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## Issuer Direct Corp. Electronic EDGAR Proof

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| <b>Job Number:</b>                      | <b>79996</b>                      |
| <b>Filer:</b>                           | <b>Avalon Oil &amp; Gas, Inc.</b> |
| <b>Form Type:</b>                       | <b>10-K</b>                       |
| <b>Reporting Period / Event Date:</b>   | <b>03/31/12</b>                   |
| <b>Customer Service Representative:</b> | <b>ISG</b>                        |
| <b>Revision Number:</b>                 | <b>.</b>                          |

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| Well-Known Seasoned Issuer      | No                           |
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| Emails                          | k.rodriguez@avalanoilinc.com |

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### Documents

|            |                       |
|------------|-----------------------|
| 10-K       | aogn_10k.htm          |
| EX-3.1     | aogn_ex311.htm        |
| EX-31.1    | aogn_ex321.htm        |
| GRAPHIC    | img001.jpg            |
| GRAPHIC    | img002.jpg            |
| EX-101.SCH | aogn-20120331.xsd     |
| EX-101.PRE | aogn-20120331_pre.xml |
| EX-101.LAB | aogn-20120331_lab.xml |
| EX-101.DEF | aogn-20120331_def.xml |
| EX-101.CAL | aogn-20120331_cal.xml |
| EX-101.INS | aogn-20120331.xml     |

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### Module and Segment References

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

**FORM 10-K**

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended March 31, 2012

Or

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-12850

**AVALON OIL & GAS, INC.**

(Exact Name of Small Business Issuer as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

84-1168832

(I.R.S. employer identification no.)

7808 Creekridge Circle, Suite 105  
Minneapolis, MN 55439

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:  
(952) 746-9652

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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 Act).  Yes  No

927,297,330 shares of our common stock were issued and outstanding as of July 13, 2012.

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## PART I

References in this document to "us," "we," the "Registrant," or the "Company" refer to Avalon Oil & Gas, Inc., and its predecessors.

Statements contained in this Form 10-K discuss future expectations and plans which are considered forward-looking statements as defined by Section 27 (a) of the Securities and Exchange Act of 1934, as amended. Sentences which incorporate words such as "believes," "intends," "expects," "predicts," "may," "will," "should," "contemplates," "anticipates," or similar statements are based on our beliefs and expectations using the most current information available to us. In view of the fact that our discussions in the Form 10-K are based on upon estimates and beliefs concerning circumstances and events which have not yet occurred, the anticipated results are subject to changes and variations as future operations and events actually occur and could differ materially from those discussed in forward-looking statements. Moreover, although we reasonably expect, to the best of our knowledge and belief, that the results to be achieved by us will be as set forth in the following discussion, the following discussion is not a guarantee and there can be no assurance that any of the potential results which are described will occur. Furthermore, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and the difference may be material.

### ITEM 1. BUSINESS

#### Business Development

We were originally incorporated in Colorado in April 1991 under the name Snow Runner (USA), Inc. We were the general partner of Snow Runner (USA) Ltd., a Colorado limited partnership formed to sell proprietary snow skates under the name "Sled Dogs" which was dissolved in August 1992. In late 1993, we relocated our operations to Minnesota and in January 1994 changed our name to Snow Runner, Inc. In November 1994 we changed our name to the Sled Dogs Company. On November 5, 1997, we filed for protection under Chapter 11 of the U.S. Bankruptcy Code.

In September 1998, we emerged from protection of Chapter 11 of the U.S. Bankruptcy Code. In May, 1999, we changed our state of domicile to Nevada and our name to XDOGS.COM, Inc. In August 2000, following our bankruptcy, we made a decision to re-focus to a traditional wholesale to retail distributor, and obtained the exclusive North American rights to distribute high-end European outdoor apparel and equipment. We first intended to exploit these rights over the Internet under the name XDOGS.COM, Inc. However, due to the general economic conditions and the ensuing general downturn in e-commerce and internet-based businesses, we decided that to best preserve our core assets we would need to adopt a more traditional strategy. Thus, we abandoned this approach and to better reflect our new focus, we changed our name to XDOGS, Inc. On July 22, 2005, the Board of Directors and a majority of the Company's shareholders approved an amendment to our Articles of Incorporation to change the Company's name to Avalon Oil & Gas, Inc. ("Avalon"), and to increase the authorized number of shares of our common stock from 200,000,000 shares to 1,000,000,000 shares, par value of \$0.001, and engage in the acquisition of producing oil and gas properties. On November 16, 2011, a majority of the Company's shareholders approved an amendment to our Articles of Incorporation to increase the authorized number of shares of our common stock from 1,000,000,000 shares to 3,000,000,000 shares par value of \$0.001.

#### Acquisition Strategy

Our strategy is to acquire oil and gas producing properties that have proven reserves and established in-field drilling locations with a combination of cash, debt, and equity. We believe that acquisition of such properties minimizes our risk, allows us to generate immediate cash flow, and provides in-field drilling locations to expand production within the proven oil and gas fields. We will aggressively develop these low cost/low risk properties in order to enhance shareholder value. In addition, Avalon's technology group acquires oil production enhancing technologies. Through its strategic partnership with Innovaro Corporation, (ASE: INV) a transfer technology company, Avalon is building an asset portfolio of innovative technologies in the oil and gas industry to maximize enhancement opportunities at its various oil and gas properties.

In furtherance of the foregoing strategy, we have engaged in the following transactions during the last three years:

In June 2008, the Company entered into an agreement with Bedford Energy to acquire a 2.5% working interest in Grace Well #2 in East Chandler Field, Oklahoma, which had been producing 350 thousand cubic feet of gas per day. In August 2008, the Company entered into an additional agreement with Bedford Energy (the "Expanded Bedford Agreement") to increase its working interest in the Grace #2 from 2.5% to 7.5%; and to increase its net revenue interest in the Grace #2 to 11.95%. In addition, the Company acquired a 10% working interest and a 13.825% net revenue interest in the Grace #1, Grace #3, Grace #5A and Grace #6 wells. In March, 2009 Avalon additionally increased its working interest in the Grace wells as follows: in the Grace #1 to 42.125%; in the Grace # 2 to 30.5%; in the Grace #3 to 39.0%, in the Grace #5A to 40.0%, and in the Grace #6 to 34.0%.

In September 2008, the Company sold 15% of its recently acquired interest in the Bedford assets, for cash in the amount of \$262,500.

The Company also acquired an undivided fifty (50%) percent interest in a salt water disposal well and offset and development acreage in the two quarter sections of the East Chandler Field. In addition, the Company acquired a fifty (50%) percent interest in 540 acres adjoining the 320 acre East Chandler Field.

As part of the Expanded Bedford Agreement, the Company also acquired the right to operate Grace Wells #1, #2, #3, #5A, and #6 (the "Grace Wells"). The Company hired a third party to operate the Grace Wells and to upgrade the operation of the Grace Wells ("Workover"). In February and March 2009, the Company made formal buyout offers (the "Grace Wells Buyout Offer") to the approximately 93 additional working interest holders in the Grace Wells (the "Additional Grace Wells Owners"). The Grace Wells Buyout Offer provided three options to the Additional Grace Wells Owners: (1) The Additional Grace Wells Owners would continue to participate in the operation of the Grace Wells, and would remit to the Company funds representing their pro rata portion of the Workover costs; (2) The Additional Grace Wells Owners would sell their interests in the Grace Wells to the Company for cash and stock in the Company; (3) The Additional Grace Wells Owners could do nothing. If this third option was chosen, the Additional Grace Well Owner would retain their interest in the Grace Wells, but their pro-rata portion of the costs would be subject to a 500% penalty; in addition, their pro-rata portion of the revenue generated by the Grace Wells would be applied to their portion of the costs, including the 500% penalty, before they would receive any payment. As of March 31, 2009, the approximately 93 Grace Wells investors had selected the following options: Approximately 22 selected option 1, continued participation; 29 selected option 2, the Company buyout; 17 were in Option 3, non-consent; and 25 were still pending and had not made a selection.

During the three months ended June 30, 2009, the Company amended the agreement with Bedford Energy, whereby the Company transferred a 2.25% carried interest in the Grace Wells #1, #2, #3, #5A and #6 in consideration for the cancellation of the note payable and accrued interest to Bedford in the amounts of \$390,000 and \$18,627, respectively.

During the three months ended December 31, 2009, the Company reduced the amount recorded for the assumption of accounts payable pursuant to the Bedford Energy transaction in the amount of \$26,785. Also during the three months ended December 31, 2009, the Company determined that the Leak Location Technology license and the BIO-CAT Technology license value was impaired, which resulted in a write-down of \$564,711.

During the three months ended June 30, 2010, the Company sold working interests in wells located in Blackmon - Hall Unit, New Diana Field, Upshur County, Texas (the "New Diana Wells"), of which it had previously acquired a ten percent (10%) working interest in April, 2008, for a note receivable in the amount of \$42,857. These properties had a net book value at the time of the sale of \$20,379. This resulted in a gain from the sale of the working interest in the wells in the amount of \$22,478.

