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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark one)

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

For the quarterly period ended August 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
<small>(State or other jurisdiction of incorporation or organization)</small>	<small>Commission file number</small>	<small>(IRS Employer Identification Number)</small>
601 W. Main Ave., Suite 1017, Spokane, WA		99201
<small>(Address of principal executive offices)</small>		<small>(Zip Code)</small>

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

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 ☐

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

At September 12, 2005, 21,335,419 shares of the registrant's common stock were outstanding.

Transitional Small Business Disclosure format (check one): Yes ☐ **No [X]**

SEC 2334 (10-04)

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PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

Daybreak Mines, Inc.

Balance Sheet at August 31, 2005 (Unaudited)

ASSETS

Current assets:

Cash	\$	340
Prepaid expenses		244,331
Total current assets		<u>244,671</u>

Oil and gas properties

Total assets	\$	<u>378,500</u>
		<u><u>623,171</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$	53,690
Interest payable		2,276
Loans payable-shareholders		103,821
Loans payable-directors		65,000
Total current liabilities		<u>224,787</u>

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; 21,295,419 shares issued and outstanding		21,295
Additional paid-in capital		1,480,901
Accumulated deficit		<u>(1,103,812)</u>
Total stockholders' equity		<u>398,384</u>

Total liabilities and stockholders' equity	\$	<u>623,171</u>
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The accompanying notes are an integral part of these financial statements.

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

	August 31, 2005		August 31, 2004	
	Three Months	Six Months	Three Months	Six Months
Operating expenses:				
Legal and accounting expense	\$ 9,740	\$ 35,561		
Management fees	74,750	149,550		
Investor relations fees	76,870	146,205		
General and administrative expenses	27,033	36,460	\$ 1,426	\$ 13,425
Total operating expenses	188,393	367,776	1,426	13,425
Other income:				
Interest income			9	26
Realized gain on marketable security			1,392	2,142
Total other income			1,401	2,168
Net loss	188,393	367,776	25	11,257
Other comprehensive loss:				
Unrealized loss on marketable securities, net of reclassification			1,000	2,570
Comprehensive loss	\$ 188,393	\$ 367,776	\$ 1,025	\$ 13,827
Net loss per common share	\$ 0.01	\$ 0.02	\$ Nil	\$ Nil
Weighted average number of shares outstanding – basic	20,553,897	19,772,310	18,119,419	18,119,419

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

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

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net loss	\$ (367,776)	\$ (11,257)
Adjustments to reconcile net loss to net cash used by operating activities:		
Realized gain on marketable securities		(2,142)
Common stock issued for:		
Prepaid management and consulting expense	495,000	
Change in operating assets and liabilities:		
Accounts payable	10,319	
Prepaid expenses	(243,891)	361
Interest payable	2,276	
Net cash flows used by operating activities	<u>(104,072)</u>	<u>(13,038)</u>
Cash flows from investing activities:		
Cash provided by sale of marketable equity securities		5,883
Cash paid for oil and gas properties	<u>(318,500)</u>	
Net cash flows provided (used) by investing activities	<u>(318,500)</u>	<u>5,883</u>
Cash flows from financing activities:		
Proceeds from sales of common stock	254,000	
Proceeds from shareholder loans	103,821	
Proceeds from director loans	<u>65,000</u>	
Net cash flows provided by financing activities	<u>422,821</u>	
Net increase (decrease) in cash	249	(7,155)
Cash at beginning of period	<u>91</u>	<u>21,071</u>
Cash at end of period	\$ <u>340</u>	\$ <u>13,916</u>
Non-cash investing activities:		
Common stock issued for:		
Oil and gas properties	\$ <u>25,000</u>	
Oil and gas properties purchased with account payable	\$ <u>35,000</u>	
Unrealized loss on marketable securities, net of reclassification		\$ <u>2,570</u>

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

Daybreak Mines, Inc.
Notes to Financial Statements (Unaudited)

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 the six months ended August 31, 2005, loans amounting to \$168,821 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.

