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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

# FORM 10-QSB

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2005

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

# DAYBREAK MINES, INC.

(Exact name of small business issuer as specified in its charter)

| **Washington** | **000-50107** | **91-0626366** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| **601 W. Main Ave., Suite 1017, Spokane, WA** | **99201** |
|---|---|
| (Address of principal executive offices) | (Zip Code) |

**(509) 462-0315**
(Registrant's telephone number, including area code)

| **Common Stock** | **None** |
|---|---|
| Title of each class | Name and exchange on which registered |

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 as the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. **Yes [X]** No [ ]

At July 12, 2005, 20,149,419 shares of the registrant's common stock were outstanding.

SEC 2334 (10-04) Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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## PART I

### ITEM 1: FINANCIAL STATEMENTS

Daybreak Mines, Inc.
Balance Sheet at May 31, 2005 (Unaudited)

ASSETS

| | | May 31, 2005 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ | 3,665 |
| Deposits | | 31,600 |
| Prepaid expenses | | 366,256 |
| Total assets | $ | 401,521 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | $ | 24,764 |
| Interest payable | | 660 |
| Loans payable-shareholders | | 37,820 |
| Loans payable-directors | | 38,000 |
| Total current liabilities | | 101,244 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock; $0.001 par value; 10,000,000 shares authorized, none issued and outstanding | | |
| Common stock; $0.001 par value; 200,000,000 shares authorized; 20,149,419 shares issued and outstanding | | 20,149 |
| Additional paid-in capital | | 1,195,547 |
| Accumulated deficit | | (915,419) |
| Total stockholders' equity | | 300,277 |
| Total liabilities and stockholders' equity | $ | 401,521 |

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

Daybreak Mines, Inc.
Statements of Operations for the Three Month Periods Ended
May 31, 2005 and 2004 (Unaudited)

| | 2005 | 2004 |
|---|---|---|
| OPERATING EXPENSES: | | |
| Legal and accounting expense | $ 25,821 | $ 9,950 |
| Management fees | 74,800 | - |
| Investor relations fees | 69,335 | - |
| General and administrative expenses | 9,427 | 2,049 |
| Total operating expenses | 179,383 | 11,999 |
| OTHER INCOME: | | |
| Interest income | - | 17 |
| Realized gain on marketable security | - | 750 |
| Total other income | - | 767 |
| NET LOSS | 179,383 | 11,232 |
| OTHER COMPREHENSIVE (INCOME): | | |
| Unrealized gain on marketable securities, net of reclassification adjustments for gain included in net income | | (3,570) |
| COMPREHENSIVE LOSS | $ 179,383 | $ 7,662 |
| NET LOSS PER COMMON SHARE | $ 0.01 | $ Nil |
| WEIGHTED AVERAGE NUMBER OF SHARES OUSTANDING – BASIC | 18,969,528 | 18,199,419 |

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

Daybreak Mines, Inc.
Statements of Cash Flows for the Three Month Periods Ended
May 31, 2005 and 2004 (Unaudited)

| | 2005 | 2004 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $ (179,383) | $ (11,232) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Realized gain on marketable securities | | (750) |
| Common stock issued for: | | |
| Prepaid management and consulting expense | 487,500 | |
| Change in operating assets and liabilities: | | |
| Accounts payable | 16,393 | 2,055 |
| Prepaid expenses | (365,816) | |
| Interest payable | 660 | |
| Net cash flows used by operating activities | (40,646) | (9,927) |
| Cash flows from (used by) investing activities: | | |
| Cash provided by sale of marketable equity securities | | 1,992 |
| Cash paid for deposits | (31,600) | |
| Net cash flows from (used by) investing activities | (31,600) | 1,992 |
| Cash flows from financing activities: | | |
| Proceeds from shareholder loans | 37,820 | |
| Proceeds from director loans | 38,000 | |
| Net cash flows from financing activities | 75,820 | |
| NET INCREASE (DECREASE) IN CASH | 3,574 | (7,935) |
| CASH AT BEGINNING OF PERIOD | 91 | 21,071 |
| CASH AT END OF PERIOD | $ 3,665 | $ 13,136 |

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

## 1. Basis of Presentation

The financial statements of Daybreak Mines, Inc. included herein have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Although certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America has been condensed or omitted, Daybreak Mines, Inc. believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and notes thereto for the fiscal year ended February 28, 2005, included in the registrant's filing of Form 10-KSB.

The Company has no recurring source of revenue and has incurred operating losses since inception. These conditions raise substantial doubt about the Company's ability to continue as a going concern as expressed by the Company's independent accountants in their report on the Company's February 28, 2005, financial statements. The financial statements do not contain any adjustments, which might be necessary if the Company is unable to continue as a going concern. Management's plans, however, are to finance the Company's growth through sales of its common stock, and borrowings from investors. However, there can be no assurances as to the overall success of these plans.

The financial statements included herein reflect all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation. The results for interim periods are not necessarily indicative of trends or of results to be expected for the full year ending February 28, 2006.

