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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to _______________

Commission File Number: 000-50107

DAYBREAK OIL AND GAS, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-0626366**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1101 N. Argonne Road, Suite A 211, Spokane Valley, WA	**99212**
(Address of principal executive offices)	(Zip code)

(509) 232-7674
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
n/a	n/a	n/a

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company., or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☑	Smaller reporting company ☑
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☑ No

At January 13, 2020 the registrant had 53,532,364 outstanding shares of $0.001 par value common stock.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DAYBREAK OIL AND GAS, INC.
Balance Sheets – Unaudited

	As of November 30, 2019	As of February 28, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,984	$ 30,078
Accounts receivable:		
Crude oil sales	66,470	75,410
Joint interest participants	62,182	54,883
Prepaid expenses and other current assets	65,195	23,176
Total current assets	204,831	183,547
LONG-TERM ASSETS:		
Crude oil properties, successful efforts method, net		
Proved properties	615,668	656,624
Unproved properties	55,978	55,768
Prepaid drilling costs	16,452	16,452
Operating lease, right-of-use asset	7,973	-
Total long-term assets	696,071	728,844
Total assets	$ 900,902	$ 912,391
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and other accrued liabilities	$ 1,494,129	$ 1,511,286
Accounts payable – related parties	911,841	1,920,897
Accrued interest	61,538	24,059
Notes payable – related party	-	250,100
12% Notes payable	315,000	315,000
12% Notes payable – related party	250,000	250,000
Line of credit	879,477	826,853
Production revenue payable – current, net of unamortized discount	283,315	247,868
Operating lease liability – current	7,973	-
Total current liabilities	4,203,273	5,346,063
LONG TERM LIABILITIES:		
Note payable	120,000	120,000
Production revenue payable, net of unamortized discount and current portion	1,080,031	528,720
Asset retirement obligation	32,849	29,595
Total long-term liabilities	1,232,880	678,315
Total liabilities	5,436,153	6,024,378
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Preferred stock – 10,000,000 shares authorized, $0.001 par value;	-	-
Series A Convertible Preferred stock – 2,400,000 shares authorized, $0.001 par value, 6% cumulative dividends; 709,568 shares issued and outstanding	710	710
Common stock – 200,000,000 shares authorized; $0.001 par value, 53,532,364 and 51,532,364 shares issued and outstanding, respectively	53,532	51,532
Additional paid-in capital	24,219,852	22,997,759
Accumulated deficit	(28,809,345)	(28,161,988)
Total stockholders' deficit	(4,535,251)	(5,111,987)
Total liabilities and stockholders' deficit	$ 900,902	$ 912,391

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

DAYBREAK OIL AND GAS, INC.
Statements of Operations – Unaudited

	For the Three Months Ended November 30,		For the Nine Months Ended November 30,	
	2019	2018	2019	2018
REVENUE:				
Crude oil sales	$ 141,964	$ 192,436	$ 501,377	$ 586,139
OPERATING EXPENSES:				
Production	44,733	41,337	134,276	115,893
Exploration and drilling (G&G)	9	-	123	992
Depreciation, depletion, and amortization (DD&A)	13,288	18,144	44,210	55,669
General and administrative	156,622	214,304	545,055	661,674
Total operating expenses	214,652	273,785	723,664	834,228
OPERATING LOSS	(72,688)	(81,349)	(222,287)	(248,089)
OTHER EXPENSE:				
Interest expense, net	(152,135)	(576,795)	(425,070)	(1,740,260)
NET LOSS	(224,823)	(658,144)	(647,357)	(1,988,349)
Cumulative convertible preferred stock dividend requirement	(31,841)	(31,841)	(96,223)	(96,223)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (256,664)	$ (689,985)	$ (743,580)	$ (2,084,572)
NET LOSS PER COMMON SHARE, basic and diluted	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic and diluted	53,532,364	51,532,364	53,092,364	51,532,364

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

DAYBREAK OIL AND GAS, INC.
Statements of Changes in Stockholders' Deficit - Unaudited
For the Three Months and Nine Months Ended November 30, 2019 and November 30, 2018

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumulated	
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Deficit**	**Total**
BALANCE, FEBRUARY 28, 2019	709,568	$ 710	51,532,364	$ 51,532	$ 22,997,759	$ (28,161,988)	$ (5,111,987)
Issuance of common stock for:							
Accounts payable settlement	-	-	2,000,000	2,000	4,000	-	6,000
Net loss	-	-	-	-	-	(263,585)	(263,585)
BALANCE, MAY 31, 2019	709,568	$ 710	53,532,364	$ 53,532	$ 23,001,759	$ (28,425,573)	$ (5,369,572)
Forgiveness of liabilities to related parties	-	-	-	-	1,215,145	-	1,215,145
Net loss	-	-	-	-	-	(158,949)	(158,949)
BALANCE, AUGUST 31, 2019	709,568	$ 710	53,532,364	$ 53,532	$ 24,216,904	$ (28,584,522)	$ (4,313,376)
Issuance of warrants for:							
Investor relations services	-	-	-	-	2,948	-	2,948
Net Loss	-	-	-	-	-	(224,823)	(224,823)
BALANCE, NOVEMBER 30, 2019	709,568	$ 710	53,532,364	$ 53,532	$ 24,219,852	$ (28,809,345)	$ (4,535,251)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumulated	
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Deficit**	**Total**
BALANCE, FEBRUARY 28, 2018	709,568	$ 710	51,532,364	$ 51,532	$ 22,997,759	$ (38,334,383)	$ (15,284,382)
Net loss	-	-	-	-	-	(708,663)	(708,663)
BALANCE, MAY 31, 2018	709,568	710	51,532,364	51,532	22,997,759	(39,043,046)	(15,993,045)
Net loss	-	-	-	-	-	(621,542)	(621,542)
BALANCE, AUGUST 31, 2018	709,568	$ 710	51,532,364	$ 51,532	$ 22,997,759	$ (39,664,588)	$ (16,614,587)
Net loss	-	-	-	-	-	(658,144)	(658,144)
BALANCE, NOVEMBER 30, 2018	709,568	$ 710	51,532,364	$ 51,532	$ 22,997,759	$ (40,322,732)	$ (17,272,731)

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

DAYBREAK OIL AND GAS, INC.
Statements of Cash Flows – Unaudited

	Nine Months Ended	
	November 30, 2019	November 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (647,357)	$ (1,988,349)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion, amortization and impairment expense	44,210	55,669
Amortization of debt discount	336,658	10,903
Operating lease expense in conjunction with right of use asset	5,814	-
Warrant issued for investor relations services	2,948	-
Changes in assets and liabilities:		
Accounts receivable – crude oil sales	8,940	13,853
Accounts receivable – joint interest participants	(7,299)	2,683
Prepaid expenses and other current assets	(42,019)	(1,196)
Accounts payable and other accrued liabilities	112,048	1,069
Accounts payable – related parties	82,674	180,896
Operating lease liability in conjunction with right of use asset	(5,814)	-
Accrued interest	61,103	1,691,486
Net cash used in operating activities	(48,094)	(32,986)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to crude oil properties	-	(12,227)
Net cash used in investing activities	-	(12,227)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to line of credit	74,000	33,300
Payments on line of credit	(45,000)	(95,000)
Net cash provided by (used in) financing activities	29,000	(61,700)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19,094)	(106,913)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,078	148,564
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 10,984	$ 41,651
CASH PAID FOR:		
Interest	$ 26,978	$ 60,568
Income taxes	$ -	$ -
SUPPLEMENTAL CASH FLOW INFORMATION:		
Unpaid additions to crude oil properties	$ 210	$ -
Non-cash increase to line of credit due to monthly interest	$ 23,624	$ 22,680
Operating lease – right of use asset and associated liabilities	$ 13,787	$ -
Forgiveness of liabilities to related parties	$ 1,215,145	$ -
Settlement of related party debt with production revenue interest	$ 250,100	$ -
Common stock issued for settlement of accounts payable	$ 6,000	$ -

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

DAYBREAK OIL AND GAS, INC.
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION:

Organization

Originally incorporated as Daybreak Uranium, Inc., ("Daybreak Uranium") under the laws of the State of Washington on March 11, 1955, Daybreak Uranium was organized to explore for, acquire, and develop mineral properties in the Western United States. During 2005, management of the Company decided to enter the crude oil exploration and production industry. On October 25, 2005, the Company shareholders approved a name change from Daybreak Mines, Inc. to Daybreak Oil and Gas, Inc. (referred to herein as "Daybreak" or the "Company") to better reflect the business of the Company.

All of the Company's crude oil production is sold under contracts which are market-sensitive. Accordingly, the Company's financial condition, results of operations, and capital resources are highly dependent upon prevailing market prices of, and demand for, crude oil. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond the control of the Company. These factors include the level of global demand for petroleum products, foreign supply of crude oil, the establishment of and compliance with production quotas by crude oil-exporting countries, the relative strength of the U.S. dollar, weather conditions, the price and availability of alternative fuels, and overall economic conditions, both foreign and domestic.

Basis of Presentation

The accompanying unaudited interim financial statements and notes for the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q for quarterly reports under Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). Accordingly, they do not include all of the information and footnote disclosures normally required by accounting principles generally accepted in the United States of America for complete financial statements.

In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements have been included and such adjustments are of a normal recurring nature. Operating results for the nine months ended November 30, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending February 29, 2020.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2019.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. These estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The accounting policies most affected by management's estimates and assumptions are as follows:

- The reliance on estimates of proved reserves to compute the provision for depreciation, depletion and amortization ("DD&A") and to determine the amount of any impairment of proved properties;
- The valuation of unproved acreage and proved crude oil properties to determine the amount of any impairment of crude oil properties;
- Judgment regarding the productive status of in-progress exploratory wells to determine the amount of any provision for abandonment; and
- Estimates regarding abandonment obligations.

Earnings per Share

The Company follows ASC Topic 260, *Earnings per Share*, to account for the earnings per share. Basic earnings per common share ("EPS") calculations are determined by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share calculations are determined by dividing net income (loss) by the weighted average number of common shares and dilutive common share equivalents outstanding. During periods when common stock equivalents, if any, are anti-dilutive they are not considered in the computation.

NOTE 2 — GOING CONCERN:

Financial Condition

The Company's financial statements for the nine months ended November 30, 2019 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company has incurred net losses since entering the crude oil exploration industry and as of November 30, 2019 has an accumulated deficit of $28,809,345 and a working capital deficit of $3,998,442 which raises substantial doubt about the Company's ability to continue as a going concern.

Management Plans to Continue as a Going Concern

The Company continues to implement plans to enhance its ability to continue as a going concern. Daybreak currently has a net revenue interest ("NRI") in 20 producing crude oil wells in its East Slopes Project located in Kern County, California (the "East Slopes Project"). The revenue from these wells has created a steady and reliable source of revenue. The Company's average working interest ("WI") in these wells is 36.6% and the average net revenue interest ("NRI") is 28.4% for these same wells.

The Company anticipates its revenue will continue to increase as the Company participates in the drilling of more wells in the East Slopes Project in California and as our exploratory drilling project begins in Michigan. However, given the current volatility and instability in hydrocarbon prices, the timing of any drilling activity in California and Michigan will be dependent on a sustained improvement in hydrocarbon prices and a success in securing financing for its drilling programs.

The Company believes that our liquidity will improve when there is a sustained improvement in hydrocarbon prices. Daybreak's sources of funds in the past have included the debt or equity markets and the sale of assets. While the Company has experienced revenue growth, which has resulted in positive cash flow from its crude oil properties, it has not yet established positive cash flow on a company-wide basis. It will be necessary for the Company to obtain additional funding from the private or public debt or equity markets in the future. However, the Company cannot offer any assurance that it will be successful in executing the aforementioned plans to continue as a going concern.

Daybreak's financial statements as of November 30, 2019 do not include any adjustments that might result from the inability to implement or execute the Company's plans to improve its ability to continue as a going concern.

NOTE 3 — RECENT ACCOUNTING PRONOUNCEMENTS:

Accounting Standards Issued and Adopted

On June 20, 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this ASU expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. For public entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2018. ASC Topic 718 became effective for the Company on March 1, 2019 and did not have a material impact on the Company's financial statements.