Daybreak Mines, Inc.
Notes to Financial Statements (Unaudited)

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. Under the terms of the agreement, the Company issued 1,100,000 common shares as a management fee, and will pay a \$1,000 per month consulting fee for the term of the agreement. Additionally, the Company will pay a \$4,000 per month consulting fee for geology work and drill site supervision starting October 1, 2005, on a month to month basis. The 1,100,000 shares were valued at \$275,000, or \$0.25 per share, and were recorded as a prepaid expense on March 1, 2005. The prepaid expense is being amortized over the term of the agreement.

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 consulting fee 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. The prepaid expense is being amortized over the term of the agreement.

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 consulting fee of \$2,000. The 500,000 shares were valued at \$125,000, or \$0.25 per share, and were recorded as a prepaid expense at March 1, 2005. The prepaid expense is being amortized over the term of the agreement.

5. Oil and Gas Properties

The Company made deposits totaling \$31,600 on two separate oil and gas lease agreements, the Pearl Prospect and the Ginny South Prospect, with MPG Petroleum, Inc. (MPG), a Texas company, during the first quarter of 2005. The Company paid an additional \$286,900 on these two lease agreements during the second quarter of 2005. In consideration of an extension on the Pearl Prospect agreement to September 30, 2005, the Company paid an additional 100,000 shares, valued at \$0.25 per share, to MPG on August 31, 2005. The remaining obligation of \$35,000 on the Pearl Prospect agreement was paid to MPG in September 2005.

6. Settlement Agreement

On August 17, 2005, the Company entered into a Settlement and Mutual Release Agreement with Summitt Ventures, Inc., Crosspoint Holdings, Inc., and other affiliated entities controlled by Mark Anderson. The agreement settled a dispute with Mr. Anderson and his related companies relating to a consulting agreement entered into on December 15, 2004, and alleged costs incurred on the Company's behalf. The settlement was consummated by paying \$15,000 to Mr. Anderson and his companies in mutual release of all contractual and other obligations.

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

Plan of Operation

This report contains both historical and prospective statements concerning the Company and its operations. Prospective statements (known as "forward-looking statements") use terminology such as "believe", "expect", "may", "should", "up to", "approximately", "likely", "potential", or "anticipates". These prospective statements involve a number of known and unknown risks, uncertainties and other facts which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such prospective statements. The Company cannot predict what factors might cause actual results to differ materially from those indicated by such 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. In May 2005, Daybreak also signed an agreement (see Exhibits 10.1 and 10.2) to investigate some oil and gas data for drilling prospects in the Southern San Joaquin Basin near Bakersfield, California.

The first agreement with MPG Petroleum covers an area referred to as the Ginny South Prospect, which is in San Patricio County, Texas, and is expected to be drilled in October 2005. The Company has sufficient funds on deposit with the operator to pay for its 25% working interest to drill the well to 9,770 feet to test the Frio sands. The Ginny South well is being drilled near an old well originally drilled in 1965 by R.L. Huffington. The well logs from that old well have indications of hydrocarbons that are now believed to be of quantity to merit commercial production. Daybreak and the operator have leased all relevant mineral rights over the Ginny South prospect.

The second agreement with MPG Petroleum covers an area referred to as the Pearl Prospect and is located on the Texas Gulf Coast. It is a much deeper prospect than the Ginny South Prospect, with very large potential reserves. Geological and drilling risk is correspondingly higher, but this risk can be mitigated by taking a smaller working interest and possibly contracting out some of the working interest. As of August 31, 2005 Daybreak had contributed \$68,000 to a fund to acquire leases on the Pearl Prospect. Daybreak had also paid \$25,000 in stock to the president of MPG Petroleum. By September 30, 2005 Daybreak had fully met its contractual agreement by contributing \$100,000 to this fund. Based upon review of the existing seismic data, Daybreak is encouraged by structural closures on the northern and western sides of the prospect. These structural closures are what a geologist looks for in seismic data when deciding where to drill for oil and gas.

