FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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Daybreak Oil & Gas, Inc.

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

FORM 10-Q

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

For the quarterly period ended November 30, 2012

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.)
601 W. Main Ave., Suite 1017, Spokane, WA	**99201**
(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)

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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐		Accelerated filer☐
Non-accelerated filer ☐	(Do not check if a smaller reporting company)	Smaller reporting company ☑

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 10, 2013 the registrant had 48,837,939 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

ASSETS	As of November 30, 2012	As of February 29, 2012
CURRENT ASSETS:		
Cash and cash equivalents	$ -	$ 73,392
Accounts receivable:		
Oil and gas sales	123,802	192,639
Joint interest participants	85,548	92,220
Loan commitment refund and other receivables, net of allowance for doubtful accounts of $239,000 and $-0-, respectively	14,863	223,750
Prepaid expenses and other current assets	38,701	44,777
Total current assets	262,914	626,778
OIL AND GAS PROPERTIES, net, successful efforts method		
Proved properties	1,130,306	1,634,545
Unproved properties	358,165	438,640
PRODUCTION REVENUE RECEIVABLE	350,000	350,000
OTHER ASSETS, net	420,980	105,506
Total assets	$ 2,522,365	$ 3,155,469
CURRENT LIABILITIES:		
Bank overdraft	$ 29,220	$ -
Accounts payable and other accrued liabilities	1,846,859	1,663,303
Accounts payable - related parties	692,811	497,315
Accrued interest	24,061	418,531
Note payable	-	150,000
Notes payable - related party	250,100	235,100
Line of Credit	887,332	883,905
Total current liabilities	3,730,383	3,848,154
LONG TERM LIABILITIES:		
Notes payable, net of discount of $36,595 and $46,149 respectively	308,405	298,851
Note payable - related party, net of discount of $26,914 and $33,934 respectively	223,086	216,066
Long term debt, net of discount of $506,035 and $-0-, respectively	1,144,656	-
Asset retirement obligation	42,648	44,107
Total liabilities	5,449,178	4,407,178
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; 898,565 and 906,565 shares issued and outstanding, respectively	899	907
Common stock- 200,000,000 shares authorized; $0.001 par value, 48,807,939 and 48,787,769 shares issued and outstanding, respectively	48,808	48,788
Additional paid-in capital	22,656,402	22,538,089
Accumulated deficit	(25,632,922)	(23,839,493)
Total stockholders' deficit	(2,926,813)	(1,251,709)
Total liabilities and stockholders' deficit	$ 2,522,365	$ 3,155,469

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,	
	2012	2011	2012	2011
REVENUE:				
Oil and gas sales	$ 229,913	$ 290,912	$ 742,034	$ 1,002,953
OPERATING EXPENSES:				
Production expenses	38,223	66,460	81,855	166,303
Exploration and drilling	3,455	42,062	40,005	97,850
Depreciation, depletion, amortization, and impairment	53,424	56,582	172,544	211,490
Bad debt expense	239,000	-	239,000	-
General and administrative	265,993	345,542	899,984	1,043,858
Total operating expenses	600,095	510,646	1,433,388	1,519,501
OPERATING LOSS	(370,182)	(219,734)	(691,354)	(516,548)
OTHER INCOME (EXPENSE):				
Interest income	120	184	343	512
Interest expense	(90,297)	(188,768)	(321,481)	(306,210)
Loss on settlement of debt	(780,938)	-	(780,938)	-
Total other income (expense)	(871,115)	(188,584)	(1,102,076)	(305,698)
NET LOSS	(1,241,297)	(408,318)	(1,793,430)	(822,246)
Cumulative convertible preferred stock dividend requirement	(40,323)	(40,664)	(122,436)	(122,942)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (1,281,620)	$ (448,982)	$ (1,915,866)	$ (945,188)
NET LOSS PER COMMON SHARE - Basic and diluted	$ (0.03)	$ (0.01)	$ (0.04)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - Basic and diluted	48,807,939	48,787,769	48,797,555	48,790,290

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,	
	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,793,430)	$ (822,246)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on settlement of debt	780,938	-
Bad debt expense	239,000	-
Stock compensation	20,413	68,414
Depreciation, depletion, and impairment expense	172,544	211,490
Amortization of debt discount	26,177	43,955
Amortization of loan origination fees	123,318	11,875
Amortization of deferred financing costs	6,705	-
Non-cash interest income	(343)	(476)
Changes in assets and liabilities:		
Accounts receivable - oil and gas sales	68,837	5,882
Accounts receivable - joint interest participants	6,672	65,786
Accounts receivable - other	(30,113)	68,745
Prepaid expenses and other current assets	31,076	(129,480)
Accounts payable and other accrued liabilities	232,458	133,618
Accounts payable - related parties	195,497	224,024
Accrued interest	75,701	181,246
Net cash provided by operating activities	155,450	62,833
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas properties	(182,142)	(170,665)
Net cash used in investing activities	(182,142)	(170,665)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of note payable	-	(600,000)
Proceeds from issuance of notes payable - related party	-	200,000
Payment of deferred financing fees	(40,700)	-
Proceeds from (payments to) line of credit	(6,000)	875,713
Payment to escrow for loan commitment	-	(200,000)
Net cash (used in) provided by financing activities	(46,700)	275,713
NET DECREASE IN CASH AND CASH EQUIVALENTS	(73,392)	167,881
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	73,392	57,380
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ -	$ 225,261
CASH PAID FOR:		
Interest	$ 535,324	$ 43,509
Income taxes	$ -	$ -
SUPPLEMENTAL CASH FLOW INFORMATION:		
Unpaid additions to oil and gas properties	$ 26,050	$ 38,148
Interest converted to principal	$ 24,427	$ -
Note paid directly from proceeds of note	$ 150,000	$ -
Note paid directly to accrued interest and fees	$ 445,744	$ -
Note paid directly to pre-paid loan fees	$ 123,318	$ -
Debt discount for assignment of working interest	515,638	-
Related party note paid directly to line of credit	$ 15,000	$ -
ARO asset and liability reduction due to assignment of working interest	$ 4,702	$ -
Deferred financing fees paid directly from proceeds of long-term debt	$ 150,691	$ -
Warrants issued for deferred financing fees	$ 98,084	$ -
Unpaid deferred financing fees	$ 57,361	$ -
Changes to estimates of asset retirement obligation	$ -	$ 605
Conversion of preferred stock to common stock	$ 24	$ -
Repurchase of stock through payment of payroll taxes	$ 173	$ 383
Discount on notes payable - Long term	$ -	$ 13,850

Discount on notes payable - Short term	$ -	$ 30,105

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

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION:

Organization

Originally incorporated as Daybreak Uranium, Inc. under the laws of the State of Washington on March 11, 1955, the Company was organized to explore for, acquire, and develop mineral properties in the Western United States. In March 2005, management of the Company decided to enter the oil and gas 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 oil and gas 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 the prevailing market prices of, and demand for, oil and natural gas. 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 oil and gas, the establishment of and compliance with production quotas by 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, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending February 28, 2013.

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 29, 2012.

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 and to determine the amount of any impairment of proved properties;
- The valuation of unproved acreage and proved oil and gas properties to determine the amount of any impairment of oil and gas 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.

NOTE 2 – GOING CONCERN:

Financial Condition

The Company' s financial statements for the nine months ended November 30, 2012 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 oil and gas exploration industry and as of November 30, 2012 has an accumulated deficit of $25,632,922 and a working capital deficit of $3,467,469 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 in 11 producing 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 for the Company. Daybreak' s average working interest in these wells is 36.14% and the average net revenue interest is 26.86% in these same wells.

The Company anticipates revenues will continue to increase as it participates in the drilling of more wells in the East Slopes Project. Daybreak plans to continue its development drilling program at a rate that is compatible with its cash flow and funding opportunities.

In the last few years, the Company has disposed of properties in Alabama, Louisiana and Texas that impeded cash flow and growth in the East Slopes Project. These actions have allowed the Company to move forward with a drilling and exploration program in Kern County, California.

The Company' s sources of funds in the past have included the debt or equity markets and, while the Company has a reliable revenue flow from its oil properties, it has not yet established a positive cash flow on a company-wide basis. It may 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 the Company will be successful in executing the aforementioned plans to continue as a going concern.

On October 31, 2012, the Company finalized a loan with a third party that will fund the Company' s near-term development and exploratory well drilling program at its East Slopes Project in Kern County, California. The Company plans to drill five development wells in the next six months. Refer to the discussion under Note 8 for further information on the loan with the third party.

The Company' s financial statements as of November 30, 2012 do not include any adjustments that might result from the Company' s inability to implement or execute the plans to improve its ability to continue as a going concern.

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS:

There are no new accounting pronouncements issued or effective that have had, or are expected to have, a material impact on the Company' s financial statements.

NOTE 4 – CONCENTRATION OF CREDIT 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 as well as other related factors. Trade accounts receivable are generally not collateralized. There were no allowances for doubtful accounts for our trade accounts receivable at November 30, 2012 and February 29, 2012 as all joint interest owners have a history of paying their obligations.

At the Company' s East Slopes Project, there is only one buyer available for the purchase of oil production. At November 30, 2012, this one customer represented 100% of crude oil sales receivable.

Allowances for doubtful accounts in receivables of loan commitments and other receivables relate to amounts due from third parties that were involved in arranging financing transactions for the Company that have not yet been consummated. The allowance balance at November 30, 2012 and February 29, 2012 for these receivables was $239,000 and $-0-, respectively.

NOTE 5 – OIL AND GAS PROPERTIES:

Oil and gas property balances at November 30, 2012 and February 29, 2012 are set forth in the table below.

	November 30, 2012	February 29, 2012
Proved leasehold costs	$ 2,236	$ 2,254
Unproved leasehold costs	361,864	438,640
Costs of wells and development	290,424	470,653
Capitalized exploratory well costs	2,162,618	2,316,305
Capitalized asset retirement costs	26,843	31,545
Total cost of oil and gas properties	2,843,985	3,259,397
Accumulated depletion, depreciation, amortization and impairment	(1,355,514)	(1,186,212)
Net Oil and Gas Properties	$ 1,488,471	$ 2,073,185

On October 31, 2012, the Company assigned 10% of its working interest in all oil and gas and leasehold assets to a third party in connection with a funding agreement described in further detail in Note 8 below.

NOTE 6 – OTHER ASSETS:

On October 31, 2012, the Company entered into a loan agreement with Maximilian Investors LLC ("Maximilian") and incurred $321,836 in deferred financing costs associated with the loan. These costs are being amortized on a straight line basis over the term of the loan. Refer to Note 8 – Short-Term and Long-Term Borrowings for further discussion of the Maximilian loan. Amortization expense for the nine months ended November 30, 2012 amounted to $6,705. Unamortized deferred financing costs amounted to $315,131 as of November 30, 2012.

Other assets as of November 30 and February 29, 2012 consisted of the following:

	November 30, 2012	February 29, 2012
Certificate of Deposit (Pledged as Operator Bond in California)	$ 105,849	$ 105,506
Deferred financing costs, net of amortization of $6,705 and $-0-, respectively	315,131	-0-
	$ 420,980	$ 105,506

NOTE 7 – ACCOUNTS PAYABLE:

On March 1, 2009, the Company became the operator for its East Slopes Project. 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' s four earning wells. The Company subsequently sold the same 25% working interest on June 11, 2009. Of the $1.5 million default, $283,843 remains unpaid and is included in the November 30, 2012 accounts payable balance.

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

Short-Term Notes Payable

On May 18, 2012, the Company entered into a loan agreement with Luberski, Inc. ("Luberski") as lender and another party as co-borrower, pursuant to which the Company and the co-borrower together borrowed a principal amount of $1,500,000. The Company's share in the loan amounted to $719,062 with the remainder of the loan proceeds paid to the co-borrower. The loan bore interest at a rate of 5% per month, which interest was to be paid by the co-borrower, had a term of 120 days, and was eligible to be prepaid at any time in part or in full without premium or penalty. The loan called for a minimum interest payment of $150,000. The Company recognized $123,318 in deferred financing fees associated with this loan. Either the Company's or the co-borrower's failure to repay the principal at maturity would constitute an event of default and give the lender the right to call the loan due. The loan was a joint and several obligation of the Company and the co-borrower, and was secured by the Company's currently producing leases in Kern Country, California and certain personal property, accounts receivable and net profits of the co-borrower as well as a personal unconditional guarantee of the loan by the co-borrower's sole managing member.

On October 31, 2012, the Company paid Luberski $1,500,000 pursuant to the terms of a Settlement and Release Agreement between Luberski and the Company. The payment satisfied the Company's indebtedness and as a result of the payoff, the Company recognized a loss on settlement of debt of $780,938. Additionally, under terms of the settlement agreement, the Company agreed to allow Luberski to pursue collection of other amounts owed in connection with the loan from the co-borrower before the Company pursues any action against the co-borrower for amounts owed to the Company. The security interest granted by Daybreak in favor of Luberski in the Company's Kern County, California leases was terminated in connection with the payoff.

On May 22, 2012, the Company paid Well Works, LLC, a Utah limited liability company, $595,744 representing the outstanding principal balance and all interest and fees due in regards to the secured convertible promissory note between the Company and Well Works that was executed on September 17, 2010. The security interest granted by Daybreak in favor of Well Works in the Company's Kern County, California leases was terminated in connection with the payoff.

Short-Term (Related Party)

On August 21, 2012, the Company's President and Chief Executive Officer loaned the Company $15,000 to reduce the outstanding balance on the Company's Line of Credit with UBS Bank. The loan is a non-interest bearing loan. Repayment will be made upon a mutually agreeable date in the future.

On January 31, 2012, the Company issued a $35,100 non-interest bearing note to the Company's President and Chief Executive Officer. The term of the note provided for repayment on such date as may be agreed to by the Company and its President. Proceeds from the note were used to pay an extension fee related to a loan from a third party.

On June 20, 2011, the Company issued a $200,000 non-interest bearing note to the Company's President and Chief Executive Officer. The term of the note provided for repayment on or before June 30, 2011, or such date as may be agreed to by the Company and its President. Proceeds from the note were used to meet the escrow requirement on a loan commitment from a third party that was announced in June 2011.

Long-Term Debt

Maximilian Loan

On October 31, 2012, the Company entered into a loan agreement with Maximilian which provides for a revolving credit facility of up to $20 million, maturing on October 31, 2016, with a minimum commitment of $2.5 million. The loan bears annual interest of 18% and a monthly commitment fee of 0.5%. The loan is secured by a perfected first priority security interest in substantially all of the assets of the Company, including the Company's leases in Kern County, California. The Company also granted Maximilian a 10% working interest in its share of the oil and gas leases in Kern County, California. The relative fair value of this 10% working interest amounting to $515,638 was recognized as a debt discount and is being amortized over the term of the loan. Amortization expense for the three months ended November 30, 2012 amounted to $9,603. Unamortized debt discount amounted to $506,035 as of November 30, 2012.

The Company borrowed an initial amount from the credit facility of $1,650,691 in which $1,500,000 was used to settle the loan with Luberski and the remaining amount was used to pay for the related loan fees and closing costs. Future advances under the facility will primarily be used for oil and gas exploration and development activities. The Company recognized $321,836 in deferred financing costs associated with this loan.

The loan agreement contained customary covenants for loans of such type, including among other things, covenants that restrict the Company' s ability to make capital expenditures, incur indebtedness, incur liens and dispose of property. In the event of a default, all of the Company' s obligations under the loan agreement may be accelerated by the lender, causing all loans outstanding (including accrued interest and fees payable thereunder) to be declared immediately due and payable.