On March 13, 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740). The ASU adds seven paragraphs to the Accounting Standards Codification ("ASC") 740, Income Taxes, that contain SEC guidance related to Staff Accounting Bulletin 118 ("Income Tax Accounting Implications of the Tax Cuts and Jobs Act") as a result of the tax legislation passed in 2017 known as the "Tax Cuts and Jobs Act" (the "Act"). Specifically, the staff intended to address situations where the accounting under ASC Topic 740 is incomplete for certain income tax effects of the Act upon issuance of an entity's financial statements for the reporting period in which the Act was enacted. The Company notes that it has considered the updates to ASC 740 as a result of the Act and has prepared its financial statements in accordance with the Act.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" and subsequent amendments to the initial guidance: ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, Topic 842). ASU 2016-02 increases the transparency and comparability of leases among entities and requires an entity to recognize a right-of-use asset ("ROU") and lease liability for all leases and provide enhanced disclosures. Recognition, measurement, and presentation of expenses depends on classification as a finance lease or an operating lease. The Company has determined that it has only operating leases. ASC 842 supersedes the lease accounting guidance in ASC 840 "Leases". On March 1, 2019, the Company adopted Topic 842 using the modified retrospective approach and the impact of the adoption of ASC 842 resulted in the recognition of a right of use asset and lease payable obligation on the Company's Balance Sheets of approximately $13,787. Results for reporting periods after March 1, 2019 are presented under Topic 842, while prior periods have not been adjusted. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification. Refer to Note 9 — Leases.

NOTE 4 — CONCENTRATION RISK:

Substantially all of the Company's trade accounts receivable result from crude oil sales or joint interest billings to its working interest partners. This concentration of customers and joint interest owners may impact the Company's overall credit risk as these entities could be affected by similar changes in economic conditions including lower crude oil prices as well as other related factors. Trade accounts receivable are generally not collateralized.

At the Company's East Slopes project in California there is only one buyer available for the purchase of crude oil production. The Company has no natural gas production in California. At November 30, 2019 and February 28, 2019 this one customer represented 100.0% of the crude oil sales receivable balance. If this buyer is unable to resell its products or if they lose a significant sales contract, the Company may incur difficulties in selling its crude oil production.

The Company's accounts receivable balances from California crude oil sales of $66,470 and $75,410 at November 30, 2019 and February 28, 2019, respectively were from one customer, Plains Marketing; and represent crude oil sales that occurred in November and February 2019, respectively.

Joint interest participant receivables balances of $62,182 and $54,883 at November 30, 2019 and February 28, 2019, respectively represent amounts due from working interest partners in California, where the Company is the Operator. There were no allowances for doubtful accounts for the Company's trade accounts receivable at November 30, 2019 and February 28, 2019 as the joint interest owners have a history of paying their obligations.

NOTE 5 — CRUDE OIL PROPERTIES:

Crude oil property balances at November 30, 2019 and February 28, 2019 are set forth in the table below.

	November 30, 2019	February 28, 2019
Proved leasehold costs	$ 115,119	$ 115,119
Costs of wells and development	2,285,054	2,285,054
Capitalized exploratory well costs	1,341,494	1,341,494
Cost of proved crude oil properties	3,741,667	3,741,667
Accumulated depletion, depreciation, amortization and impairment	(3,125,999)	(3,085,043)
Proved crude oil properties, net	$ 615,668	$ 656,624
Michigan unproved crude oil properties	55,978	55,768
Total proved and unproved crude oil properties, net	$ 671,646	$ 712,392

NOTE 6 — ACCOUNTS PAYABLE:

On March 1, 2009, the Company became the operator for its East Slopes Project in California. Additionally, the Company then assumed certain original defaulting partners' approximate $1.5 million liability representing a 25% working interest in the drilling and completion costs associated with the East Slopes Project four earning well program. The Company subsequently sold the same 25% working interest on June 11, 2009. Of the $1.5 million liability, $244,849 remains unpaid and is included in both the November 30, 2019 and February 28, 2019 accounts payable balances. Payment of this liability has been delayed until the Company's cash flow situation improves. On October 17, 2018, a working interest partner in California filed a UCC financing statement in regards to payables owed to the partner by the Company. At November 30, 2019, the balance owed this working interest partner was $105,144 and is included in the approximate $1.5 million accounts payable balance.

NOTE 7 — ACCOUNTS PAYABLE- RELATED PARTIES:

The November 30, 2019 and February 28, 2019 accounts payable – related parties balances of approximately $0.9 million and $1.9 million respectively, were comprised primarily of deferred salaries of one of the Company's Executive Officers and certain employees; directors' fees; expense reimbursements; and deferred interest payments on a 12% Subordinated Notes owed to the Company's Chairman, President and Chief Executive Officer. On August 22, 2019, an agreement was reached between the Company and the Company's Chairman, President and Chief Executive Officer whereby all deferred salary owed by the Company to this related party was forgiven. The agreement has an effective date of June 1, 2019. This agreement resulted in a decrease of approximately $882,043 in net salary payable from the prior related party payables balance. This agreement also resulted in a decrease of $123,414 in estimated payroll taxes from accounts payable balances. Additionally, on August 22, 2019 the three Non-Employee Directors of the Company to whom director fees were owed agreed to forgive 50% (fifty percent) of the amounts owed to each individual director. These agreements had an effective date of June 1, 2019 and resulted in a reduction of $209,688 in the related party payables balance. The total amount of liability forgiveness was approximately $1.2 million and was recorded as an addition to additional paid in capital (APIC). Payment of any other deferred items has been delayed until the Company's cash flow situation improves.

NOTE 8 — SHORT-TERM AND LONG-TERM BORROWINGS:

Notes Payable – Related Party

The Company's Chairman, President and Chief Executive Officer had previously loaned the Company an aggregate $250,100 that was used for a variety of corporate purposes. In connection with its debt reduction efforts, the Company entered into a Note Payoff Agreement with this related party. Pursuant to the Note Payoff Agreement, the Company issued as payment in full of the Notes, a production payment interest in certain of the Company's production revenue from the drilling of future wells in California and Michigan. The production payment interest was granted for a deemed consideration amount of the balance of the Notes and made pursuant to a Production Payment Interest Purchase Agreement dated as of August 22, 2019. The grant was made on the same terms as the Company has sold production payment interests to other third parties in the 2018-2019 fiscal year pursuant to its previously disclosed program. For further information on the production revenue program refer to the "Production Revenue Payable" section below.

12% Subordinated Notes

The Company's 12% Subordinated Notes ("the Notes") issued pursuant to a January 2010 private placement offering to accredited investors, resulted in $595,000 in gross proceeds (of which $250,000 was from a related party) to the Company and accrue interest at 12% per annum, payable semi-annually on January 29th and July 29th. On January 29, 2015, the Company and 12 of the 13 holders of the Notes agreed to extend the maturity date of the Notes for an additional two years to January 29, 2017. Effective January 29, 2017, the maturity date of the Notes and the expiration date of the warrants that were issued in conjunction with the Notes were extended for an additional two years to January 29, 2019. The 980,000 warrants held by ten noteholders expired on January 29, 2019.

The Company has informed the Note holders that the payment of principal and final interest will be late and is subject to future financing being completed. The Notes principal of $565,000 was payable in full at the amended maturity date of the Notes, and has not been paid. Interest continues to accrue on the unpaid $565,000 principal balance. The terms of the Notes, state that should the Board of Directors decide that the payment of the principal and any unpaid interest would impair the financial condition or operations of the Company, the Company may then elect a mandatory conversion of the unpaid principal and interest into the Company's common stock at a conversion rate equal to 75% of the average closing price of the Company's common stock over the 20 consecutive trading days preceding December 31, 2018. There was no unamortized debt discount remaining at November 30, 2019 and February 28, 2019.

12% Note balances at November 30, 2019 and February 28, 2019 are set forth in the table below:

	November 30, 2019	February 28, 2019
12% Subordinated Notes	$ 315,000	$ 315,000
12% Subordinated Notes, related party	250,000	250,000
Total 12% Subordinated Notes balance	$ 565,000	$ 565,000

12% Note balances – accrued interest at November 30, 2019 and February 28, 2019 are set forth in the table below:

	November 30, 2019	February 28, 2019
Accrued interest 12% Subordinated Notes	$ 50,538	$ 21,955
Accrued interest 12% Subordinated Notes – related party	204,986	182,301
Total accrued interest 12% Subordinated Notes	$ 255,524	$ 204,256

The accrued interest owed on the 12% Subordinated Note to the related party is presented on the Company's Balance Sheets under the caption *Accounts payable – related party* rather than under the caption *Accrued interest.*

Line of Credit

The Company has an existing $890,000 line of credit for working capital purposes with UBS Bank USA ("UBS"), established pursuant to a Credit Line Agreement dated October 24, 2011 that is secured by the personal guarantee of its Chairman, President and Chief Executive Officer. On July 10, 2017, $700,000 of the outstanding line of credit balance was converted to a 24 month fixed term annual percentage interest rate of 3.244% with interest payable monthly. On July 10, 2019, the 24 month fixed term loan amount of $700,000 was renewed at the same annual percentage interest rate of 3.244% for an additional 24 months. The remaining principal balance of the line of credit has a stated reference rate of 0.249% + 337.5 basis points with interest payable monthly. The reference rate is based on the 30 day LIBOR ("London Interbank Offered Rate") and is subject to change from UBS.

During the nine months ended November 30, 2019 and 2018, the Company received advances on the line of credit of $74,000 and $33,300, respectively. During the nine months ended November 30, 2019 and 2018, the Company made payments to the line of credit of $45,000 and $95,000, respectively. Interest converted to principal for the nine months ended November 30, 2019 and 2018 was $23,624 and $22,680, respectively. At November 30, 2019 and February 28, 2019, the line of credit had an outstanding balance of $879,477 and $826,853, respectively.

Note Payable

In December 2018, the Company was able to settle an outstanding balance owed to one of its third-party vendors. This settlement resulted in a $120,000 note payable issued to the vendor. Additionally, the Company agreed to issue 2,000,000 shares of the Company's common stock to the vendor as a part of the settlement. Based on the closing price of the Company's common stock on the date of the settlement, the value of the common stock transaction was determined to be $6,000. The common stock shares were issued during the nine months ended November 30, 2019. The note has a maturity date of January 1, 2022 and bears an interest rate of 10% rate per annum. Monthly interest is accrued and payable on January 1st of each anniversary date through maturity of the note. At November 30, 2019, the accrued interest on the Note was $11,000.

Production Revenue Payable

Since December 2018, the Company has been selling interests in certain portions of its future production revenue to fund the drilling of new wells in California and Michigan and to settle some of its historical debt. The purchasers of production payment interests receive a production revenue payment on future wells to be drilled in California and Michigan in exchange for their purchase. On August 22, 2019, the Company entered into a Note Payoff Agreement with the Company's Chairman, President and Chief Executive Officer as payment in full of the $250,100 in Notes referenced above, a production payment interest in certain of the Company's production revenue from the drilling of future wells in California and Michigan. The production payment interest was granted for a deemed consideration amount of the balance of the Notes. The grant was made on the same terms as the Company has sold production payment interests to other third parties in the 2018-2019 fiscal year pursuant to its previously disclosed program. As of November 30, 2019, the production revenue payment program balance was $950,100 of which $550,100 was owed to a related party - the Company's Chairman, President and Chief Executive Officer.

The production payment interest entitles the purchasers to receive production payments equal to twice their original amount paid, payable from a percentage of the Company's future net production payments from wells drilled after the date of the purchase and until the Production Payment Target (as described below) is met. The Company shall pay fifty percent of its net production payments from the relevant wells to the purchasers until each purchaser has received two times the purchase price (the "Production Payment Target"). Once the Company pays the purchasers amounts equal to the Production Payment Target, it shall thereafter pay a pro-rated eight percent of $1.3 million on its net production payments from the relevant wells to each of the purchasers. However, if the Production Payment Target is not met within the first three years, the Company shall pay seventy-five percent of its production payments from the relevant wells to the purchasers until the Production Payment Target is met.

The Company accounted for the amounts received from these sales in accordance with ASC 470-10-25 and 470-10-35 which require amounts recorded as debt to be amortized under the interest method as described in ASC 835-30, Interest Method. Consequently, the program balance of $950,100 has been recognized as a production revenue payable. The Company determined an effective interest rate based on future expected cash flows to be paid to the holders of the production payment interests. This rate represents the discount rate that equates estimated cash flows with the initial proceeds received from the sales and is used to compute the amount of interest to be recognized each period. Estimating the future cash outflows under this agreement requires the Company to make certain estimates and assumptions about future revenues and payments and such estimates are subject to significant variability. Therefore, the estimates are likely to change which may result in future adjustments to the accretion of the interest expense and the amortized cost based carrying value of the related payables.

Accordingly, the Company has estimated the cash flows associated with the production revenue payments and determined a discount of $1,666,614 which is being accounted as interest expense over the estimated period over which payments will be made based on expected future revenue streams. For the nine months ended November 30, 2019, amortization of the debt discount on these payables amounted to $336,658 which has been included in interest expense in the statements of operations.

Production revenue payable balances at November 30, 2019 and February 28, 2019 are set forth in the table below:

	November 30, 2019	February 28, 2019
Estimated payments of production revenue payable	$ 2,616,714	$ 2,020,353
Less: unamortized discount	(1,253,368)	(1,243,765)
	1,363,346	776,588
Less: current portion	(283,315)	(247,868)
Net production revenue payable – long term	$ 1,080,031	$ 528,720

Encumbrances

On October 17, 2018, a working interest partner in California filed a UCC financing statement in regards to payable amounts owed to the partner by the Company. As of November 30, 2019, we had no encumbrances on our crude oil project in Michigan.