The Company reached an agreement to purchase a 13.50% working interest in the Grace # 1, a 22.50% working interest in the Grace # 2, a 14.50% working interest in the Grace # 3 and an 11.50% working interest in the Grace # 5A, and a 21.50% working interest in the Grace #6, for \$43,837.50, from 17 working interest owners during the three months ending September 30, 2010. We closed this purchase in January 2011.

We also purchased a 5.75% working interest in the Grace # 1, a 6.25% working interest in the Grace # 2, an 8.5% working interest in the Grace# 3, a 4.50% working interest in the Grace# 5A and a 3.50% working interest in the Grace# 6, during the year ended March 31, 2011 by issuing 294,000 shares of common stock to two (2) working interest owners.

We plan to raise additional capital during the coming fiscal year, but currently have not identified additional funding sources. Our ability to continue operations is highly dependent upon our ability to obtain additional financing, or generate revenues from our acquired oil and gas leasehold interests, none of which can be guaranteed.

Ultimately, our success is dependent upon our ability to generate revenues from our acquired oil and gas leasehold interests, and to achieve profitability, which is dependent upon a number of factors, including general economic conditions and the sustained profitability resulting from the operation of the acquired oil and gas leaseholds. There is no assurance that even with adequate financing or combined operations, we will generate revenues and be profitable.

#### **PATENTS, TRADEMARKS, AND PROPRIETARY RIGHTS**

On May 17, 2006, The Company signed a strategic alliance agreement with Innovaro Corporation, a technology transfer company to build a portfolio of new technologies for the oil and gas industry.

On November 9, 2006, The Company acquired Intelli-Well Technologies, Inc., ("IWT"). IWT holds a license for borehole casing technology developed by researchers at Lawrence Livermore National Laboratory.

On March 29, 2007, The Company acquired Leak Location Technologies, Inc., ("LLT"). LLT owns an exclusive license to a system for determining the presence and location of leaks in underground pipes.

On May 17, 2007, The Company renewed its strategic alliance agreement with Innovaro Corporation, a technology transfer company to develop a portfolio of new technologies for the oil and gas industry.

On August 16, 2007, Kent Rodriguez, the Company's President and CEO, presented a proposal to the Board of Directors to spin-off Oiltek Inc. ("Oiltek"), which specializes in oil and gas recovery technology to Avalon's shareholders. The oil and gas technology include, but are not limited, to the Patent; a system to detect hazardous gas leaks including small leaks in natural gas pipelines; and a system for intelligent drilling and completion sensors to provide real-time oil reservoir monitoring of subsurface information.

On September 22, 2007 the Company entered into an agreement with respect to its purchase of a 75.6% interest in Oiltek for \$50,000 and the right of Oiltek to promote Avalon's intellectual property.

#### **ENVIRONMENTAL MATTERS**

During the last three fiscal years, compliance with environmental laws and regulations did not have a specific impact on the Company's operations. The Company does not anticipate that it will incur any material capital expenditures for environmental control facilities during the next fiscal year.

## **EMPLOYEES**

As of March 31, 2012 we had two full time employees, our President, Kent Rodriguez and an administrative assistant. The Board retains consultants and advisors on as needed basis. They are compensated with cash and also with the issuance of the Company's common stock. We also have three part time employees at this time.

## **RESEARCH AND DEVELOPMENT**

During the last three fiscal years, we did not incur research and development expenses.

## **ITEM 1A. RISK FACTORS**

Any investment in our securities is highly speculative. The Company's business and ownership of shares of our common stock are subject to numerous risks. You should not purchase our shares if you cannot afford to lose your entire investment. You should consider the following risks before acquiring any of our shares.

### **We have never been, and may never be, profitable.**

During the past several years, we have attempted, without success, to generate revenues and profits. For the year ended March 31, 2012, we incurred a net loss of \$737,154. There can be no assurance that we will ever be profitable.

### **We need additional capital.**

We need additional financing to continue operations. The amount required depends upon our business operations, and the capital needs of our acquisition of the certain oil and gas leasehold interests. We may be unable to secure this additional required financing on a timely basis, under terms acceptable to us, or at all. To obtain additional financing, we will likely sell additional equity securities, which will further dilute shareholders' ownership in us. Ultimately, if we do not raise the required capital, we may need to cease operations.

### **We are dependent upon our key personnel.**

We are highly dependent upon the services of Kent A. Rodriguez, our President and Chief Executive Officer. If he terminated his services with us, our business would suffer.

### **There is only a limited trading market for our securities.**

Our Common Stock is traded on the OTCQB and OCTBB. The prices quoted may not reflect the price at which you can resell your shares. Because of the low price of our stock, we are subject to particular rules of the U.S. Securities and Exchange Commission that make it difficult for stock brokers to solicit customers to purchase our stock. This reduces the number of potential buyers of our stock and may reduce the value of your shares. There can be no assurance that a trading market for our stock will continue or that you will ever be able to resell your shares at a profit, or at all.

## Our management controls us.

Our current officers and directors own approximately 45% of our outstanding stock and are able to affect the election of the members of our Board of Directors and make corporate decisions. Mr. Rodriguez, by his ownership of Class A Preferred Stock, has the right to vote 40% of our voting securities. Accordingly, even if we issue additional shares to third parties, Mr. Rodriguez will continue to control at least 40% of our voting securities. This voting concentration may also have the effect of delaying or preventing a change in our management or control or otherwise discourage potential acquirers from attempting to gain control of us. If potential acquirers are deterred, you may lose an opportunity to profit from a possible acquisition. See "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Market for Common Equity and Related Stockholder Matters".

A significant number of shares are eligible for public sale, potentially depressing our stock price. Under the SEC's Rule 144, shares issued in issuances which are not registered with the SEC generally first become eligible for public resale after six months. Shareholders who are affiliates of us generally may resell only a limited number of their privately acquired shares after six months. After six months, stockholders who are not affiliated with us may resell any number of their privately acquired shares pursuant to Rule 144. The resale of the shares we have privately issued, or the potential for their future public resale, may depress our stock price.

Our governing documents and Nevada law may discourage the potential acquisitions of our business. Our Board of Directors may issue additional shares of capital stock and establish their rights, preferences and classes, in most cases without stockholder approval. In addition, we may become subject to anti-takeover provisions found in Section 89.378-78.379 of the Nevada Business Corporation Act which may deter changes in control of our management which have not been approved by our Board of Directors.

## ITEM 2. PROPERTIES

Our corporate office is located at 7808 CreekrIDGE Circle, Suite 105, Minneapolis, Minnesota 55439. This office space is leased from an unaffiliated third party on a one year lease, which ends on December 31, 2012, for a monthly rental of \$3,300.

On July 2, 2008, we signed a letter agreement to acquire all of the oil and gas producing assets owned by Bedford Energy, Inc. in the East Chandler Field, Lincoln County, Oklahoma. We increased our current interest in the Grace #2 well and acquired working interests in four other producing wells in the East Chandler Field, the Grace #1, Grace #3, Grace #5A and Grace #6 wells.

We increased our working interest in the Grace #2 from 2.5% to 7.5%; and increased our net revenue interest to 11.95%. We initially acquired our working interest in the Grace #2 well in June, 2008. We also acquired acquiring a 10% working interest and 13.825% net revenue interest in the Grace #1, Grace #3, Grace #5A and Grace #6 wells and a 50% working interest in a salt water disposal well and offset and development acreage in the two quarter sections (320 acres) adjoining the Grace Wells in the East Chandler Field.

The table below shows the Company's working interests in the Grace Wells as of March 31, 2012:

| Well      | March 31, 2011<br>and 2012<br>Working<br>Interest |
|-----------|---|
| Grace #1  | 65.25%  |
| Grace #2  | 55.75%  |
| Grace #3  | 64.00%  |
| Grace #5A | 52.00%  |
| Grace #6  | 58.00%  |

## ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings that would have a material effect on the Company's operations.

## ITEM 4. MINE SAFETY DISCLOSURE (Not applicable)

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a) Principal Market or Markets

Effective with the close of business on June 19, 1997, our Common Stock was delisted from the NASDAQ Small Cap Market. In June of 1997, our Common Stock began trading on the NASD Over-the-Counter Bulletin Board ("OTCBB"). Since April 2010 our Common Stock has traded and continues to trade on the electronic OTCQB and OTCBB market. Market makers and other dealers provided bid and ask quotations of our Common Stock. We trade under the symbol "AOGN".

The table below represents the range of high and low bid quotations of our Common Stock as reported during the reporting period herein. The following bid price market quotations represent prices between dealers and do not include retail markup, markdown, or commissions; hence, they may not represent actual transactions.