## 2. Reclassifications

Certain reclassifications have been made to conform prior period data to the current presentation. These reclassifications had no effect on reported earnings.

## 3. Related Party Transactions

During March, April and May of 2005, loans amounting to $75,820 were made to the Company by various officers, directors, and significant shareholders. The loans accrue interest at 6% per annum, are due in full one year from the date of issue, and are convertible into common stock of the Company at $0.25 per share any time after six months from the issue date. The loans were made to provide the Company with sufficient funds to pay necessary, ongoing operating expenses.

## 4. Consulting Agreements

On March 1, 2005, the Company entered into a one year Consulting Agreement with 413294 Alberta Ltd., a Canadian company controlled by the President of the Company, Robert N. Martin. As consideration for performance of Mr. Martin's services, the Company has agreed to pay him 1,100,000 common shares and $1,000 per month for incidental expenses for which services are provided, and reimburse him for out-of-pocket travel and related business expenses. The 1,100,000 shares were valued at $275,000, or $0.25 per share, and recorded as a prepaid expense on March 1, 2005.

4. **Consulting Agreements, continued**

On March 1, 2005, the Company entered into a one year Consulting Services Agreement with AnMac Enterprises Inc., a Canadian company, for investor relations and other consulting services. In consideration for the services provided for, the Company agreed to issue 350,000 common shares of the Company and pay a monthly salary of $3,000 for twelve months. The 350,000 shares were valued at $87,500, or $0.25 per share, and recorded as a prepaid expense at March 1, 2005.

On March 1, 2005, the Company entered into a twelve month Consulting Services Agreement with an individual for investor relations and other consulting services. The Company agreed to issue 500,000 common shares and pay a monthly salary of $2,000. The 500,000 shares were valued at $125,000, or $0.25 per share, and recorded as a prepaid expense at March 1, 2005.

5. **Oil and Gas Properties**

In April of 2005, the Company made earnest money deposits totaling $31,600 on two separate oil and gas lease agreements with MPG Petroleum, Inc. (MPG), a Texas company. The balance due on the two lease agreements was $284,400, and due on June 20, 2005. On June 15, 2005, the closing dates on both agreements were extended to July 30, 2005. In consideration of the extensions, the Company paid an additional $50,000 to MPG on June 16, 2005. The remaining obligation of $234,400 is due to MPG at closing on July 30, 2005.

6. **Contingency**

On December 15, 2004, Robert N. Martin, the Company's President, executed a Consulting Agreement with Summitt Ventures, Inc., purporting to obligate the Company pursuant to its terms and conditions. Due to drafting ambiguities and contradictions, the Company disputes that it is a party to the agreement and, alternatively believes that no contracted services were provided to the Company by Summitt Ventures, Inc. The Agreement calls for the payment of $500,000 to Summitt Ventures, Inc. for consulting services payable in cash or unrestricted common stock. Additionally, the Agreement implies that transaction fees may be payable for certain business opportunities in which the Company participates at the direction of Summitt Ventures, Inc. The term of the Agreement is December 15, 2004 through May 15, 2005. The Company has not paid any money or issued any stock to Summitt Ventures, Inc. We believe that Summitt Ventures may assert claims under the Consulting Agreement. We intend to vigorously dispute, and or defend any Summitt Venture claim under this Agreement.

While we currently believe that the ultimate outcome of this matter will not have a material adverse effect on our financial position or results of operations, potential litigation is subject to inherent uncertainties. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on our net income in the period in which the negative outcome occurs. Our estimate of the potential impact from a negative outcome could change in the future.

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATION

### *Plan of Operation*

### *General*

This report contains both historical and prospective statements concerning the Company and its operations. Prospective statements (known as "forward-looking statements") may or may not prove true with the passage of time because of future risks and uncertainties. The Company cannot predict what factors might cause actual results to differ materially from those indicated by prospective statements.

During 2004, management of the Company decided to engage in the business of acquiring oil and/or gas drilling prospects. In April 2005, the Company signed two agreements with MPG Petroleum, Inc. to acquire interests in oil exploration prospects in Texas. The Company has no recurring source of revenue and has incurred operating losses since inception. These conditions raise substantial doubt about the Company's ability to continue as a going concern, as expressed by the Company's independent accountants in their report on the Company's February 28, 2005, financial statements. The financial statements contained herein do not contain any adjustments, which might be necessary if the Company is unable to continue as a going concern.

### *Financial Condition and Liquidity*

During the three month period ended May 31, 2005, the Company used $40,646 of cash for operating activities, compared to $9,927 used for operating activities in the first fiscal quarter of 2004, including $750 of realized gains on marketable securities. During the quarter ended May 31, 2005, shareholders and directors provided $75,820 in loans to finance the Company's operating activities. The Company had no revenue during the quarter ended May 31, 2005. Management believes that the Company has the ability to raise sufficient cash to meet operating expenses for the next twelve months, either through additional loans from shareholders and directors, or from the proceeds of private placements of its common stock.