NOTE 9 — LEASES:

The Company leases approximately 988 rentable square feet of office space from an unaffiliated third party for our corporate office located in Spokane Valley, Washington. Additionally, we lease approximately 416 and 695 rentable square feet from unaffiliated third parties for our regional operations office in Friendswood, Texas and storage and auxiliary office space in Wallace, Idaho, respectively. The lease in Friendswood is a 24 month lease that expires in October 2020. The Company's lease for Friendswood does not include an option to renew. The Spokane Valley and Wallace leases are currently on a month-to-month basis. The Company's lease agreements do not contain any residual value guarantees, restrictive covenants or variable lease payments. The Company has not entered into any financing leases.

The Company determines if an arrangement is a lease at inception. Operating leases are recorded in operating lease right of use assets, net, operating lease liability – current, and operating lease liability – long-term on its balance sheet.

Operating lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate used at adoption was 5.85%. Significant judgement is required when determining the Company's incremental borrowing rate. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Balance Sheet classification of lease assets and liabilities was as follows:

		November 30, 2019
Assets		
Operating lease right-of-use assets, beginning balance	$	13,787
Current period amortization		(5,814)
Total operating lease right-of-use asset	$	7,973
Liabilities		
Operating lease liability — current	$	7,973
Operating lease liability — long-term		-
Total lease liabilities	$	7,973

Future minimum lease payments as of November 30, 2019 under non-cancellable operating leases are as follows:

Fiscal Year Ended		Annual Office Lease Obligation
February 29, 2020	$	2,325
February 28, 2021		6,200
Total lease payments		8,525
Less: imputed interest		552
Operating lease liability		7,973
Less: operating lease liability — current		7,973
Operating lease liability, long-term	$	-

Rent expense for the nine months ended November 30, 2019 and 2018 was $17,842.

NOTE 10 — STOCKHOLDERS' DEFICIT:

Preferred Stock

The Company is authorized to issue up to 10,000,000 shares of preferred stock with a par value of $0.001. The Company's preferred stock may be entitled to preference over the common stock with respect to the distribution of assets of the Company in the event of liquidation, dissolution, or winding-up of the Company, whether voluntarily or involuntarily, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding-up its affairs. The authorized but unissued shares of preferred stock may be divided into and issued in designated series from time to time by one or more resolutions adopted by the Board of Directors. The directors in their sole discretion shall have the power to determine the relative powers, preferences, and rights of each series of preferred stock.

Series A Convertible Preferred Stock

The Company has designated 2,400,000 shares of the 10,000,000 preferred shares as Series A Convertible Preferred Stock ("Series A Preferred"), with a $0.001 par value. At November 30, 2019 and February 28, 2019, there were 709,568 shares issued and outstanding, respectively, that had not been converted into our common stock. As of November 30, 2019, there are 44 accredited investors who have converted 690,197 Series A Preferred shares into 2,070,591 shares of Daybreak common stock.

The conversions of Series A Preferred that have occurred since the Series A Preferred was first issued in July 2006 are set forth in the table below.

Fiscal Period Ended	Shares of Series A Preferred Converted to Common Stock	Shares of Common Stock Issued from Conversion	Number of Accredited Investors
Periods prior to February 29, 2014	662,200	1,986,600	41
February 28, 2015	3,000	9,000	1
February 29, 2016	10,000	30,000	1
February 28, 2017	-	-	-
February 28, 2018	14,997	44,991	1
February 28, 2019	-	-	-
November 30, 2019	-	-	-
Totals	690,197	2,070,591	44

Holders of Series A Preferred shall accrue dividends, in the amount of 6% of the original purchase price per annum. Dividends may be paid in cash or common stock at the discretion of the Company. Dividends are cumulative whether or not in any dividend period or periods the Company has assets legally available for the payment of such dividends. Accumulations of dividends on Series A Preferred do not bear interest. Dividends are payable upon declaration by the Board of Directors.

As of November 30, 2019 no dividends have been declared or paid. Dividends earned since issuance for each fiscal year and the nine months ended November 30, 2019 are set forth in the table below:

Fiscal Period Ended	**Shareholders at Period End**	**Accumulated Dividends**
Periods prior to February 28, 2014		$ 1,447,943
February 28, 2015	58	132,634
February 29, 2016	57	130,925
February 28, 2017	57	130,415
February 28, 2018	56	128,231
February 28, 2019	56	127,714
November 30, 2019	56	96,223
		$ 2,194,085

Common Stock

The Company is authorized to issue up to 200,000,000 shares of $0.001 par value common stock of which 53,532,364 and 51,532,364 shares were issued and outstanding as of November 30, 2019 and February 28, 2019, respectively.

	Common Stock Balance	**Par Value**
Common stock, Issued and Outstanding, February 28, 2018	51,532,364	
Conversion of Series A Convertible Preferred Stock to common stock	-	$ -
Common stock, Issued and Outstanding, February 28, 2019	51,532,364	
Issuance of common stock to settle accounts payable	2,000,000	$ 2,000
Common stock, Issued and Outstanding, November 30, 2019	53,532,364	

NOTE 11 — WARRANTS:

Warrants outstanding as of November 30, 2019 are set forth in the table below:

	Warrants	**Exercise Price**	**Remaining Life (Years)**	**Warrants Remaining**
Warrants issued for investor relations services	2,100,000	$0.01	4.08	2,100,000
	2,100,000			2,100,000

Warrant activity for the nine months ended November 30, 2019 is set forth in the table below:

	Number of Warrants	**Weighted Average Exercise Price**
Warrants outstanding, February 28, 2019	-	
Changes during the nine months ended November 30, 2019:	-	-
Issued	2,100,000	$0.01
Expired / Cancelled / Forfeited	-	
Warrants outstanding, November 30, 2019	2,100,000	$0.01
Warrants exercisable, November 30, 2019		

During the nine months ended November 30, 2019 there were 2.1 million warrants issued to a third party for investor relations services. The fair value of the warrants was determined by the Black-Scholes pricing model, was $17,689, and is being amortized over the three year vesting period of the warrants. The Black-Scholes valuation encompassed the following assumptions: a risk free interest rate of 1.68%; volatility rate of 260.23%; and a dividend yield of 0.0%. The warrants vest in equal parts over a three year period beginning on January 2, 2020 and all warrants expire on January 2, 2024. As of November 30, 2019, the outstanding warrants have a weighted average exercise price of $0.01, a weighted average remaining life of 4.08 years, and an intrinsic value of -$0-. For the nine months ended November 30, 2019, the recorded amount of warrant expense was $2,948.

NOTE 12 — INCOME TAXES:

On December 22, 2017, the federal government enacted a tax bill H.R.1, an act to provide for reconciliation pursuant to Titles II and V of the concurrent resolution on the budget for fiscal year 2018, commonly referred to as the Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act contains significant changes to corporate taxation, including, but not limited to, reducing the U.S. federal corporate income tax rate from 35% to 21% and modifying or limiting many business deductions. The Company has re-measured its deferred tax liabilities based on rates at which they are expected to be utilized in the future, which is generally 21%.

Reconciliation between actual tax expense (benefit) and income taxes computed by applying the U.S. federal income tax rate and state income tax rates to income from continuing operations before income taxes is set forth in the table below:

	November 30, 2019	February 28, 2019
Computed at U.S. and state statutory rates	$ (193,171)	$ 3,035,442
Permanent differences	102,562	25,116
New tax law adjustment	-	-
Changes in valuation allowance	90,609	(3,060,558)
Total	$ -	$ -

Tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred liabilities are set forth in the table below:

	November 30, 2019	February 28, 2019
Deferred tax assets:		
Net operating loss carryforwards	$ 5,443,199	$ 5,361,767
Crude oil properties	47,414	38,237
Stock based compensation	66,187	66,187
Other	27,838	27,838
Less valuation allowance	(5,584,638)	(5,494,029)
Total	$ -	$ -

At November 30, 2019, the Company had estimated net operating loss (“NOL”) carryforwards for federal and state income tax purposes of approximately $18,241,286 which will begin to expire, if unused, beginning in 2024. Under the Tax Cuts and Jobs Act, the NOL portion of the loss incurred in the 2018 period of $340,749 and the loss incurred for the nine months ended November 30, 2019 in the amount of $272,897 will not expire and will carry over indefinitely. The valuation allowance increased approximately $90,609 for the nine months ended November 30, 2019 and decreased approximately $3,060,558 for the year ended February 28, 2019, respectively. Section 382 of the Internal Revenue Code places annual limitations on the Company’s net operating loss (NOL) carryforward.

The above estimates are based on management’s decisions concerning elections which could change the relationship between net income and taxable income. Management decisions are made annually and could cause estimates to vary significantly. The Company files federal income tax returns with the United States Internal Revenue Service and state income tax returns in various state tax jurisdictions. As a general rule the Company’s tax returns for the fiscal years after 2014 currently remain subject to examinations by appropriate tax authorities. None of our tax returns are under examination at this time.

NOTE 13 — COMMITMENTS AND CONTINGENCIES:

Various lawsuits, claims and other contingencies arise in the ordinary course of the Company’s business activities. While the ultimate outcome of any future contingency is not determinable at this time, management believes that any liability or loss resulting therefrom will not materially affect the financial position, results of operations or cash flows of the Company.

The Company, as an owner or lessee and operator of crude oil properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under a crude oil lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. The Company maintains insurance coverage that is customary in the industry, although the Company is not fully insured against all environmental risks.

The Company is not aware of any environmental claims existing as of November 30, 2019. There can be no assurance, however, that current regulatory requirements will not change or that past non-compliance with environmental issues will not be discovered on the Company’s crude oil properties.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is management's assessment of the current and historical financial and operating results of the Company and of our financial condition. It is intended to provide information relevant to an understanding of our financial condition, changes in our financial condition and our results of operations and cash flows and should be read in conjunction with our unaudited financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q for the nine months ended November 30, 2019 and in our Annual Report on Form 10-K for the year ended February 28, 2019. References to "Daybreak", the "Company", "we", "us" or "our" mean Daybreak Oil and Gas, Inc.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained in our Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") are intended to be covered by the safe harbor provided for under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act.

All statements other than statements of historical fact contained in this MD&A report are inherently uncertain and are forward-looking statements. Statements that relate to results or developments that we anticipate will or may occur in the future are not statements of historical fact. Words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and similar expressions identify forward-looking statements. Examples of forward-looking statements include, without limitation, statements about the following:

- Our future operating results;
- Our future capital expenditures;
- Our future financing;
- Our expansion and growth of operations; and
- Our future investments in and acquisitions of crude oil properties.

We have based these forward-looking statements on assumptions and analyses made in light of our experience and our perception of historical trends, current conditions, and expected future developments. However, you should be aware that these forward-looking statements are only our predictions and we cannot guarantee any such outcomes. Future events and actual results may differ materially from the results set forth in or implied in the forward-looking statements. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following risks and uncertainties:

- General economic and business conditions;
- Exposure to market risks in our financial instruments;
- Fluctuations in worldwide prices and demand for crude oil;
- Our ability to find, acquire and develop crude oil properties;
- Fluctuations in the levels of our crude oil exploration and development activities;
- Risks associated with crude oil exploration and development activities;
- Competition for raw materials and customers in the crude oil industry;
- Technological changes and developments in the crude oil industry;
- Legislative and regulatory uncertainties, including proposed changes to federal tax law and climate change legislation, regulation of hydraulic fracturing and potential environmental liabilities;
- Our ability to continue as a going concern;
- Our ability to secure financing under any commitments as well as additional capital to fund operations; and
- Other factors discussed elsewhere in this Form 10-Q; in our other public filings and press releases; and discussions with Company management.

Our reserve estimates are determined through a subjective process and are subject to revision.

Should one or more of the risks or uncertainties described above or elsewhere in our Form 10-K for the year ended February 28, 2019 and in this Form 10-Q for the nine months ended November 30, 2019 occur, or should any underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. We specifically undertake no obligation to publicly update or revise any information contained in any forward-looking statement or any forward-looking statement in its entirety, whether as a result of new information, future events, or otherwise, except as required by law.

All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

Introduction and Overview

We are an independent crude oil exploration, development and production company. Our basic business model is to increase shareholder value by finding and developing crude oil reserves through exploration and development activities, and selling the production from those reserves at a profit. To be successful, we must, over time, be able to find crude oil reserves and then sell the resulting production at a price that is sufficient to cover our finding costs, operating expenses, administrative costs and interest expense, plus offer us a return on our capital investment. A secondary means of generating returns can include the sale of either producing or non-producing lease properties.

Our longer-term success depends on, among many other factors, the acquisition and drilling of commercial grade crude oil properties and on the prevailing sales prices for crude oil along with associated operating expenses. The volatile nature of the energy markets makes it difficult to estimate future prices of crude oil and natural gas; however, any prolonged period of depressed prices or market volatility, would have a material adverse effect on our results of operations and financial condition.