**Per Share Common Stock Bid Prices by Quarter For the Two Most Recent Fiscal Years**

|                                  | <u>High</u> | <u>Low</u> |
|----------------------------------|-------------|------------|
| Quarter Ended March 31, 2012     | \$ 0.0029   | \$ 0.0004  |
| Quarter Ended December 31, 2011  | \$ 0.0065   | \$ 0.0035  |
| Quarter Ended September 30, 2011 | \$ 0.0090   | \$ 0.0065  |
| Quarter Ended June 30, 2011      | \$ 0.0013   | \$ 0.0065  |
| Quarter Ended March 31, 2011     | \$ 0.0090   | \$ 0.0065  |
| Quarter Ended December 31, 2010  | \$ 0.0135   | \$ 0.0060  |
| Quarter Ended September 30, 2010 | \$ 0.0030   | \$ 0.0150  |
| Quarter Ended June 30, 2010      | \$ 0.0130   | \$ 0.0040  |

As of June 30, 2012, 927,297,330 shares of our Common Stock were outstanding and the number of holders of record of our Common Stock at that date was approximately 1443. However, we estimate that there are a significantly greater number of shareholders because a substantial number of our shares are held in nominee names by brokerage firms.

(b) Dividends

No dividends on the Common Stock were paid by us during the fiscal year ended March 31, 2012, or the fiscal year ended 2011, nor do we anticipate paying dividends on Common Stock in the foreseeable future. Holders of Common Stock are entitled to receive such dividends as may be declared by our Board of Directors.

(c) Securities Authorized for Issuance Under Equity Compensation Plans.

We have not established an Equity Compensation Plan and have not authorized the issuance of any securities under such plan.

(d) Preferred Stock.

Our Articles of Incorporation authorize us to issue up to 1,000,000 shares of \$0.10 par value preferred stock, with such classes, series and preferences as our Board of Directors may determine from time to time. In June 2002, our Board of Directors authorized the issuance of 100 shares of Series A Convertible Preferred Stock (the "Series A Preferred Stock"). Our Board further agreed to issue all of the Series A Preferred Stock to our Chairman and President, Kent Rodriguez, in satisfaction of \$500,000 in loans made by Mr. Rodriguez.

The Series A Preferred Stock accrues dividends at the rate of 8% per annum on the original purchase price for the shares. If declared by the Board of Directors, these dividends are payable quarterly, beginning in September 2002. We are prohibited from paying any dividends on our Common Stock until all accrued dividends are paid on our Series A Preferred Stock.

If we liquidate or dissolve, and after payment of our debts, the holders of the Series A Preferred Stock are entitled to a preference payment before we make any distributions to our Common Stockholders. The preference amount is equal to the original purchase price for the Series A Preferred shares plus accrued, but unpaid dividends.

The Series A Preferred Stock is convertible at anytime into 40% of the then outstanding shares of Common Stock and securities convertible into Common Stock on a fully diluted basis. However, conversion is limited to the number of shares of Common Stock available for issuance under our articles of incorporation.

Regardless of whether or not the Series A Preferred Stock has been converted to our Common Stock, the Series A Preferred Stockholder is entitled to vote, at all times, on an as-if converted basis. The Preferred Stockholder, Mr. Rodriguez, has the right to vote the Series A Preferred Stock together with his other holdings in the Company.

Other than the Series A Preferred Stock, no preferred stock has been issued. See Item 11, Security Ownership of Certain Beneficial Owners and Management.

## **SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The Company does not have any securities authorized for issuance under equity compensation plans.

## **RECENT SALES OF UNREGISTERED SECURITIES**

The Company sold the following unregistered securities between January 1, 2012 and March 31, 2012:

The Company issued 10,000,000 shares of common stock to consultants for services provided, pursuant to consulting agreements. The value of these shares in the amount of \$10,000, or \$0.001 per share was charged to operations.

The Company issued 250,019,104 shares of common stock for the conversion of notes payable and for the assumption of debt and certain accounts payable. The value of these shares in the amount of \$185,923 has been credited to the notes payable and accounts payable. No gain or loss was recognized on the conversions.

All other unregistered securities sold by the Company during the past three years, but prior to January 1, 2012, have been included in the Company's 10-Q filings.

All of the unregistered securities sold were issued directly by the Company, and no commissions or fees were paid in connection with any of these transactions. The transactions were private, and the Company endeavored to comply both with Regulation D, and also Section 4(2) of the Securities Act of 1933, as amended, as exemption(s) from registration. The Company exercised reasonable care to assure that the purchasers of the securities are not underwriters and were "accredited investors" under Regulation D and/or sophisticated investors.

## **ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

### **RESULTS OF OPERATIONS AND PLAN OF OPERATION**

The following discussion and analysis should be read in conjunction with our financial statements and notes related thereto. The discussion of results, causes and trends should not be construed to infer conclusions that such results, causes or trends necessarily will continue in the future.

**For the year ended March 31, 2012 compared to the year ended March 31, 2011**

Revenues

Revenues for the year ended March 31, 2012 were \$253,882, an increase of \$65,969 or approximately 35% compared to revenue of \$187,913 for the year ended March 31, 2011. Revenues from the sale of oil and gas increased as a result of the increased gas production from the wells in the Grace Field, and an increase in the market price of oil.

Lease Operating Expenses

During the year ending March 31, 2012, our lease operating expenses were \$128,871, a decrease of \$21,437 or approximately 14% compared to \$150,308 for the year ended March 31, 2011. This decrease was the result of the less workover expense on the Grace Wells.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses for the year ended March 31, 2012 were \$492,838 a decrease of \$394,572, or approximately 44% compared to selling, general and administrative expenses of \$887,410 during the year ended March 31, 2011. Selling, general and administrative expenses for 2012 consisted primarily of payroll and related costs of \$54,937; legal and accounting fees in the amount of \$109,509; facilities costs in the amount of \$53,798; investor relations costs of \$13,575; travel and entertainment expenses of \$54,934; office expenses of \$17,641 and consulting fees in the amount of \$115,649.

Stock-based Compensation

Stock-based compensation for the year ended March 31, 2012 was \$45,946, a decrease of \$198,187 or approximately 81% compared to non-cash compensation of \$244,133 for the year ended March 31, 2011. This decrease was the result of less common stock issuances to outside consultants as payment for services rendered.

Depreciation, Depletion, and Amortization

Depreciation, Depletion, and Amortization were \$69,979 for the year ended March 31, 2012 a decrease of \$30,890 or approximately 31% compared to \$100,869 for the year ended March 31, 2011, due to a decrease in the depletion allowance.

Gain on Sale of Property

During the year ended March 31, 2012, the Company did not sell any oil and gas properties. During the year ended March 31, 2011, the Company sold an oil and gas property for a gain of \$22,478.

#### Gain on Settlement of Debt

During the year ended March 31, 2012, the Company had a one time gain on the settlement of debt in the amount of \$35,531.

During the year ended March 31, 2011, Company agreed to issue 60,000,000 shares of common stock for the assumption of \$228,759 of accounts payable and the conversion of notes payable and accrued interest in the amount of \$1,166. This resulted in a gain on settlement of accounts payable in the amount of \$19,925.

#### Loss of Extinguishment of Debt

During the year ended March 31, 2011, Jill Allison, Vice President of the Company, forgave her accrued payroll in the amount of \$27,168. This resulted in a gain on extinguishment of debt in the amount of \$27,168.

During the year ended March 31, 2011, the Company agreed to issue 32,000,000 shares of common stock for the conversion of \$1,380 of debt and the assumption of notes payable and accrued interest in the amount of \$15,740. This resulted in a loss on extinguishment of debt in the amount of \$110,880.

#### Loss on Conversion of Notes Payable

During the year ended March 31, 2011, the Company issued 1,363,636 shares of common stock for the conversion of \$9,000 of principal of a note payable with an effective rate of \$0.0066 per share; 1,818,182 shares of common stock for the conversion of \$10,000 of principal of a note payable with an effective rate of \$0.0055 per share; 1,694,915 shares of common stock for the conversion of \$10,000 of principal of a note payable with an effective rate of \$0.0059 per share; 2,083,333 shares of common stock for the conversion of \$10,000 of principal of a note payable with an effective rate of \$0.0048 per share; 1,111,111 shares of common stock for the conversion of \$5,000 of principal on a note payable with an effective rate of \$0.0045 per share; 2,564,103 shares of common stock for the conversion of principal of a note payable with an effective rate of \$0.0039 per share; and 3,428,571 shares of common stock for the conversion of \$12,000 of principal of a note payable with an effective conversion rate of \$0.0035 per share.

#### Interest Expense, net of Interest Income

Interest expense, net of interest income of \$289,761 for the year ended March 31, 2012, an increase of \$212,320 or approximately 274% compared to interest expense, net of \$77,441 for the year ended March 31, 2011. This increase is due to an increase in notes payable and the amortization of the discount on the promissory notes issued by the Company.

#### Net Loss

For the reasons stated above, our net loss for the year ended March 31, 2012, was \$737,154, a decrease of \$579,097 or approximately 44% compared to a net loss of \$1,316,251 during the year ended March 31, 2011.