The Company also issued 2,435,517 warrants to third parties who assisted in the closing of the loan. The warrants have an exercise price of $0.044; contain a cashless exercise provision; have piggyback registration rights; and are exercisable for a period of five years expiring on October 31, 2017. The fair value of the warrants, as determined by the Black-Scholes option pricing model, was $98,084 and included the following assumptions: a risk free interest rate of 0.72%; stock price of $0.04, volatility of 153.44%; and a dividend yield of 0.0%. The fair value of the warrants was recognized as a deferred financing cost and is being amortized over the term of the loan. Amortization expense of deferred financing costs for the three months ended November 30, 2012 was $6,705.

12% Subordinated Notes

On January 13, 2010, the Company commenced a private placement of 12% Subordinated Notes ("Notes"). On March 16, 2010, the Company closed its private placement of Notes to 13 accredited investors resulting in total gross proceeds of $595,000. Interest on the Notes accrues at 12% per annum, payable semi-annually. The note principal is payable in full at the expiration of the term of the Notes, which is January 29, 2015. Should the Board of Directors, on the maturity date, 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, 2014. A $250,000 Note was sold to a related party, the Company' s President and Chief Executive Officer. The terms and conditions of the related party Note were identical to the terms and conditions of the other participants' Notes.

In conjunction with the Notes private placement, a total of 1,190,000 common stock purchase warrants were issued at the rate of two warrants for every dollar raised through the private placement. The warrants have an exercise price of $0.14 and expire on January 29, 2015. The fair value of the warrants, as determined by the Black-Scholes option pricing model, was $116,557 using the following weighted-average assumptions: a risk free interest rate of 2.33%; volatility of 147.6%; and dividend yield of 0.0%. The fair value of the warrants was recognized as a discount to debt and is being amortized over the term of the Notes using the effective interest method. Amortization expense for the nine months ended November 30, 2012 amounted to $16,574. Unamortized debt discount amounted to $63,509 as of November 30, 2012.

NOTE 9 – LINE OF CREDIT:

The Company has an $890,000 credit line 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 the Company' s President and Chief Executive Officer. At November 30, 2012, the Line of Credit had an outstanding balance of $887,332. Interest is payable monthly at a stated reference rate of 0.249% + 337.5 basis points. The reference rate is based on the 30 day LIBOR ("London Interbank Offered Rate") and is subject to change from UBS.

NOTE 10 – STOCKHOLDERS DEFICIT:

Series A Convertible Preferred Stock

The Company is authorized to issue up to 10,000,000 shares of $0.001 par value 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. The Series A Preferred can be converted by the shareholder at any time into three shares of the Company' s Common Stock. During the nine months ended November 30, 2012, there were 8,000 shares of Series A Preferred converted into 24,000 shares of the Company' s Common Stock by one shareholder. At November 30, 2012, there were 898,565 shares of Series A Preferred issued and outstanding.

Holders of Series A Preferred shares earn a 6% annual cumulative dividend based on the original purchase price of the shares. Accumulated dividends do not bear interest and as of November 30, 2012, accumulated and unpaid dividends amounted to $1,257,150. Dividends may be paid in cash or Common Stock at the discretion of the Company and are payable upon declaration by the Company' s Board of Directors. Dividends are earned until the Series A Preferred is converted to Common Stock. No payment of dividends has been declared as of November 30, 2012.

Dividends earned on the Series A Preferred for each fiscal year since issuance and the nine months ended November 30, 2012 are set forth in the table below:

Fiscal Year Ended	Shareholders at Period End	Accumulated Dividends
February 28, 2007	100	$ 155,311
February 29, 2008	90	242,126
February 28, 2009	78	209,973
February 28, 2010	74	189,973
February 28, 2011	70	173,707
February 29, 2012	70	163,624
Nine Months Ended November 30, 2012	69	122,436
Total Accumulated Dividends		$ 1,257,150

Common Stock

The Company is authorized to issue up to 200,000,000 shares of $0.001 par value Common Stock, of which 48,807,939 shares were issued and outstanding as of November 30, 2012. For the nine months ended November 30, 2012, there were 24,000 shares of the Company' s Common Stock issued due to the conversion of Series A Preferred Stock. However, 3,830 shares of the Company' s Common Stock relating to the Company' s 2009 Restricted Stock and Restricted Stock Unit Plan were returned to the Company during the nine months ended November 30, 2012 as discussed in Note 12 below.

Common Stock Issued through Restricted Stock and Restricted Stock Unit Plan

On April 6, 2009, the Board approved the 2009 Restricted Stock and Restricted Stock Unit Plan (the "2009 Plan") allowing the executive officers, directors, consultants and employees of the Company and its affiliates to be eligible to receive restricted stock and restricted stock unit awards. Refer to the discussion in Note 12 for the issuances made under the 2009 Plan.

NOTE 11 – WARRANTS:

Warrants outstanding and exercisable as of November 30, 2012 are set forth in the table below:

	Warrants	Exercise Price	Remaining Life (Years)	Exercisable Warrants Remaining
Placement agent warrants - Spring 2006 Private Placement	802,721	$0.75	0.50	802,721
Placement agent warrants - Spring 2006 Private Placement	401,361	$2.00	0.50	401,361
Placement agent warrants - July 2006 Private Placement	419,930	$1.00	0.75	419,930
12% Subordinated Note warrants	1,190,000	$0.14	2.00	1,190,000
Warrants issued in 2010 for services	150,000	$0.14	2.50	150,000
Warrants issued in 2012 for services	2,435,517	$0.044	4.92	2,435,517
	5,399,529			5,399,529

There were no warrants exercised or that expired during the nine months ended November 30, 2012. A total of 2,435,517 warrants were issued for services related to financing the Company received during the nine months ended November 30, 2012. Refer to the discussion under Note 8 for further information on the issued warrants. The outstanding warrants as of November 30, 2012, have a weighted average exercise price of $0.39, a weighted average remaining life of 2.90 years, and an intrinsic value of $43,839.

NOTE 12 – RESTRICTED STOCK AND RESTRICTED STOCK UNIT PLAN:

On April 6, 2009, the Board of Directors of the Company approved the 2009 Restricted Stock and Restricted Stock Unit Plan (the "2009 Plan") allowing the executive officers, directors, consultants and employees of the Company and its affiliates to be eligible to receive restricted stock and restricted stock unit awards ("Awards"). Subject to adjustment, the total number of shares of the Company' s 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.

At November 30, 2012, a total of 2,992,340 shares of restricted stock had been awarded and remained outstanding under the 2009 Plan, and 2,615,255 of the shares had fully vested. A total of 1,007,660 Common Stock shares remained available at November 30, 2012 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[(3)]	-0-	-0-
7/16/2009	25,000	3 Years	25,000[(4)]	-0-	-0-
7/16/2009	625,000	4 Years	464,920[(5)]	3,830	156,250
7/22/2010	25,000	3 Years	16,665[(6)]	-0-	8,335
7/22/2010	425,000	4 Years	208,670[(7)]	3,830	212,500
	3,000,000		2,615,255[(1)]	7,660	377,085

(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.
(3) In accordance with the award, on April 7, 2012, 633,335 shares were vested.
(4) In accordance with the award, on July 16, 2012, 8,335 shares were vested.
(5) In accordance with the award, on July 16, 2012, 154,335 shares were vested and 1,915 shares were returned to the 2009 Plan.
(6) In accordance with the award, on July 22, 2012, 8,335 shares were vested.
(7) In accordance with the award, on July 22, 2012, 104,335 shares were vested and 1,915 shares were returned to the 2009 Plan.

For the nine months ended November 30, 2012, the Company recognized compensation expense related to the above restricted stock grants of $20,413. Unamortized compensation expense amounted to $21,658 as of November 30, 2012.

NOTE 13 – INCOME TAXES:

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 as follows:

	November 30, 2012	February 29, 2012
Computed at U.S. and state statutory rates (40%)	$ (717,373)	$ (573,035)
Permanent differences	9,207	37,325
Changes in valuation allowance	708,166	535,710
Total	$ -0-	$ -0-

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

	November 30, 2012	February 29, 2012
Deferred tax assets:		
Net operating loss carryforwards	$ 7,012,463	$ 6,319,866
Oil and gas properties	(139,943)	(147,148)
Stock based compensation	80,256	71,891
Less valuation allowance	(6,952,776)	(6,244,609)
Total	$ -0-	$ -0-

At November 30, 2012, Daybreak had estimated net operating loss carryforwards for federal and state income tax purposes of $17,531,157, which will begin to expire, if unused, beginning in 2024. The valuation allowance increased $708,166 for the nine months ended November 30, 2012 and increased $535,710 for the year ended February 29, 2012. Section 382 of the Internal Revenue Code places annual limitations on the Company' s net operating loss 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 the estimates to vary significantly.

NOTE 14 – 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.

On July 16, 2012, the Company received notice that it was named as a defendant along with several other parties and up to 100 unnamed John Does in a civil lawsuit for damages for wrongful death, negligence, negligent entrustment, permissive use liability, negligent hiring and premises liability in the death of woman in rural California. The civil suit, case S-1500-CV-276772 SPC, was filed on May 30, 2012 with a summons issued on June 25, 2012, in Kern County, in the State of California, in the Superior Court of the State of California. While the outcome of this lawsuit cannot be predicted with certainty, management feels the lawsuit is totally without merit and expects to be eventually dismissed as a defendant from this lawsuit. Management does not expect this lawsuit to have a material adverse impact on our financial condition or results of operation.

The Company, as an owner or lessee and operator of oil and gas 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 an oil and gas 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, 2012. There can be no assurance, however, that current regulatory requirements will not change, or past non-compliance with environmental issues will not be discovered on the Company' s oil and gas properties.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL

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 and 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 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 oil and natural gas 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 oil and natural gas;
- Our ability to find, acquire and develop oil and gas properties;
- Fluctuations in the levels of our oil and natural gas exploration and development activities;
- Risks associated with oil and natural gas exploration and development activities;
- Competition for raw materials and customers in the oil and natural gas industry;
- Technological changes and developments in the oil and natural gas industry;
- Legislative and regulatory uncertainties, including proposed changes to federal tax laws, and climate change legislation, 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 and in our public filings, press releases and discussions with Company management.

Should one or more of the risks or uncertainties described above or elsewhere in this Form 10-Q occur, or should 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

The following MD&A is management' s assessment of the historical financial condition and operating results of the Company for the three and nine month periods ended November 30, 2012 and November 30, 2011 and of our financial condition as of November 30, 2012, and is intended to provide information relevant to an understanding of our financial condition, changes in our financial condition and results of operations and cash flows and should be read in conjunction with our unaudited financial statements and notes included elsewhere in this Form 10-Q and in our audited financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended February 29, 2012. Unless otherwise noted, all of our discussion refers to continuing operations at our East Slopes Project in Kern County, California.

We are an independent oil and natural gas exploration, development and production company. Our basic business model is to increase shareholder value by finding and developing oil and gas 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 oil and gas 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 oil and gas properties and on the prevailing sales price for oil and natural gas along with associated operating expenses. The volatile nature of the energy markets makes it difficult to estimate future prices of oil and natural gas; however, any prolonged period of depressed prices would have a material adverse effect on our results of operations and financial condition.

Our operations are focused on identifying and evaluating prospective oil and gas properties and funding projects that we believe have the potential to produce oil or gas in commercial quantities. We are currently in the process of developing a multi-well oilfield project in Kern County, California.

We have a limited operating history of oil and gas production and minimal proven reserves, production and cash flow. To date, we have had limited revenues and have not been able to generate sustainable positive earnings on a Company-wide basis. Our management cannot provide any assurances that Daybreak will ever operate profitably. As a result of our limited operating history, 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 29, 2012 and in Part III, Item 1A. Risk Factors of this 10-Q Report.

Kern County, California (East Slopes Project)

The East Slopes Project is located in the southeastern part of the San Joaquin Basin near Bakersfield, California. Since January 2009, we have participated in the drilling of 14 oil wells in this project. Eleven of those wells have been successful and have been placed on production. Drilling targets are porous and permeable sandstone reservoirs which exist at depths of 1,200 feet to 4,000 feet.

We currently have production from five reservoirs at our Sunday, Bear, Black, Ball and Dyer Creek locations. The Sunday and Bear properties each have four producing oil wells. The Black property is the smallest of all currently oil producing reservoirs, and we will most likely drill only one or two development wells at this property. The Ball and Dyer Creek properties were put on production in late October 2010. There are several other similar prospects 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 oil prospects that have been identified from the seismic data, which we plan to drill in the future. We plan to spend approximately $1,500,000 in new capital investments within the East Slopes Project area in the next 12 months.

Producing Properties

Sunday Property

In November 2008, we made our initial oil discovery drilling the Sunday #1 well. The well was put on production in January 2009. Production is from the Vedder sand at approximately 2,000 feet. During 2009, we drilled three development wells including one horizontal well. The Sunday reservoir is estimated to be approximately 35 acres in size with the potential for at least three more development wells to be drilled in the future. We have a 37.5% working interest with a 26.1% net revenue interest ("NRI") in the Sunday #1 well. For both the Sunday #2 and Sunday #3 wells, we have a 33.8% working interest with a 24.3% NRI. We also have a 33.8% working interest with a 27.1% NRI in the Sunday #4H well. We expect to drill at least one development well on this property during the last quarter of our 2012-2013 fiscal year.

Bear Property

In February 2009, we made our second oil discovery drilling the Bear #1 well, which is approximately one mile northwest of our Sunday discovery. The well was put on production in May 2009. Production is from the Vedder sand at approximately 2,200 feet. In December 2009, we began a development program by drilling and completing the Bear #2 well. In April 2010, we successfully drilled and completed the Bear #3 and the Bear #4 wells. The Bear reservoir is estimated to be approximately 62 acres in size with the potential for at least five more development wells to be drilled in the future. We have a 37.5% working interest with a 26.1% NRI in each of the Bear wells in this property. Effective June 19, 2012, the royalty owner agreed to a reduced royalty interest on future wells for this property to encourage more drilling. Our new NRI for the next four wells drilled on this property will increase to 31.3%. We expect to drill at least three development wells on this property during the last quarter of our 2012 – 2013 fiscal year.

Black Property

Our third oil discovery, which was on the Black property, was acquired through a farm-in arrangement with a local operator. The Black property is just south of the Bear property on the same fault system. The Black #1 well was completed and put on production in January 2010. Production is from the Vedder sand at 2,150 feet. The Black reservoir is estimated to be approximately 13 acres in size with the potential for one or two development wells to be drilled in the future. We have a 33.8% working interest with a 26.8% NRI in this property. We expect to drill at least one development well on this property during the last quarter of our 2012 – 2013 fiscal year.

Sunday Central Processing and Storage Facility

The oil produced from our acreage is considered heavy oil. The oil ranges from 14° to 16° API gravity. All of our oil from the Sunday, Bear and Black properties is processed, stored and sold from the Sunday Central Processing and Storage Facility. The oil must be heated to separate and remove water to prepare it to be sold. We constructed these facilities during the summer and fall of 2009 and at the same time established electrical service for our field by constructing three miles of power lines.

Ball Property

The Ball #1-11 well was put on production in late October 2010. Our 3-D seismic data indicates a reservoir approximately 38 acres in size with the potential for at least two development oil wells to be drilled in the future. Oil production from the Ball #1-11 well is being processed at the Dyer Creek production facility. In January 2012, we farmed out to a third party 50% of our working interest covering the Ball and Dyer Creek Fields. In return, the third party will pay Daybreak' s share of the completed well cost on the next Ball well to be drilled. We have a 37.5% working interest with a 31.2% NRI in the Ball #1-11 well. For wells in this field other than the Ball #1-11, we will have a 18.8% working interest with a 15.6% NRI. We anticipate drilling at least one development well at this property after the permitting process has been completed. Drilling will most likely occur in our 2013 – 2014 fiscal year, pending regulatory approval.