Our operations are focused on identifying and evaluating prospective crude oil properties and funding projects that we believe have the potential to produce crude oil or natural gas in commercial quantities. We conduct all of our drilling, exploration and production activities in the United States, and all of our revenues are derived from sales to customers within the United States. Currently, we are in the process of developing a multi-well oilfield project in Kern County, California and an exploratory joint drilling project in Michigan.

Our management cannot provide any assurances that Daybreak will ever operate profitably. While we have positive cash flow from our continuing crude oil operations in California, we have not yet generated sustainable positive cash flow or earnings on a company-wide basis. As a small company, we are more susceptible to the numerous business, investment and industry risks that have been described in Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended February 28, 2019 and in Part III, Item 1A. Risk Factors of this 10-Q Report. Throughout this Quarterly Report on Form 10-Q, crude oil is shown in barrels ("Bbls"); natural gas is shown in thousands of cubic feet ("Mcf") unless otherwise specified, and hydrocarbon totals are expressed in barrels of crude oil equivalent ("BOE").

Below is brief summary of our crude oil projects in California and Michigan. Refer to our discussion in Item 2. Properties, in our Annual Report on Form 10-K for the year ended February 28, 2019 for more information on our California project and exploratory joint drilling project in Michigan.

Kern County, California (East Slopes Project)

The East Slopes Project is located in the southeastern part of the San Joaquin Basin near Bakersfield, California. Drilling targets are porous and permeable sandstone reservoirs that exist at depths of 1,200 feet to 4,500 feet. Since January 2009, we have participated in the drilling of 25 wells in this project. We have been the Operator at the East Slopes Project since March 2009.

The crude oil produced from our acreage in the Vedder Sand is considered heavy oil. The gravity of the crude oil ranges from 14° to 16° API (American Petroleum Institute) gravity and must be heated to separate and remove water prior to sale. Our crude oil wells in the East Slopes Project produce from five reservoirs at our Sunday, Bear, Black, Ball and Dyer Creek locations. The Sunday property has six producing wells, while the Bear property has nine producing wells. The Black property is the smallest of all currently producing reservoirs, and currently has two producing wells at this property. The Ball property also has two producing wells while the Dyer Creek property has one producing well. During the nine months ended November 30, 2019 we had production from 20 vertical crude oil wells. Our average working interest ("WI") and net revenue interest ("NRI") in these 20 wells is 36.6% and 28.4%, respectively.

We plan on acquiring additional acreage on trend with the Bear, Black and Dyer Creek reservoirs exhibiting the same seismic characteristics. Some of these prospects, if successful, would utilize the Company's existing production facilities. In addition to the current field development, there are several other exploratory prospects that have been identified from the seismic data, which we plan to drill in the future.

California Drilling Plans

Planned drilling activity and implementation of our oilfield development plan will not begin until financing is put in place. We do not plan to make any capital investments within the East Slopes Project area in the 2020 fiscal year. If new financing is secured, we plan to spend approximately $525,000 drilling four development wells in the 2020 - 2021 fiscal year.

Michigan Acreage Acquisition

In January 2017, Daybreak acquired a 30% working interest in 1,400 acres in the Michigan Basin. The leases have been secured and multiple targets were identified through a 2-D seismic interpretation. A 3-D seismic survey was obtained in January and February of 2017. An analysis of the 3-D seismic survey confirmed the first prospect originally identified on the 2-D seismic, as well as several additional drilling locations. We have plans to obtain an additional 3-D survey on the second prospect after drilling a well on the first prospect. The two prospects are independent of each other and the success or lack of results of either prospect does not affect the potential of the other prospect. The wells will be drilled vertically with conventional completions and no hydraulic fracturing is anticipated. With the settlement of our debt obligations to a former lender in December 2018, we acquired an additional 40% working interest, bringing our aggregate working interest to 70% in Michigan. The first well is expected to be drilled in the spring of 2020 if new financing is secured.

Encumbrances

On October 17, 2018, a working interest partner in California filed a UCC financing statement in regards to payables owed to the partner by the Company. As of November 30, 2019, we had no encumbrances on our crude oil project in Michigan.

Results of Operations – Nine months ended November 30, 2019 compared to the nine months ended November 30, 2018

California Crude Oil Prices

The price we receive for crude oil sales in California is based on prices posted for Midway-Sunset crude oil delivery contracts, less deductions that vary by grade of crude oil sold and transportation costs. The posted Midway-Sunset price generally moves in correlation to, and at a discount to, prices quoted on the New York Mercantile Exchange ("NYMEX") for spot West Texas Intermediate ("WTI") Cushing, Oklahoma delivery contracts. We do not have any natural gas revenues in California.

There has been a significant amount of volatility in crude oil prices and a dramatic decline in our realized sale price of crude oil since June of 2014, when the monthly average price of WTI crude oil was $105.79 per barrel and our realized price per barrel of crude oil was $98.78. This decline in the price of crude oil has had a substantial negative impact on our cash flow from our producing California properties. While there has been an overall improvement in crude oil prices since February 2016 when the monthly average price of WTI crude oil was $30.32, there is no guarantee that this trend will continue. Most recently, the monthly average WTI price of crude oil has declined from $70.75 in October 2018 to $53.96 in October 2019 demonstrating the continued volatility in crude oil prices. It is beyond our ability to accurately predict how long crude oil prices will continue to remain at these lower price levels; when or at what level they may begin to stabilize; or when they may rebound to 2014 levels, as there are many factors beyond our control that dictate the price we receive on our crude oil sales.

A comparison of the average WTI price and average realized crude oil sales price for the nine months ended November 30, 2019 and 2018 is shown in the table below:

	Nine Months Ended		
	November 30, 2019	November 30, 2018	Percentage Change
Average nine month WTI crude oil price (Bbl)	$ 57.51	$ 67.09	(14.3%)
Average nine month realized crude oil sales price (Bbl)	$ 60.77	$ 67.83	(10.4%)

For the nine months ended November 30, 2019, the average WTI price was $57.51 and our average realized crude oil sale price was $60.77, representing a premium of $3.26 per barrel or 5.7% higher than the average WTI price. In comparison, for the nine months ended November 30, 2018, the average WTI price was $67.09 and our average realized sale price was $67.83 representing a premium of $0.74 per barrel or 1.1% higher than the average WTI price. Historically, the sale price we receive for California heavy crude oil has been less than the quoted WTI price because of the lower API gravity of our California crude oil in comparison to the API gravity of quoted WTI crude oil.

California Crude Oil Revenue and Production

Crude oil revenue in California for the nine months ended November 30, 2019 decreased $84,762 or 14.5% to $501,377 in comparison to revenue of $586,139 for the nine months ended November 30, 2018. The average sale price of a barrel of crude oil for the nine months ended November 30, 2019 was $60.77 in comparison to $67.83 for the nine months ended November 30, 2018. The decrease of $7.06 or 10.4% per barrel in the average realized price of a barrel of crude oil accounted for 72.0% of the decrease in crude oil revenue for the nine months ended November 30, 2019.

Our net sales volume for the nine months ended November 30, 2019 was 8,250 barrels of crude oil in comparison to 8,641 barrels sold for the nine months ended November 30, 2018. This decrease in crude oil sales volume of 391 barrels or 4.5% was primarily due to power outages, poor weather and road conditions allowing for the sale of more oil and accounted for 28.0% of the decrease in revenue for the nine months ended November 30, 2019.

The gravity of our produced crude oil in California ranges between 14° API and 16° API. Production for the nine months ended November 30, 2019 was from 20 wells resulting in 5,379 well days of production in comparison to 5,460 well days of production for the nine months ended November 30, 2018.

Our crude oil sales revenue for the nine months ended November 30, 2019 and 2018 is set forth in the following table:

	Nine Months Ended November 30, 2019		Nine Months Ended November 30, 2018	
Project	**Revenue**	**Percentage**	**Revenue**	**Percentage**
California – East Slopes Project	$ 501,377	100.0%	$ 586,139	100.0%

*Our average realized sale price on a BOE basis for the nine months ended November 30, 2019 was $60.77 in comparison to $67.83 for the nine months ended November 30, 2018, representing a decrease in revenue of $7.06 or 10.4% per barrel.

Operating Expenses

Total operating expenses for the nine months ended November 30, 2019 were $723,664 a decrease of $110,564 or 13.3% compared to $834,228 for the nine months ended November 30, 2018. Operating expenses for the nine months ended November 30, 2019 and 2018 are set forth in the table below:

	Nine Months Ended November 30, 2019			Nine Months Ended November 30, 2018		
	Expenses	**Percentage**	**BOE Basis**	**Expenses**	**Percentage**	**BOE Basis**
Production expenses	$ 134,276	18.6%		$ 115,893	13.9%	
Exploration and drilling expenses	123	0.0%		992	0.1%	
Depreciation, depletion, amortization (“DD&A”)	44,210	6.1%		55,669	6.7%	
General and administrative (“G&A”) expenses	545,055	75.3%		661,674	79.3%	
Total operating expenses	$ 723,664	100.0%	$ 87.72	$ 834,228	100.0%	$ 96.54

Production expenses include expenses associated with the production of crude oil. These expenses include contract pumpers, electricity, road maintenance, control of well insurance, property taxes and well workover expenses; and, relate directly to the number of wells that are in production. For the nine months ended November 30, 2019, these expenses increased by $18,383 or 15.9% to $134,276 in comparison to $115,893 for the nine months ended November 30, 2018. For the nine months ended November 30, 2019 and 2018, we had 20 wells on production in California. Production expense on a barrel of oil equivalent (“BOE”) basis for the nine months ended November 30, 2019 and 2018 was $16.28 and $13.41, respectively. Production expenses represented 18.6% and 13.9% of total operating expenses for the nine months ended November 30, 2019 and 2018, respectively.

Exploration and drilling expenses include geological and geophysical (“G&G”) expenses as well as leasehold maintenance, plugging and abandonment (“P&A”) expenses and dry hole expenses. For the nine months ended November 30, 2019, these expenses decreased $869 to $123 in comparison to $992 the nine months ended November 30, 2018. Exploration and drilling expenses represented 0.0% and 0.1% of total operating expenses for the nine months ended November 30, 2019 and 2018, respectively.

Depreciation, depletion and amortization (“DD&A”) expenses relate to equipment, proven reserves and property costs, along with impairment, and is another component of operating expenses. For the nine months ended November 30, 2019, DD&A expenses decreased $11,459 or 20.6% to $44,210 in comparison to $55,669 for the nine months ended November 30, 2018. On a BOE basis, DD&A expense was $5.36 and $6.44 for the nine months ended November 30, 2019 and 2018, respectively. DD&A expenses represented 6.1% and 6.7% of total operating expenses for the nine months ended November 30, 2019 and 2018, respectively.

General and administrative ("G&A") expenses include the salaries of our nine full-time employees, including management. Fifty percent (50%) of certain management salaries were being deferred by the Company for the first three months of the current fiscal year. However, effective June 1, 2019, the salary deferral program was ended and those base salaries were reduced by half or fifty percent (50%), to the amount currently being paid. Additionally, director fees are being suspended temporarily. Both of these compensation changes will be reviewed again by the Board of Directors along with the Compensation Committee of the Board of Directors, no later than June 1, 2020 and any change will be based on the financial status of the Company at that time. Other items included in our G&A expenses are legal and accounting expenses, investor relations fees, travel expenses, insurance expenses and other administrative expenses necessary for an operator of crude oil properties as well as for running a public company. For the nine months ended November 30, 2019, G&A expenses decreased $116,619 or 17.6% to $545,055 in comparison to $661,674 for the nine months ended November 30, 2018. We received, as Operator, administrative overhead reimbursement of $48,774 during the nine months ended November 30, 2019 for the East Slopes Project which was used to directly offset certain employee salaries. We are continuing a program of controlling our G&A costs wherever possible. G&A expenses represented 75.3% and 79.3% of total operating expenses for the nine months ended November 30, 2019 and 2018, respectively.

Interest expense, net for the nine months ended November 30, 2019 decreased $1,315,190 or 75.6% to $425,070 in comparison to $1,740,260 for the nine months ended November 30, 2018. The decrease in interest expense, net was due to lower interest expense since the settlement of a former credit facility loan in December 2018.

Results of Operations – Three months ended November 30, 2019 compared to the three months ended November 30, 2018

A comparison of the average WTI price and average realized crude oil sales price at our East Slopes Project in California for the three months ended November 30, 2019 and 2018 is shown in the table below:

	Three Months Ended		
	November 30, 2019	**November 30, 2018**	**Percentage Change**
Average three month WTI crude oil price (Bbl)	$ 55.98	$ 65.98	(15.2%)
Average three month realized crude oil sales price (Bbl)	$ 57.92	$ 68.76	(15.8%)

For the three months ended November 30, 2019, the average WTI price was $55.98 and our average realized crude oil sale price was $57.92, representing a premium of $1.94 per barrel or 3.5% higher than the average WTI price. In comparison, for the three months ended November 30, 2018, the average WTI price was $65.98 and our average realized sale price was $68.76 representing a premium of $2.78 per barrel or 4.2% higher than the average WTI price. Historically, the sale price we receive for California heavy crude oil has been less than the quoted WTI price because of the lower API gravity of our California crude oil in comparison to the API gravity of quoted WTI crude oil.