## Liquidity and Capital Resources

### Going Concern

The March 31, 2012, financial statements have been prepared assuming the Company will continue as a going concern. However, the Company has incurred a loss of \$29,223,516 from inception through March 31, 2012, and has a working capital deficiency of \$1,123,896, and stockholders' equity of \$587,993, respectively, at March 31, 2012. The Company currently has minimal revenue generating operations and expects to incur substantial operating expenses in order to expand its business. As a result, the Company expects to incur operating losses for the foreseeable future. The accompanying consolidated financial statements do not include any adjustments that might become necessary should the Company be unable to continue as a going concern.

Our cash and cash equivalents were \$114,533 on March 31, 2012, compared to \$311,802 on March 31, 2011. We met our liquidity needs through the issuance of our common stock and convertible notes payable for cash and the revenue derived from oil and gas operations.

We need to raise additional capital during the fiscal year, but currently have not acquired sufficient additional funding. Our ability to continue operations as a going concern is highly dependent upon our ability to obtain immediate additional financing, or generate revenues from our acquired oil and gas leasehold interest, and to achieve profitability, none of which can be guaranteed. Unless additional funding is located, it is highly unlikely that we can continue to operate. There is no assurance that even with adequate financing or combined operations, we will generate revenues and be profitable.

Ultimately, our success is dependent upon our ability to generate revenues from our acquired oil and gas leasehold interests.

### Operating activities

Net cash used by operating activities for the year ended March 31, 2012 was \$430,338, compared to \$701,250 used in the year ended March 31, 2011.

The Company had a net loss of \$737,154 for the year ended March 31, 2012, compared to a net loss of \$1,316,251 for the year ended March 31, 2011. Net accounts receivable for the year ended March 31, 2012 were \$33,958 compared to \$15,258 for the year ended March 31, 2011.

### Investing activities

For the twelve months ended March 31, 2012 we used \$152,143 in investing activities compared to \$82,070 in the twelve months ended March 31, 2011. The primary use of cash for investing activities in 2012 was a deposit of \$160,000 made for the purchase of oil and gas producing properties in Western Oklahoma.

#### Financing activities

Our financing activities for the year ended March 31, 2012 provided cash of \$385,212 as compared to \$1,048,600 for the year ended March 31, 2011. We plan to raise additional capital during the coming fiscal year. Cash generated by financing activities primarily consisted of \$322,500 from the issuance of convertible promissory notes.

#### Critical Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based on information available. These estimates and assumptions affect the reporting amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. A summary of the significant accounting policies is described in Note 1 to the financial statements.

#### Recently enacted accounting standards

During the year, The Financial Accounting Standards Board ("FASB") has issued ASU No. 2011-02 through ASU 2011-12, which are not expected to have a material impact on the consolidated financial statements upon adoption.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

#### Material Commitments

We have no material commitments during the next twelve (12) months.

#### Purchase of Significant Equipment

During the twelve months ended March 31, 2012 and March 31, 2011, we used \$0 for the purchase of equipment.

**ITEM 8. FINANCIAL STATEMENTS.**

Our audited Financial Statements begin on page F-1.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Our principal executive and financial officers, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of March 31, 2012, have concluded that as of March 31, 2012, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate to allow timely decisions regarding required disclosure, and (ii) is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

There have been no changes in our internal controls or in other factors that could affect these controls during or subsequent to the end of the period covered by this report.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance with respect to the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures which:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2012 based upon the criteria set forth in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

This Annual Report does not include an attestation report of our registered public accounting firm with respect to internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission which permit us to provide only our management's report in this Annual Report.

We believe that our internal controls are adequate

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified during our year ended March 31, 2012, which have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Our Directors and Executive Officers are shown below:

| <u>Name</u>    | <u>Age</u> | <u>Position</u>  |
|----------------|------------|--|
| Kent Rodriguez | 52         | Chief Executive Officer, President, Secretary, and Principal Financial Officer |
| Jill Allison   | 48         | Director   |
| Douglas Barton | 72         | Director   |
| Rene Haeusler  | 56         | Director   |

Each Director is serving a term of office, which will continue until the next annual meeting of shareholders and until the election and qualification of his respective successor.

#### **KENT RODRIGUEZ**

Mr. Rodriguez joined the Company as Chief Executive Officer, Secretary, and Principal Financial Officer in May 2009. Since 1995, he has been the Managing Partner of Weyer Capital Partners, a Minneapolis-based venture capital corporation. From 1985 to 1995, he was employed by the First National Bank of Elmore, Elmore, Minnesota, in various capacities. He has a B.A. degree in Geology from Carleton College, and an Executive MBA from the Harvard Business School.

#### **JILL ALLISON**

Ms. Allison joined the Company as a Director in June 2006. She has over 20 years of diversified management experience in business development and technology commercialization. Prior to joining Avalon, Ms. Allison managed a technology strategy consulting practice with focus in the market convergence of physical and IT security industries. Her venture development background includes market leadership positions with Monsanto, Iridian Technologies, Pinkertons and Cylink Corporation. She holds a B.A. in Economics from Gustavus Adolphus College; a Master's in International Management (MIM) in Marketing from the American Graduate School of International Management (Thunderbird), Glendale, AZ; and an MBA in Strategic and Entrepreneurial Management from the Wharton School of the University of Pennsylvania, where she focused on strategic alliances and management of technology.

#### **DOUGLAS BARTON**

Mr. Barton has served as a Director of the Company since May 2005. From 1987 to the present, he has been the President and sole owner of Venture Communications, Inc., a private promotion, development, and marketing consulting firm. He has a B.S. degree in Economics/History from the University of Minnesota.

#### **Rene Häusler**

Mr. Häusler has served as a Director of the Company since August 2010. He is a Political and Business Consultant, is Chairman of the Board and Managing Director of all companies of the L'Avenir Group. He also serves as Chairman of the Board of *Bowl Construction AG*, Member of the Board of *ProgressNow!invest AG*, a SIX-listed private equity investment company, and is a member of the Board of Directors of *ThaiSwiss SME-Industrial Center Ltd.*, Pranburi, Thailand, and of *Sempre-Automaten AG* and *Theracon AG* in Switzerland. His background includes Assistant to the Managerial Committee and Head of several departments for Bank Sogenal. He also served as a member of the military-diplomatic Swiss delegation to the Neutral Nations Supervisory Commission (NNSC) in Korea, as liaison officer to the UN High Command and the Government of South Korea. Mr. Häusler has a Master's degree in history, political science and constitutional law from the University of Zurich/Switzerland. From 1995 – 1999 he was also a guest lecturer at the Chulalongkorn University in Bangkok (Thailand). He has published two books and numerous articles on political psychology, economy and stock markets. Mr. Häusler is an experienced equity investment professional with a wide range of public company and private equity expertise in international markets for commodities, mineral exploration, biotechnology, and software.

The Company's Directors will serve in such capacity until the next annual meeting of the Company's shareholders and until their successors have been elected and qualified. There are no family relationships among the Company's officers and directors, nor are there any arrangements or understanding between any of the directors or officers of the Company or any other person pursuant to which any officer or director was or is to be selected as an officer or director. The Directors took action eight (8) times by written consent during the fiscal year ended March 31, 2012.

In 1999, the Board of Directors established a Compensation Committee. It is currently comprised of Messrs. Barton and Häusler. The Compensation Committee held one (1) meeting in fiscal 2012.

In May 2000, the Board of Directors established an Audit Committee. It is currently comprised of Messrs. Barton and Häusler. The Audit Committee held one (1) meeting in fiscal 2012.

We have adopted a Code of Ethics which is designed to ensure that our directors and officers meet the highest standards of ethical conduct. The Code of Ethics requires that our directors and officers comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in our best interest.

Involvement in Legal Proceedings

We are not aware that any of our officers and directors were, or have been involved in any material legal proceedings which would have any effect upon the Company.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 (the "34 Act") requires our officers and directors and persons owning more than ten (10%) percent of our Common Stock to file initial reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Additionally, Item 405 of Regulation S-B under the 34 Act requires us to identify in our Form 10-K and proxy statement those individuals for whom one of the above referenced reports was not filed on a timely basis during the most recent fiscal year or prior fiscal years. Given these requirements, we have the following report to make under this section. None of our officers or directors, and all persons owning more than ten percent of its shares have filed the subject reports, if required, on a timely basis during the past fiscal year.

**ITEM 11. EXECUTIVE COMPENSATION**

The following table sets forth information concerning the compensation for services in all capacities rendered to us for the year ended March 31, 2012, of our Chief Executive Officer and our other executive officers. We did not have any corporate officers whose annual compensation exceeded \$100,000 in the fiscal year ended March 31, 2012.