In May 2005, Daybreak entered into an agreement with a private energy company from Calgary, Alberta, Canada, and with three geotechnical professionals from Bakersfield, California, to explore an area in the southeastern part of the San Joaquin Basin. We are seeking fields that have the proven propensity for oil yields in the one million barrel range. Daybreak has committed to a 50% working (cost) interest in this project. The initial capital budget is for \$2 million dollars. The San Joaquin Basin is a very prolific oil producing area that has a long history of production. Production in the region is typically from shallow depths (1000-3000 feet) and the oil is of low to medium gravity (13-20 API). We expect to lease lands over the leads, run up to three 3D seismic surveys looking for good structural closures and to potentially drill two wells. Five prospect areas have already been identified.

The Company had no operating revenue during the last fiscal year or the six months ended August 31, 2005 or 2004. 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. Our operating budget for the next 12 months is estimated to be \$6.5 million dollars, based on our current lease obligations. At this point, no shareholders or directors are obligated to provide any additional funds. Additionally, there is no assurance that we can raise this sum of money, and that based on current share prices substantial dilution to shareholders' equity may result.

Off-Balance Sheet Arrangements

Management has signed a letter of intent for developing a fundraising project with an investment banker.

ITEM 3. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the reporting period, August 31, 2005, an evaluation was conducted 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 is 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 needed improvement and were not adequately effective as of August 31, 2005, to ensure timely reporting with the Securities and Exchange Commission.

A material weakness identified was:

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 and Exchange Commission. In particular, the Company does not have adequate controls over the timely disclosure of 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 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 August 31, 2005, the Company concluded that the current system of disclosure controls and procedures are effective because the internal control weaknesses identified above have been corrected. 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, controls failed to ensure that common stock transactions were properly disclosed on Form 8-K, Current Reports under the applicable rules and regulations required by law. On June 7, 2005, the Company commenced a Regulation D Rule 506 common stock offering. The Securities and Exchange Commission's rules and regulations require that we report certain issuances of unregistered equity securities on a Current Report Form 8-K. Our Regulation D offering is an unregistered offering of equity securities. If the equity securities sold in the aggregate since our last report filed under Item 3.02 of Form 8-K or our last periodic report, whichever is more recent, constitutes 5% or more of our outstanding common stock, then we are required to report the aggregate issuances under Item 3.02 of Form 8-K Current Report. Our most recent report was our Quarterly report for the period ending May 31, 2005. We failed to report aggregate issuances as of August 31, 2005, and October 7, 2005. We have included the issuances up to August 31, 2005 in Part II, Item 2 of this quarterly report. We have included a summary of the monthly issuances for June, July, August including September 1 through October 7, the second failed 8-K report in Part II, Item 5, titled "Other Information".

As a result our evaluation, the Company initiated the changes in internal control 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 revised our operation checklist relating to management's issuance of common stock and the timely disclosure of unregistered equity transactions. The checklist will provide evidentiary support of work performed and reviewed.

(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 - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

NONE

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

During the quarter ended August 31, 2005, the Company sold 1,016,000 unregistered common shares at \$0.25 per share, for a total offering price of \$254,000. The Company claimed exemption for registration under Regulation D, Rule 506, Exemption for Limited Offers and Sales Without Regard to Dollar Amount of Offering. There was no underwriter involved in the sale of these shares, and the securities were only offered to accredited investors. The primary use of the proceeds from the sale will be used for the acquisition of oil and gas lease leases and exploratory drilling.

On August 31, 2005, we sold 100,000 common shares to Margaret Perales of MPG Petroleum as consideration for an extension of a funding commitment for the Pearl Prospect. This transaction was valued at \$25,000. We believe these securities were issued in a private transaction under Section 4(2) of the Securities Act of 1933, as amended, (the "Act") and are restricted securities, which may not be publicly resold without registration under the Act or an exemption from the registration provisions of the Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

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

No matter was submitted to a vote of the security holders, through the solicitation of proxies or otherwise, during the quarter of the fiscal year covered by this report.

ITEM 5. OTHER INFORMATION

On June 7, 2005, we commenced an unregistered offering of our common stock under the securities transaction exemption Regulation D Rule 506. We proposed to offer and sell 4,000,000 common shares for One Million (\$1,000,000) Dollars.