California Crude Oil Revenue and Production

Crude oil revenue in California for the three months ended November 30, 2019, decreased $50,472 or 26.2% to $141,964 in comparison to revenue of $192,436 for the three months ended November 30, 2018. The average sale price of a barrel of crude oil for the three months ended November 30, 2019 was $57.92 in comparison to $68.76 for the three months ended November 30, 2018. The decrease of $10.84 or 15.8% per barrel in the average realized price of a barrel of crude oil accounted for 60.1% of the decrease in crude oil revenue for the three months ended November 30, 2019.

Our net sales volume for the three months ended November 30, 2019 was 2,451 barrels of crude oil in comparison to 2,799 barrels sold for the three months ended November 30, 2018. This decrease in crude oil sales volume of 348 barrels or 12.4% accounted for 39.9% of the decrease in revenue for the three months ended November 30, 2019.

The gravity of our produced crude oil in California ranges between 14° API and 16° API. Production for the three months ended November 30, 2019 was from 20 wells resulting in 1,749 well days of production in comparison to 1,783 well days of production for the three months ended November 30, 2018.

Our crude oil sales revenue for the three months ended November 30, 2019 and 2018 are set forth in the following table:

Project	Three Months Ended November 30, 2019 Revenue	Three Months Ended November 30, 2019 Percentage	Three Months Ended November 30, 2018 Revenue	Three Months Ended November 30, 2018 Percentage
California – East Slopes Project	$ 141,964	100.0%	$ 192,436	100.0%

*Our average realized sale price on a BOE basis for the three months ended November 30, 2019 was $57.92 in comparison to $68.76 for the three months ended November 30, 2018, representing a decrease in revenue of $10.84 or 15.8% per barrel.

Operating Expenses

Total operating expenses for the three months ended November 30, 2019 were $214,652, a decrease of $59,133 or 21.6% compared to $273,785 for the three months ended November 30, 2018. Operating expenses for the three months ended November 30, 2019 and 2018 are set forth in the table below:

	Three Months Ended November 30, 2019			Three Months Ended November 30, 2018		
	Expenses	Percentage	BOE Basis	Expenses	Percentage	BOE Basis
Production expenses	$ 44,733	20.8%		$ 41,337	15.1%	
Exploration and drilling expenses	9	0.0%		-	0.0%	
Depreciation, depletion, amortization (“DD&A”)	13,288	6.2%		18,144	6.6%	
General and administrative (“G&A”) expenses	156,622	73.0%		214,304	78.3%	
Total operating expenses	$ 214,652	100.0%	$ 87.58	$ 273,785	100.0%	$ 97.82

Production expenses for the three months ended November 30, 2019, increased by $3,396 or 8.2% to $44,733 in comparison to $41,337 for the three months ended November 30, 2018. For the three months ended November 30, 2019 and 2018 we had 20 wells on production in California. Production expense on a barrel of oil equivalent (“BOE”) basis for the three months ended November 30, 2019 and 2018 were $18.25 and $14.77, respectively. Production expenses represented 20.8% and 15.1% of total operating expenses for the three months ended November 30, 2019 and 2018, respectively.

Exploration and drilling expenses for the three months ended November 30, 2019, increased $9 to $9 in comparison to $-0- for the three months ended November 30, 2018. Exploration and drilling expenses represented 0.0% and 0.0% of total operating expenses for the three months ended November 30, 2019 and 2018, respectively.

DD&A expenses for the three months ended November 30, 2019, decreased $4,856 or 26.8% to $13,288 in comparison to $18,144 for the three months ended November 30, 2018. DD&A on a BOE basis was $5.42 and $6.48 for the three months ended November 30, 2019 and 2018, respectively. The decrease in DD&A is directly related to the increase in our reserve estimates in comparison to the prior year reserves. DD&A expenses represented 6.2% and 6.6% of total operating expenses for the three months ended November 30, 2019 and 2018, respectively.

G&A expenses for the three months ended November 30, 2019, decreased $57,682 or 26.9% to $156,622 in comparison to $214,304 for the three months ended November 30, 2018. Fifty percent (50%) of certain management salaries were being deferred by the Company for the first three months of the current fiscal year. However, effective June 1, 2019, the salary deferral program was ended and those base salaries were reduced by half or fifty percent (50%), to the amount currently being paid. Additionally, director fees are being suspended temporarily. Both of these compensation changes will be reviewed again by the Board of Directors along with the Compensation Committee of the Board of Directors, no later than June 1, 2020 and any changes will be based on the financial status of the Company at that time. Other items included in our G&A expenses are legal and accounting expenses, director fees, investor relations fees, travel expenses, insurance expenses and other administrative expenses necessary for an operator of crude oil properties as well as for running a public company. We received, as Operator in California, administrative overhead reimbursement of $16,420 during the three months ended November 30, 2019 for the East Slopes Project which was used to directly offset certain employee salaries. We are continuing a program of reducing all of our G&A costs wherever possible. G&A expenses represented 73.0% and 78.3% of total operating expenses for the three months ended November 30, 2019 and 2018, respectively.

Interest expense, net for the three months ended November 30, 2019 decreased $424,660 or 73.6% to $152,135 in comparison to $576,795 for the three months ended November 30, 2018. The decrease in interest expense, net was due to lower interest expense since the settlement of a former credit facility loan in December 2018.

Due to the nature of our business, we expect that revenues, as well as all categories of expenses, will continue to fluctuate substantially on a quarter-to-quarter and year-to-year basis. Revenues are highly dependent on the volatility of hydrocarbon prices and production volumes. Production expenses will fluctuate according to the number and percentage ownership of producing wells as well as the amount of revenues we receive based on the price of crude oil. Exploration and drilling expenses will be dependent upon the amount of capital that we have to invest in future development projects, as well as the success or failure of such projects. Likewise, the amount of DD&A expense will depend upon the factors cited above including the size of our proven reserves base and the market price of energy products. G&A expenses will also fluctuate based on our current requirements, but will generally tend to increase as we expand the business operations of the Company. An on-going goal of the Company is to improve cash flow to cover the current level of G&A expenses and to fund our drilling programs in California and Michigan.

Capital Resources and Liquidity

Our primary financial resource is our proven crude oil reserve base. Our ability to fund any future capital expenditure programs is dependent upon the prices we receive from crude oil sales, the success of our drilling programs in California and Michigan and the availability of capital resource financing. There has been a significant amount of volatility in crude oil prices and dramatic decline in our realized sale price of crude oil since June of 2014, when the monthly average price of WTI crude oil was $105.79 per barrel, and our realized sale price per barrel of crude oil was $98.78. This decline in the price of crude oil has had a substantial negative impact on our cash flow from our producing California properties. While there has been an overall improvement in crude oil prices since February 2016 when the monthly average price of WTI crude oil was $30.32, there is no guarantee that this trend will continue. Most recently, the monthly average WTI price of crude oil has declined from $70.75 in October 2018 to $53.96 in October 2019 demonstrating the continued volatility in crude oil prices. It is beyond our ability to accurately predict how long crude oil prices will continue to remain at these lower price levels; when or at what level they may begin to stabilize; or when they may continue to rebound as there are many factors beyond our control that dictate the price we receive for our crude oil sales.

In the current fiscal year we do not plan any capital investments in California or Michigan. If new financing is secured, we plan to spend $525,000 in California in the 2020 - 2021 calendar year. However, our actual expenditures may vary significantly from this estimate if our plans for exploration and development activities change during the year or if we are unable to obtain financing to fund these capital investments. Factors such as changes in operating margins and the availability of capital resources could increase or decrease our ultimate level of expenditures during the current fiscal year.

Changes in our capital resources at November 30, 2019 in comparison to February 28, 2019 are set forth in the table below:

	November 30, 2019	February 28, 2019	Increase (Decrease)	Percentage Change
Cash	$ 10,984	$ 30,078	$ (19,094)	(63.5%)
Current Assets	$ 204,831	$ 183,547	$ 21,284	11.6%
Total Assets	$ 900,902	$ 912,391	$ (11,489)	(1.3%)
Current Liabilities	$ (4,203,273)	$ (5,346,063)	$ (1,142,790)	(21.4%)
Total Liabilities	$ (5,436,153)	$ (6,024,378)	$ (588,225)	(9.8%)
Working Capital Deficit	$ (3,998,442)	$ (5,162,516)	$ (1,164,074)	(22.5%)

Our working capital deficit decreased approximately $1.2 million or 22.5% to approximately $4.0 million at November 30, 2019 in comparison to approximately $5.2 million at February 28, 2019. The decrease in our working capital deficit was due to the settlement of accounts payable owed to related parties through a debt forgiveness program.

While we have ongoing positive cash flow from our crude oil operations in California, we have not yet been able to generate sufficient cash flow to cover all of our G&A and interest expense requirements. We anticipate an increase in our cash flow will occur when we are able to return to our planned drilling program that will result in an increase in the number of wells on production.

Our business is capital intensive. Our ability to grow is dependent upon favorably obtaining outside capital and generating cash flows from operating activities necessary to fund our investment activities. There is no assurance that we will be able to achieve profitability. Since our future operations will continue to be dependent on successful exploration and development activities and our ability to seek and secure capital from external sources, should we be unable to achieve sustainable profitability this could cause any equity investment in the Company to become worthless.

Major sources of funds in the past for us have included the debt or equity markets and the sale of assets. While we have positive cash flow from our operations in California, we will have to rely on the capital markets to fund future operations and growth. Our business model is focused on acquiring exploration or development properties as well as existing production. Our ability to generate future revenues and operating cash flow will depend on successful exploration, and/or acquisition of crude oil producing properties, which may very likely require us to continue to raise equity or debt capital from outside sources.

Daybreak has ongoing capital commitments to develop certain leases pursuant to their underlying terms. Failure to meet such ongoing commitments may result in the loss of the right to participate in future drilling on certain leases or the loss of the lease itself. These ongoing capital commitments will cause us to seek additional forms of financing through various methods, including issuing debt securities, equity securities, bank debt, or combinations of these instruments which could result in dilution to existing security holders and increased debt and leverage. The current volatility in the credit and capital markets as well as the decline in crude oil prices from June of 2014 price levels has restricted our ability to obtain needed capital. No assurance can be given that we will be able to obtain funding under any loan commitments or any additional financing on favorable terms, if at all. The sale of all or part of interests in our assets may be another source of cash flow available to us.

The Company's financial statements for the nine months ended November 30, 2019 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. We have incurred net losses since entering the crude oil exploration industry in 2005, and as of the nine months ended November 30, 2019, we have an accumulated deficit of $28,809,345 and a working capital deficit of $3,998,442 which raises substantial doubt about our ability to continue as a going concern.

In the current fiscal year, we will continue to seek additional financing for our planned exploration and development activities in California and Michigan. We could obtain financing through one or more various methods, including issuing debt securities, equity securities, or bank debt, or combinations of these instruments, which could result in dilution to existing security holders and increased debt and leverage. No assurance can be given that we will be able to obtain funding under any loan commitments or any additional financing on favorable terms, if at all. Sales of interests in our assets may be another source of cash flow.

Changes in Financial Condition

During the nine months ended November 30, 2019, we received crude oil sales revenue from 20 wells in California. Our commitment to improving corporate profitability remains unchanged. We experienced a decrease in revenues of $84,762 or 14.5% to $501,377 for the nine months ended November 30, 2019 in comparison to revenues of $586,139 for the nine months ended November 30, 2018. The decrease of $7.06 or 10.4% per barrel in the average realized price of a barrel of crude oil accounted for 72.0% of the decrease in crude oil revenue for the nine months ended November 30, 2019. For the nine months ended November 30, 2019, we had an operating loss of $222,287 in comparison to an operating loss of $248,089 for the nine months ended November 30, 2018.

Our balance sheet at November 30, 2019 reflects total assets of approximately $0.9 million in comparison to approximately $0.91 million at February 28, 2019. The decrease of $11,489 is primarily due to a decrease in cash and an increase in depletion offset by an increase in prepaid expenses.

At November 30, 2019, total liabilities were approximately $5.4 million in comparison to approximately $6.0 million at February 28, 2019. The decrease in liabilities of $588,225 was primarily due to debt forgiveness in related party accounts payable.

The issued and outstanding shares of common stock at November 30, 2019 increased by 2,000,000 shares in comparison to the February 28, 2019 balance of 51,532,364 shares as a result of the settlement of certain accounts payable. The common stock issuance was valued at $6,000.

Additional paid in capital (APIC) increased $1,222,093 to $24,219,852 at November 30, 2019 from $22,997,759 as a result of forgiveness of related party deferred salaries and director's fees effective June 1, 2019 and warrant issuance for investor relations services.

