and powers of the Board and the standards of the Company, and to execute any specific plans, instructions or directions of the Board.

3. Directors' Reliance upon Others, etc.

In discharging their responsibilities and exercising their powers, directors will be entitled to rely on the honesty and integrity of their fellow directors and the Company's managers and outside advisors and independent public accountants. The Board also expects directors, officers, employees and private contractors to acknowledge their adherence to the Company's Ethical Business Conduct Policy Statement.

Board members will also be entitled to have the Company purchase reasonable directors' and officers' liability insurance on their behalf. In addition, Board members will be entitled to (a) the benefits of indemnification to the fullest extent permitted by law and the Company's certificate of incorporation and bylaws and any indemnification agreements and (b) exculpation as provided by Washington law and the Company's certificate of incorporation.

4. Candor and Avoidance of Conflicts

All directors recognize that candor and the avoidance of conflicts in fact and in perception are hallmarks of the accountability owed to the shareholders. Accordingly, prior to any Board decision related to any matter as to which a particular director has a potential conflict of interest, that director should (i) disclose the existence of the potential conflict of interest to the Chairman of the Board (the "**Board Chairman**"), or if inappropriate, to the chairman of the relevant committee, and (ii) if the Board Chairman (in consultation with legal counsel) determines a conflict exists or the perception of a conflict is likely to be significant, recuse himself or herself from any discussion or vote related to the matter.

5. Preparations for and Attendance at Board Meetings; Materials and Information

All directors are expected to meet as frequently as necessary to properly discharge their responsibilities. Directors should use all reasonable efforts to attend all stockholder meetings, Board meetings, and meetings of committees on which they serve. Management shall provide directors with all relevant materials pertaining to matters to be

entertained at any stockholder, Board, or committee meeting promptly and in all cases sufficiently in advance of the meeting to allow directors to thoroughly familiarize themselves with the matters to be addressed and to analyze and reflect on all materials.

As a general rule, information and data that is important to the Board's understanding of the business to be discussed at any meeting of the Board will be distributed in writing to the Board members in advance of the meeting. This is consistent with the Board's desire to utilize Board meeting time as efficiently and productively as possible as well as allowing more time for Board members to discuss questions they may have about the Board materials.

6. Executive Sessions of the Board

Directors will meet in executive session, with only non-management directors in attendance, in conjunction with each regularly scheduled Board meeting. Executive sessions shall be chaired by the Chairman of the Audit Committee. If the Chairman of the Audit Committee is absent or ineligible to attend any executive session, or in the absence of such director from the meeting, by any non-management director attending the meeting appointed as Chairman by a majority of the directors in attendance.

Directors will meet in special session, with only independent directors in attendance, at least once each calendar year. Special sessions of independent directors shall be chaired by the Chairman of the Nominating and Corporate Governance Committee. If the Chairman of the Nominating and Corporate Governance Committee is absent or ineligible to attend any special session, the session shall be chaired by any independent director attending the meeting appointed as Chairman by a majority of the directors in attendance.

Executive and special sessions will be conducted in accordance with such agendas and procedures as determined by the Chairman of the meeting. Directors sitting in special sessions shall have no authority to act on behalf of the Company or the Board on any matters without an express delegation of authority by the Board, unless a quorum of the Board is represented at the special session and all requirements of Washington law and the Company bylaws are otherwise satisfied.

7. Independence of Directors

The composition of the Board shall satisfy both the requirements as to independence prescribed by the listing standards of any exchange or quotation system on which the Company's stock trades and applicable law, including pursuant to the Sarbanes-Oxley Act of 2002 and the Standards of Independence adopted by the Board of Directors, a copy of which shall be available on the Company's website. The Board shall additionally strive to maintain a substantial independent and diverse viewpoint among its members.

8. Nomination and Election of Directors

The Board entertains stockholder nominations for election to the Board but reserves the exclusive right to determine which candidates are nominated to stand for election or re-

election. To be eligible for consideration, stockholder nominations must comply with all provisions contained in the Company's bylaws.

The Board's Nominating and Corporate Governance Committee is responsible for making recommendations to the Board concerning the appropriate size and composition of the Board, as well as for recommending to the Board nominees for election or re-election to the Board. In formulating its recommendations for Board nominees, the Committee will assess each proffered candidate's independence and weigh their qualifications in accordance with the Committee's stated Qualifications for Nominations to the Board of Directors, which shall be made available on the Company's website.

Nominations by shareholders shall be made pursuant to timely notice in writing to the Corporate Secretary (Daybreak Oil and Gas, Inc., Attn: Corporate Secretary, 601 West Main, Suite 1012, Spokane, Washington 99201).

9. Chairman of the Board

The Board will appoint the Chairman of the Board. The Chairman of the Board will preside over all regular sessions of the Board and (with input from the chairman of each committee, as well as the CEO, to the extent not inappropriate) set the agenda for Board meetings, subject to the right of each Board member to suggest the inclusion of item(s) on any agenda.

10. Orientation and Continuing Education of Directors

The Board and Company management will work with each new director to tailor an orientation program appropriate for each new director given their individual backgrounds. Orientation programs may include one or more technical overview programs, operational overview programs, financial, accounting or corporate governance overview programs, and management interviews. In addition, the Board maintains a Director Education Policy pursuant to which all directors are encouraged to pursue ongoing coursework and/or updates on topics that they deem relevant given their individual backgrounds and committee assignments on the Board.