**SUMMARY COMPENSATION TABLE**

| <b>Name and Principal Position</b>  | <b>Year</b> | <b>Salary (\$)</b> | <b>Bonus (\$)</b> | <b>Stock Awards (\$)</b> | <b>Option Awards (\$)</b> | <b>Non-Equity Incentive Plan Compensation (\$)</b> | <b>Nonqualified Deferred Compensation Earnings (\$)</b> | <b>All Other Compensation (\$)(2)</b> | <b>Total (\$)</b> |
|-------------------------------------|-------------|--------------------|-------------------|--------------------------|---------------------------|--|---|---------------------------------------|-------------------|
| Kent Rodriguez<br>CEO and President | 2012        | \$ 48,000          | \$ -              | \$ -                     | \$ -                      | \$ -   | \$ -  | \$ 40,000                             | \$ 88,000(2) (1)  |
|                                     | 2011        | \$ 120,000         | \$ -              | \$ -                     | \$ -                      | \$ -   | \$ -  | \$ 40,000                             | \$ 160,000(2) (1) |
|                                     | 2010        | \$ 120,000         | \$ -              | \$ -                     | \$ -                      | \$ -   | \$ -  | \$ 40,000                             | \$ 124,000(2) (1) |

(1) Mr. Rodriguez owns the 100 shares of Preferred Stock outstanding. These shares pay an 8% dividend. We paid Mr. Rodriguez \$23,500 in 2011 and \$52,750 in 2012. The balance due Mr. Rodriguez as of March 31, 2012 is \$35,450.

(2) In 2012, Mr. Rodriguez was under an employment agreement dated April 1, 2011 that expires on March 31, 2013, pursuant to which he was compensated at an annual rate of 48,000. During the fiscal year ending March 31, 2012, we paid Mr. Rodriguez \$37,233, and accrued \$10,767. We accrued \$120,000, for the previous fiscal year. The balance due Mr. Rodriguez as of March 31, 2012 is \$196,364.

**Outstanding Equity Awards at Fiscal Year-End as of March 31, 2012**

| Name | Option Awards   |   |   |                            | Stock Awards           |   |  |   |  |
|------|---|---|---|----------------------------|------------------------|---|--|---|--|
|      | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
| None | -   | -   | -   | -                          | -                      | -   | -  | -   | -  |

**Director Compensation**

| Name           | Fees Earned or Paid in Cash (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|----------------|----------------------------------|-------------------|--------------------|---|--|-----------------------------|------------|
| Kent Rodriguez | \$ -                             | \$ -              | \$ -               | \$ -  | \$ -   | \$ -                        | \$ -       |
| Jill Allison   | \$ -                             | \$ -              | \$ -               | \$ -  | \$ -   | \$ -                        | \$ -       |
| Douglas Barton | \$ -                             | \$ -              | \$ -               | \$ -  | \$ -   | \$ -                        | \$ -       |
| Rene Häusler   | \$ -                             | \$ -              | \$ -               | \$ -  | \$ -   | \$ -                        | \$ -       |

**EMPLOYMENT AGREEMENTS**

The Company has an employment agreement with its President. The employment agreement provides for salaries and benefits. In addition to salary and benefits provisions, the agreement includes defined commitments should the employer terminate the employee with or without cause.

KENT RODRIGUEZ

In 2012, Mr. Rodriguez was under an employment agreement dated April 1, 2011 that expires on March 31, 2013, pursuant to which he was compensated at an annual rate of 48,000. During the fiscal year ending March 31, 2012, we paid Mr. Rodriguez \$37,233, and accrued \$10,767. We accrued \$120,000, for the previous fiscal years. The balance due Mr. Rodriguez as of March 31, 2012 is \$196,395.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth certain information regarding ownership of our Common Stock as of March 31, 2012 by (i) each person known by us to be the beneficial owner of more than five (5%) percent of our outstanding Common Stock; (ii) each director of our Company; and (iii) all executive officers and directors of our Company as a group. As of March 31, 2012, we had a total of 767,575,108 common shares issued and outstanding.

| <b>Name of Beneficial Owner</b>  | <b>Amount of and Nature Beneficial ownership</b> | <b>% of Outstanding Common stock</b> |
|--|--|--------------------------------------|
| Kent Rodriguez (1)<br>7808 Creekridge Circle, Suite 105<br>Minneapolis, MN 55439 | 513,034,339                                      | 40.10%                               |
| Douglas Barton<br>7808 Creekridge Circle, Suite 105<br>Minneapolis, MN 55439     | 10,200,000                                       | 0.80%                                |
| Jill Allison<br>7808 Creekridge Circle, Suite 105<br>Minneapolis, MN 55439       | 110,000,000                                      | 0.78%                                |
| Rene Häusler (2)<br>7808 Creekridge Circle, Suite 105<br>Minneapolis, MN 55439   | 37,900,000                                       | 2.96%                                |
| CEDE & Co.<br>P.O. Box 222<br>Bowling Green Station<br>New York, NY 10274        | 166,724,251                                      | 31.71%                               |
| Reserve Shares   | 104,709,082                                      | 19.92%                               |
| All directors and officers as a group  | 571,134,339                                      | 44.64%                               |

(1) Includes 10,100 shares of Common stock owned by Weyer Capital Corporation, an affiliate of Mr. Rodriguez, and 511,716,739 shares of Common Stock issuable upon the conversion of 100 shares of Series A Preferred Stock.

(2) Includes 13,950,000 shares owned by L'Avenir Finanz AG and 2,500,000 shares owned by Lawewa International LTD, affiliates of Mr. Häusler

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

#### Promissory Notes

On July 15, 2009, the Company borrowed \$6,000 from an officer of the corporation. The note carried an interest rate of 10% per annum. Interest in the amount of \$464 and \$426 was accrued on this note during the twelve months ended March 31, 2011 and 2010, respectively. This note was paid in full in January 2011, and the accrued interest was forgiven.

On January 22, 2010, the Company borrowed \$2,000 from an officer of the corporation. The note carries an interest rate of 10% per annum and matures on January 22, 2011. Interest in the amount of \$85 and \$37 was accrued on this note during the twelve months ended March 31, 2011 and 2010, respectively. This note was paid in full in July 2010, and the accrued interest was forgiven.

On February 18, 2010, the Company borrowed \$9,000 from an officer of the corporation. The note carries an interest rate of 10% per annum and matures on December 15, 2010. Interest in the amount of \$387 and \$101 was accrued on this note during the twelve months ended March 31, 2011 and 2010, respectively. This note was paid in full in July 2010, and the accrued interest was forgiven.

On July 1, 2010, the Company borrowed \$3,000 from an officer of the corporation. The note carries an interest rate of 10% per annum and matures on July 1, 2011. Interest in the amount of \$85 was recorded for the year ended March 31, 2011. This note was paid in full in August 2010 and the accrued interest was forgiven.

On July 2, 2010, the Company borrowed \$5,000 from an officer of the corporation. The note carries an interest rate of 10% per annum and matures on July 2, 2011. Interest in the amount of \$146 was recorded for the year ended March 31, 2011. This note was paid in full in August 2010 and the accrued interest was forgiven.

On July 12, 2010, the Company borrowed \$5,000 from an officer of the corporation. The note carries an interest rate of 10% per annum and matures on July 12, 2011. Interest in the amount of \$158 was recorded for the year ended March 31, 2011. This note was paid in full in August 2010 and the accrued interest was forgiven.

#### Preferred Stock

The 100 shares of Series A Preferred Stock, issued to an officer/director as payment for \$500,000 in promissory notes, are convertible into the number of shares of common stock sufficient to represent 40 percent (40%) of the fully diluted shares outstanding after their issuance. The Series A Preferred Stock pays an eight percent (8%) dividend. The dividends are cumulative and payable quarterly. The Series A Preferred Stock carries liquidating preference, over all other classes of stock, equal to the amount paid for the stock plus any unpaid dividends. The Series A Preferred Stock provides for voting rights on an "as converted to common stock" basis.

During the years ended March 31, 2012 and 2011, the Company incurred \$40,000 in preferred stock dividends, respectively. As of March 31, 2012, there is \$35,450 in accrued preferred stock dividends.

The holders of the Series A Preferred Stock have the right to convert each share of preferred stock into a sufficient number of shares of common stock to equal 40% of the then fully-diluted shares outstanding. Fully diluted shares outstanding is computed as the sum of the number of shares of common stock outstanding plus the number of shares of common stock issuable upon exercise, conversion or exchange of outstanding options, warrants, or convertible securities.

Employment Agreements

KENT RODRIGUEZ

In 2009, Mr. Rodriguez, our President, was under an employment agreement dated April 1, 2008 that expires on March 31, 2013, pursuant to which he was compensated at an annual rate of \$120,000. On April 1, 2011, Mr. Rodriguez voluntarily reduced his compensation to an annual rate of \$48,000, subject to an increase by the Company's Board of Directors.