Cash Flows

Changes in the net funds provided by and (used in) our operating, investing and financing activities are set forth in the table below:

	Nine Months Ended November 30, 2019	Nine Months Ended November 30, 2018	Increase (Decrease)	Percentage Change
Net cash used in operating activities	$ (48,094)	$ (32,986)	15,108	45.8%
Net cash used in investing activities	$ -	$ (12,227)	(12,227)	(100.0%)
Net cash provided by (used in) financing activities	$ 29,000	$ (61,700)	90,700	147.0%

Cash Flow Used In Operating Activities

Cash flow from operating activities is derived from the production of our crude oil reserves and changes in the balances of non-cash accounts, receivables, payables or other non-energy property asset account balances. For the nine months ended November 30, 2019, cash flow used in operating activities was $48,094 in comparison to cash flow used in operating activities of $32,986 for the nine months ended November 30, 2018. This increase in our cash flow used in operating activities for the nine months ended November 30, 2019 was primarily due to an increase in our non-cash expenses related to amortization of debt discount and prepaid expenses offset by a decrease in accrued interest and a smaller net loss in comparison to the comparative period. Variations in cash flow from operating activities may impact our level of exploration and development expenditures.

Cash Flow Used In Investing Activities

Cash flow from investing activities is derived from changes in crude oil property balances and any lending activities. Cash flow used in our investing activities for the nine months ended November 30, 2019 was $-0- in comparison to cash flow used in our investing activities of $12,227 for the nine months ended November 30, 2018.

Cash Flow Provided By (Used In) Financing Activities

Cash flow from financing activities is derived from changes in long-term liability account balances or in equity account balances, excluding retained earnings. Cash flow provided by our financing activities was $29,000 for the nine months ended November 30, 2019 in comparison to cash flow used in our financing activities of $61,700 for the nine months ended November 30, 2018. This increase of $90,700 provided by our cash flow activities was primarily due to an additional cash advances received from our UBS line of credit. For the nine months ended November 30, 2019, we made total payments of $45,000 to our line of credit with UBS Bank and received advances of $74,000.

The following discussion is a summary of cash flows provided by, and used in, the Company's financing activities at November 30, 2019.

Current debt (Short-term borrowings)

Related Party Notes

The Company's Chairman, President and Chief Executive Officer had previously loaned us an aggregate $250,100 that was used for a variety of corporate purposes. In connection with its debt reduction efforts, we entered into a Note Payoff Agreement with this related party. Pursuant to the Note Payoff Agreement, we issued as payment in full under the Notes, a production payment interest in certain of our production revenue from the drilling of future wells in California and Michigan. The production payment interest was granted for a deemed consideration amount of the balance of the Notes and made pursuant to a Production Payment Interest Purchase Agreement dated as of August 22, 2019. The grant was made on the same terms as we have sold production payment interests to other third parties in the 2018-2019 fiscal year pursuant to its previously disclosed program. For further information on the production revenue program refer to the "Production Revenue Payable" section below.

12% Subordinated Notes

Our 12% Subordinated Notes ("the Notes") issued pursuant to a January 2010 private placement offering to accredited investors, resulted in $595,000 in gross proceeds (of which $250,000 was from a related party) to us and accrue interest at 12% per annum, payable semi-annually on January 29th and July 29th. On January 29, 2015, we and 12 of the 13 holders of the Notes agreed to extend the maturity date of the Notes for an additional two years to January 29, 2017. Effective January 29, 2017, the maturity date of the Notes and the expiration date of the warrants that were issued in conjunction with the Notes were extended for an additional two years to January 29, 2019. The 980,000 warrants held by ten noteholders expired on January 29, 2019.

We have informed the Note holders that the payment of principal and final interest will be late and is subject to future financing being completed. The Notes principal of $565,000 was payable in full at the amended maturity date of the Notes, and has not been paid. Interest continues to accrue on the unpaid $565,000 principal balance. The terms of the Notes, state that should the Board of Directors decide that the payment of the principal and any unpaid interest would impair the financial condition or operations of the Company, we may then elect a mandatory conversion of the unpaid principal and interest into our common stock at a conversion rate equal to 75% of the average closing price of our common stock over the 20 consecutive trading days preceding December 31, 2018. There was no unamortized debt discount remaining at November 30, 2019 and February 28, 2019.

12% Note balances at November 30, 2019 and February 28, 2019 are set forth in the table below:

	November 30, 2019	February 28, 2019
12% Subordinated Notes	$ 315,000	$ 315,000
12% Subordinated Notes, related party	250,000	250,000
Total 12% Subordinated Notes balance	$ 565,000	$ 565,000

12% Note balances – accrued interest at November 30, 2019 and February 28, 2019 are set forth in the table below:

	November 30, 2019	February 28, 2019
Accrued interest 12% Subordinated Notes	$ 50,538	$ 21,955
Accrued interest 12% Subordinated Notes – related party	204,986	182,301
Total accrued interest 12% Subordinated Notes	$ 255,524	$ 204,256

The accrued interest owed on the 12% Subordinated Note to the related party is presented on our Balance Sheets under the caption *Accounts payable – related party* rather than under the caption *Accrued interest*.

Line of Credit

The Company has an existing $890,000 line of credit for working capital purposes with UBS Bank USA ("UBS"), established pursuant to a Credit Line Agreement dated October 24, 2011 that is secured by the personal guarantee of its Chairman, President and Chief Executive Officer. On July 10, 2017 a $700,000 portion of the outstanding line of credit balance was converted to a 24 month fixed term annual percentage interest rate of 3.244% with interest payable monthly. On July 10, 2019, the 24 month fixed term loan amount of $700,000 was renewed at the same annual percentage interest rate of 3.244% for an additional 24 months. The remaining principal balance of the line of credit has a stated reference rate of 0.249% + 337.5 basis points with interest payable monthly. The reference rate is based on the 30 day LIBOR ("London Interbank Offered Rate") and is subject to change from UBS.

During the nine months ended November 30, 2019 and 2018, the Company received advances on the line of credit of $74,000 and $33,300, respectively. During the nine months ended November 30, 2019 and 2018, the Company made payments to the line of credit of $45,000 and $95,000, respectively. Interest converted to principal for the nine months ended November 30, 2019 and 2018 was $23,624 and $22,680, respectively. At November 30, 2019 and February 28, 2019, the line of credit had an outstanding balance of $879,477 and $826,853, respectively.

Note Payable

In December 2018, we were able to settle an outstanding balance owed to one of our third-party vendors. This settlement resulted in a $120,000 note payable issued to the vendor. Additionally, we agreed to issue 2,000,000 shares of the Company's common stock to the vendor as a part of the settlement. Based on the closing price of the Company's common stock on the date of the settlement, the value of the common stock transaction was determined to be $6,000. The common stock shares were issued during the nine months ended November 30, 2019. The note has a maturity date of January 1, 2022 and bears an interest rate of 10% rate per annum. Monthly interest is accrued and payable on January 1st of each anniversary date through maturity of the note. At November 30, 2019, the accrued interest on the Note was $11,000.

Production Revenue Payable

Since December 2018, the Company has been selling interests in certain portions of its future production revenue to fund the drilling of new wells in California and Michigan and to settle some of its historical debt. The purchasers of production payment interests receive a production revenue payment on future wells to be drilled in California and Michigan in exchange for their purchase. On August 22, 2019, the Company entered into a Note Payoff Agreement with the Company's Chairman, President and Chief Executive Officer as payment in full of the $250,100 in Notes referenced above, a production payment interest in certain of the Company's production revenue from the drilling of future wells in California and Michigan. The production payment interest was granted for a deemed consideration amount of the balance of the Notes. The grant was made on the same terms as the Company has sold production payment interests to other third parties in the 2018-2019 fiscal year pursuant to its previously disclosed program. As of November 30, 2019, the production revenue payment program balance was $950,100 of which $550,100 was owed to a related party - the Company's Chairman, President and Chief Executive Officer.

The production payment interest entitles the purchasers to receive production payments equal to twice their original amount paid, payable from a percentage of the Company's future net production payments from wells drilled after the date of the purchase and until the Production Payment Target (as described below) is met. The Company shall pay fifty percent of its net production payments from the relevant wells to the purchasers until each purchaser has received two times the purchase price (the "Production Payment Target"). Once the Company pays the purchasers amounts equal to the Production Payment Target, it shall thereafter pay a pro-rated eight percent of $1.3 million on its net production payments from the relevant wells to each of the purchasers. However, if the Production Payment Target is not met within the first three years, the Company shall pay seventy-five percent of its production payments from the relevant wells to the purchasers until the Production Payment Target is met.

The Company accounted for the amounts received from these sales in accordance with ASC 470-10-25 and 470-10-35 which require amounts recorded as debt to be amortized under the interest method as described in ASC 835-30, Interest Method. Consequently, the program balance of $950,100 has been recognized as a production revenue payable. The Company determined an effective interest rate based on future expected cash flows to be paid to the holders of the production payment interests. This rate represents the discount rate that equates estimated cash flows with the initial proceeds received from the sales and is used to compute the amount of interest to be recognized each period. Estimating the future cash outflows under this agreement requires the Company to make certain estimates and assumptions about future revenues and payments and such estimates are subject to significant variability. Therefore, the estimates are likely to change which may result in future adjustments to the accretion of the interest expense and the amortized cost based carrying value of the related payables.

Accordingly, the Company has estimated the cash flows associated with the production revenue payments and determined a discount of $1,666,614 which is being accounted as interest expense over the estimated period over which payments will be made based on expected future revenue streams. For the nine months ended November 30, 2019, amortization of the debt discount on these payables amounted to $336,658 which has been included in interest expense in the statements of operations.

Production revenue payable balances at November 30, 2019 and February 28, 2019 are set forth in the table below:

	November 30, 2019	February 28, 2019
Estimated payments of production revenue payable	$ 2,616,714	$ 2,020,353
Less: unamortized discount	(1,253,368)	(1,243,765)
	1,363,346	776,588
Less: current portion	(283,315)	(247,868)
Net production revenue payable – long term	$ 1,080,031	$ 528,720

Encumbrances

On October 17, 2018, a working interest partner in California filed a UCC financing statement in regards to payable amounts owed to the partner by the Company. As of November 30, 2019, we had no encumbrances on our crude oil project in Michigan.

Capital Commitments

Daybreak has ongoing capital commitments to develop certain leases pursuant to their underlying terms. Failure to meet such ongoing commitments may result in the loss of the right to participate in future drilling on certain leases or the loss of the lease itself. These ongoing capital commitments may also cause us to seek additional capital from sources outside of the Company. The current uncertainty in the credit and capital markets, and the current economic downturn in the energy sector, may restrict our ability to obtain needed capital.

Restricted Stock and Restricted Stock Unit Plan

On April 6, 2009, the Board approved the Restricted Stock and Restricted Stock Unit Plan (the "2009 Plan") allowing the executive officers, directors, consultants and employees of Daybreak and its affiliates to be eligible to receive restricted common stock and restricted common stock unit awards. Subject to adjustment, the total number of shares of Daybreak common stock that will be available for the grant of awards under the 2009 Plan may not exceed 4,000,000 shares; provided, that, for purposes of this limitation, any stock subject to an award that is forfeited in accordance with the provisions of the 2009 Plan will again become available for issuance under the 2009 Plan. We believe that awards of this type further align the interests of our employees and our shareholders by providing significant incentives for these employees to achieve and maintain high levels of performance. Restricted stock and restricted stock units also enhance our ability to attract and retain the services of qualified individuals.

At November 30, 2019, a total of 3,000,000 shares of restricted stock had been awarded under the 2009 Plan, with 2,986,220 shares outstanding and fully vested. A total of 1,013,780 common stock shares remained available at November 30, 2019 for issuance pursuant to the 2009 Plan. A summary of the 2009 Plan issuances is set forth in the table below:

Grant Date	Shares Awarded	Vesting Period	Shares Vested[(1)]	Shares Returned[(2)]	Shares Outstanding (Unvested)
4/7/2009	1,900,000	3 Years	1,900,000	-	-
7/16/2009	25,000	3 Years	25,000	-	-
7/16/2009	625,000	4 Years	619,130	5,870	-
7/22/2010	25,000	3 Years	25,000	-	-
7/22/2010	425,000	4 Years	417,090	7,910	-
	3,000,000		2,986,220[(1)]	13,780[(2)]	-

(1) Does not include shares that were withheld to satisfy such tax liability upon vesting of a restricted award by a Plan Participant, and subsequently returned to the 2009 Plan.

(2) Reflects the number of common shares that were withheld pursuant to the settlement of the number of shares with a fair market value equal to such tax withholding liability, to satisfy such tax liability upon vesting of a restricted award by a Plan Participant.

For the nine months ended November 30, 2019 and 2018, the Company did not recognize any stock compensation expense related to the above restricted stock grants since all issuances have been fully amortized.