Dyer Creek Property

The Dyer Creek #67X-11 ("DC67X") well was also put on production in late October 2010. This oil well is producing from the Vedder sand and is located to the north of the Bear property on the same trapping fault. The Dyer Creek property has the potential for at least one development well in the future. Production from the DC67X well is also being processed at the Dyer Creek production facility. We have a 37.5% working interest with a 31.2% NRI in this property. For wells other than the DC67X, we will have a 18.8% working interest with a 15.6% NRI. We anticipate drilling at least one development well at this property during the 2013 – 2014 fiscal year.

Dyer Creek Processing and Storage Facility

The Dyer Creek Processing and Storage Facility serves the Ball and Dyer Creek properties and includes previously abandoned infrastructure that we have refurbished. The oil produced into this facility has a similar API gravity to the oil at the Sunday production facility and the oil must also be heated to separate and remove water in preparation for sale.

Centralized Oil Processing and Storage Facilities

By utilizing the Sunday and Dyer Creek centralized production facilities our average operating costs have been reduced from over $40 per barrel to under $12 per barrel of oil for the nine months ended November 30, 2012, partially due to certain credits that we received. Without these credits, our average operating costs were approximately $16 per barrel for the nine months ended November 30, 2012. With these centralized facilities and having permanent electrical power available, we are ensuring that our operating expenses are kept to a minimum.

Exploration Properties

Breckenridge-Chimney Prospect

This prospect is located in the central portion of our acreage position. The drilling targets are the Vedder and Eocene sands between 2,500 and 4,000 feet deep. We plan to drill an exploratory well in the last quarter of our 2012 – 2013 fiscal year. We estimate that the Breckenridge-Chimney prospect is 60 acres in size with a gross recoverable reserve potential of 1.5 million barrels of oil. We have a 37.5% working interest in this prospect.

Bull Run Prospect

This prospect is located in the southern portion of our acreage position. The drilling targets are the Etchegoin and Santa Margarita sands located between 800 and 1,200 feet deep. We drilled an exploratory well on this prospect in December 2011 that was determined to be not viable for commercial production and the well was plugged and abandoned. Utilizing the data received from this well, we expect to drill another exploratory well on this prospect during our 2013 – 2014 fiscal year. The Bull Run wells will require a pilot steam flood and additional production facilities. We estimate that the Bull Run prospect is 70 acres in size with a gross recoverable reserve potential of 873,000 barrels of oil. We have a 37.5% working interest in this prospect.

Glide-Kendall Prospect

This prospect is also located in the southern portion of our acreage position. The drilling targets are the Olcese and Eocene sands between 1,000 and 2,000 feet deep. We plan to drill an exploratory well during our 2013 – 2014 fiscal year. We estimate that the Glide Kendall prospect is 200 acres in size with a gross recoverable reserve potential of 1.8 million barrels of oil. We have a 37.5% working interest in this prospect.

Sherman Prospect

This prospect is located in the southern portion of our acreage position. The drilling targets are the Olcese and Etchegoin sands between 1,000 and 2,000 feet deep. We plan to drill an exploratory well in our 2014 – 2015 fiscal year. We estimate that the Sherman Prospect is 100 acres in size with a gross recoverable reserve potential of 300,000 barrels of oil. We have a 37.5% working interest in this prospect.

Tobias Prospect

This prospect is also located in the central portion of our acreage position. The drilling targets are the Vedder and Eocene sands between 2,500 and 4,000 feet deep. We plan to drill an exploratory well in our 2013 – 2014 fiscal year. We estimate that the Tobias prospect is 60 acres in size with a gross recoverable reserve potential of 700,000 barrels of oil. We have a 37.5% working interest in this prospect.

Production, Revenue and LOE

Our net sales volume, revenue and lease operating expenses ("LOE") by quarter for the East Slopes Project for the last six quarters ended November 30, 2012 are set forth in the following table:

	Three Months Ended					
	November 30, 2012	**August 31, 2012**	**May 31, 2012**	**February 29, 2012**	**November 30, 2011**	**August 31, 2011**
Sales (Barrels)	2,388	2,669	2,438	3,009	2,699	3,362
Revenue	$ 229,913	$ 249,149	$ 262,973	$ 311,171	$ 290,912	$ 331,684
LOE	$ 38,223	$ 1,939 *	$ 41,693	$ 74,076	$ 59,138	$ 52,466
Average Sales Price	$ 96.28	$ 93.34	$ 107.88	$ 103.43	$ 107.79	$ 98.66
Average LOE	$ 16.01	$ 0.73	$ 17.10	$ 25.36	$ 24.62	$ 17.57

* During the three months ended August 31, 2012, the Company received certain credits from prior years on production expenses related to dehydration expense and property taxes on mineral valuations totaling $34,430, that resulted in lower production expenses than in comparative periods.

Encumbrances

The Company' s debt obligations, pursuant to a loan agreement entered into between Maximilian Investors LLC, a Delaware limited liability company ("Maximilian"), as lender, and the Company are secured by a perfected first priority security interest in substantially all of the assets of the Company, including our leases in Kern County, California. This includes mortgages on the Sunday, Bear, Black, Ball and Dyer Creek Properties. For further information on the loan agreement refer to the discussion under the caption "Long-Term Borrowings" in this MD&A.

Results of Operations – Three Months Ended November 30, 2012 compared to the Three Months Ended November 30, 2011

Revenues. Monthly revenues are derived entirely from the sale of our share of oil production. We realized the first revenue from producing wells in our East Slopes Project during February 2009. The price we receive for oil sales is based on prices quoted on the New York Mercantile Exchange ("NYMEX") for spot West Texas Intermediate ("WTI") Cushing, OK contracts, less deductions that vary by grade of crude oil sold. Historically, the sale price we receive for California oil sales has been less than the quoted WTI price. However, since March of 2011, we have been receiving a premium for our California oil in comparison to the WTI price. For the three months ended November 30, 2012 the average monthly WTI price was $90.18 and the average monthly sale price was $96.28, resulting in a premium that was 6.8% higher than the average monthly WTI price. For the three months ended November 30, 2011, the average monthly WTI price was $89.67 and the average monthly sale price was $107.79 resulting in a premium that was 20.2% higher than the average monthly WTI price.

For the three months ended November 30, 2012, revenues decreased $60,999 or 21.0% to $229,913 in comparison to revenues of $290,912 for the three months ended November 30, 2011. The average monthly sale price of a barrel of oil for the three months ended November 30, 2012 was $96.28 in comparison to $107.79 for the three months ended November 30, 2011. The decrease of $11.51 or 10.7% in the average monthly sale price of a barrel of oil accounted for $31,086 or 51.0% of the revenue decrease for the three months ended November 30, 2012.

Production for the three months ended November 30, 2012 was from 11 wells for a total of 969 well days in comparison to production from 11 wells with a total of 929 well days for the three months ended November 30, 2011. Due to repair and maintenance issues on the Bear #1 and Bear #3 wells, these wells only produced for 82 and 6 days, respectively, during the three months ended November 30, 2012.

Our net share of production for the three months ended November 30, 2012 was 2,388 barrels of oil in comparison to 2,699 barrels for the three months ended November 30, 2011. The decrease in production of 311barrels or 11.5% for the three months ended November 30, 2012 in comparison to the three months ended November 30, 2011 was due to repair and maintenance issues on the Bear #1 and Bear #3 wells, in addition to the normal production decline in our oil wells. The assignment to a third party of a 10% working interest in our Kern County leases resulted in a reduction of 71 barrels of oil for sale in the three months ended November 30, 2012. The decline in our net share of production accounted for $29,913 or 49.0% of the decrease in revenues for the three months ended November 30, 2012. A table of our revenues for the three months ended November 30, 2012 and 2011 is set forth below:

	Three Months Ended November 30, 2012	Three Months Ended November 30, 2011
California – East Slopes Project	$ 229,913	$ 290,912
Total Revenue	$ 229,913	$ 290,912

Operating Expenses. Total operating expenses for the three months ended November 30, 2012 increased by $89,449 or 17.5% to $600,095 in comparison to $510,646 for the three months ended November 30, 2011. Aggregate decreases of $149,551 occurred in the following expense categories: production expenses; exploration and drilling; depreciation, depletion and amortization ("DD&A") and general and administrative ("G&A") expenses. These decreases were offset by an allowance for doubtful accounts of $239,000 that resulted in the increase in total operating expenses. Operating expenses for the three months ended November 30, 2012 and 2011 are set forth in the table below:

	Three Months Ended November 30, 2012	Three Months Ended November 30, 2011
Production expenses	$ 38,223	$ 66,460
Exploration and drilling	3,455	42,062
DD&A	53,424	56,582
Bad debt expense	239,000	-0-
G&A	265,993	345,542
Total operating expenses	$ 600,095	$ 510,646

Production expenses include expenses directly associated with the generation of oil and gas revenues, road maintenance and well workover expenses. For the three months ended November 30, 2012, these expenses decreased by $28,237 or 42.5% to $38,223 in comparison to $66,460 for the three months ended November 30, 2011. Approximately $3,026 of the decrease in production expenses is directly related to the assignment of 10% of our working interest to a third party that supplied long-term financing to the Company. Production expenses are directly related to the number of wells that were producing during the three months ended November 30, 2012 and 2011, our percentage of working interest ownership in those wells. Production expenses represented approximately 6.4% of total operating expenses.

Exploration and drilling expenses include geological and geophysical ("G&G") expenses as well as leasehold maintenance and dry hole expenses. For the three months ended November 30, 2012 these expenses decreased $38,607 or 91.8%, to $3,455 in comparison to $42,062 for the three months ended November 30, 2011. Exploration and drilling expenses for the three months ended November 30, 2012, decreased primarily as a result of the expiration of certain leases that were not renewed. Exploration and drilling expenses represented approximately 0.6% of total operating expenses.

DD&A expense relating to equipment, proven reserves and property costs, along with impairment are another component of operating expenses. DD&A expense decreased $3,158 or 5.6% to $53,424 for the three months ended November 30, 2012 in comparison to $56,582 for the three months ended November 30, 2011 primarily due to a larger proven reserve base used in the DD&A calculation and lower production levels and a lower net working interest. DD&A expense represented approximately 8.9% of total operating expenses.

Bad debt expense for the three months ended November 30, 2012, resulted from the creation of an allowance for doubtful accounts in regards to refunds the Company is due from financing initiatives that have not closed.

G&A expenses include the salaries of six employees, including management. Other items included in our G&A expenses are legal and accounting expenses, director fees, stock compensation, investor relations fees, travel expenses, insurance, Sarbanes-Oxley ("SOX") compliance expenses and other administrative expenses necessary for an operator of oil and gas properties as well as in running a public company. For the three months ended November 30, 2012, G&A expenses decreased $79,549 or 23.0% to $265,993 in comparison to $345,542 for the three months ended November 30, 2011. Significant decreases were realized in accounting and legal ($29,400) and management and employee salaries and stock compensation. Management and employee salaries and stock compensation, which comprised 58.2% of our G&A expense and stock compensation decreased $40,894 or 20.9% for the three months ended November 30, 2012 in comparison to the three months ended November 30, 2011. These categories were responsible for $70,294 in aggregate of the decrease in G&A expenses in comparison to the three months ended November 30, 2011. For the three months ended November 30, 2012 and 2011, we received, as Operator, administrative overhead reimbursement of $9,820 and $18,160, respectively, 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 costs represented 44.3% of total operating expenses for the three months ended November 30, 2012.

Interest income for the three months ended November 30, 2012 decreased $64 to $120 compared to $184 for the three months ended November 30, 2011, due to lower average cash balances.

Interest expense for the three months ended November 30, 2012 decreased $98,471 or 52.2% to $90,297 in comparison to $188,768 for the three months ended November 30, 2011. This decrease was primarily due to larger interest expense for the three months ended November 30, 2011 from a previous loan from a third party.

Loss on settlement of debt for the three months ended November 30, 2012 resulted from the settlement of indebtedness paid to Luberski, Inc. in connection with the borrowing by Daybreak and a co-borrower of $1,500,000 in May 2012, as discussed in Note 8 of the Notes to Unaudited Financial Statements included herein.

Due to the nature of our business, as well as the relative immaturity of the Company, 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. Production expenses will fluctuate according to the number and percentage ownership of producing wells, as well as the amount of revenues being contributed by such wells. 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 and impairment expense will depend upon the factors cited above and the size of our reserve base. 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.

Results of Operations – Nine Months Ended November 30, 2012 compared to the Nine Months Ended November 30, 2011

Revenues. For the nine months ended November 30, 2012, the average monthly WTI price was $93.22 and the average monthly sale price was $99.00 resulting in a premium that was 6.2% higher than the average monthly WTI price. For the nine months ended November 30, 2011, the average monthly WTI price was $95.80 and the average monthly sale price was $104.88 resulting in a premium that was 9.5% higher than the average monthly WTI price.

Total revenues for the nine months ended November 30, 2012 decreased $260,919 or 26.0% to $742,034 in comparison to revenues of $1,002,953 for the nine months ended November 30, 2011. The average monthly sale price of a barrel of oil for the nine months ended November 30, 2012 was $99.00 in comparison to $104.88 for the nine months ended November 30, 2011. The decrease of $5.88 or 5.6% in the average sale price of a barrel of oil accounted for $56,222 or 21.6% of the revenue decrease for the nine months ended November 30, 2012.

Production for the nine months ended November 30, 2012 was from 11 wells for a total of 2,876 well days in comparison to production from 11 wells with a total of 2,929 well days for the nine months ended November 30, 2011. Our net share of production for the nine months ended November 30, 2012 was 7,495 barrels of oil in comparison to 9,563 barrels for the nine months ended November 30, 2011. The decrease in production of 2,068 barrels or 21.6% was due to repair and maintenance issues on the Bear #1 and Bear #3 wells and the normal production decline in our wells. The decline in our net share of production accounted for $204,697 or 78.5% of the revenue decrease for the nine months ended November 30, 2012. A table of our revenues for the nine months ended November 30, 2012 and 2011 is set forth below:

	Nine Months Ended November 30, 2012	Nine Months Ended November 30, 2011
California - East Slopes Project	$ 742,034	$ 1,002,953
Total Revenues	$ 742,034	$ 1,002,953

Operating Expenses. Total operating expenses for the nine months ended November 30, 2012 decreased by $86,113 or 5.7% to $1,433,388 in comparison to $1,519,501 for the nine months ended November 30, 2011. Aggregate decreases of $325,133 occurred in the following expense categories: production expenses; exploration and drilling; depreciation, depletion and amortization ("DD&A") and general and administrative ("G&A") expenses. These decreases were offset by an allowance for doubtful accounts of $239,000 that resulted in the net decrease in total operating expenses. Operating expenses for the nine months ended November 30, 2012 and 2011 are set forth in the table below:

	Nine Months Ended November 30, 2012	Nine Months Ended November 30, 2011
Production expenses	$ 81,855	$ 166,303
Exploration and drilling	40,005	97,850
DD&A	172,544	211,490
Bad debt expense	239,000	-0-
G&A	899,984	1,043,858
Total operating expenses	$ 1,433,388	$ 1,519,501

Production expenses for the nine months ended November 30, 2012 decreased by $84,448 or 50.8% to $81,855 in comparison to $166,303 for the nine months ended November 30, 2011. Approximately $34,430 of the decrease in production expenses is directly related to recognition of certain credits from prior years that we received relating to dehydration expenses and property taxes on minerals valuation during the nine months ended November 30, 2012. Production expenses are directly related to the number of wells that were producing during the nine months ended November 30, 2012 and 2011, our percentage of working interest ownership in those wells. Production expenses represented approximately 5.7% of total operating expenses.

Exploration and drilling expenses decreased by $57,845 or 59.1% to $40,005 for the nine months ended November 30, 2012, in comparison to $97,850 for the nine months ended November 30, 2011. Exploration and drilling expenses for the nine months ended November 30, 2012, decreased primarily as a result of the expiration of certain leases that were not renewed. Exploration and drilling expenses represented approximately 2.8% of total operating expenses.