In June we sold 200,000 shares for \$50,000. In July, we sold 616,000 shares for \$154,000. In August, we sold 200,000 shares for \$50,000. In September, we sold 384,000 shares for \$96,000. October 1 through October 13, we have sold 2,520,000 shares for \$630,000. To date we have sold 3,920,000 shares for \$980,000 to thirty-six investors.

Based on these sales, we were required to disclose our unregistered equity sales in a Current Report on Form 8-K when we exceeded the sale of 1,007,470 shares, or 5% of our outstanding common stock. As of August 31, 2005, we had sold 1,016,000 shares in our Regulation D offering. Again, between September 1 and October 7, 2005, we exceeded the disclosure limit by selling in excess of 5% of the outstanding shares.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

- 10.1 Prospect Review Noncompetition and Confidentiality Agreement
- 10.2 Addendum Number One to Prospect Review Noncompetition and Confidentiality Agreement
- 31.1 Certification required by Rule 13a-14(a) or Rule 15d-14(a), Martin
- 31.2 Certification required by Rule 13a-14(a) or Rule 15d-14(a), Kilbourne
- 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
- 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
Robert N. Martin
President, Chief Executive Officer, and
Director

October 19, 2005
Date

By: /s/ Thomas C. Kilbourne
Thomas C. Kilbourne
Treasurer, Principal Accounting Officer,
and Director

October 19, 2006
Date

**PROSPECT REVIEW NONCOMPETITION
AND CONFIDENTIALITY AGREEMENT**

WHEREAS, Chet Pohle, Brian Hirst, and Randy Metz have in their possession certain geoscience, engineering and/or geophysical data and information which identify geological and/or geophysical prospects on the lands described herein, herein after referred to as the “*Proprietary and Confidential Information*”; and

WHEREAS, Daybreak Mines, Inc. located at 601 W. Main Ave., Suite 1017, Spokane, Washington (Robert Martin, President) telephone (403) 660-9639, an entity which is, and assigns (hereinafter “Daybreak”); and Cal-Star Energy Inc. and Canadian Energy Capital Inc., located at 3228 Conrad Drive NW Calgary, Alberta, Canada (Hans Heumann, President) telephone (403) 874-0830, entities which are, and assigns (hereinafter Cal-Star and Canadian), desire to review and inspect said data covering or pertaining to the lands described below for the sole purpose of determining the desirability of entering into an agreement with Chet Pohle, Brian Hirst and Randy Metz covering the subject lands, such lands being situated in Kern County, California, being designated as the “East Slope Prospect,” to wit:

The East Slope Prospect is located in and around Township 25 South through Township 28 South, for Ranges 27 East through 29 East, MDBM. The Area of Mutual Interest (AMI) is more specifically defined in Exhibit A attached and made a part of this agreement.

NOW THEREFORE, in consideration of granting Daybreak, Cal-Star and Canadian the right and opportunity to review said data and information, *the parties covenant and agree as follows*:

1. Daybreak, Cal-Star and Canadian shall not for a period of 24 months from the date hereof, acquire, or cause to be acquired by any other person, firm or entity, any oil or gas interest (the word “interest” shall include without limitation by enumeration, any lease top lease, option to lease, seismic option, farm out or support agreement, bottom hole agreement, working interest participation, mineral interest, royalty interest, pooling agreement, or any other right title or interest in or to the oil, gas, and other hydrocarbons and minerals lying in and under said lands and the rights to explore for and/or produce the same) within the lands described above without first entering into a mutually acceptable agreement with Chet Pohle, Brian Hirst, and Randy Metz and assigns providing for compensation on the following terms: a cash bonus in the amount of \$25,000 (twenty-five thousand dollars) to be paid when the project is accepted, and an overriding royalty interest in the amount of a gross three percent (3 %) of One Hundred Percent (100 %) assigned to Chet Pohle, Brian Hirst and Randy Metz. This project is subject to prior sale. In addition, upon completion of the sub-regional study, each prospect/lead area selected for 3D seismic investigation, or lease for drilling a well will require a \$10,000 cash bonus at the time of signing a lease or seismic option for that lead or prospect area, and a \$10,000 cash bonus is due at the spud of the first prospect well of each individual prospect. As and when Daybreak, Cal-Star and Canadian acquire any interest (working interest, overriding royalty interest, leasehold interest, farm out interest, contract interest, etc.) in, over, or under oil and gas leases or other mineral leases covering lands located in the above referenced prospect / prospect areas / Area of Mutual Interest, Daybreak, Cal-Star and Canadian will execute and deliver to Chet Pohle, Brian Hirst, and Randy