Warrants

Warrants outstanding as of November 30, 2019 are set forth in the table below:

	Warrants	Exercise Price	Remaining Life (Years)	Warrants Remaining
Warrants issued for investor relations services	2,100,000	$0.01	4.08	2,100,000
	2,100,000			2,100,000

Warrant activity for the nine months ended November 30, 2019 is set forth in the table below:

	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, February 28, 2019	-	
Changes during the nine months ended November 30, 2019:		
Issued	2,100,000	$0.01
Expired / Cancelled / Forfeited	-	
Warrants outstanding, November 30, 2019	2,100,000	$0.01
Warrants exercisable, November 30, 2019	-	

During the nine months ended November 30, 2017 there were 2.1 million warrants issued to a third party for investor relations services. The fair value of the warrants was determined by the Black-Scholes pricing model, was $17,689, and is being amortized over the three year vesting period of the warrants. The Black-Scholes valuation encompassed the following assumptions: a risk free interest rate of 1.68%; volatility rate of 260.23%; and a dividend yield of 0.0%. The warrants vest in equal parts over a three year period beginning on January 2, 2020 and all warrants expire on January 2, 2024. As of November 30, 2019, the outstanding warrants have a weighted average exercise price of $0.01, a weighted average remaining life of 4.08 years, and an intrinsic value of -$0-. For the nine months ended November 30, 2019, the recorded amount of warrant expense was $2,948.

Management Plans to Continue as a Going Concern

We continue to implement plans to enhance Daybreak's ability to continue as a going concern. The Company currently has a net revenue interest in 20 producing crude oil wells in our East Slopes Project located in Kern County, California. The revenue from these wells has created a steady and reliable source of revenue for the Company. Our average working interest in these wells is 36.6% and the average net revenue interest is 28.4%.

We anticipate revenues will continue to increase as the Company participates in the drilling of more wells in the East Slopes Project in California and as our drilling operations begin in Michigan. However given the current volatility and instability in hydrocarbon prices, the timing of any drilling activity in California and Michigan will be dependent on a sustained improvement in hydrocarbon prices and a successful refinancing or restructuring of our credit facility.

We believe that our liquidity will improve when there is a sustained improvement in hydrocarbon prices. Our sources of funds in the past have included the debt or equity markets and the sale of assets. While the Company does have positive cash flow from its crude oil properties, it has not yet established a positive cash flow on a company-wide basis. It will be necessary for the Company to obtain additional funding from the private or public debt or equity markets in the future. However, we cannot offer any assurance that we will be successful in executing the aforementioned plans to continue as a going concern.

Our financial statements as of November 30, 2019 do not include any adjustments that might result from the inability to implement or execute Daybreak's plans to improve our ability to continue as a going concern.

Critical Accounting Policies

Refer to Daybreak's Annual Report on Form 10-K for the fiscal year ended February 28, 2019.

Off-Balance Sheet Arrangements

As of November 30, 2019, we did not have any off-balance sheet arrangements or relationships with unconsolidated entities or financial partners that have been, or are reasonably likely to have, a material effect on our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information otherwise required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

As of the end of the reporting period, November 30, 2019, an evaluation was conducted by Daybreak management, including our President and Chief Executive Officer, who is also serving as our interim principal finance and accounting officer, as to the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) of the Exchange Act. Such disclosure controls and procedures are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods specified by the SEC rules and forms. Additionally, it is vital that such information is accumulated and communicated to our management, including our President and Chief Executive Officer, in a manner to allow timely decisions regarding required disclosures. Based on that evaluation, our management concluded that our disclosure controls were effective as of November 30, 2019.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the three months ended November 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations

Our management does not expect that our disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be 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. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions.

Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Form 10-Q Report, you should carefully consider the various factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended February 28, 2019, which could materially affect our business, financial condition or future results. Our Annual Report is available from the SEC at www.sec.gov. The risks described in this report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could have a material adverse effect on our business, financial condition or future results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On November 27, 2019, the Company issued a warrant to a third party as compensation for investor relations services. The warrant grants the holder the right to purchase up to 2.1 million shares of common stock of the Company at an exercise price of $0.01 per share. The warrant expires on January 2, 2024 and is subject to a three-year vesting provision, vesting as to one-third of the shares each January 2 beginning January 2, 2020. The warrant is also subject to a blocker provision and may be exercised to the extent that such exercise would result in the holder being deemed the “beneficial owner” (as such term is defined in Section 13d-3 of the Securities Exchange Act of 1934, as amended) of more than four and ninety-nine one-hundredths percent (4.99%) of the Company’s outstanding common stock. The fair value of the warrants at the time of grant, as determined by the Black-Scholes pricing model, was $17,689.

The warrants were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, in that the sale and purchase of such securities did not involve any public offering. Also, the holder had access to information about the Company and its investment, the holder took the securities for investment and not resale, and the Company took appropriate measures to restrict the transfer of the securities.

ITEM 6. EXHIBITS

The following Exhibits are filed as part of the report:

Exhibit Number	Description
10.1[(1)]	Warrant Agreement by and between Daybreak Oil and Gas, Inc., and Bear to Bull Investor Relations, LLC, dated November 27, 2019.
31.1[(1)]	Certification of principal executive and principal financial officer as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1[(1)]	Certification of principal executive and principal financial officer as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS[(2)]	XBRL Instance Document
101.SCH[(2)]	XBRL Taxonomy Schema
101.CAL[(2)]	XBRL Taxonomy Calculation Linkbase
101.DEF[(2)]	XBRL Taxonomy Definition Linkbase
101.LAB[(2)]	XBRL Taxonomy Label Linkbase
101.PRE[(2)]	XBRL Taxonomy Presentation Linkbase

(1) Filed herewith.
(2) Furnished herewith

SIGNATURES

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

DAYBREAK OIL AND GAS, INC.

By: /s/ JAMES F. WESTMORELAND
James F. Westmoreland, its
President, Chief Executive Officer and interim
principal finance and accounting officer
(Principal Executive Officer, Principal Financial
Officer and Principal Accounting Officer)

Date: January 13, 2020

Exhibit 10.1

WARRANT

This WARRANT is dated as of November 27, 2019, between DAYBREAK OIL AND GAS, INC., a Washington corporation with its chief executive offices located at 1101 N. Argonne Rd. Suite A 211 Spokane Valley, WA 99212 (the "Company"), and BEAR TO BULL INVESTOR RELATIONS, LLC, an Illinois limited liability company with its chief executive offices located at 200 Armstrong St, Ste 1, Morris, IL 60450 (together with any successors or assigns, the "Subscriber").

W I T N E S S E T H:

WHEREAS, pursuant to an Investor Relations Agreement entered into by and between the Company and the Subscriber as of October 8, 2019 (the "Investor Relations Agreement"), the Company desires to issue this warrant to the Subscriber to purchase shares of the Company's common stock, $0.001 par value (the "Common Stock"), on the terms and conditions set forth herein, and the Subscriber desires to acquire such warrant ("Warrant" as used herein means this Warrant and all warrants issued upon division or combination of, or in substitution for, this Warrant).

NOW, THEREFORE, in consideration of the foregoing premises, the agreements herein set forth and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Grant. The Subscriber is hereby granted the right to purchase, to the extent vested subject to the vesting provisions hereof and subject to the limitations set forth herein, at any time from the date hereof until 5:00 P.M., New York City time, on January 2, 2024 (the "Expiration Date"), up to **2,100,000** shares of Common Stock (the "Shares") of the Company, at an exercise price of $.01 per Share (the "Exercise Price"). Further, notwithstanding anything to the contrary set forth in this Warrant, the Subscriber shall not be permitted to purchase Shares pursuant to this Warrant to the extent that, following such purchase, the Subscriber would be being deemed to be the "beneficial owner" (as such term is defined in Section 13d-3 of the Securities Exchange Act of 1934, as amended) of more than four and ninety-nine one-hundredths percent (4.99%) of the Company's outstanding Common Stock. The foregoing restriction may not be waived by either party.

2. Exercise Period; Vesting. The Warrant will become vested and exercisable as follows:

- as to 1/3 of the Shares on January 2, 2020;
- as to 1/3 of the Shares on January 2, 2021; and
- as to 1/3 of the Shares on January 2, 2022;

provided, however, that this Warrant shall not vest as to any Shares (and instead vesting will continue with respect to such Shares until the restriction no longer applies) to the extent such vesting would cause the Subscriber's beneficial ownership of common stock of the Company to exceed four and ninety-nine one-hundredths percent (4.99%) of the Company's outstanding Common Stock. The foregoing restriction may not be waived by either party.

3. Termination. The Warrant will expire at the close of business on the Expiration Date set forth above, or earlier as provided in this Warrant. Notwithstanding the foregoing, this Warrant will terminate on any earlier date when the Warrant has been exercised as to all Shares. Further, in the event the Investor Relations Agreement is terminated by the Subscriber for any reason, or the Company terminates the Investor Relations Agreement for Cause (as defined therein), any Shares pursuant to this Warrant that have not yet vested shall be automatically forfeited as of the date of such termination and the Warrant shall not be exercisable with respect to such Shares.

4. Incorporation by Reference. The provisions of the Investor Relations Agreement are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Warrant shall be construed in accordance with the provisions of the Investor Relations Agreement and any capitalized terms not otherwise defined in this Warrant shall have the definitions set forth in the Investor Relations Agreement. The Company shall have the authority to interpret and construe the Investor Relations Agreement and this Warrant and to make any and all determinations thereunder, and its decision shall be binding and conclusive upon the Grantee and his/her legal representative in respect of any questions arising under the Investor Relations Plan or this Warrant.

5. Exercise of Warrant.

5.1 Cash Exercise. This Warrant is exercisable as to any vested Shares at the Exercise Price per Share, payable in cash or by certified or official bank check to the order of the Company, or any combination of cash or certified or official bank check, subject to adjustment as provided in paragraph 8 hereof. Upon surrender of the Warrant Certificate with the duly executed Form of Election to Purchase in the form set forth on Exhibit A attached hereto and made a part hereof, together with payment of the Exercise Price for the Shares purchased at the Company's principal offices, currently located at 1101 N. Argonne Rd. Suite A 211 Spokane Valley, WA 99212, the registered holder of a Warrant Certificate ("Holder" or "Holders") shall be entitled to receive a certificate or certificates for the Shares so purchased. The purchase rights represented by each Warrant Certificate are exercisable at the option of the Holder thereof, in whole or in part (but not as to fractional shares of the Common Stock underlying the Warrant). In the case of the purchase of less than all the Shares purchasable under any Warrant Certificate, the Company shall cancel said Warrant Certificate upon the surrender thereof and shall execute and deliver a new Warrant Certificate of like tenor for the balance of the Shares purchasable thereunder.

6. Issuance of Certificates.

6.1 Issuance. Upon the exercise of the Warrant, the issuance of certificates for the Shares shall be made forthwith (and in any event within five (5) business days thereafter) without any charge to the Holder thereof (other than payment of the Exercise Price) including, without limitation, any tax which may be payable in respect of the issuance thereof, and such certificates shall (subject to the provisions of paragraph 7 hereof) be issued in the name of, or in such names as may be directed by, the Holder thereof; provided however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any such certificates in a name other than that of the Holder and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

6.2 Form of Certificates. The Warrant Certificates and certificates representing the Shares shall be executed on behalf of the Company by the manual or facsimile signature of the then present Chairman or Vice Chairman of the Board of Directors or President or Vice President of the Company under its corporate seal reproduced thereon, attested to by the manual or facsimile signature of the then present Secretary or Assistant Secretary of the Company. Warrant Certificates shall be dated the date of execution by the Company upon initial issuance, division, exchange, substitution or transfer. The Warrant Certificates and, upon exercise of the Warrant, in part or in whole, certificates representing the Shares shall bear a legend substantially similar to the following:

> "NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT (I) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT, (II) TO THE EXTENT APPLICABLE, PURSUANT TO RULE 144 UNDER THE ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES, OR (III) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO COUNSEL TO THE COMPANY, STATING THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES."

7. Restriction on Transfer of Warrant. The Holder of a Warrant Certificate, by its acceptance thereof, covenants and agrees that the Warrant is being acquired as an investment and not with a view to the distribution thereof, and that the Warrant may not be sold, transferred, assigned, hypothecated, pledged or otherwise disposed of (any of the foregoing, a "Transfer"), in whole or in part without the prior written consent of the Company, and complying with the Act (as defined below) and applicable state securities laws. In connection with any approved transfer or exercise of the Warrant, the Transferee and Holder agree to execute any documents which may be reasonably required by counsel to the Company to comply with the provisions of the Act (as defined below) and applicable state securities laws. In the event of any Transfer not in compliance with the foregoing that is made or attempted, whether voluntary or involuntary, and if involuntary whether by process of law in any civil or criminal suit, action or proceeding, whether in the nature of an insolvency or bankruptcy proceeding or otherwise, the Warrant shall automatically be terminated for forfeited, and the Subscriber shall have no right to any Common Stock underlying the Warrant, without any notification, payment or consideration by the Company.