DD&A and impairment expenses for the nine months ended November 30, 2012 decreased $38,946 or 18.4% to $172,544 in comparison to $211,490 for the nine months ended November 30, 2011, primarily due to a larger proven reserve base used in the DD&A calculation and lower production levels and a lower net working interest. DD&A expenses represented approximately 12.0% of total operating expenses.

Bad debt expense for the nine months ended November 30, 2012, resulted from the creation of an allowance for doubtful accounts in regards to refunds the Company is due from financing initiatives that have not closed.

G&A expenses include the salaries of six employees, including management. Other items included in our G&A are legal and accounting expenses, director fees, stock compensation, investor relations fees, travel expenses, insurance, SOX compliance expenses and other administrative expenses necessary for an operator of oil and gas properties as well as well as in running a public company. G&A expense decreased $143,874, or 13.8% to $899,984 for the nine months ended November 30, 2012 in comparison to $1,043,858 for the nine months ended November 30, 2011. A significant decrease of $102,934 was realized in management and employee salaries and stock compensation for the nine months ended November 30, 2012. Management and employee salaries and stock compensation, which comprised 52.9% of our G&A expense decreased due to the elimination of the Sr. Vice President – Exploration position and also certain stock grants being fully amortized during the nine months ended November 30, 2012. Additionally, legal and accounting expense decreased by $29,332 or 19.1%. For the nine months ended November 30, 2012 and 2011, we received, as Operator, administrative overhead reimbursement of $29,129 and $50,646, respectively, 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 costs represented 62.8% of total operating expenses for the nine months ended November 30, 2012.

Interest income for the nine months ended November 30, 2012 decreased $169 or 33.0% to $343 in comparison to $512 for the nine months ended November 30, 2011 due to lower average cash balances.

Interest expense increased 5.0% or $15,271 to $321,481 for the nine months ended November 30, 2012 compared to $306,210 for the nine months ended November 30, 2011. The increase was due to interest expense associated with the loan we received from Maximilian.

Loss on settlement of debt for the three months ended November 30, 2012 resulted from the settlement of indebtedness paid to Luberski, Inc. in connection with the borrowing by Daybreak and a co-borrower of $1,500,000 in May 2012, as discussed in Note 8 of the Notes to Unaudited Financial Statements included herein.

Due to the nature of our business, as well as the relative immaturity of the Company, 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. Production costs will fluctuate according to the number and percentage ownership of producing wells, as well as the amount of revenues being contributed by such wells. 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 and impairment costs will depend upon the factors cited above and the size of our reserve base. G&A costs will also fluctuate based on our current requirements, but will generally tend to increase as we expand the business operations of the Company.

Liquidity and Capital Resources

Our primary financial resource is our oil reserves base. Our ability to fund a future capital expenditure program is dependent upon the level of prices we receive from oil sales, the success of our exploration and development program in Kern County, California, and the availability of capital resource financing. We plan to spend approximately $1,500,000 in new capital investment within the East Slopes Project area in the next 12 months. Factors such as changes in operating margins and the availability of capital resources could increase or decrease our ultimate level of expenditures.

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. While we have experienced revenue growth from operations in Kern County, California, we will have to rely on these 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 oil and gas producing properties, which will require us to continue to raise equity or debt capital from outside sources.

We may continue to seek additional financing for our planned exploration and development activities. If we do, we plan to obtain financing through various methods, including issuing debt securities, equity securities, bank debt, or combinations of these instruments which could result in dilution of 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.

We have repositioned Daybreak to better meet our corporate goals and objectives by disposing of assets that impeded our cash flow and growth in the East Slopes Project. In the last few years, we have disposed of properties in Alabama, Louisiana and Texas. These actions have allowed us to move forward with our drilling and exploration program in Kern County.

The Company' s financial statements for the nine months ended November 30, 2012 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 oil and gas exploration industry and as of nine months ended November 30, 2012 have an accumulated deficit of $25,632,922 and a working capital deficit of $3,467,469 which raises substantial doubt about our ability to continue as a going concern.

Changes in our capital resources at November 30, 2012 in comparison to February 29, 2012 are set forth in the table below:

	November 30, 2012	February 29, 2012	Increase (Decrease)	Percentage Change
Cash	$ -	$ 73,392	$ (73,392)	(100.0%)
Current Assets	$ 262,914	$ 626,778	$ (363,864)	(58.1%)
Total Assets	$ 2,522,365	$ 3,155,469	$ (633,104)	(20.1%)
Current Liabilities	$ 3,730,383	$ 3,848,154	$ (117,771)	(3.1%)
Total Liabilities	$ 5,449,178	$ 4,407,178	$ 1,042,000	23.6%
Working Capital	$ (3,467,469)	$ (3,221,376)	$ (246,093)	(7.6%)

We maintain our cash balance by increasing or decreasing our exploration and drilling expenditures as limited by availability of cash from operations, investments and financing. At November 30, 2012 our cash balance was $-0- and at February 29, 2012 our cash balance was $73,392. The decrease of $73,392 was due to meeting financial commitments from ongoing operations as well as G&A expenses.

Our working capital deficit increased $246,093 to $3,467,469 at November 30, 2012 in comparison to a deficit of $3,221,376 at February 29, 2012. We have not yet been able to generate sufficient cash flow to cover all of our G&A and interest expenses. This is the primary factor for the increase in our working capital deficit. We anticipate an increase in our cash flow from our East Slope operations in Kern County, California during the current fiscal year due to additional drilling that is scheduled to occur.

During the nine months ended November 30, 2012, we reported an operating loss of $691,354 in comparison to an operating loss of $516,548 for the nine months ended November 30, 2011. This increase in the operating loss of $174,806 or 33.8% from the comparative nine months ended November 30, 2011 was primarily due to the recognition of an allowance for doubtful accounts dealing with refunds due the Company in connection with financing transactions that have not yet been completed. Additionally lower revenues of $60,999 resulting from lower prices for oil sold and a decrease in production due to the natural decline in our wells contributed to the operating loss.

Since entering the oil and gas exploration industry, we have incurred recurring losses with periodic negative cash flow and have depended on external financing and the sale of oil and gas assets to sustain our operations. A net loss of $1,793,430 was reported for the nine months ended November 30, 2012 in comparison to a net loss of $822,246 for the nine months ended November 30, 2011. The increase in the net loss of $971,184 for the nine months ended November 30, 2012 was due to the recognition of an allowance for doubtful accounts of $239,000 as discussed above and the loss on settlement of debt in regards to the payoff of the Luberski loan from May 2012 of $780,938.

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 November 30, 2012	Nine Months November 30, 2011	Increase (Decrease)	Percentage Change
Net cash provided by operating activities	$ 155,450	$ 62,833	$ 92,617	147.4%
Net cash used in investing activities	$ (182,142)	$ (170,665)	$ (11,477)	(6.7%)
Net cash (used in) provided by financing activities	$ (46,700)	$ 275,713	$ (322,413)	(116.9%)

Cash Flow Provided by Operating Activities

Cash flow from operating activities is derived from the production of our oil and gas reserves and changes in the balances of receivables, payables or other non-oil property asset account balances. For the nine months ended November 30, 2012, we had an increase in positive cash flow from operating activities of $92,617 or 147.4% to $155,450, in comparison to a positive cash flow of $62,833 for the nine months ended November 30, 2011. This increase in positive cash flow was primarily the result of a decrease in receivables and prepaid expenses and an increase in payables offset by a decrease in our revenue for the nine months ended November 30, 2012. 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 oil and gas property and Other Assets account balances. Cash used in investing activities for the nine months ended November 30, 2012 was $182,142, in comparison to $170,665 for the nine months ended November 30, 2011. This increase of $11,477 or 6.7% in cash used in investing activities was primarily a result of ongoing preparations for our drilling program in California and infrastructure improvements that occurred during the nine months ended November 30, 2012.

Cash Flow (Used in) Provided by Financing Activities

Cash flow from financing activities is derived from changes in long-term account balances or in equity account balances excluding retained earnings. For the nine months ended November 30, 2012 cash used in financing activities was $46,700 in comparison to cash provided by financing activities of $275,713 for the nine months ended November 30, 2011. The following is a summary of cash flows provided by, and used in, the Company' s financing activities.

Short-Term Borrowings

On May 18, 2012, the Company entered into a loan agreement with a Luberski, Inc. ("Luberski") as lender and another party as co-borrower, pursuant to which the Company and the co-borrower together borrowed a principal amount of $1,500,000. The Company' s share in the loan amounted to $719,062 with the remainder of the loan proceeds paid to the co-borrower. The loan bore interest at a rate of 5% per month, which interest was to be paid by the co-borrower, had a term of 120 days, and was eligible to be prepaid at any time in part or in full without premium or penalty. The loan called for a minimum interest payment of $150,000. The Company recognized $123,318 in deferred financing fees associated with this loan. Either the Company' s or the co-borrower' s failure to repay the principal at maturity would constitute an event of default and give the lender the right to call the loan due. The loan was a joint and several obligation of the Company and the co-borrower, and was secured by the Company' s producing leases in Kern Country, California and certain personal property, accounts receivable and net profits of the co-borrower as well as a personal unconditional guarantee of the loan by the co-borrower' s sole managing member.

On October 31, 2012, the Company paid Luberski, Inc. ("Luberski") $1,500,000 pursuant to the terms of a Settlement and Release Agreement dated as of October 31, 2012 by and between Luberski Inc. and the Company. The payment satisfied the Company' s indebtedness and as a result of the payoff, the Company recognized a loss on settlement of debt of $780,938. Additionally, under terms of the settlement agreement, the Company agreed to allow Luberski to pursue collection of other amounts owed in connection with the loan from the co-borrower before the Company pursues any action against the co-borrower for amounts owed to the Company. The security interest granted by Daybreak in favor of Luberski in the Company' s Kern County, California leases was terminated in connection with the payoff.

Line of Credit

During the year ended February 29, 2012, the Company entered into an $890,000 credit line 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 our President and Chief Executive Officer. At November 30, 2012, the Line of Credit had an outstanding balance of $887,332. Interest is payable monthly at a stated reference rate of 0.249% + 337.5 basis points and totaled $16,285 for the nine months ended November 30, 2012. The reference rate is based on the 30 day LIBOR ("London Interbank Offered Rate") and is subject to change from UBS.

Short-Term Borrowings (Related Party)

On August 21, 2012, the Company' s President and Chief Executive Officer loaned the Company $15,000 to reduce the outstanding balance on the Company' s Line of Credit with UBS Bank. The loan is a non-interest bearing loan. Repayment will be made upon a mutually agreeable date in the future.

On January 31, 2012, the Company issued a $35,100 non-interest bearing note to the Company' s President and Chief Executive Officer. The term of the note provided for repayment on such other date as may be agreed to by the Company and its President. Proceeds from the note were used to pay an extension fee related to a loan from a third party.

On June 20, 2011, we issued a $200,000 non-interest bearing note to our President and Chief Executive Officer. The term of the note provided for repayment on or before June 30, 2011, or such other date as may be agreed to by Daybreak and our President. Proceeds from the note were used to meet the escrow requirement on a loan commitment from a third party that was announced in June 2011. The escrow requirement amount of $200,000 is reflected as an account receivable on the Company' s Balance Sheets and will be refunded to the Company upon closing of funding from the third party.

Long-Term Borrowings

Maximilian Loan

On October 31, 2012, the Company entered into a loan agreement with Maximilian which provides for a revolving credit facility of up to $20 million, maturing on October 31, 2016, with a minimum commitment of $2.5 million. The loan bears annual interest of 18% and a monthly commitment fee of 0.5%. The loan is secured by a perfected first priority security interest in substantially all of the assets of the Company, including the Company' s leases in Kern County, California. The Company also granted Maximilian a 10% working interest in its share of the oil and gas leases in Kern County, California. The relative fair value of this 10% working interest amounting to $515,638 was recognized as a debt discount and amortized over the term of the loan. Amortization expense for the three months ended November 30, 2012 amounted to $9,603. Unamortized debt discount amounted to $506,035 as of November 30, 2012.

The Company borrowed an initial amount from the credit facility of $1,650,691 in which $1,500,000 was used to settle the loan with Luberski and the remaining amount was used to pay for the related loan fees and closing costs. Future advances under the facility will primarily be used for oil and gas exploration and development activities. The Company recognized $321,836 in deferred financing costs associated with this loan.

The loan agreement contained customary covenants for loans of such type, including among other things, covenants that restrict the Company' s ability to make capital expenditures, incur indebtedness, incur liens and dispose of property. In the event of a default, all of the Company' s obligations under the loan agreement may be accelerated by the Lender, causing all loans outstanding (including accrued interest and fees payable thereunder) to be declared immediately due and payable.

The Company also issued 2,435,517 warrants to third parties who assisted in the closing of the loan. The warrants have an exercise price of $0.044; contain a cashless exercise provision; have piggyback registration rights; and are exercisable for a period of five years expiring on October 31, 2017. The fair value of the warrants, as determined by the Black-Scholes option pricing model, was $98,084 and included the following assumptions: a risk free interest rate of 0.72%; stock price of $0.04, volatility of 153.44%; and a dividend yield of 0.0%. The fair value of the warrants was recognized as a deferred financing cost and is being amortized over the term of the loan. Amortization expense for the three months ended November 30, 2012 was $6,705.

12% Subordinated Notes

The Company' s 12% Subordinated Notes ("the Notes") issued pursuant to a March 2010 private placement, resulted in $595,000 in gross proceeds to the Company and accrue interest at 12% per annum, payable semi-annually on January 29th and July 29th. The note principal is payable in full at the expiration of the term of the Notes, which is January 29, 2015. In conjunction with the Notes private placement, a total of 1,190,000 common stock purchase warrants were issued at a rate of two warrants for every dollar raised through the private placement. The warrants have an exercise price of $0.14 and expire on January 29, 2015. The fair value of the warrants, as determined by the Black-Scholes option pricing model, was $116,557 using the following weighted average assumptions: a risk free interest rate of 2.33%; volatility of 147.6%; and dividend yield of 0.0%. The fair value of the warrants was recognized as a discount to debt and is being amortized over the term of the Notes using the effective interest method. Amortization expense for the nine months ended November 30, 2012 amounted to $10,673. Unamortized debt discount amounted to $69,411 as of November 30, 2012.

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 economic downturn, may restrict our ability to obtain needed capital.

Restricted Stock and Restricted Stock Unit Plan

On April 6, 2009, the Board approved the 2009 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 stock and restricted stock unit awards. Subject to adjustment, the total number of shares of Daybreak' s 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, 2012, a total of 2,992,340 shares of restricted stock had been awarded and remained outstanding under the 2009 Plan, and 2,615,255 of the shares had fully vested. A total of 1,007,660 Common Stock shares remained available at November 30, 2012 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[(3)]	-0-	-0-
7/16/2009	25,000	3 Years	25,000[(4)]	-0-	-0-
7/16/2009	625,000	4 Years	464,920[(5)]	3,830	156,250
7/22/2010	25,000	3 Years	16,665[(6)]	-0-	8,335
7/22/2010	425,000	4 Years	208,670[(7)]	3,830	212,500
	3,000,000		2,615,255[(1)]	7,660	377,085

(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.
(3) In accordance with the award, on April 7, 2012, 633,335 shares were vested.
(4) In accordance with the award, on July 16, 2012, 8,335 shares were vested.
(5) In accordance with the award, on July 16, 2012, 154,335 shares were vested and 1,915 shares were returned to the 2009 Plan.
(6) In accordance with the award, on July 22, 2012, 8,335 shares were vested.
(7) In accordance with the award, on July 22, 2012, 104,335 shares were vested and 1,915 shares were returned to the 2009 Plan.

For the nine months ended November 30, 2012, the Company recognized compensation expense related to the above restricted stock grants of $20,413. Unamortized compensation expense amounted to $21,658 as of November 30, 2012.