Metz written assignment(s) of overriding royalty interest(s) in the form attached hereto as Exhibit "B". Daybreak, Cal-Star and Canadian will provide a copy to Chet Pohle, Brian Hirst, and Randy Metz of the leasehold document when any leasehold is acquired. Such overriding royalty interests shall be assigned to Chet Pohle, Brian Hirst, and Randy Metz in the following amount(s): one percent to Chet Pohle, one percent to Brian Hirst, and one percent to Randy Metz of the three percent (3%) of the eight-eighths (8/8ths) in all the oil, gas, other hydrocarbons, and all other minerals produced and saved from each of said leases, working interest, farm out interest, etc. in the leases/ land/ minerals associated with the above referenced prospect areas. This assignment will be executed by Daybreak, Cal-Star and Canadian and returned to Chet Pohle for recordation in the proper County upon Daybreak, Cal-Star and Canadian acquiring any interest in the leases associated with the above referenced prospect/ prospect areas. Daybreak, Cal-Star and Canadian shall provide to Chet Pohle notice of any interest acquired in such leases 10 days after any interest in such leases is acquired, and shall return an executed ORRI within 19 days of receipt by daybreak, Cal-Star and Canadian from Chet Pohle of the Assignment of Override document. If six (6) months prior to the expiration of this Agreement the parties are in negotiations, Chet Pohle, Brian Hirst, and Randy Metz, and daybreak, Cal-Star and Canadian agree to extend the term of this agreement, in writing, and such extension shall be mutually agreed upon by all parties, but shall not to be less than six (6) additional months. The terms of compensation for this agreement may be modified by mutual agreement of all parties, in writing.

2. Daybreak, Cal-Star and Canadian, Chet Pohle, Brian Hirst, and Randy Metz acknowledge and agree that Chet Pohle's, Brian Hirst's, and Randy Metz's disclosure and provision of the Proprietary and Confidential Information described above to Daybreak, Cal-Star and Canadian creates a relationship of trust and confidentiality with respect to said Proprietary and Confidential Information of Chet Pohle, Brian Hirst, and Randy Metz. At all times during the term of this Agreement, whether the cessation thereof is voluntary or involuntary, Daybreak, Cal-Star and Canadian shall: (1) keep in strictest confidence and trust all Proprietary and Confidential Information; (2) not disclose, use, or induce or assist in the use or disclosure of any Proprietary and Confidential Information, or anything related to any Proprietary and Confidential Information, to any person, firm or entity, without the prior express written consent of Chet Pohle, Brian Hirst, and Randy Metz; and (3) promptly advise Chet Pohle, Brian Hirst, or Randy Metz, should Daybreak, Cal-Star and Canadian mistakenly or inadvertently release or lose control of Chet Pohle's, Brian Hirst's or Randy Metz's Proprietary and Confidential Information, Daybreak, Cal-Star and Canadian shall take all reasonable measures to prevent and/or to remedy any unauthorized use of said information. Chet Pohle, Brian Hirst, and Randy Metz shall be entitled to a license of any 3D seismic data acquired. This agreement shall not be assigned without the prior written consent of Chet Pohle, Brian Hirst, or Randy Metz.

In the event that Daybreak, Cal-Star and Canadian may wish to engage the services of a third party consultants for the evaluation of this prospect(s), Daybreak, Cal-Star and Canadian agrees that such third party or consultant(s) shall sign the same Confidentiality Agreement prior to such evaluation. This agreement shall be signed and returned to Chet Pohle, Brian Hirst, or Randy Metz prior to any third party or consultant(s) evaluation or review of their prospect. Daybreak, Cal-Star and Canadian agree to provide to Chet Pohle, Brian Hirst, or Randy Metz the name and address of the third party / consultant(s) prior to the disclosure of any information to such third party / consultant(s).