8. Adjustments.

8.1 Adjustment to Number of Shares Upon Reclassification, Consolidation, Merger, etc. In case of any reclassification of the outstanding shares of Common Stock (other than a change in par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), or in the case of any consolidation of the Company with, or merger of the Company into, another corporation (other than a consolidation or merger in which the Company is the surviving corporation and which does not result in any reclassification or change of the outstanding shares of Common Stock, except a change as a result of a subdivision or combination of such shares or a change in par value, as aforesaid), or in the case of a sale or conveyance to another corporation of the property of the Company as an entirety, the Holders shall thereafter have the right to receive, upon exercise of the Warrant, the kind and number of shares of stock and other securities and property that such Holders would have been entitled to receive upon such reclassification, consolidation, merger, sale or conveyance had the Warrant been exercised immediately prior to any record date for such event.

8.2 Adjustment to Exercise Price and Shares Upon Dividend, Subdivision or Combination of Common Stock. If the Company shall, at any time or from time to time after the date hereof, (i) pay a dividend or make any other distribution upon the Common Stock payable in shares of Common Stock, or (ii) subdivide (by any stock split, recapitalization or otherwise) its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to any such dividend, distribution or subdivision shall be proportionately reduced and the number of Shares issuable upon exercise of this Warrant shall be proportionately increased. If the Company at any time combines (by combination, reverse stock split or otherwise) its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Shares issuable upon exercise of this Warrant shall be proportionately decreased. Any adjustment under this paragraph 8.2 shall become effective at the close of business on the date the dividend, subdivision or combination becomes effective.

9. Warrant Certificates. The warrant certificates (the "Warrant Certificates") delivered and to be delivered pursuant to this Warrant shall be in the form set forth as Exhibit B attached hereto and made a part hereof, with such appropriate insertions, omissions, substitutions and other variations as required or permitted by this Warrant.

10. Exchange and Replacement of Warrant Certificates.

10.1 Exchange. Each Warrant Certificate is exchangeable without expense, upon the surrender hereof by the registered Holder at the principal executive office of the Company, for a new Warrant Certificate of like tenor and date representing in the aggregate the right to purchase the same number of Shares in such denominations as shall be designated by the Holder thereof at the time of such surrender.

10.2 Replacement. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of any Warrant Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of the Warrants, if mutilated, the Company will make and deliver a new Warrant Certificate of like tenor, in lieu thereof.

11. Elimination of Fractional Interests. The Company shall not be required to issue certificates representing fractions of shares of Common Stock. As to any fraction of a Share that the Grantee would otherwise be entitled to purchase upon exercise of this Warrant, the Company shall pay to the Grantee an amount in cash (by delivery of a certified or official bank check or by wire transfer of immediately available funds) equal to the product of (i) such fraction multiplied by (ii) the closing sales price of one share of the Common Stock as quoted on the OTC Markets: Pink on the business day prior to the exercise date.

12. Reservation and Listing of Securities. The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of issuance upon the exercise of the Warrants, such number of shares of Common Stock as shall be issuable upon the exercise thereof. The Company covenants and agrees that, upon exercise of the Warrants and payment of the Exercise Price thereof, all shares of Common Stock issuable upon such exercise shall be duly and validly issued, fully paid, non-assessable and not subject to the preemptive rights of any shareholder.

13. Lock-up. For a period of 180 days after the exercise of this Warrant, the Subscriber agrees not to, directly or indirectly, with respect to any shares of Common Stock that are the subject of such exercise, without the prior written consent of the Company, offer for sale, sell, pledge or otherwise dispose of any shares of Common Stock.

14. Notices to Warrant Holders. Nothing contained in this Warrant shall be construed as conferring upon the Holder or Holders the right to vote or to consent or to receive notice as a shareholder in respect of any meetings of shareholders for the election of directors or any other matter, or as having any rights whatsoever as a shareholder of the Company. If, however, at any time prior to the expiration of the Warrants and their exercise, any of the following events shall occur:

(a) the Company shall take a record of the holders of its shares of Common Stock for the purpose of entitling them to receive a dividend or distribution payable otherwise than in cash, or a cash dividend or distribution payable otherwise than out of current or retained earnings, as indicated by the accounting treatment of such dividend or distribution on the books of the Company; or

(b) the Company shall offer to all the holders of its Common Stock any additional shares of capital stock of the Company or securities convertible into or exchangeable for shares of capital stock of the Company, or any option, right or warrant to subscribe therefor; or

(c) a dissolution, liquidation or winding up of the Company (other than in connection with a consolidation or merger) or a sale of all or substantially all of its property, assets and business as an entirety shall be proposed;

then, in any one or more of said events, the Company shall give written notice of such event at least ten (10) days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the shareholders entitled to such dividend, distribution, convertible or exchangeable securities or subscription rights, options or warrants, or entitled to vote on such proposed dissolution, liquidation, winding up, or sale. Such notice shall specify such record date or the date of closing of the transfer books, as the case may be. Failure to give such notice or any defect therein shall not affect the validity of any action taken in connection with the declaration or payment of any such dividend or distribution, or the issuance of any convertible or exchangeable securities or subscription rights, options or warrants, or any proposed dissolution, liquidation, winding up, sale or change of control.

15. Notices. All notices, requests, consents and other communications hereunder shall be in writing and shall be deemed to have been duly made when delivered, telecopied or mailed by registered or certified mail, return receipt requested:

(a) If to a registered Holder of the Warrants, to the address of such Holder as shown on the books of the Company; or

(b) If to the Company, to the address set forth in paragraph 5 of this Warrant or to such other address as the Company may designate by notice to the Holders.

16. Supplements and Amendments. This Warrant shall not be amended without the approval of the Holder in writing.

17. Successors. All the covenants and provisions of this Warrant by or for the benefit of the Company and the Holders inure to the benefit of their respective successors and assigns hereunder.

18. Governing Law. This Warrant and each Warrant Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Washington with respect to contracts made and to be wholly performed in said State and for all purposes shall be construed in accordance with the laws of said State without regard to the principles of conflicts of law thereof that would defer to the substantive laws of another jurisdiction. With respect to any suit, action or proceeding relating to this Warrant, the parties irrevocably submit to the jurisdiction of the federal or state courts located in Houston, Texas, which submission shall be exclusive unless none of such courts has lawful jurisdiction over such proceedings. In the event of litigation between the parties arising hereunder, the prevailing party shall be entitled to costs and reasonable attorney's fees.

19. Benefits of This Warrant. Nothing in this Warrant shall be construed to give to any person or corporation, other than the Company and the Holder and any other registered holder or holders of the Warrant Certificates, Warrants or the Shares, any legal or equitable right, remedy or claim under this Warrant; and this Warrant shall be for the sole and exclusive benefit of the Company and the Holder and any other holder or holders of the Warrant Certificates, Warrants or the Shares.

20. Preservation of Rights. The Company will not, by amendment of its articles of incorporation or through any consolidation, merger, reorganization, transfer of assets, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant or the rights represented hereby or thereby, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate in order to protect the rights of the Holders of the Warrants against dilution or other impairment.

21. Counterparts. This Warrant may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Warrant to be duly executed, as of the day and year first above written.

DAYBREAK OIL AND GAS, INC.

By: /s/ JAMES F. WESTMORELAND
Name: James F. Westmoreland
Title: President and Chief Executive Officer

BEAR TO BULL INVESTOR RELATIONS, LLC

By: /s/ EDWARD CAPKO
Name: Edward Capko
Title: President

EXHIBIT A

FORM OF ELECTION TO PURCHASE

The undersigned registered owner of this Warrant hereby irrevocably elects to exercise the right, represented by this Warrant Certificate, to purchase _______ Shares and herewith tenders in payment for such Shares cash or a certified or official bank check payable in New York Clearing House Funds to the order of _____________________ in the amount of $_______ all in accordance with the terms this Warrant.

The undersigned requests that a certificate for such Shares be registered in the name of ____________________, whose address is _____________________ and that such Certificate be delivered to _____________, whose address is ___________________________.

The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

____
Name of Registered Owner

____
Signature of Registered Owner

____
Street Address

____
City, State, Zip

____
IRS Identification Number/Social Security Number

Signature Guaranteed: ____

NOTE: The signature to this Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

EXHIBIT B

NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT (I) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT, (II) TO THE EXTENT APPLICABLE, PURSUANT TO RULE 144 UNDER THE ACT (OR ANY SIMILAR RULE UNDER SUCH ACT RELATING TO THE DISPOSITION OF SECURITIES, OR (III) UPON THE DELIVERY BY THE HOLDER TO THE COMPANY OF AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO COUNSEL TO THE COMPANY, STATING THAT AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT IS AVAILABLE. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES**."**

EXERCISABLE ON OR BEFORE

5:00 P.M., NEW YORK TIME, JANUARY 2, 2024

No. W- BB112719 2,100,00 Warrants

WARRANT CERTIFICATE

This Warrant Certificate certifies that **BEAR TO BULL INVESTOR RELATIONS, LLC** or registered assigns is the registered holder of a Warrant to purchase, at any time until 5:00 P.M. New York City time on January 2, 2024 ("Expiration Date") up to Two Million One Hundred Thousand (2,100,000) shares ("Shares") of fully-paid and nonassessable common stock, $0.001 par value ("Common Stock"), of Daybreak Oil and Gas, Inc., a Washington corporation (the "Company"), at the initial exercise price, subject to adjustment in certain events (the "Exercise Price"), of $0.01 per Share upon surrender of this Warrant Certificate and payment of the Exercise Price at an office or agency of the Company, but subject to the conditions set forth herein and in the Warrant dated as of November 27, 2019 (the "Warrant") between the Company and the Subscriber therein. Payment of the Exercise Price may be made in cash, by certified or official bank check in New York Clearing House funds payable to the order of the Company, or any combination of cash or certified or official bank check, in accordance with paragraph 6 of the Warrant.

No Warrant may be exercised after 5:00 P.M., New York City time, on the Expiration Date, at which time all Warrants evidenced hereby, unless exercised prior thereto, shall thereafter be void.

The Warrants evidenced by this Warrant Certificate are part of a duly authorized issue of Warrants issued pursuant to the Warrant, which Warrant is hereby incorporated by reference in and made a part of this instrument and is hereby referred to in a description of the rights, limitation of rights, obligations, duties and immunities thereunder of the Company and the holders (the words "holders" or "holder" meaning the registered holders or registered holder) of the Warrant.

The Warrant provides that upon the occurrence of certain events, the Exercise Price and/or number of the Company's securities issuable thereupon may, subject to certain conditions, be adjusted. In such event, the Company will, at the request of the holder, issue a new Warrant Certificate evidencing the adjustment in the Exercise Price and the number and/or type of securities issuable upon the exercise of the Warrants; provided, however, that the failure of the Company to issue such new Warrant Certificates shall not in any way change, alter, or otherwise impair, the rights of the holder as set forth in the Warrant.

Upon due presentment for registration of transfer of this Warrant Certificate at an office or agency of the Company, a new Warrant Certificate or Warrant Certificates of like tenor and evidencing in the aggregate a like number of Warrants shall be issued to the transferee(s) in exchange for this Warrant Certificate, subject to the limitations provided herein and in the Warrant, without any charge except for any tax, or other governmental charge imposed in connection therewith.

Upon the exercise of the Warrant with respect to less than all of the Shares evidenced by this Certificate, the Company shall forthwith issue to the holder hereof a new Warrant Certificate representing such updated number of Shares subject to the unexercised Warrant.

The Company may deem and treat the registered holder(s) hereof as the absolute owner(s) of this Warrant Certificate (notwithstanding any notation of ownership or other writing hereon made by anyone), for the purpose of any exercise hereof, and of any distribution to the holder(s) hereof, and for all other purposes, and the Company shall not be affected by any notice to the contrary.

All terms used in this Warrant Certificate which are defined in the Warrant shall have the meanings assigned to them in the Warrant.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed.

DAYBREAK OIL AND GAS, INC., a Washington corporation

By: /s/ JAMES F. WESTMORELAND

Name: James F. Westmoreland

Title: President and Chief Executive Officer

Exhibit 31.1

Certification

I, James F. Westmoreland, certify that:

(1) I have reviewed this interim report on Form 10-Q of Daybreak Oil and Gas, Inc.

(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 registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer 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 15(d)-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

Date: January 13, 2020

By /s/ JAMES F. WESTMORELAND
James F. Westmoreland, President, Chief Executive Officer
and interim principal finance and accounting officer
(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)

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 Interim Report of Daybreak Oil and Gas, Inc. on Form 10-Q for the period ending November 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, the undersigned, in the capacity and on the date indicated below, hereby 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.

Date: January 13, 2020

By /s/ JAMES F. WESTMORELAND
James F. Westmoreland, President, Chief Executive Officer
and interim principal finance and accounting officer
(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)