The Company paid Mr. Rodriguez \$37,233 and accrued \$10,767 during the fiscal year ending March 31, 2012 and March 31, 2011. As of March 31, 2012 and 2011, the balances of accrued and unpaid salaries were \$196,364 and \$185,200, respectively.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

1. AUDIT FEES.

Our audit fees for the years ended March 31, 2012 and 2011 were as follows:

|    | <b>2012</b> |    | <b>2011</b> |
|----|-------------|----|-------------|
| \$ | 52,500      | \$ | 52,660      |

2. TAX FEES.

Our tax return fees for the years ended March 31, 2012 and 2011 were as follows:

|    | <b>2012</b> |    | <b>2011</b> |
|----|-------------|----|-------------|
| \$ | -           | \$ | 9,000       |

3. ALL OTHER FEES.

|    | <b>2012</b> |    | <b>2011</b> |
|----|-------------|----|-------------|
| \$ | -           | \$ | -           |

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 3.1                       | Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to Registration Statement on Form SB-2, Registration No. 33-74240C).*         |
| 3.2                       | Restated Bylaws (Incorporated by reference to Exhibit 3.2 to Registration Statement on Form SB-2, Registration No. 33-74240C). *                           |
| 3.3                       | Articles of Incorporation for the State of Nevada. (Incorporated by reference to Exhibit 2.2 to Form 10-KSB filed February 2000) *                         |
| 3.4                       | Articles of Merger for the Colorado Corporation and the Nevada Corporation (Incorporated by reference to Exhibit 3.4 to Form 10-KSB filed February 2000) * |
| 3.5                       | Bylaws of the Nevada Corporation (Incorporated by reference to Exhibit 3.5 to Form 10-KSB filed February 2000) *   |
| 4.1                       | Specimen of Common Stock (Incorporated by reference to Exhibit to Registration Statement on Form SB-2, Registration No. 33-74240C). *                      |
| 31.1                      | Certification  |
| 32.1                      | Certification  |

\* Incorporated by reference to a previously filed exhibit or report.

## SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **Avalon Oil & Gas, Inc.**

Date: July 13, 2012

By: /s/ Kent Rodriguez  
Kent Rodriguez  
Chief Executive Officer, President,  
Secretary and Principal Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Company in the capacities and on the dates indicated.

Date: July 13, 2012

By: /s/ Kent Rodriguez  
Kent Rodriguez  
Chief Executive Officer, President,  
Secretary and Principal Financial Officer

Date: July 13, 2012

By: /s/ Jill Allison  
Jill Allison  
Director

Date: July 13, 2012

By: /s/ Douglas Barton  
Douglas Barton  
Director

Date: July 13, 2012

By: /s/ Rene Häusler  
Rene Häusler  
Director



**Bernstein & Pinchuk**  
ACCOUNTANTS AND CONSULTANTS

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Avalon Oil & Gas, Inc.

We have audited the accompanying consolidated balance sheets of Avalon Oil & Gas, Inc. (“the Company”) and subsidiary as of March 31, 2012 and 2011 and the related statements of operations, changes in stockholders’ equity and cash flows for each of the years in the two-year period ended March 31, 2012. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2012 and 2011 and the results of its operations and its cash flows for each of the years in the two-year period ended March 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1, the Company has incurred significant losses from operations since its inception and has a working capital deficiency. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Bernstein & Pinchuk LLP  
New York, New York  
July 13, 2012

Bernstein & Pinchuk LLP

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**AVALON OIL & GAS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF MARCH 31,**

|  | <b>2012</b>         | <b>2011</b>         |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| <b>Current assets</b>  |                     |                     |
| Cash and cash equivalents  | \$ 114,533          | \$ 311,802          |
| Accounts receivable, net of allowance for doubtful accounts of \$0 and \$0   | 33,958              | 15,258              |
| Notes receivable   | 9,286               | 7,857               |
| Deposits and prepaid expenses  | 160,000             | -                   |
| Receivable from joint interests, net of allowance for doubtful accounts of \$135,708 and \$178,922   | 20,000              | 6,070               |
| <b>Total current assets</b>  | <b>337,777</b>      | <b>340,987</b>      |
| Notes receivable   | 20,000              | 29,286              |
| Property and equipment, net  | 1,033               | 7,882               |
| Unproven oil and gas properties  | 1,867,183           | 1,867,183           |
| Producing oil and gas properties, net  | 208,281             | 231,720             |
| Intellectual property rights, net  | 180,986             | 223,574             |
| <b>Total Assets</b>  | <b>\$ 2,615,260</b> | <b>\$ 2,700,632</b> |
| <b>Liabilities and stockholders' equity</b>  |                     |                     |
| <b>Current liabilities</b>   |                     |                     |
| Accounts payable and accrued liabilities   | \$ 581,380          | \$ 580,506          |
| Accrued payroll – related parties  | 196,365             | 185,200             |
| Dividends payable to related party   | 35,450              | 48,200              |
| Accrued liabilities to joint interest  | 12,547              | 14,532              |
| Notes payable- related party   | 15,000              | -                   |
| Notes payable, net of discount   | 620,931             | 449,262             |
| <b>Total current liabilities</b>   | <b>1,461,673</b>    | <b>1,277,700</b>    |
| Notes payable, net of discount   | 474,500             | 296,550             |
| Accrued asset retirement obligation (ARO) liability  | 91,094              | 79,454              |
| <b>Total Liabilities</b>   | <b>2,027,067</b>    | <b>1,653,704</b>    |
| <b>Commitments and contingencies</b>   |                     |                     |
| <b>Stockholders' equity</b>  |                     |                     |
| Preferred stock, Series A, \$0.10 par value, 1,000,000 shares authorized; 100 shares issued and outstanding - stated at redemption value                                       | 500,000             | 500,000             |
| Common stock, \$0.001 par value; 3,000,000,000 shares authorized; 767,575,108 and 479,556,004 shares issued and outstanding at March 31, 2012 and March 31, 2011, respectively | 767,575             | 479,556             |
| Additional paid-in capital - Common stock  | 28,543,934          | 28,413,734          |
| Common stock subscribed  | -                   | 140,000             |
| Accumulated deficit  | (29,223,516)        | (28,486,362)        |
| <b>Total stockholder's equity</b>  | <b>587,993</b>      | <b>1,046,928</b>    |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b>\$ 2,615,260</b> | <b>\$ 2,700,632</b> |

See notes to consolidated financial statements.

**AVALON OIL & GAS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED MARCH 31,**

|   | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
| Oil and gas sales   | \$ 253,882  | \$ 187,913  |
| Operating expenses:   |             |             |
| Lease operating expense, severance taxes<br>and ARO accretion | 128,871     | 150,308     |
| Selling, general and administrative expenses                  | 492,838     | 887,410     |
| Stock-based compensation                                      | 45,946      | 244,133     |
| Depreciation, depletion, and amortization                     | 69,979      | 100,869     |
| Total operating expenses                                      | 737,634     | 1,382,720   |
| Operating loss  | (483,752)   | (1,194,807) |
| Other income (expense):                                       |             |             |
| Interest expense, net   | (289,761)   | (77,441)    |
| Gain on conversion of notes payable                           | 828         | (2,694)     |
| Gain on sale of interest                                      | -           | 22,478      |
| Gain of cancellation of license agreement                     | -           | -           |
| Gain on settlement of debt                                    | -           | 19,925      |
| Gain (loss) on extinguishment of debt                         | 35,531      | (83,712)    |
| Total other income (expense)                                  | (253,402)   | (121,444)   |
| Loss before taxes   | (737,154)   | (1,316,251) |
| Provision for taxes   | -           | -           |
| Net loss  | (737,154)   | (1,316,251) |
| Dividends on preferred stock                                  | (40,000)    | (40,000)    |
| Net loss attributed to common stock after preferred dividends | (777,154)   | (1,356,251) |
| Net loss per share - basic and diluted                        | \$ (0.001)  | \$ (0.004)  |
| Weighted average shares outstanding - basic and diluted       | 610,921,715 | 360,071,421 |

See notes to consolidated financial statements.

