

## DAYBREAK OIL AND GAS, INC.

### Policy Statement Regarding Related Party Transactions

#### A. Statement of Policy

The Board of Directors (the “*Board*”) of Daybreak Oil and Gas, Inc. (the “*Company*”) recognizes that transactions involving the Company and related parties present a heightened risk of conflicts of interest and therefore has adopted this Policy Statement Regarding Related Party Transactions (this “*Policy*”). This Policy supplements the conflict of interest provisions in the Company’s Ethical Business Conduct Policy Statement and Corporate Governance Guidelines.

It is the policy of the Company that any and all transactions between the Company and Related Parties must be fair to the Company. Accordingly, it is the policy of the Company not to enter into any “Related Party Transaction” unless:

- the Nominating and Corporate Governance Committee approves such transaction in accordance with the guidelines set forth in this Policy; or
- the transaction is approved by a majority of disinterested directors of the Company.

For these purposes, a “*Related Party*” is:

1. any person who is, or at any time since the beginning of the Company’s last fiscal year was, an “executive officer” of the Company (as defined in Rule 405 promulgated under the Securities Act of 1933 and Rule 3b-7 promulgated under the Securities Exchange Act of 1934);
2. any person who is, or at any time since the beginning of the Company’s last fiscal year was, a director of the Company or a nominee for director of the Company;
3. a person (including an entity or group) known to the Company to be the beneficial owner of more than 5% of any class of the Company’s voting securities (a “*5% shareholder*”);
4. an individual who is an “immediate family member”<sup>1</sup> of an executive officer, director, nominee for director or 5% shareholder of the Company;
5. an entity that is, directly or indirectly, owned or controlled by a person listed in 1, 2, 3 or 4 above;

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<sup>1</sup> Any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law.

6. an entity in which a person listed in 1, 2, 3 or 4 above serves as an executive officer or principal or in a similar position,<sup>2</sup> or in the case of a partnership, serves as a general partner or holds any position other than that of a limited partner;
7. an entity in which a person listed in 1, 2, 3 or 4 above, together with all other persons specified in 1, 2, 3 and 4 above, owns 10% or more of the equity interest, or in the case of a partnership, 10% or more of the interest; or
8. an entity at which a person listed in 1, 2, 3 or 4 above is employed if (a) the person is directly involved in the negotiation of the Related Party Transaction or will have or share primary responsibility at such entity for the performance of the Related Party Transaction, or (b) the person's compensation from the entity is directly tied to the Related Party Transaction.

For these purposes, a “**Related Party Transaction**” is a transaction (including any financial transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness)), or series of related transactions, or any material amendment to any such transaction, involving a Related Party and in which the Company or any of its subsidiaries is a participant, other than:

1. a transaction involving compensation of directors (in accordance with prior approval of the Board of Directors or the Compensation Committee of the Board);
2. a transaction involving compensation of an executive officer or involving an employment agreement, severance arrangement, change in control provision or agreement or special supplemental benefit of an executive officer (in accordance with prior approval of the Board of Directors or the Compensation Committee of the Board);
3. a transaction involving the indemnification or reimbursement of any director or executive officer pursuant to the indemnification provisions set forth in the indemnification agreements filed by the Company with the Securities and Exchange Commission or in the Company's Amended and Restated Bylaws and Amended Certificate of Incorporation or pursuant to any directors' and officers' liability insurance policy;
4. a transaction with a Related Party involving less than \$50,000; or
5. a transaction in which the interest of the Related Party arises solely from the ownership of a class of the Company's equity securities and all holders of that class receive the same benefit on a pro rata basis.

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<sup>2</sup> For purposes of this clause 6, officers and employees of a general partner that performs policy-making functions for a limited partnership are deemed to be executive officers of that limited partnership; officers and employees of a managing member or manager that performs policy-making functions for a limited liability company are deemed to be executive officers of that limited liability company; and officers and employees of a trustee that performs policy-making functions for a trust are deemed to be executive officers of that trust.

6. a transaction in which the interest of the Related Party arises solely from indebtedness of a 5% shareholder or a “immediate family member” of a 5% shareholder.

## **B. Nominating and Corporate Governance Committee Approval**

The Board has determined that the Company’s Nominating and Corporate Governance Committee (the “*Committee*”) is best suited to review and approve Related Party Transactions, although the Board may instead determine that a particular Related Party Transaction be reviewed and approved by a majority of disinterested directors. No member of the Committee shall participate in the review or approval of any Related Party Transaction with respect to which such member is a Related Party. In reviewing and approving any Related Party Transaction, the Committee shall:

- satisfy itself that it has been fully informed as to the material facts of the Related Party’s relationship and interest and as to the material facts of the proposed Related Party Transaction, and
- determine that the Related Party Transaction is fair to the Company.

At each Committee meeting, management shall discuss any Related Party Transactions, if applicable, to be entered into by the Company. After review, the Committee shall approve or disapprove such transactions and at each subsequently scheduled meeting, management shall update the Committee as to any material change to those proposed transactions.

Notwithstanding the foregoing, the Committee may approve in advance specific categories of Related Party Transactions, without reviewing the specific terms of each individual Related Party Transaction included in such category, where the Committee determines that:

- the rates and terms involved are the Company’s standard rates and terms for such transactions; and
- the aggregate amount involved in such transactions in any fiscal year with a Related Party is not expected to exceed 1% of the annual revenues of the Company during the preceding fiscal year.

If the Committee approves any such specific categories of Related Party Transactions, the Committee shall, on at least an annual basis, review reports from management as to the status of such transactions and shall, to the extent it determines appropriate, amend or update such advance approvals. The Committee shall establish such guidelines as it determines are necessary or appropriate for management to follow in its dealings with Related Parties in Related Party Transactions.

If management becomes aware of a Related Party Transaction that has not been pre-approved by the Committee, management shall promptly notify the Chairman of the Committee and the Committee shall review and consider the transaction and determine whether to ratify such transaction if the Committee determines it is fair to the Company.

### **C. Charitable Contributions**

The Committee shall review, consider and determine whether to approve any proposed charitable contributions, or pledges of charitable contributions, in excess of \$50,000 in the aggregate for any fiscal year by the Company to any charitable or non-profit organization in which a Related Party serves as a director, trustee or in a similar capacity or is actively involved in fundraising. If management, in consultation with the Company's chief executive officer or chief financial officer determines that it is not practicable to wait until the next Committee meeting, the Chairman of the Committee has the delegated authority during the period between Committee meetings, to review, consider and determine whether to approve any such contributions or pledges. The Chairman of the Committee shall report to the Committee any such contributions or pledges approved by him or her pursuant to this delegated authority at the next Committee meeting.

### **D. Disclosure**

Related Party Transactions shall be disclosed in the Company's SEC filings as and to the extent required by applicable SEC rules and regulations. The fact that a transaction may be considered a Related Party Transaction for purposes of this Policy does not create a presumption that the transaction is a transaction in which a related person has a direct or indirect material interest requiring disclosure under applicable SEC rules and regulations. All Related Party Transactions of which management is aware shall be disclosed to the Committee. At least annually, management shall elicit information from the Company's executive officers and directors as to existing and potential Related Party Transactions and shall seek to obtain such information from 5% shareholders. An executive officer or director shall promptly inform the Chairman of the Committee when the officer or director becomes aware of a potential Related Party Transaction in which the officer or director or any immediate family member of such officer or director would be a Related Party.

### **E. Other Agreements**

Management shall assure that all Related Party Transactions are approved in accordance with any requirements of the Company's financing agreements.

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