Summary

We are continuing to execute the Company' s business plan of developing Daybreak' s acreage position in Kern County, California. The Company will continue to focus our efforts on drilling both development and exploration wells in the current fiscal year as cash flow and funding allow. Along with stable oil prices, the increase in production from new wells will increase our net cash flow from operations.

We may continue to seek additional financing for our planned exploration and development activities. We plan to obtain 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. 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.

Critical Accounting Policies

Refer to Daybreak' s Annual Report on Form 10-K for the fiscal year ended February 29, 2012.

Off-Balance Sheet Arrangements

As of November 30, 2012, 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, 2012, 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, 2012.

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, 2012 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

See Note 14 of the Notes to the Unaudited Financial Statements.

ITEM 1A. RISK FACTORS

The following risk factors could affect our financial performance or could cause actual results to differ materially from estimates contained in our forward-looking statements and update the Risk Factors included in our Annual Report on Form 10-K for the fiscal year ended February 29, 2012. In evaluating all forward-looking statements, you should specifically consider various factors that may cause actual results to vary from those contained in the forward-looking statements. Except as set forth below, there have been no material changes to the risks previously disclosed in our "Risk Factors" described in Part 1, Item 1A, of the Annual report on Form 10-K for the year ended February 29, 2012, as filed with the U.S. Securities and Exchange Commission on May 25, 2012, and available at www.sec.gov.

The amount of our outstanding indebtedness continues to increase and our ability to make payments towards such indebtedness could have adverse consequences on future operations.

Our outstanding indebtedness at November 30, 2012 was approximately $5,449,178, which was comprised of a variety of short-term and long-term borrowings and related party notes and payables; a line of credit, trade payables and 12% Subordinated Notes. The level of indebtedness affects our operations in a number of ways. We will need to use a portion of our cash flow to pay principal and interest and meet payables commitments, which will reduce the amount of funds we will have available to finance our operations. This lack of funds could limit our flexibility in planning for or reacting to changes in our business and the industry in which we operate and could limit our ability to make funds available for other purposes, such as future exploration, development or acquisition activities. Our ability to meet our debt service obligations and reduce our total indebtedness will depend upon our future performance. Our future performance, in turn, is dependent upon many factors that are beyond our control such as general economic, financial and business conditions. We cannot guarantee that our future performance will not be adversely affected by such economic conditions and financial, business and other factors.

The Maximilian loan referenced in the MD&A under the "Cash Flow from Financing Activities" section of this 10-Q report is secured by a perfected, first priority security interest in substantially all of the assets of the Company, including our leases in the Company' s East Slopes Project. If the lender were to institute foreclosure proceedings upon our leases securing this loan, the Company would lose all of its primary leases.

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

On July 25, 2012, the Company issued 24,000 shares of Common Stock to an accredited investor pursuant to the terms of a Daybreak private placement offering held in July 2006, during which the accredited investor received shares of Daybreak Series A Convertible Preferred Stock, the terms of which are disclosed in the Company' s Amended and Restated Articles of Incorporation. Each share of Series A Convertible Preferred Stock can be converted by the shareholder at any time into three shares of the Company' s Common Stock. Pursuant to the terms of the Series A Convertible Preferred Stock, the Common Stock was issued to the accredited investor upon the conversion of 8,000 shares of Series A Convertible Preferred Stock by the accredited investor, in reliance on an exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933 relating to securities exchanged by the issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange.

As of November 30, 2012, 31 accredited investors have converted 501,200 Series A Convertible Preferred shares into 1,503,600 shares of Daybreak Common Stock. At November 30, 2012, there were 898,565 Series A Convertible Preferred shares outstanding, held by accredited investors that had not been converted into the Company' s Common Stock. The table below shows the conversions of Series A Convertible Preferred that have occurred since the Series A Convertible Preferred was first issued in July 2006.

Fiscal Period	Shares of Series A Preferred Converted to Common Stock	Shares of Common Stock Issued from Conversion	Number of Accredited Investors
Year Ended February 29, 2008	102,300	306,900	10
Year Ended February 28, 2009	237,000	711,000	12
Year Ended February 28, 2010	51,900	155,700	4
Year Ended February 28, 2011	102,000	306,000	4
Year Ended February 29, 2012	-0-	-0-	-0-
Nine Months Ended November 30, 2012	8,000	24,000	1
Totals	501,200	1,503,600	31

ITEM 6. EXHIBITS

The following Exhibits are filed as part of the report:

Exhibit Number	Description
10.1[1]	Loan and Security Agreement dated as of October 31, 2012, by and between Daybreak Oil and Gas, Inc., as borrower, and Maximilian Investors LLC, as lender
10.2[1]	Promissory Note dated as of October 31, 2012, by Daybreak Oil and Gas, Inc. in favor of Maximilian Investors LLC
10.3[1]	Mortgage, Deed of Trust, Assignment of Production, Security Agreement and Financing Statement dated as of October 31, 2012, executed by Daybreak Oil and Gas, Inc., in favor of Maximilian Investors LLC
10.4[1]	Assignment and Assumption Agreement dated as of October 31, 2012, by and between Daybreak Oil and Gas, Inc., as assignor, and Maximilian Investors LLC, as assignee
10.5[2]	Settlement and Release Agreement dated as of October 31, 2012, by and be and between Daybreak Oil and Gas, Inc. and Luberski Inc.
10.6[2]	Promissory Note, dated January 31, 2012, by and between Daybreak Oil and Gas, Inc. and James F. Westmoreland
10.7[2]	Promissory Note, August 21, 2012, by and between Daybreak Oil and Gas, Inc. and James F. Westmoreland
31.1[2]	Certification of principal executive and principal financial officer as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1[2]	Certification of principal executive and principal financial officer as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS[3]	XBRL Instance Document
101.SCH[3]	XBRL Taxonomy Schema
101.CAL[3]	XBRL Taxonomy Calculation Linkbase
101.DEF[3]	XBRL Taxonomy Definition Linkbase
101.LAB[3]	XBRL Taxonomy Label Linkbase
101.PRE[3]	XBRL Taxonomy Presentation Linkbase

(1) Previously filed as exhibit to Form 8-K on November 5, 2012 and incorporated by reference herein.
(2) Filed herewith
(3) 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 11, 2013

SETTLEMENT AND RELEASE AGREEMENT

This SETTLEMENT AND RELEASE AGREEMENT is made and entered into as of October 31, 2012 by and between Daybreak Oil & Gas, Inc., a Washington corporation ("Daybreak") on the one hand, and Luberski, Inc., a California corporation ("Luberski") on the other hand. Daybreak and Luberski may be collectively or singularly referred to hereafter as the "Parties" or the "Party."

RECITALS

A. WHEREAS, pursuant to a certain Loan Agreement dated 5/18/12, Luberski agreed to loan $1,500,000.00 to RTG Steel Company LLC, an Arizona limited liability company ("RTG") and Daybreak to be repaid pursuant to the terms of the Loan Agreement (the "Loan"). The Loan was personally guaranteed by David Wetmore, the managing member of RTG.
B. WHEREAS, Daybreak and RTG are currently in default of their obligations under the aforementioned Loan Agreement.
C. WHEREAS, as collateral to the Loan, Luberski holds a first position deed of trust against certain oil wells owned by Daybreak (the "Collateral") recorded on July 3, 2012, as Instrument No. 0212090484 of Official Records of the County of Kern, State of California.
D. WHEREAS, the Parties wish to settle all amounts due and owing to Luberski under the Loan for a lump sum payment of $1,500,000.00 to be paid by Daybreak to Luberski pursuant to Luberski' s instructions.
E. WHEREAS, as additional consideration of the settlement, Daybreak agrees to assign Luberski any indemnity rights that it has against RTG and/or personal guarantor under the Loan David Wetmore with respect to amounts due from RTG to Daybreak under the Loan, other than amounts due from RTG to Daybreak related to fees paid in connection with the Loan, which are expressly excluded.
F. WHEREAS, Luberski agrees to reconvey its interest in any property of Daybreak serving as collateral under the Loan and to release Daybreak from any further obligation under the Loan whatsoever.

NOW, THEREFORE, in consideration of the mutual covenants and promises in this Agreement, and for other further good and valuable consideration, including without limitation the mutual avoidance of further costs, inconvenience, and uncertainties relating to litigation, the Parties agree as follows.

AGREEMENT

1. Recitals. The Recitals set forth above are an integral part of this Settlement and Release, and shall be used in any interpretation of this Settlement and Release.

2. Daybreak Settlement Obligations.

a. Upon payment by Daybreak to Luberski of $1,500,000.00, this Settlement and Release Agreement shall be deemed in full force and effect. Daybreak shall pay such sums as previously instructed by Daniel Leibowitz, Esq., counsel for Luberski.

b. Daybreak hereby irrevocably assigns to Luberski, without representation or warranty of any kind and without recourse, any written indemnification rights that it has with regards to Daybreak' s right to collect against RTG and/or any personal guarantors under the Loan related to damages incurred by Daybreak under the Loan, other than rights Daybreak has to collect against RTG and/or any personal guarantors under the Loan for amounts and damages incurred by Daybreak related to fees paid on behalf of RTG in the amount of approximately $53,667 in connection with the Loan, which amounts and damages relating thereto are expressly excluded from such assignment. Notwithstanding the foregoing, Daybreak agrees that it will not pursue any indemnification rights it has against RTG unless and until Luberski recovers from RTG, collectively with the amounts paid by Daybreak pursuant to this Settlement and Release, amounts equal to 100% of the principal, interest, and royalties due and owing to it under the Loan as of the date hereof, which amount is acknowledged to be $800,000.00 after receipt of the payment described in paragraph 2(a) above. The acknowledged balance is an estimate based on the interest accrued on the Loan and RTG' s projected minimum sales during the Loan term.

3. Luberski Settlement Obligations. Luberski shall promptly provide a properly executed Full Reconveyance of the Mortgage, Deed of Trust, Assignment of Production, Security Agreement and Financing Statement dated May 18, 2012 and recorded on July 3, 2012, as Instrument No. 0212090484 (the "Reconveyance Document"), which Reconveyance Document, when filed in the Official Records of the County of Kern, State of California is intended to free the Collateral free from all restrictions, liens, encumbrances or other rights, title or interests whatsoever in favor of Luberski. Luberski agrees to take all further actions as are reasonably requested by Daybreak and necessary to accomplish the intent of this paragraph.

4. Release. Upon fulfilling Daybreak’ s Settlement Obligations as described in paragraph 2 above, Luberski unconditionally, irrevocably and absolutely releases and discharges Daybreak, and its officers, agents and employees (collectively, the "Daybreak Released Parties"), from any and all past or future obligations under the Loan Agreement, and from any and all claims related in any way to the transactions or occurrences between them, to the fullest extent permitted by law, including, but not limited to, the Loan Agreement or the transactions contemplated thereby, and all other losses, liabilities, claims, charges, demands and causes of action, known or unknown, suspected or unsuspected, arising directly or indirectly out of or in any way connected with the Loan Agreement or the transactions contemplated thereby. This release is intended to have the broadest possible application and includes, but is not limited to, any tort, contract, common law, constitutional or other statutory claims and all claims for attorneys' fees, costs and expenses. Luberski expressly waives its right to recovery of any type, including damages or reinstatement, in any administrative or court action, whether state or federal, and whether brought by Luberski or on Luberski’ s behalf, related in any way to the matters released herein. Luberski acknowledges that it may discover facts or law different from, or in addition to, the facts or law that Luberski knows or believes to be true with respect to the claims released in this Settlement and Release and agrees, nonetheless, that this this Settlement and Release and the release contained herein shall be and remain effective in all respects notwithstanding such different or additional facts or the discovery of them. Luberski declares and represents that Luberski intends this Settlement and Release to be complete and not subject to any claim of mistake, that the release herein expresses a full and complete release, and Luberski intends the release herein to be final and complete. Luberski executes this release with the full knowledge that this release covers all possible claims against the Daybreak Released Parties, to the fullest extent permitted by law.

5. Section 1542 Waiver. Luberski acknowledges and affirms that it is familiar with Section 1542 of the California Civil Code, which provides that:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

Luberski knowingly and voluntarily waives the provisions of Section 1542 of the California Civil Code and acknowledges and agrees that this waiver is an essential and material term of this Release, and that without such waiver, this Release would not have been entered into. Luberski further acknowledges the significance and consequence of the release and the specific waiver of Section 1542 of the California Civil Code.

6. Right to Collect from RTG & Personal Guarantors. Subject to the provisions of paragraph 2(b) above, nothing in this Settlement and Release Agreement shall be construed to limit Luberski’ s right to collect the balance of any amounts due and owing under the Loan from co-debtor RTG and/or any personal guarantors, including, but not limited to David Wetmore, but excluding for all purposes Daybreak and any of Daybreak’ s officers, agents or employees. This Settlement and Release shall *only* be effective as to Daybreak and Daybreak’ s officers, agents, and employees.

7. Authority. The Parties represent and warrant that the undersigned individuals have the authority to act on behalf of the signing party and have the authority to bind that party, and all that may claim through it, to the terms and conditions of this Release.

8. Representation. The Parties represent and warrant that they have had an opportunity to consult with an attorney, and have carefully read and understand the scope and effect of the provisions of this Release. No Party has relied upon any representations or statements made by any other party, which are not specifically set forth in this Release.

9. No Right to Rescission. The Parties represent and warrant that they have conducted all necessary investigations and have consulted with counsel and are not relying on any representations, except those contained in this Release, and the parties assume the risk of any untruths regarding any matters upon which they have relied and forever waive any rights to rescind this Release and the sole remedy for the parties is to enforce the terms of this Release.

10. Severability. In the event that any provision hereof becomes declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Release shall continue in full force and effect without said illegal provision.

11. Entire Agreement. This Release represents the entire agreement and understanding between the parties, and represents the complete, final, and exclusive embodiment of their agreement concerning the matters set forth in the Recitals, further, this Release shall supersede and replace any and all prior and contemporaneous agreements, representations, and understandings regarding the subject of this Release. Notwithstanding the provisions of California Evidence Code Section 1152, this Release is admissible for purposes of enforcement.

12. Counterparts: This Release may be executed in counterparts and each counterpart shall have the same force and effect as an original and constitute an effective, binding agreement on the part of each of the undersigned. This Release may be transmitted by facsimile or otherwise.

IN WITNESS WHEREOF, the Parties have executed this Release as of the date written below.

LUBERSKI, INC., a California corporation

By: /s/ DONALD LAWSON Date: 10 / 26 / 12

Name: Don Lawson

Title: Chief Financial Officer

DAYBREAK OIL AND GAS, INC., A Washington corporation

By: /s/ JAMES F. WESTMORELAND Date: 10 / 31 / 12

Name: James F. Westmoreland

Title: President

Exhibit 10.6

PROMISSORY NOTE

January 31, 2012

FOR VALUE RECEIVED, the undersigned, Daybreak Oil and Gas, Inc. (the "**Debtor**"), a corporation incorporated under the laws of the State of Washington with its registered office at 601 W. Main Avenue, Suite 1012, Spokane, Washington 99201-0613, **PROMISES TO PAY** to or to the order of James F. Westmoreland (the "**Holder**"), at his office in Friendswood, Texas, or at such other place as may be designated by the Holder in writing, **THIRTY FIVE THOUSAND ONE HUNDRED ($35,100.00) DOLLARS** with no interest in lawful money of U.S. (the "**Principal Amount**") on such date agreed to by the Debtor and the Holder (the "**Maturity Date**").

Presentment, protest, notice of protest and notice of dishonour are hereby waived.

This Promissory Note shall be governed by and interpreted and enforced in accordance with the laws of the State of Washington.

IN WITNESS WHEREOF the Debtor has executed this Promissory Note by its duly authorized officer as of the date first written above.