## ITEM 3. CONTROLS AND PROCEDURES.

As of the end of the reporting period, May 31, 2005, we carried out an evaluation by the Company's Chairman and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), which disclosure controls and procedures are designed to insure that information required to be disclosed by a company in the reports that it files under the Exchange Act are recorded, processed, summarized and reported within required time periods specified by the Securities & Exchange Commission rules and forms.

Based upon that evaluation, the Chairman and the Chief Financial Officer concluded that our disclosure controls and procedures need improvement and were not adequately effective as of May 31, 2005 to ensure timely reporting with the Securities and Exchange Commission.

Material weaknesses identified were:

- The Company's corporate governance and disclosure controls and procedures do not provide reasonable assurance that material transactions are timely and accurately reported in our Periodic Reports that we file with the Securities & Exchange Commission. In particular, the Company does not have adequate controls over (1) the management's review and execution of material contracts, (2) the process for authorization and issuance of common shares; (3) the timely disclosure of material contracts and common stock issuance transactions.

(b) Changes in Internal Control.

As required by Rule 13a-15(d), the Company's Chairman and Chief Financial Officer, also conducted evaluations of our internal controls over financial reporting to determine whether any changes occurred during the first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. During the preparation of the Company's financial statements, as of May 31, 2005, the Company has concluded that the current system of disclosure controls and procedures was not effective because of the internal control weaknesses identified above. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Specifically, our controls (1) failed to ensure that material contracts were thoroughly reviewed by management prior to execution and (2) that common stock transactions were properly disclosed on Form 8-K Current Reports under the applicable rules and regulations required by law.

As a result our evaluation, the Company has initiated the changes in internal control also described below. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

Changes Implemented to Correct Material Weaknesses:

- We have begun to develop operation checklists relating to management's execution of material contracts and the related disclosure requirements, and the Company's timely disclosure of unregistered equity transactions. The checklist will provide evidentiary support of work performed and reviewed. We intend to implement this checklist before any other material contracts are executed or common shares are authorized for issuance.

(c) Limitations.

Our management, including our Principal Executive Officer and Principal Financial Officer, 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

### ITEM 1. LEGAL PROCEEDINGS

NONE

### ITEM 2. CHANGES IN SECURITIES

NONE

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

### ITEM 5. OTHER INFORMATION

NONE

### ITEM 6. EXHIBITS

Exhibit 31.1 – Certification required by Rule 13a-14(a) or Rule 15d-14(a), Martin
Exhibit 31.2 – Certification required by Rule 13a-14(a) or Rule 15d-14(a), Kilbourne
Exhibit 32.1 – Certification Required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, Martin
Exhibit 32.2 – Certification Required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, Kilbourne

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(b) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Daybreak Mines, Inc.
(Registrant)

| | |
|---|---|
| By: /s/ Robert N. Martin | July 14, 2005 |
| Robert N. Martin | Date |
| President, Chief Executive Officer, and Director | |
| | |
| By: /s/ Thomas C. Kilbourne | July 14, 2005 |
| Thomas C. Kilbourne | Date |
| Treasurer, Principal Accounting Officer, and Director | |

Exhibit 31.1

Certification

I, Robert Martin, certify that:

(1) I have reviewed this quarterly report on Form 10-QSB of Daybreak Mines, Inc., ("Registrant").

(2) Based on my knowledge, this quarterly 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 quarterly report;

(3) Based on my knowledge, the financial statements and other financial information included in this quarterly 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 quarterly 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)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) 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

(c) disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

(5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of the 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: July 14, 2005

/s/Robert N. Martin
Robert N. Martin
President and Chief Executive Officer

Exhibit 31.2

Certification

I, Thomas Kilbourne, certify that:

(1) I have reviewed this quarterly report on Form 10-QSB of Daybreak Mines, Inc., ("Registrant").

(2) Based on my knowledge, this quarterly 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 quarterly report;

(3) Based on my knowledge, the financial statements and other financial information included in this quarterly 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 quarterly 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)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) 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

(c) disclosed in this report any changes in the registrant’s internal control over financial reporting that occurred during the registrant’s first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

(5) The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of the 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: July 14, 2005

/s/Thomas C. Kilbourne
Thomas C. Kilbourne
Treasurer and Principal Accounting Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO THE SARBANES-OXLEY ACT
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Robert N. Martin, President and Chief Executive Officer of Daybreak Mines, Inc. ("the "Registrant") do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. This Quarterly Report on Form 10-QSB of the Registrant for the period ended May 31, 2005, as filed with the Securities and Exchange Commission (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 Registrant.

Date: July 14, 2005

/s/ Robert N. Martin
Robert N. Martin
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO THE SARBANES-OXLEY ACT
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas C. Kilbourne, Principal Accounting Officer of Daybreak Mines, Inc. ("the "Registrant") do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. This Quarterly Report on Form 10-QSB of the Registrant for the period ended May 31, 2005, as filed with the Securities and Exchange Commission (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 Registrant.

Date: July 14, 2005

/s/Thomas C. Kilbourne
Thomas C. Kilbourne
Treasurer and Principal Accounting Officer