On the expiration of the term of this Agreement or any other termination of the Agreement for any reason whatsoever, whether with or without cause, Daybreak, Cal-Star and Canadian shall not keep or

take nor allow any third person, firm or entity to take, and shall deliver to Chet Pohle, Brian Hirst, or Randy Metz, all original copies and all reproductions of Proprietary and Confidential Information including without limitation, all maps, cross-sections, well logs, seismic lines, data, analyses, recedes, reports, notes, notebooks, proposals, lists, correspondence, documents, computer diskette, photographs, negatives, undeveloped film, drawings, specifications, tape recordings or other electronic recordings, programs, or other materials or property of any nature belonging to Brian Hirst or Chet Pohle, Brian Hirst or Randy Metz, or pertaining to Chet Pohle's, Brian Hirst's or Randy Metz's business relationship with daybreak, and Cal-Star and Canadian.

As used in this Agreement, "Proprietary and Confidential Information" means information (a) that is known by actual or potential competitors of Chet Pohle, Brian Hirst, or Randy Metz, or is generally unavailable to the public, (b) that has been created, discovered, developed, or otherwise become known to Chet Pohle, Brian Hirst, or Randy Metz in the course of their business, and (c) that has material economic value or potential material economic value to Chet Pohle's, Brian Hirst's, or Randy Metz's present or future business. "Proprietary and Confidential Information" shall include trade secrets (as defined under California Civil Code Section 3426.1) and all other discoveries, developments, programs, processes, techniques, know-how, data, research, technical data and all other financial or business information owned by or pertaining to Chet Pohle, Brian Hirst, or Randy Metz.

It is distinctly understood and agree as evidenced by your acceptance of this material that Chet Pohle, Brian Hirst, and Randy Metz are in no way liable to any person, firm or corporation for any loss or inconvenience occasioned by the use of or reliance upon this material.

In the event either party brings any legal action or seeks arbitration regarding any provision of the Agreement, the prevailing party in the litigation or arbitration shall be entitled to recover reasonable attorney's fees and costs from the other party, in addition to any other relief that may be granted. This provision applies to the entire Agreement.

This Agreement shall remain in effect for a period of twenty-four (24) months from the date hereof. The Agreement may be extended in writing as provided for in Paragraph 1 above. Daybreak, Cal-Star and Canadian agrees to evaluate the prospect(s) in a timely manner, and to notify Chet Pohle, Brian Hirst, or Randy Metz in writing of their acceptance or their rejection of any or all of the above described prospect(s).

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto this 13th day of May, 2005.

/s/ Chet Pohle
Chet Pohle

/s/ Brian Hirst
Brian Hirst

/s/ Randall T. Metz
Randall T. Metz

Daybreak Mines, Inc.

By: <u>/s/ Robert Martin</u>	<u>May 13, 2005</u>
Robert Martin, President	Date

Cal-Star Energy, Inc. and Canadian Energy Capital, Inc.

By: <u>/s/ Hans Heumann</u>	<u>May 13, 2005</u>
Hans Heumann, President	Date

ADDENDUM NUMBER ONE

**Prospect Review Non-competition and Confidentiality Agreement
East Slope Prospect**

This Addendum Number One is attached to and made a part of that certain Prospect Review Non-competition and Confidentiality Agreement dated May 13, 2005, signed by Chet Pohle, Brian Hirst, Randall Metz, Daybreak Mines, Inc. (Robert Martin), and Cal-Star Energy, Inc and Canadian Energy Capital, Inc. (Hans Heumann) referred to in the agreement as the "East Slope Prospect."