Daybreak Oil and Gas, Inc.

By /s/ DALE B. LAVIGNE

Name: **Dale B. Lavigne**

Title: **Chairman of the Board of Directors of Daybreak Oil and Gas, Inc**.

Exhibit 10.7

PROMISSORY NOTE

August 21, 2012

FOR VALUE RECEIVED, the undersigned, Daybreak Oil and Gas, Inc. (the "**Debtor**"), a corporation incorporated under the laws of the State of Washington with its registered office at 601 W. Main Avenue, Suite 1012, Spokane, Washington 99201-0613, **PROMISES TO PAY** to or to the order of James F. Westmoreland (the "**Holder**"), at his office in Friendswood, Texas, or at such other place as may be designated by the Holder in writing, **FIFTEEN THOUSAND ($15,000.00) DOLLARS** with no interest in lawful money of U.S. (the "**Principal Amount**") on such date agreed to by the Debtor and the Holder (the "**Maturity Date**").

Presentment, protest, notice of protest and notice of dishonour are hereby waived.

This Promissory Note shall be governed by and interpreted and enforced in accordance with the laws of the State of Washington.

IN WITNESS WHEREOF the Debtor has executed this Promissory Note by its duly authorized officer as of the date first written above.

Daybreak Oil and Gas, Inc.

By /s/ DALE B. LAVIGNE

Name: **Dale B. Lavigne**

Title: **Chairman of the Board of Directors of Daybreak Oil and Gas, Inc**.

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 11, 2013

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, 2012 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 11, 2013

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)

Warrants (Details Narrative) (USD $)	9 Months Ended Nov. 30, 2012
Warrants	
Outstanding warrants weighted average exercise price	$ 0.39
Weighted average remaining life	2 years 11 months
Intrinsic value	$ 43,839

Accounts Payable (Details Narrative) (USD $)	1 Months Ended Mar. 31, 2009	Nov. 30, 2012
Payables and Accruals [Abstract]		
Acquisition and disposition of East Slopes Project	On March 1, 2009, the Company became the operator for its East Slopes Project. 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's four earning wells. The Company subsequently sold the same 25% working interest on June 11, 2009.	
Accounts payable balance		$ 283,843

Restricted Stock and Restricted Stock Unit Plan (Tables)	9 Months Ended Nov. 30, 2012
Disclosure of Compensation Related Costs, Share-based Payments [Abstract]	
Schedule of Sharebased Compensation Restricted Stock	

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	(3)	-0-	-0-
7/16/2009	25,000	3 Years	25,000	(4)	-0-	-0-
7/16/2009	625,000	4 Years	464,920	(5)	3,830	156,250
7/22/2010	25,000	3 Years	16,665	(6)	-0-	8,335
7/22/2010	425,000	4 Years	208,670	(7)	3,830	212,500
	3,000,000		2,615,255	(1)	7,660	377,085

Income Taxes (Details 1) (USD $)	9 Months Ended Nov. 30, 2012	12 Months Ended Feb. 29, 2012
Income Tax Disclosure [Abstract]		
Computed at U.S. and state statutory rates (40%)	$ (717,373)	$ (573,035)
Permanent differences	9,207	37,325
Changes in valuation allowance	$ 708,166	$ 535,710

Stockholders' Deficit (Details Narrative)	9 Months Ended Nov. 30, 2012
Equity [Abstract]	
Series A preferred shares converted to common stock	8,000
Number of common stock shares issued upon conversion	24,000
Series A Preferred annual cumulative dividend	Holders of Series A Preferred shares earn a 6% annual cumulative dividend based on the original purchase price of the shares.

Concentration of Credit Risk

9 Months Ended Nov. 30, 2012

Risks and Uncertainties [Abstract]

Concentration of Credit Risk

NOTE 4 – CONCENTRATION OF CREDIT 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 as well as other related factors. Trade accounts receivable are generally not collateralized. There were no allowances for doubtful accounts for our trade accounts receivable at November 30, 2012 and February 29, 2012 as all joint interest owners have a history of paying their obligations.

At the Company' s East Slopes Project, there is only one buyer available for the purchase of oil production. At November 30, 2012, this one customer represented 100% of crude oil sales receivable.

Allowances for doubtful accounts in receivables of loan commitments and other receivables relate to amounts due from third parties that were involved in arranging financing transactions for the Company that have not yet been consummated. The allowance balance at November 30, 2012 and February 29, 2012 for these receivables was $239,000 and $-0-, respectively.

Income Taxes (Details 2) (USD $)	9 Months Ended Nov. 30, 2012	12 Months Ended Feb. 29, 2012
Deferred tax assets:		
Net operating loss carryforwards	$ 7,012,463	$ 6,319,866
Oil and gas properties	(139,943)	(147,148)
Stock based compensation	80,256	71,891
Less valuation allowance	$ (6,952,776)	$ (6,244,609)

Oil and Gas Properties (Details) (USD $)	Nov. 30, 2012	Feb. 29, 2012
OIL AND GAS PROPERTIES, net, successful efforts method		
Proved leasehold costs	$ 2,236	$ 2,254
Unproved leasehold costs	361,864	438,640
Costs of wells and development	290,424	470,653
Capitalized exploratory well costs	2,162,618	2,316,305
Capitalized asset retirement costs	26,843	31,545
Total cost of oil and gas properties	2,843,985	3,259,397
Accumulated depletion, depreciation, amortization and impairment	(1,355,514)	(1,186,212)
Net Oil and Gas Properties	$ 1,488,471	$ 2,073,185

Concentration of Credit Risk (Details Narrative)	9 Months Ended Nov. 30, 2012
Risks and Uncertainties [Abstract]	
Concentration risk description	There is only one buyer available for the purchase of oil production. At November 30, 2012, this one customer represented 100% of crude oil sales receivable.
Percent of crude oil sales receivables	100.00%

Income Taxes (Details Narrative) (USD $)	Nov. 30, 2012
Income Tax Disclosure [Abstract]	
Net operating loss carryforwards, federal and state	$ 17,531,157

Oil and Gas Properties (Details Narrative)	1 Months Ended Oct. 31, 2012
OIL AND GAS PROPERTIES, net, successful efforts method	
Assignment of working interest to third party	10.00%

Other Assets (Details) (USD $)	Nov. 30, 2012	Feb. 29, 2012
Other Assets [Abstract]		
Certificate of Deposit (Pledged as Operator Bond in California)	$ 105,849	$ 105,506
Deferred financing costs, net of amortization	315,131	0
Total other assets	$ 420,980	$ 105,506

Recent Accounting Pronouncements	9 Months Ended Nov. 30, 2012
New Accounting Pronouncements and Changes in Accounting Principles [Abstract]	
Recent Accounting Pronouncements	***NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS:*** There are no new accounting pronouncements issued or effective that have had, or are expected to have, a material impact on the Company' s financial statements.

Other Assets (Details Narrative) (USD $)	9 Months Ended Nov. 30, 2012
Deferred Costs, Capitalized, Prepaid, and Other Assets Disclosure [Abstract]	
Amortization expense	$ 6,705
Unamortized deferred financing costs	$ 315,131

Restricted Stock and Restricted Stock Unit Plan (Details)	1 Months Ended			9 Months Ended			
	Jul. 31, 2010	Jul. 31, 2009	Apr. 30, 2009	Nov. 30, 2012	Jul. 22, 2010	Jul. 16, 2009	Apr. 07, 2009
Disclosure of Compensation Related Costs, Share-based Payments [Abstract]							
Shares awarded (a)					25,000	25,000	1,900,000
Shares awarded (b)					425,000	625,000	
Vesting period (a)	3 years	3 years	3 years				
Vesting period (b)	4 years	4 years					
Shares vested (a)	16,665 [1]	25,000 [2]	1,900,000 [3]				
Shares vested (b)	208,670 [4]	464,920 [5]					
Shares returned (a)	0	0	0				
Shares returned (b)	3,830	3,830					
Shares outstanding (Unvested) (a)					8,335	0	0
Shares outstanding (Unvested) (b)					212,500	156,250	
Total shares awarded				3,000,000			
Total shares vested				2,615,255 [6]			
Total shares returned				7,660 [7]			
Total shares outstanding (unvested)				377,085			

[1] In accordance with the award, on July 22, 2012, 8,335 shares were vested.

[2] In accordance with the award, on July 16, 2012, 8,335 shares were vested.

[3] In accordance with the award, on April 7, 2012, 633,335 shares were vested.

[4] In accordance with the award, on July 22, 2012, 104,335 shares were vested and 1,915 shares were returned to the 2009 Plan.

[5] In accordance with the award, on July 16, 2012, 154,335 shares were vested and 1,915 shares were returned to the 2009 Plan.

[6] 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.

[7] 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.

Balance Sheets (Unaudited) (USD $)	Nov. 30, 2012	Feb. 29, 2012
CURRENT ASSETS:		
Cash and cash equivalents	$ 0	$ 73,392
Accounts receivable:		
Oil and gas sales	123,802	192,639
Joint interest participants	85,548	92,220
Loan commitment refund and other receivables	14,863	223,750
Prepaid expenses and other current assets	38,701	44,777
Total current assets	262,914	626,778
OIL AND GAS PROPERTIES, net, successful efforts method		
Proved properties	1,130,306	1,634,545
Unproved properties	358,165	438,640
PRODUCTION REVENUE RECEIVABLE	350,000	350,000
OTHER ASSETS, net	420,980	105,506
Total assets	2,522,365	3,155,469
CURRENT LIABILITIES:		
Bank overdraft	29,220	0
Accounts payable and other accrued liabilities	1,846,859	1,663,303
Accounts payable-related parties	692,811	497,315
Accrued interest	24,061	418,531
Note payable	0	150,000
Notes payable - related party	250,100	235,100
Line of Credit	887,332	883,905
Total current liabilities	3,730,383	3,848,154
LONG TERM LIABILITIES:		
Notes payable, net of discount	308,405	298,851
Note payable - related party, net of discount	223,086	216,066
Long term debt, net of discount	1,144,656	0
Asset retirement obligation	42,648	44,107
Total liabilities	5,449,178	4,407,178
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIT:		
Common stock	48,808	48,788
Additional paid-in capital	22,656,402	22,538,089
Accumulated deficit	(25,632,922)	(23,839,493)
Total stockholders' deficit	(2,926,813)	(1,251,709)
Total liabilities and stockholders' deficit	2,522,365	3,155,469
Preferred Stock		
STOCKHOLDERS' DEFICIT:		
Preferred stock	0	0
Series A Convertible Preferred Stock		
STOCKHOLDERS' DEFICIT:		

Preferred stock	$ 899	$ 907

Organization and Basis of Presentation	9 Months Ended Nov. 30, 2012
Organization, Consolidation and Presentation of Financial Statements [Abstract]	
Organization and Basis of Presentation	***NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION:***

Organization

Originally incorporated as Daybreak Uranium, Inc. under the laws of the State of Washington on March 11, 1955, the Company was organized to explore for, acquire, and develop mineral properties in the Western United States. In March 2005, management of the Company decided to enter the oil and gas 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 oil and gas 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 the prevailing market prices of, and demand for, oil and natural gas. 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 oil and gas, the establishment of and compliance with production quotas by 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, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending February 28, 2013.

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 29, 2012.

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 and to determine the amount of any impairment of proved properties;

· The valuation of unproved acreage and proved oil and gas properties to determine the amount of any impairment of oil and gas 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.

Line of Credit (Details Narrative) (USD $)	9 Months Ended Nov. 30, 2012	Oct. 24, 2011
Line Of Credit		
Line of credit		$ 890,000
Line of credit outstanding balance	$ 887,332	
Line of credit interest rate	Payable monthly at a stated reference rate of 0.249% + 337.5 basis points. The reference rate is based on the 30 day LIBOR ("London Interbank Offered Rate") and is subject to change from UBS.	

Other Assets (Tables)	9 Months Ended Nov. 30, 2012
Deferred Costs, Capitalized, Prepaid, and Other Assets Disclosure [Abstract]	
Schedule of Other Assets	

	November 30, 2012	February 29, 2012
Certificate of Deposit (Pledged as Operator Bond in California)	$ 105,849	$ 105,506
Deferred financing costs, net of amortization of $6,705 and $-0-, respectively	315,131	-0-
	$ 420,980	$ 105,506

Stockholders' Deficit (Details) (USD $)	9 Months Ended	12 Months Ended					
	Nov. 30, 2012	Feb. 29, 2012	Feb. 28, 2011	Feb. 28, 2010	Feb. 28, 2009	Feb. 29, 2008	Feb. 28, 2007
Equity [Abstract]							
Shareholders at period end	69	70	70	74	78	90	100
Accumulated dividends	$ 122,436	$ 163,624	$ 173,707	$ 189,973	$ 209,973	$ 242,126	$ 155,311
Total accumulated dividends	$ 1,257,150						

Warrants (Tables)

Warrants

Schedule of Stockholders Equity Note Warrants or Rights

9 Months Ended Nov. 30, 2012	Warrants	Exercise Price	Remaining Life (Years)	Exercisable Warrants Remaining
Placement agent warrants - Spring 2006 Private Placement	802,721	$0.75	0.50	802,721
Placement agent warrants - Spring 2006 Private Placement	401,361	$2.00	0.50	401,361
Placement agent warrants - July 2006 Private Placement	419,930	$1.00	0.75	419,930
12% Subordinated Note warrants	1,190,000	$0.14	2.00	1,190,000
Warrants issued in 2010 for services	150,000	$0.14	2.50	150,000
Warrants issued in 2012 for services	2,435,517	$0.044	4.92	2,435,517
	5,399,529			5,399,529

Going Concern	9 Months Ended Nov. 30, 2012

Going Concern

Going Concern

NOTE 2 − GOING CONCERN:

Financial Condition

The Company' s financial statements for the nine months ended November 30, 2012 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 oil and gas exploration industry and as of November 30, 2012 has an accumulated deficit of $25,632,922 and a working capital deficit of $3,467,469 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 in 11 producing 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 for the Company. Daybreak' s average working interest in these wells is 36.14% and the average net revenue interest is 26.86% in these same wells.

The Company anticipates revenues will continue to increase as it participates in the drilling of more wells in the East Slopes Project. Daybreak plans to continue its development drilling program at a rate that is compatible with its cash flow and funding opportunities.

In the last few years, the Company has disposed of properties in Alabama, Louisiana and Texas that impeded cash flow and growth in the East Slopes Project. These actions have allowed the Company to move forward with a drilling and exploration program in Kern County, California.

The Company' s sources of funds in the past have included the debt or equity markets and, while the Company has a reliable revenue flow from its oil properties, it has not yet established a positive cash flow on a company-wide basis. It may 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 the Company will be successful in executing the aforementioned plans to continue as a going concern.

On October 31, 2012, the Company finalized a loan with a third party that will fund the Company' s near-term development and exploratory well drilling program at its East Slopes Project in Kern County, California. The Company plans to drill five development wells in the next six months. Refer to the discussion under Note 8 for further information on the loan with the third party.

The Company' s financial statements as of November 30, 2012 do not include any adjustments that might result from the Company' s inability to implement or execute the plans to improve its ability to continue as a going concern.