11. Other Directorships

Directors are expected to devote sufficient time to fulfill their responsibilities as directors in accordance with the criteria set forth in these Corporate Governance Guidelines. In order to ensure that directors can serve on the Board effectively and meet all regulatory and oversight demands, directors may serve on the board of directors of other public and/or private companies, but shall limit such service to a reasonable number of companies, which would not conflict with his or her responsibilities as a Daybreak director. Directors will advise the Board Chairman and the Chairman of the Nominating and Corporate Governance Committee in advance of accepting an invitation to serve on another board. Additionally, the Nominating and Corporate Governance Committee will annually review the other directorships of each member of the Daybreak Board.

12. Director Terms

The Board does not believe it should establish term limits for directors.

13. Board Compensation

The form and amount of director compensation will be determined by the Board. The Compensation Committee will conduct an annual review of director compensation and will report its findings and recommendations, if any, to the Board. This evaluation will include such factors as the Compensation Committee may deem appropriate under the circumstances, including (a) the desire of the Board to attract and retain quality members and (b) the compensation paid to directors by U.S. corporations of established reputation or similar size engaged in the same or similar business and similarly situated.

14. Attendance at Board Meetings by Senior Managers and Others

Senior managers and others may attend Board meetings only at the invitation of the Board. Should any Board member wish to suggest that any senior manager or other invitee attend on a regular basis, such suggestion will be made to the Board for its consideration.

15. Board Access to Senior Managers and Independent Advisors

Directors will have unfettered access to the Company's senior management, as well as to the Company's internal auditors and external independent public accountants, legal counsel, financial advisors, and other advisors. The Board has the power to hire, at the expense of the Company, such independent legal, financial or other advisors as it may deem necessary or appropriate, without consulting or obtaining the approval of any officer of the Company.

16. Board Interaction with Investors, Press, Customers and Shareholders

The Board believes that management speaks for the Company. However, individual Board members may, from time to time, meet or otherwise communicate with various constituencies. Absent unusual circumstances or as contemplated by the committee charters, such communications shall be made only after Board members consult with management and only at the request of management. If comments from the Board are appropriate, however, they should normally come from the Board Chairman.

17. Number, Structure and Independence of Board Committees

The Board will at all times have an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The composition of each committee shall satisfy all requirements as to independence prescribed from time to time under law, applicable listing standards and by the Standards of Independence adopted by the Board and shall additionally strive to maintain a substantial independent and diverse viewpoint among its members.

18. Appointment of Members to Committees

The Board will appoint all committee members. The Nominating and Corporate Governance Committee will recommend, after consultation with the Board Chairman and the CEO and with consideration of the desires of individual Board members, the appointment of Board members to various committees and the appointment of committee chairmen. The Nominating and Corporate Governance Committee will consider committee chairman and member rotations annually.

19. Committee Charters

The Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee shall each maintain a committee charter. The charters shall be approved by the Board and shall set forth the purposes, goals and responsibilities of the committees as well as specific qualifications for committee membership and procedures for committee membership appointment. In addition, the charters shall address each committee reporting to the Board and shall require each Committee to annually evaluate its own performance. The charters shall be made publicly available on the Company's website.

20. Board Self-Evaluation

The Board will conduct an annual self-evaluation of its performance and the performance of its committees. The evaluation will be based on such objective and subjective criteria as the Board deems appropriate. Objective criteria will include, without limitation, the performance of the business and the accomplishment of the Board's objectives and the objectives assigned to the particular committee, as the case may be.

21. CEO Evaluation

The Compensation Committee will undertake an annual evaluation of the CEO's performance. The evaluation will be based on such objective and subjective criteria as the Compensation Committee deems appropriate under the circumstances and will be used by the Compensation Committee and the Board in determining the CEO's compensation. The Compensation Committee will report its findings and recommendations, if any, to the Board. As a general rule, the Chairman of the Compensation Committee, together with the Board Chairman, will communicate the Board's conclusions to the CEO.

22. Succession Planning and Management Development

The CEO will report annually to the Board on succession planning. The CEO should at all times make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals. The CEO will report annually to the Board on the Company's program for management development. Ideally, this report should be given to the Board at the same time as the succession planning report noted above.

23. Communications with Board of Directors

Shareholders and other interested parties may communicate with the Board of Directors, a committee of the Board of Directors, an individual director, or the non-management directors as a group or committee of the Board of the Company for any legitimate matter germane to Company business. Communications must be in writing and addressed to the intended recipient c/o Corporate Secretary, Daybreak Oil and Gas, Inc., 601 West Main Suite 1012, Spokane, Washington 99201. A copy of all correspondence will be maintained in the Company's archives maintained by the Corporate Secretary's office. All communications received as described above and intended will be relayed to the appropriate directors.

24. Corporate Governance Guidelines

The Nominating and Corporate Governance Committee will review these Guidelines and related documents periodically and recommend to the Board such changes as the Nominating and Governance Committee may deem necessary or appropriate. These Guidelines will be communicated to the shareholders.

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