**AVALON OIL & GAS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31,**

|  | <b>For the year<br/>ended<br/>March 31, 2012</b> | <b>For the year<br/>ended<br/>March 31, 2011</b> |
|--|--|--|
| <b>Cash flows from operating activities:</b>                                   |  |  |
| Net (loss)   | \$ (737,154)                                     | \$ (1,316,251)                                   |
| Adjustments to reconcile net loss to net cash used<br>in operating activities: |  |  |
| (Gain) Loss on extinguishment of debt  | (35,531)   | 83,712   |
| (Gain) on sale of Well interest  | -  | (22,478)   |
| (Gain) Loss on settlement of debt  | 7,842  | (19,925)   |
| Loss on conversion of notes payable  | 1,553  | 2,694  |
| Accreted interest on note payable  | 2,500  | -  |
| Non-cash compensation  | 45,946   | 579,281  |
| Bad debt   | (15,433)   | 25,627   |
| Depreciation   | 6,849  | 9,807  |
| Depletion  | 20,542   | 48,478   |
| Depreciation and ARO liability   | 2,896  | 2,896  |
| Asset retirement obligation accretion  | 11,640   | 5,794  |
| Amortization of discount on notes payable                                      | 203,969  | 28,313   |
| Amortization of intangible assets  | 42,588   | 42,584   |
| Net change in operating assets and liabilities:                                |  |  |
| Accounts receivable  | (18,700)   | (3,918)  |
| Joint interest receivable  | 29,265   | (6,070)  |
| Prepaid expenses and deposits  | -  | 4,150  |

AVALON OIL & GAS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2012 AND 2011  
(Continued)

|   |                  |                  |
|---|------------------|------------------|
| Accounts payable and other accrued expenses                 | 2,475            | (217,476)        |
| Accrued payroll-related party                               | 11,165           |                  |
| Dividends payable to related party                          | (12,750)         | 16,500           |
| Due to related party  | -                | 35,032           |
| <b>Net cash used in operating activities</b>                | <b>(430,338)</b> | <b>(701,250)</b> |
| <b>Cash flows from investing activities:</b>                |                  |                  |
| Deposit on the purchase of additional assets                | (160,000)        | -                |
| Issuance of notes receivable                                | -                | (42,857)         |
| Purchase of interest in Grace Wells                         | -                | (44,927)         |
| Principle payments received on notes receivable             | 7,857            | 5,714            |
| <b>Net cash used in investing activities</b>                | <b>(152,143)</b> | <b>(82,070)</b>  |
| <b>Cash flows from financing activities:</b>                |                  |                  |
| proceeds from advances from related party                   | 40,000           | -                |
| payments for advances from related party                    | (25,000)         | -                |
| Payments on notes payable                                   | -                | (57,000)         |
| Reductions in accounts payable in exchange for common stock | 47,712           | -                |
| Proceeds from notes payable                                 | 322,500          | 563,000          |
| Common stock issued for cash                                | -                | 542,600          |
| <b>Net cash provided in financing activities</b>            | <b>385,212</b>   | <b>1,048,600</b> |
| Net (decrease) increase in cash and cash equivalents        | (197,269)        | 265,280          |

AVALON OIL & GAS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2012 AND 2011  
(Continued)

|  |            |            |
|--|------------|------------|
| Cash and cash equivalents at beginning of year   | 311,802    | 46,522     |
| Cash and cash equivalents at end of year   | \$ 114,533 | \$ 311,802 |
| Supplemental disclosures of cash flow information:   |            |            |
| Cash paid during the period for:   |            |            |
| Interest   | \$ -       | \$ -       |
| Taxes  | \$ -       | \$ -       |
| Common stock issued in exchange for consulting services                                      | \$ 45,946  | \$ 190,050 |
| Common stock issued for conversion of note payable, accrued interest, and assumption of debt | \$ 185,923 | \$ 250,694 |
| Common stock issued as a discount on notes payable   | \$ -       | \$ 170,000 |
| Common stock issued for acquisition  | \$ -       | \$ 1,088   |
| Gain (Loss) on extinguishment of debt  | \$ 35,531  | \$ -       |
| Gain (Loss) from settlement of debt  | \$ 9,395   | \$ -       |
| Increase in well interest due to economic revisions  | \$ 4,606   | \$ -       |
| Common stock issued for financing fees   | \$ -       | \$ 114,260 |
| Common stock issued for directors services   | \$ -       | \$ 89,250  |

See notes to consolidated financial statements.

**AVALON OIL & GAS, INC.**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE TWO YEARS ENDED MARCH 31, 2012**

|   | <u>Preferred Stock, Series A</u> |                  | <u>Common Stock</u> |                  | <u>Stock<br/>Subscribed</u> | <u>Paid-in<br/>Capital</u> | <u>Accumulated<br/>Deficit</u> | <u>Stock<br/>Subscription<br/>receivable</u> | <u>Total</u> |
|---|----------------------------------|------------------|---------------------|------------------|-----------------------------|----------------------------|--------------------------------|--|--------------|
|   | <u>Shares</u>                    | <u>Par Value</u> | <u>Shares</u>       | <u>Par Value</u> |                             |                            |                                |  |              |
| Balance as of March 31, 2010  | 100                              | 500,000          | 164,704,193         | 164,704          | 71,167                      | 27,379,920                 | (27,170,111)                   | -  | 945,680      |
| Common stock cancelled and issued in error                                | -                                | -                | (23,602,121.)       | (23,602)         | (87,439)                    | (6,402)                    | -                              | -  | (117,443)    |
| Common stock issued for consulting services                               | -                                | -                | 52,300,000          | 52,300           | -                           | 137,750                    | -                              | -  | 190,050      |
| Common stock issued for conversion of note payable and assumption of debt | -                                | -                | 84,144,932          | 84,145           | 156,272                     | 187,777                    | -                              | 40,000                                       | 428,194      |
| Discount on note payable due to beneficial conversion feature             | -                                | -                | -                   | -                | -                           | 170,000                    | -                              | -  | 170,000      |
| Common stock to issued for cash   | -                                | -                | 135,650,000         | 135,650          | -                           | 406,950                    | -                              | -  | 542,600      |
| Common stock issued for director services                                 | -                                | -                | 22,500,000          | 22,500           | -                           | 66,750                     | -                              | -  | 89,250       |
| Common stock issued for financing fee                                     | -                                | -                | 43,565,000          | 43,565           | -                           | 70,695                     | -                              | (40,000)                                     | 114,260      |
| Common stock issued for purchase of unproven properties                   | -                                | -                | 294,000             | 294              | -                           | 294                        | -                              | -  | 588          |
| Net loss  | -                                | -                | -                   | -                | -                           | -                          | (1,316,251)                    | -  | (1,316,251)  |
| Balance as of March 31, 2011  | 100                              | \$ 500,000       | 479,556,004         | \$ 479,556       | \$ 140,000                  | \$ 28,413,734              | \$ (28,486,362)                | \$ -   | \$ 1,046,928 |
| Common stock issued for conversion of note payable and assumption of debt | -                                | -                | 250,019,104         | 250,019          | (140,000)                   | 75,904                     | -                              | -  | 185,923      |
| Discount on note payable due to beneficial conversion feature             | -                                | -                | -                   | -                | -                           | 46,350                     | -                              | -  | 46,350       |
| Common stock to issued for services                                       | -                                | -                | 38,000,000          | 38,000           | -                           | 7,946                      | -                              | -  | 45,946       |
| Net loss  | -                                | -                | -                   | -                | -                           | -                          | (737,154)                      | -  | (737,154)    |
| Balance as of March 31, 2012  | 100                              | \$ 500,000       | 767,575,108         | \$ 767,575       | \$ -0-                      | \$ 28,543,934              | \$ (29,223,516)                | \$ -   | \$ 587,993   |

See notes to consolidated financial statements.

**AVALON OIL & GAS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2012 AND 2011**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Operations

Avalon Oil & Gas, Inc. (the "Company") was originally incorporated in Colorado in April 1991 under the name Snow Runner (USA), Inc. The Company was the general partner of Snow Runner (USA) Ltd.; a Colorado limited partnership formed to sell proprietary snow skates under the name "Sled Dogs" which was dissolved in August 1992. In late 1993, the Company relocated its operations to Minnesota and in January 1994 changed our name to Snow Runner, Inc. In November 1994 we changed our name to the Sled Dogs Company. On November 5, 1997, we filed for protection under Chapter 11 of the U.S. Bankruptcy Code. In September 1998, we emerged from protection of Chapter 11 of the U.S. Bankruptcy Code. In May, 1999, we changed our state of domicile to Nevada and our name to XDOGS.COM, Inc. On July 22, 2005, the Board of Directors and a majority of the Company's shareholders approved an amendment to our Articles of Incorporation to change the Company's name to Avalon Oil & Gas, Inc., and to increase the authorized number of shares of our common stock from 200,000,000 shares to 1,000,000,000 shares par value of \$0.001, and engage in the acquisition of producing oil and gas properties. On November 16, 2011, a majority of the Company's shareholders approved an amendment to our Articles of Incorporation to increase the authorized number of shares of our common stock from 1,000,000,000 shares to 3,000,000,000 shares par value of \$0.001.

The Company is currently in the process of raising funds to acquire oil and gas properties and related oilfield technologies, which the Company plans to develop into commercial applications.

On July 17, 2006, the Company purchased all the outstanding shares of Ultrasonic Mitigation Technologies, Inc. (UMTI) from Innovaro Corporation for 16,250,000 shares of the Company's Common Stock valued at \$695,500. The shares were valued at the average sales price received in private placements for sales of restricted common stock for cash. UMTI became a wholly owned subsidiary of the Company as of the date of acquisition. UMTI once held the technology license of a patented process for paraffin wax mitigation from crude oil using ultrasonic waves developed by the University of Wyoming.