Balance Sheets (Parenthetical) (USD $)	Nov. 30, 2012	Feb. 29, 2012
Loan commitment refund and other receivables, allowance for doubtful accounts	$ 239,000	$ 0
Notes payable, unamortized debt discount	36,595	46,149
Note payable - related party, unamortized debt discount	26,914	33,934
Long term debt, unamortized debt discount	$ 506,035	$ 0
Common stock, par value in dollars	$ 0.001	$ 0.001
Common stock, shares authorized	200,000,000	200,000,000
Common stock, shares issued	48,807,939	48,787,769
Common stock, shares outstanding	48,807,939	48,787,769
Preferred Stock		
Preferred stock, par value in dollars	$ 0.001	$ 0.001
Preferred stock, shares authorized	10,000,000	10,000,000
Preferred stock, shares issued	0	0
Preferred stock, shares outstanding	0	0
Series A Convertible Preferred Stock		
Preferred stock, par value in dollars	$ 0.001	$ 0.001
Preferred stock, shares authorized	2,400,000	2,400,000
Preferred stock, shares issued	898,565	906,565
Preferred stock, shares outstanding	898,565	906,565
Preferred stock, cumulative dividend rate	6.00%	6.00%

Restricted Stock and Restricted Stock Unit Plan

Disclosure of Compensation Related Costs, Share-based Payments [Abstract]

Restricted Stock and Restricted Stock Unit Plan

9 Months Ended Nov. 30, 2012

NOTE 12 – RESTRICTED STOCK AND RESTRICTED STOCK UNIT PLAN:

On April 6, 2009, the Board of Directors of the Company approved the 2009 Restricted Stock and Restricted Stock Unit Plan (the "2009 Plan") allowing the executive officers, directors, consultants and employees of the Company and its affiliates to be eligible to receive restricted stock and restricted stock unit awards ("Awards"). Subject to adjustment, the total number of shares of the Company' s 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.

At November 30, 2012, a total of 2,992,340 shares of restricted stock had been awarded and remained outstanding under the 2009 Plan, and 2,615,255 of the shares had fully vested. A total of 1,007,660 Common Stock shares remained available at November 30, 2012 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 (3)	-0-	-0-
7/16/2009	25,000	3 Years	25,000 (4)	-0-	-0-
7/16/2009	625,000	4 Years	464,920 (5)	3,830	156,250
7/22/2010	25,000	3 Years	16,665 (6)	-0-	8,335
7/22/2010	425,000	4 Years	208,670 (7)	3,830	212,500
	3,000,000		2,615,255 (1)	7,660	377,085

(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.
(3) In accordance with the award, on April 7, 2012, 633,335 shares were vested.
(4) In accordance with the award, on July 16, 2012, 8,335 shares were vested.
(5) In accordance with the award, on July 16, 2012, 154,335 shares were vested and 1,915 shares were returned to the 2009 Plan.
(6) In accordance with the award, on July 22, 2012, 8,335 shares were vested.
(7) In accordance with the award, on July 22, 2012, 104,335 shares were vested and 1,915 shares were returned to the 2009 Plan.

For the nine months ended November 30, 2012, the Company recognized compensation expense related to the above restricted stock grants of $20,413. Unamortized compensation expense amounted to $21,658 as of November 30, 2012.

Document and Entity Information	9 Months Ended Nov. 30, 2012	Jan. 10, 2013
Document And Entity Information		
Entity Registrant Name	Daybreak Oil & Gas, Inc.	
Entity Central Index Key	0001164256	
Document Type	10-Q	
Document Period End Date	Nov. 30, 2012	
Amendment Flag	false	
Current Fiscal Year End Date	--02-28	
Is Entity a Well-known Seasoned Issuer?	No	
Is Entity a Voluntary Filer?	No	
Is Entity's Reporting Status Current?	Yes	
Entity Filer Category	Smaller Reporting Company	
Entity Common Stock, Shares Outstanding		48,837,939
Document Fiscal Period Focus	Q3	
Document Fiscal Year Focus	2013	

Income Taxes	9 Months Ended Nov. 30, 2012

Income Tax Disclosure [Abstract]

Income Taxes

NOTE 13 – INCOME TAXES:

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 as follows:

	November 30, 2012	February 29, 2012
Computed at U.S. and state statutory rates (40%)	$ (717,373)	$ (573,035)
Permanent differences	9,207	37,325
Changes in valuation allowance	708,166	535,710
Total	$ -0-	$ -0-

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

	November 30, 2012	February 29, 2012
Deferred tax assets:		
Net operating loss carryforwards	$ 7,012,463	$ 6,319,866
Oil and gas properties	(139,943)	(147,148)
Stock based compensation	80,256	71,891
Less valuation allowance	(6,952,776)	(6,244,609)
Total	$ -0-	$ -0-

At November 30, 2012, Daybreak had estimated net operating loss carryforwards for federal and state income tax purposes of $17,531,157, which will begin to expire, if unused, beginning in 2024. The valuation allowance increased $708,166 for the nine months ended November 30, 2012 and increased $535,710 for the year ended February 29, 2012. Section 382 of the Internal Revenue Code places annual limitations on the Company' s net operating loss 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 the estimates to vary significantly.

Statements of Operations (Unaudited) (USD $)	3 Months Ended		9 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
REVENUE:				
Oil and gas sales	$ 229,913	$ 290,912	$ 742,034	$ 1,002,953
OPERATING EXPENSES:				
Production expenses	38,223	66,460	81,855	166,303
Exploration and drilling	3,455	42,062	40,005	97,850
Depreciation, depletion, amortization, and impairment	53,424	56,582	172,544	211,490
Bad debt expense	239,000	0	239,000	0
General and administrative	265,993	345,542	899,984	1,043,858
Total operating expenses	600,095	510,646	1,433,388	1,519,501
OPERATING LOSS	(370,182)	(219,734)	(691,354)	(516,548)
OTHER INCOME (EXPENSE):				
Interest income	120	184	343	512
Interest expense	(90,297)	(188,768)	(321,481)	(306,210)
Loss on settlement of debt	(780,938)	0	(780,938)	0
Total other income (expense)	(871,115)	(188,584)	(1,102,076)	(305,698)
NET LOSS	(1,241,297)	(408,318)	(1,793,430)	(822,246)
Cumulative convertible preferred stock dividend requirement	(40,323)	(40,664)	(122,436)	(122,942)
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (1,281,620)	$ (448,982)	$ (1,915,866)	$ (945,188)
NET LOSS PER COMMON SHARE - Basic and diluted	$ (0.03)	$ (0.01)	$ (0.04)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - Basic and diluted	48,807,939	48,787,769	48,797,555	48,790,290

Accounts Payable	9 Months Ended Nov. 30, 2012
Payables and Accruals [Abstract]	
Accounts Payable	***NOTE 7 − ACCOUNTS PAYABLE:*** On March 1, 2009, the Company became the operator for its East Slopes Project. 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's four earning wells. The Company subsequently sold the same 25% working interest on June 11, 2009. Of the $1.5 million default, $283,843 remains unpaid and is included in the November 30, 2012 accounts payable balance.

Other Assets	9 Months Ended Nov. 30, 2012
Other Assets [Abstract]	
Other Assets	***NOTE 6 – OTHER ASSETS:*** On October 31, 2012, the Company entered into a loan agreement with Maximilian Investors LLC (“Maximilian”) and incurred $321,836 in deferred financing costs associated with the loan. These costs are being amortized on a straight line basis over the term of the loan. Refer to Note 8 – Short-Term and Long-Term Borrowings for further discussion of the Maximilian loan. Amortization expense for the nine months ended November 30, 2012 amounted to $6,705. Unamortized deferred financing costs amounted to $315,131 as of November 30, 2012. Other assets as of November 30 and February 29, 2012 consisted of the following:

	November 30, 2012	February 29, 2012
Certificate of Deposit (Pledged as Operator Bond in California)	$ 105,849	$ 105,506
Deferred financing costs, net of amortization of $6,705 and $-0-, respectively	315,131	-0-
	$ 420,980	$ 105,506

Stockholders' Deficit (Tables)	9 Months Ended Nov. 30, 2012
Equity [Abstract]	
Schedule of Stockholders Equity	

Fiscal Year Ended	Shareholders at Period End	Accumulated Dividends
February 28, 2007	100	$ 155,311
February 29, 2008	90	242,126
February 28, 2009	78	209,973
February 28, 2010	74	189,973
February 28, 2011	70	173,707
February 29, 2012	70	163,624
Nine Months Ended November 30, 2012	69	122,436
Total Accumulated Dividends		$ 1,257,150

Commitments and Contingencies	9 Months Ended Nov. 30, 2012
Commitments and Contingencies Disclosure [Abstract]	
Commitments and Contingencies	***NOTE 14 – 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. On July 16, 2012, the Company received notice that it was named as a defendant along with several other parties and up to 100 unnamed John Does in a civil lawsuit for damages for wrongful death, negligence, negligent entrustment, permissive use liability, negligent hiring and premises liability in the death of woman in rural California. The civil suit, case S-1500-CV-276772 SPC, was filed on May 30, 2012 with a summons issued on June 25, 2012, in Kern County, in the State of California, in the Superior Court of the State of California. While the outcome of this lawsuit cannot be predicted with certainty, management feels the lawsuit is totally without merit and expects to be eventually dismissed as a defendant from this lawsuit. Management does not expect this lawsuit to have a material adverse impact on our financial condition or results of operation. The Company, as an owner or lessee and operator of oil and gas 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 an oil and gas 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, 2012. There can be no assurance, however, that current regulatory requirements will not change, or past non-compliance with environmental issues will not be discovered on the Company' s oil and gas properties.

Stockholders' Deficit	9 Months Ended Nov. 30, 2012
Equity [Abstract]	
Stockholders' Deficit	*NOTE 10 – STOCKHOLDERS DEFICIT:*

Series A Convertible Preferred Stock

The Company is authorized to issue up to 10,000,000 shares of $0.001 par value 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. The Series A Preferred can be converted by the shareholder at any time into three shares of the Company' s Common Stock. During the nine months ended November 30, 2012, there were 8,000 shares of Series A Preferred converted into 24,000 shares of the Company' s Common Stock by one shareholder. At November 30, 2012, there were 898,565 shares of Series A Preferred issued and outstanding.

Holders of Series A Preferred shares earn a 6% annual cumulative dividend based on the original purchase price of the shares. Accumulated dividends do not bear interest and as of November 30, 2012, accumulated and unpaid dividends amounted to $1,257,150. Dividends may be paid in cash or Common Stock at the discretion of the Company and are payable upon declaration by the Company' s Board of Directors. Dividends are earned until the Series A Preferred is converted to Common Stock. No payment of dividends has been declared as of November 30, 2012.

Dividends earned on the Series A Preferred for each fiscal year since issuance and the nine months ended November 30, 2012 are set forth in the table below:

Fiscal Year Ended	Shareholders at Period End	Accumulated Dividends
February 28, 2007	100	$ 155,311
February 29, 2008	90	242,126
February 28, 2009	78	209,973
February 28, 2010	74	189,973
February 28, 2011	70	173,707
February 29, 2012	70	163,624
Nine Months Ended November 30, 2012	69	122,436
Total Accumulated Dividends		$ 1,257,150

Common Stock

The Company is authorized to issue up to 200,000,000 shares of $0.001 par value Common Stock, of which 48,807,939 shares were issued and outstanding as of November 30, 2012. For the nine months ended November 30, 2012, there were 24,000 shares of the Company' s Common Stock issued due to the conversion of Series A Preferred Stock. However, 3,830 shares of the Company' s Common Stock relating to the Company' s 2009 Restricted Stock and Restricted Stock Unit Plan were returned to the Company during the nine months ended November 30, 2012 as discussed in Note 12 below.

Common Stock Issued through Restricted Stock and Restricted Stock Unit Plan

On April 6, 2009, the Board approved the 2009 Restricted Stock and Restricted Stock Unit Plan (the "2009 Plan") allowing the executive officers, directors, consultants and employees of the Company and its affiliates to be eligible to receive restricted stock and restricted stock unit awards. Refer to the discussion in Note 12 for the issuances made under the 2009 Plan.

Short-Term and Long-Term Borrowings	9 Months Ended Nov. 30, 2012
Debt Disclosure [Abstract]	
Short-Term and Long-Term Borrowings	

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

Short-Term Notes Payable

On May 18, 2012, the Company entered into a loan agreement with Luberski, Inc. ("Luberski") as lender and another party as co-borrower, pursuant to which the Company and the co-borrower together borrowed a principal amount of $1,500,000. The Company' s share in the loan amounted to $719,062 with the remainder of the loan proceeds paid to the co-borrower. The loan bore interest at a rate of 5% per month, which interest was to be paid by the co-borrower, had a term of 120 days, and was eligible to be prepaid at any time in part or in full without premium or penalty. The loan called for a minimum interest payment of $150,000. The Company recognized $123,318 in deferred financing fees associated with this loan. Either the Company' s or the co-borrower' s failure to repay the principal at maturity would constitute an event of default and give the lender the right to call the loan due. The loan was a joint and several obligation of the Company and the co-borrower, and was secured by the Company' s currently producing leases in Kern Country, California and certain personal property, accounts receivable and net profits of the co-borrower as well as a personal unconditional guarantee of the loan by the co-borrower' s sole managing member.

On October 31, 2012, the Company paid Luberski $1,500,000 pursuant to the terms of a Settlement and Release Agreement between Luberski and the Company. The payment satisfied the Company' s indebtedness and as a result of the payoff, the Company recognized a loss on settlement of debt of $780,938. Additionally, under terms of the settlement agreement, the Company agreed to allow Luberski to pursue collection of other amounts owed in connection with the loan from the co-borrower before the Company pursues any action against the co-borrower for amounts owed to the Company. The security interest granted by Daybreak in favor of Luberski in the Company' s Kern County, California leases was terminated in connection with the payoff.

On May 22, 2012, the Company paid Well Works, LLC, a Utah limited liability company, $595,744 representing the outstanding principal balance and all interest and fees due in regards to the secured convertible promissory note between the Company and Well Works that was executed on September 17, 2010. The security interest granted by Daybreak in favor of Well Works in the Company' s Kern County, California leases was terminated in connection with the payoff.

Short-Term (Related Party)

On August 21, 2012, the Company' s President and Chief Executive Officer loaned the Company $15,000 to reduce the outstanding balance on the Company' s Line of Credit with UBS Bank. The loan is a non-interest bearing loan. Repayment will be made upon a mutually agreeable date in the future.

On January 31, 2012, the Company issued a $35,100 non-interest bearing note to the Company' s President and Chief Executive Officer. The term of the note provided for repayment on such date as may be agreed to by the Company and its President. Proceeds from the note were used to pay an extension fee related to a loan from a third party.

On June 20, 2011, the Company issued a $200,000 non-interest bearing note to the Company' s President and Chief Executive Officer. The term of the note provided for repayment on or before June 30, 2011, or such date as may be agreed to by the Company and its President. Proceeds from the note were used to meet the escrow requirement on a loan commitment from a third party that was announced in June 2011.

Long-Term Debt

Maximilian Loan

On October 31, 2012, the Company entered into a loan agreement with Maximilian which provides for a revolving credit facility of up to $20 million, maturing on October 31, 2016, with a minimum commitment of $2.5 million. The loan bears annual interest of 18% and a monthly commitment fee of 0.5%. The loan is secured by a perfected first priority security interest in substantially all of the assets of the Company, including the Company' s leases in Kern County, California. The Company also granted Maximilian a 10% working interest in its share of the oil and gas leases in Kern County, California. The relative fair value of this 10% working interest amounting to $515,638 was recognized as a debt discount and is being amortized over the term of the loan. Amortization expense for the three months ended November 30, 2012 amounted to $9,603. Unamortized debt discount amounted to $506,035 as of November 30, 2012.

The Company borrowed an initial amount from the credit facility of $1,650,691 in which $1,500,000 was used to settle the loan with Luberski and the remaining amount was used to pay for the related loan fees and closing costs. Future advances under the facility will primarily be used for oil and gas exploration and development activities. The Company recognized $321,836 in deferred financing costs associated with this loan.

The loan agreement contained customary covenants for loans of such type, including among other things, covenants that restrict the Company' s ability to make capital expenditures, incur indebtedness, incur liens and dispose of property. In the event of a default, all of the Company' s obligations under the loan agreement may be accelerated by the lender, causing all loans outstanding (including accrued interest and fees payable thereunder) to be declared immediately due and payable.