WHEREAS, Daybreak, Cal-Star and Canadian, Metz, Hirst, and Pohle desire to clarify the above referenced Agreement with respect to the overriding royalty interest to be paid by Daybreak, Cal-Star and Canadian to Metz, Hirst, and Pohle, especially in light of the possible purchase of wells or fields capable of production by Daybreak, Cal-Star, and Canadian;

THEREFORE, within the Area of Mutual Interest (AMI) as defined by the above referenced Agreement, METZ, Hirst, and Pohle shall be paid an overriding royalty interest of 3% (three percent) of eight eighths (8/8ths) of any production of hydrocarbons which is more specifically defined as follows:

1. The overriding royalty interest shall be paid on all new pool discoveries, new or deeper zones in existing fields or wells, and on field or pool offset or extensions 330 feet from existing production or past production which are found by geologic investigation or geophysical (including 2D or 3D seismic data). Field or pool offset extensions may include but are not limited to extension of existing producing zones due to geologic or geophysical investigation; separate fault blocks; lithologic changes; or other such matters as may result in new and additional production.
2. The overriding royalty interest shall not be paid on infill wells, the re-work of wells on existing zones of production, the recompletion of existing behind pipe reserves, or the enhanced production from existing producing zones using advanced techniques. The overriding royalty interest shall not be paid on existing production from fields or wells which may from time to time be purchased by Daybreak, Cal-Star, or Canadian, which wells or fields fall within the defined Area of Mutual Interest (as described more particularly in paragraph 1 above and paragraph 3 below).
3. Established or existing reserves are defined as wells capable of production or currently producing from specific zones or wells that have produced commercial hydrocarbons from specific zones in the past that may not currently be producing, but may produce after re-activation as a result of re-work, or the application of modern engineering techniques. Enhanced recovery from current or past producing zones, infill wells within the field, and extensions within 330 feet (2.5 acre spacing) are not subject to the payment of an overriding royalty interest by Daybreak, Cal-Star, And Canadian to Metz, Hirst, and Pohle, unless such new pool discovery is found, developed, and described by seismic data within 330 feet.
4. From time to time, by agreement in writing by all parties, the Area of Mutual Interest may be modified.

5. This Addendum Number One shall serve as notice from Daybreak, Cal-Star, and Canadian to Metz, Hirst, and Pohle, of acceptance of the East Slope Prospect. Daybreak Mines or its nominee will participate as to a 50% (fifty percent) working interest in the East Slope Prospect Joint Venture, and Cal-Star and Canadian or its nominee will participate as to a 50% (fifty percent) working interest in the East Slope Prospect Joint Venture.
6. Daybreak, Cal-Star and Canadian agree to send funds in the amount of \$25,000 (twenty-five thousand dollars) payable to Arabella Enterprises located at 15820 Arabella Avenue, Bakersfield, CA 93314. Arabella Enterprises will distribute funds between Metz, Hirst, and Pohle according to a separate agreement.
7. Any work required of Metz, Hirst, and Pohle by Daybreak, Cal-Star, and Canadian, which is not directly related to the generation of prospects (for example field studies, property evaluations, infill field development work) shall be specifically directed by Daybreak, Cal-Star, and Canadian, shall be charged at prevailing consulting rates. Further, certain expenses, approved in advance by Daybreak, Cal-Star, and Canadian, shall be reimbursed to Metz, Hirst, and Pohle (such as travel expenses, production data, reproduction charges, data purchases, etc.).

Agreed To As Indicated By Signature And Date Below:

/s/ Chet Pohle July 8, 2005
Chet Pohle Date

/s/ Robert Martin, President July 8, 2005
Daybreak Mines (Robert Martin) Date

/s/ Randall Metz July 8, 2005
Randall Metz Date

/s/ Hans Heumann July 8, 2005
Cal-Star & Canadian (Hans Heumann) Date

/s/ Brian Hirst July 8, 2005
Brian Hirst Date

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

- (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, including its consolidated subsidiaries, 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 most recent fiscal quarter 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 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:
- (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: October 19, 2005

/s/Robert N. Martin

Robert N. Martin

President and Chief Executive Officer

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

- (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, including its consolidated subsidiaries, 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 most recent fiscal quarter 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 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:
- (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: October 19, 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 August 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: October 19, 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 August 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: October 19, 2005

/s/Thomas C. Kilbourne

Thomas C. Kilbourne

Treasurer and Principal Accounting Officer