The Company also issued 2,435,517 warrants to third parties who assisted in the closing of the loan. The warrants have an exercise price of $0.044; contain a cashless exercise provision; have piggyback registration rights; and are exercisable for a period of five years expiring on October 31, 2017. The fair value of the warrants, as determined by the Black-Scholes option pricing model, was $98,084 and included the following assumptions: a risk free interest rate of 0.72%; stock price of $0.04, volatility of 153.44%; and a dividend yield of 0.0%. The fair value of the warrants was recognized as a deferred financing cost and is being amortized over the term of the loan. Amortization expense of deferred financing costs for the three months ended November 30, 2012 was $6,705

12% Subordinated Notes

On January 13, 2010, the Company commenced a private placement of 12% Subordinated Notes ("Notes"). On March 16, 2010, the Company closed its private placement of Notes to 13 accredited investors resulting in total gross proceeds of $595,000. Interest on the Notes accrues at 12% per annum, payable semi-annually. The note principal is payable in full at the expiration of the term of the Notes, which is January 29, 2015. Should the Board of Directors, on the maturity date, 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, 2014. A $250,000 Note was sold to a related party, the

Company' s President and Chief Executive Officer. The terms and conditions of the related party Note were identical to the terms and conditions of the other participants' Notes.

In conjunction with the Notes private placement, a total of 1,190,000 common stock purchase warrants were issued at the rate of two warrants for every dollar raised through the private placement. The warrants have an exercise price of $0.14 and expire on January 29, 2015. The fair value of the warrants, as determined by the Black-Scholes option pricing model, was $116,557 using the following weighted-average assumptions: a risk free interest rate of 2.33%; volatility of 147.6%; and dividend yield of 0.0%. The fair value of the warrants was recognized as a discount to debt and is being amortized over the term of the Notes using the effective interest method. Amortization expense for the nine months ended November 30, 2012 amounted to $16,574. Unamortized debt discount amounted to $63,509 as of November 30, 2012.

Line of Credit	9 Months Ended Nov. 30, 2012
Line Of Credit	
Line of Credit	***NOTE 9 – LINE OF CREDIT:*** The Company has an $890,000 credit line 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 the Company' s President and Chief Executive Officer. At November 30, 2012, the Line of Credit had an outstanding balance of $887,332. Interest is payable monthly at a stated reference rate of 0.249% + 337.5 basis points. The reference rate is based on the 30 day LIBOR ("London Interbank Offered Rate") and is subject to change from UBS.

Warrants	9 Months Ended Nov. 30, 2012

Warrants

Warrants

NOTE 11 − WARRANTS:

Warrants outstanding and exercisable as of November 30, 2012 are set forth in the table below:

	Warrants	Exercise Price	Remaining Life (Years)	Exercisable Warrants Remaining
Placement agent warrants - Spring 2006 Private Placement	802,721	$0.75	0.50	802,721
Placement agent warrants - Spring 2006 Private Placement	401,361	$2.00	0.50	401,361
Placement agent warrants - July 2006 Private Placement	419,930	$1.00	0.75	419,930
12% Subordinated Note warrants	1,190,000	$0.14	2.00	1,190,000
Warrants issued in 2010 for services	150,000	$0.14	2.50	150,000
Warrants issued in 2012 for services	2,435,517	$0.044	4.92	2,435,517
	5,399,529			5,399,529

There were no warrants exercised or that expired during the nine months ended November 30, 2012. A total of 2,435,517 warrants were issued for services related to financing the Company received during the nine months ended November 30, 2012. Refer to the discussion under Note 8 for further information on the issued warrants. The outstanding warrants as of November 30, 2012, have a weighted average exercise price of $0.39, a weighted average remaining life of 2.90 years, and an intrinsic value of $43,839.

Short-Term and Long-Term Borrowings (Details Narrative) (USD $)		1 Months Ended				9 Months Ended				
	Oct. 31, 2012	May 31, 2012	Jan. 31, 2012	Jun. 30, 2011	Jan. 31, 2010	Nov. 30, 2012 Perunit	Aug. 21, 2012	May 18, 2012	Feb. 29, 2012	Jan. 13, 2010 Perunit
Debt Disclosure [Abstract]										
Short-term notes payable						$ 0		$ 1,500,000	$ 150,000	
Company proceeds from Luberski note payable		719,062								
Short-term notes payable - Luberski Inc. interest rate								5.00%		
Short-term note payable - Luberski due date terms		Due in 120 days from May 18, 2012								
Secured convertible promissory settled - Well Works		595,744								
Short term loan settlement and release payment	1,500,000									
Short term loan							15,000			
Related party short-term note payable			35,100	200,000						
Description of long-term notes payable revolving credit facility						On October 31, 2012, the Company entered into a loan agreement with Maximilian which provides for a revolving credit facility of up to $20 million, maturing on October 31, 2016, with a minimum commitment of $2.5 million. The loan bears annual interest of				

18% and a monthly commitment fee of 0.5%. The loan is secured by a perfected first priority security interest in substantially all of the assets of the Company, including the Company's leases in Kern County, California. The Company also granted Maximilian a 10% working interest in its share of the oil and gas leases in Kern County, California. The relative fair value of this 10% working interest amounting to $515,638 was recognized as a debt discount and is being amortized over the term of the loan. Amortization expense for the three months ended November 30, 2012 amounted to

$9,603. Unamortized debt discount amounted to $506,035 as of November 30, 2012. The Company borrowed an initial amount from the credit facility of $1,650,691 in which $1,500,000 was used to settle the loan with Luberski and the remaining amount was used to pay for the related loan fees and closing costs. Future advances under the facility will primarily be used for oil and gas exploration and development activities. The Company recognized $321,836 in deferred financing costs associated with this loan. The loan agreement contained customary covenants for loans of such type, including among other things, covenants that restrict the Company's ability to make capital expenditures, incur indebtedness, incur liens and dispose of property. In the event of a default, all of the Company's obligations under the loan agreement may be accelerated by the lender, causing all loans outstanding (including accrued interest and fees payable thereunder) to be declared immediately due and payable. The Company also issued 2,435,517 warrants to third parties who assisted in the closing of the loan. The warrants have an exercise price of $0.044; contain a cashless exercise provision; have piggyback registration rights; and are exercisable for a period of five years expiring on October 31, 2017. The fair value of the warrants, as determined by the Black-Scholes option pricing model, was $98,084 and included the following assumptions: a risk free interest rate of 0.72%; stock price of $0.044, volatility of 153.44%; and a dividend yield of 0.0%. The fair value of the warrants was recognized as a deferred financing cost and is being amortized over the term of the loan. Amortization expense of

		deferred financing costs for the three months ended November 30, 2012 was $6,705.	
Line of credit facility maximum borrowing		20,000,000	
Line of credit facility expiration date		Oct. 31, 2016	
Line of credit facility commitment fee		2,500,000	
Line of credit facility interest rate		18.00%	
Line of credit facility commitment fee percentage		5.00%	
Line of credit facility current borrowing		1,650,691	
Line of credit facility - deferred financing fees		243,486	
Proceeds from private placement - 12% subordinated notes	595,000		
Interest rate - 12% subordinated notes			12.00%
Expiration of the 12% subordinated notes	Jan. 29, 2015		
Terms of 12% subordinated notes	Should the Board of Directors, on the maturity date, 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, 2014.		
Related party long-term note payable			250,000
Terms of private placement agreement	In conjunction with the Notes private placement, a total of 1,190,000 common stock purchase warrants were issued at the rate of two warrants for every dollar raised through the private placement.		
Warrants issued	1,190,000	2,435,517	
Warrant exercise price		0.044	0.14

Warrant expiration date	Jan. 29, 2015	Oct. 31, 2017
Fair value of warrants	116,557	98,084
Weighted average risk free interest rate	2.33%	72.00%
Weighted average volatility rate	147.60%	153.44%
Weighted average dividend yield	0.00%	0.00%
Amortization expense		16,574
Unamortized debt discount		$ 63,509

Oil and Gas Properties (Tables)	9 Months Ended Nov. 30, 2012
OIL AND GAS PROPERTIES, net, successful efforts method	
Capitalized Costs Relating to Oil and Gas Producing Activities	

	November 30, 2012	February 29, 2012
Proved leasehold costs	$ 2,236	$ 2,254
Unproved leasehold costs	361,864	438,640
Costs of wells and development	290,424	470,653
Capitalized exploratory well costs	2,162,618	2,316,305
Capitalized asset retirement costs	26,843	31,545
Total cost of oil and gas properties	2,843,985	3,259,397
Accumulated depletion, depreciation, amortization and impairment	(1,355,514)	(1,186,212)
Net Oil and Gas Properties	$ 1,488,471	$ 2,073,185

Income Taxes (Tables)	9 Months Ended Nov. 30, 2012
Income Tax Disclosure [Abstract]	
Schedule of Components of Income Tax Expense	(table below)
Schedule of Deferred Tax Assets and Liabilities	(table below)

Schedule of Components of Income Tax Expense

	November 30, 2012	February 29, 2012
Computed at U.S. and state statutory rates (40%)	$ (717,373)	$ (573,035)
Permanent differences	9,207	37,325
Changes in valuation allowance	708,166	535,710
Total	$ -0-	$ -0-

Schedule of Deferred Tax Assets and Liabilities

	November 30, 2012	February 29, 2012
Deferred tax assets:		
Net operating loss carryforwards	$ 7,012,463	$ 6,319,866
Oil and gas properties	(139,943)	(147,148)
Stock based compensation	80,256	71,891
Less valuation allowance	(6,952,776)	(6,244,609)
Total	$ -0-	$ -0-

Restricted Stock and Restricted Stock Unit Plan (Details Narrative) (USD $)	9 Months Ended Nov. 30, 2012
Disclosure of Compensation Related Costs, Share-based Payments [Abstract]	
2009 Restricted stock and restricted stock unit plan description	On Apri 6, 2009, the Board of Directors of the Company approved the 2009 Restricted Stock and Restricted Stock Unit Plan (the "2009 Plan") allowing the executive officers, directors, consultants and employees of the Company and its affiliates to be eligible to receive restricted stock and restricted stock unit awards ("Awards"). Subject to adjustment, the total number of shares of the Company's 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. At November 30, 2012, a total of 2,992,340 shares of restricted stock had been awarded and remained outstanding under the 2009 Plan, and 2,615,255 of the shares had fully vested. A total of 1,007,660 Common Stock shares remained available at November 30, 2012 for issuance pursuant to the 2009 Plan.
Recognized compensation expense	$ 20,413
Unamortized compensation expense	$ 21,658

Statements of Cash Flows (Unaudited) (USD $)	9 Months Ended Nov. 30, 2012	Nov. 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,793,430)	$ (822,246)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on settlement of debt	780,938	0
Bad debt expense	239,000	0
Stock compensation	20,413	68,414
Depreciation, depletion, and impairment expense	172,544	211,490
Amortization of debt discount	26,177	43,955
Amortization of loan origination fees	123,318	11,875
Amortization of deferred financing costs	6,705	0
Non-cash interest income	(343)	(476)
Changes in assets and liabilities:		
Accounts receivable - oil and gas sales	68,837	5,882
Accounts receivable - joint interest participants	6,672	65,786
Accounts receivable - other	(30,113)	68,745
Prepaid expenses and other current assets	31,076	(129,480)
Accounts payable and other accrued liabilities	232,458	133,618
Accounts payable - related parties	195,497	224,024
Accrued interest	75,701	181,246
Net cash provided by operating activities	155,450	62,833
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to oil and gas properties	(182,142)	(170,665)
Net cash used in investing activities	(182,142)	(170,665)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of note payable	0	(600,000)
Proceeds from issuance of notes payable - related party	0	200,000
Payment of deferred financing fees	(40,700)	0
Proceeds from (payments to) line of credit	(6,000)	875,713
Payment to escrow for loan commitment	0	(200,000)
Net cash (used in) provided by financing activities	(46,700)	275,713
NET DECREASE IN CASH AND CASH EQUIVALENTS	(73,392)	167,881
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	73,392	57,380
CASH AND CASH EQUIVALENTS AT END OF PERIOD	0	225,261
Cash paid for Interest	535,324	43,509
Cash paid for Income taxes	0	0
SUPPLEMENTAL CASH FLOW INFORMATION:		
Unpaid additions to oil and gas properties	26,050	38,148
Interest converted to principal	24,427	0
Note paid directly from proceeds of note	150,000	0
Note paid directly to accrued interest and fees	445,744	0
Note paid directly to pre-paid loan fees	123,318	0

Related party note paid directly to line of credit	15,000	0
Debt discount for assignment of working interest	515,638	0
ARO asset and liability reduction due to assignment of working interest	4,702	0
Deferred financing fees paid directly from proceeds of long-term debt	150,691	0
Warrants issued for deferred financing fees	98,084	0
Unpaid deferred financing fees	57,361	0
Changes to estimates to asset retirement obligation	0	605
Conversion of preferred stock to common stock	24	0
Repurchase of stock through payment of payroll taxes	173	383
Discount on notes payable - Long term	0	13,850
Discount on notes payable - Short term	$ 0	$ 30,105

Oil and Gas Properties	9 Months Ended Nov. 30, 2012
OIL AND GAS PROPERTIES, net, successful efforts method	
Oil and Gas Properties	*NOTE 5 – OIL AND GAS PROPERTIES:*

Oil and gas property balances at November 30, 2012 and February 29, 2012 are set forth in the table below.

	November 30, 2012	February 29, 2012
Proved leasehold costs	$ 2,236	$ 2,254
Unproved leasehold costs	361,864	438,640
Costs of wells and development	290,424	470,653
Capitalized exploratory well costs	2,162,618	2,316,305
Capitalized asset retirement costs	26,843	31,545
Total cost of oil and gas properties	2,843,985	3,259,397
Accumulated depletion, depreciation, amortization and impairment	(1,355,514)	(1,186,212)
Net Oil and Gas Properties	$ 1,488,471	$ 2,073,185

On October 31, 2012, the Company assigned 10% of its working interest in all oil and gas and leasehold assets to a third party in connection with a funding agreement described in further detail in Note 8 below.

Going Concern (Details Narrative) (USD $)	Nov. 30, 2012 Numberofwells
Going Concern	
Working capital deficit	$ 3,467,469
Number of producing wells	11
Average working interest	36.14%
Average net revenue interest	26.86%

Warrants (Details) (USD $)	9 Months Ended Nov. 30, 2012
Remaining life (years)	2 years 11 months
1st Placement Agent Warrants - Spring 2006 Private Placement	
Exercise price	0.75
Remaining life (years)	0 years 6 months 0 days
Exercisable warrants remaining	802,721
2nd Placement Agent Warrants - Spring 2006 Private Placement	
Exercise price	2.00
Remaining life (years)	0 years 6 months 0 days
Exercisable warrants remaining	401,361
Placement Agent Warrants - July 2006 Private Placement	
Exercise price	1.00
Remaining life (years)	0 years 9 months 0 days
Exercisable warrants remaining	419,930
12% Subordinated Note Warrants	
Exercise price	0.14
Remaining life (years)	2 years 0 months 0 days
Exercisable warrants remaining	1,190,000
Warrants Issued in 2010 for Services	
Exercise price	0.14
Remaining life (years)	2 years 6 months 0 days
Exercisable warrants remaining	150,000
Warrants Issued in 2012 for Services	
Exercise price	0.044
Remaining life (years)	4 years 11 months 0 days
Exercisable warrants remaining	2,435,517

Accounting Policies (Policies)

9 Months Ended Nov. 30, 2012

Accounting Policies [Abstract]

Basis of Presentation

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, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending February 28, 2013.

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 29, 2012.

Use of Estimates

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 and to determine the amount of any impairment of proved properties;

· The valuation of unproved acreage and proved oil and gas properties to determine the amount of any impairment of oil and gas 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.