On November 9, 2006, the Company purchased all the outstanding shares of Intelli-Well Technologies, Inc. (IWTI) from Innovaro Corporation for 20,000,000 shares of the Company's common stock valued at \$594,000. The shares were valued at the average sales price received in private placements for sales of restricted common stock for cash. IWTI became a wholly owned subsidiary of the Company as of the date of acquisition. IWTI holds a non-exclusive license in the United States for a borehole casing technology developed by the Regents of the University of California (the "Regents") through its researchers at Lawrence Livermore National Laboratory.

On March 28, 2007, the Company purchased all the outstanding shares of Leak Location Technologies, Inc. (LLTI) from Innovaro Corporation for 36,710,526 shares of the Company's common stock valued at \$1,090,303. The shares were valued at the average sales price received in private placements for sales of restricted common stock for cash. LLTI became a wholly owned subsidiary of the Company as of the date of acquisition. LLTI held a non-exclusive license in the United States for a leak detection and location technology developed by the Rensselaer Polytechnic Institute ("Rensselaer") through its researcher Michael Savic.

On September 22, 2007 the Company entered into an agreement with respect to its purchase of a 75.6% interest in Oiltek, Inc. (Oiltek) for \$50,000 and the right of Oiltek to market Avalon's intellectual property. Oiltek is consolidated in these financial statements with a minority interest shown.

**AVALON OIL & GAS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2012 AND 2011**

The Company reached an agreement to purchase a 13.50% working interest in the Grace #1, a 22.50% working interest in the Grace #2, a 14.50% working interest in the Grace #3 and an 11.50% working interest in the Grace #5A, and a 21.50% working interest in the Grace #6, for \$43,838, from 17 working interest owners during the three months ending September 30, 2010. We closed this purchase in January 2011.

We also purchased a 5.75% working interest in the Grace #1, a 6.25% working interest in the Grace #2, an 8.5% working interest in the Grace #3, a 4.50% working interest in the Grace #5A and a 3.50% working interest in the Grace #6, during the year ended March 31, 2011 by issuing 294,000 shares of common stock to two (2) working interest owners.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and The Company's subsidiary Oiltek, Inc. All significant inter-company items have been eliminated in consolidation.

Going Concern

The March 31, 2012, financial statements have been prepared assuming the Company will continue as a going concern. However, the Company has incurred a loss of \$29,223,516 from inception through March 31, 2012, and has a working capital deficiency of \$1,123,896 and stockholders' equity of \$587,993 as of March 31, 2012. The Company currently has minimal revenue generating operations and expects to incur substantial operating expenses in order to expand its business. As a result, the Company expects to incur operating losses for the foreseeable future. The Company will continue to seek equity and debt financing to meet our operating losses. The accompanying consolidated financial statements do not include any adjustments that might become necessary should the Company be unable to continue as a going concern.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

Basis of Accounting

The Company's financial statements are prepared using the accrual method of accounting. Revenues are recognized when earned and expenses when incurred.

**AVALON OIL & GAS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2012 AND 2011**

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash on deposit, certificates of deposit, money market accounts, and investment grade commercial paper that are readily convertible into cash and purchased with original maturities of three months or less. The Company maintains its cash balances at several financial institutions. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Fair Value of Financial Instruments

The Company's financial instruments are cash and cash equivalents, accounts receivable, accounts payable, notes payable, notes receivable and long-term debt. The recorded values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values based on their short-term nature. The recorded values of notes payable, notes receivable and long-term debt approximate their fair values, as interest approximates market rates.

Accounts Receivable

Management periodically assesses the collectability of the Company's accounts receivable. Accounts determined to be uncollectible are charged to operations when that determination is made. The Company had an allowance for accounts receivable of \$135,727 and \$178,922 for the years ended March 31, 2012 and 2011.

Oil and Natural Gas Properties

The Company follows the full cost method of accounting for natural gas and oil properties. Under the full cost concept, all costs incurred in acquiring, exploring, and developing properties cost center are capitalized when incurred and are amortized as mineral reserves in the cost center are produced, subject to a limitation that the capitalized costs not exceed the value of those reserves. The unamortized costs relating to a property that is surrendered, abandoned, or otherwise disposed of are accounted for as an adjustment of accumulated amortization, rather than as a gain or loss that enters into the determination of net income, until all of the properties constituting the amortization base are disposed of, at which point gain or loss is recognized. All acquisition, exploration, and development costs are capitalized. The Company capitalizes all internal costs, including: salaries and related fringe benefits of employees directly engaged in the acquisition, exploration and development of natural gas and oil properties, as well as other identifiable general and administrative costs associated with such activities. During the years ended March 31, 2012 and 2011, no acquisition costs were capitalized. Oil and natural gas properties are reviewed for recoverability at least annually or when events or changes in circumstances indicate that its carrying value may exceed future undiscounted cash inflows. As of March 31, 2012 and 2011, the Company had not identified any such impairment.

**AVALON OIL & GAS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2011 AND 2010**

Other Property and Equipment

Other property and equipment is reviewed on an annual basis for impairment and as of March 31, 2012, the Company had not identified any such impairment. Repairs and maintenance are charged to operations when incurred and improvements and renewals are capitalized.

Other property and equipment are stated at cost. Depreciation is calculated using the straight-line method for financial reporting purposes and accelerated methods for tax purposes.

Their estimated useful lives are as follows:

Office Equipment: 5-7 Years

Asset Retirement Obligations

In accordance with the provisions of Financial Accounting Standards Board "FASB" Accounting Standard Codification "ASC" 410-20-15, "Accounting for Asset Retirement Obligations", the Company records the fair value of its liability for asset retirement obligations in the period in which it is incurred and a corresponding increase in the carrying amount of the related long live assets. Over time, the liability is accreted to its present value at the end of each reporting period, and the capitalized cost is depreciated over the useful life of the related assets. Upon settlement of the liability, the Company will either settle the obligation for its recorded amount or incur a gain or loss upon settlement. The Company's asset retirement obligations relate to the plugging and abandonment of its oil properties.

Intangible Assets

The cost of licensed technologies acquired is capitalized and will be amortized over the shorter of the term of the licensing agreement or the remaining life of the underlying patents.

The Company evaluates recoverability of identifiable intangible assets whenever events or changes in circumstances indicate that intangible assets carrying amount may not be recoverable. Such circumstances include, but are not limited to: (1) a significant decrease in the market value of an asset, (2) a significant adverse change in the extent or manner in which an asset is used, or (3) an accumulation of cost significantly in excess of the amount originally expected for the acquisition of an asset. The Company measures the carrying amount of the assets against the estimated undiscounted future cash flows associated with it.

There were not any impairment losses for the fiscal years ended March 31, 2012 and 2011.

Should the sum of the expected cash flows be less than the carrying amount of assets being evaluated, an impairment loss would be recognized. The impairment loss would be calculated as the amount by which the carrying amount of the assets, exceed fair value. Estimated amortization of intangible assets over the next five years is as follows:

| <b>March 31,</b>     |                   |
|----------------------|-------------------|
| 2013                 | \$ 42,585         |
| 2014                 | \$ 42,585         |
| 2015                 | 42,585            |
| 2016                 | 42,585            |
| 2017, and thereafter | 10,646            |
|                      | <u>\$ 180,986</u> |

**AVALON OIL & GAS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2012 AND 2011**

Stock Based Compensation

Share awards granted to employees and independent directors are accounted for under ASC 718, "Share-Based Payment". ASC 718-10 eliminates accounting for share-based compensation transaction using the intrinsic value method and requires instead that such transactions be accounted for using a fair-value-based method. The Company has elected to adopt the provisions of ASC 718-10 effective January 1, 2006, under the modified prospective transition method, in which compensation cost was recognized beginning with the effective date (a) based on the requirements of ASC 718-10 for all share-based payments granted after the effective date and (b) based on the requirements of ASC 718-10 for all awards granted to employees prior to the effective date of ASC 718-10 that remain unvested on the effective date.

The Company records share-based compensation expense for awards granted to non-employees in exchange for services at fair value in accordance with the provisions of ASC 505-50, "Equity based" payment to non-employees. For the awards granted to non-employees, the Company will record compensation expenses equal to the fair value of the share options at the measurement date, which is determined to be the earlier of the performance commitment date or the service completion date.

Warrants

The value of warrants issued is recorded at their fair values as determined by use of a Black Scholes Model at such time or over such periods as the warrants vest.

Loss per Common Share

ASC 260-10-45, "Earnings Per Share", requires presentation of "basic" and "diluted" earnings per share on the face of the statements of operations for all entities with complex capital structures. Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted during the period. Dilutive securities having an anti-dilutive effect on diluted earnings per share are excluded from the calculation.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carry forwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

ASC 740-10-25, "Accounting for Uncertainty in Income Taxes", is intended to clarify the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740-10-25 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Under ASC 740-10-25, evaluation of a tax position is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

**AVALON OIL & GAS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED MARCH 31, 2012 AND 2011**

Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met.

The adoption of ASC 740-10-25 at January 1, 2007 did not have a material effect on the Company's financial position.

Revenue Recognition

In accordance with the requirements ASC topic 605 "Revenue Recognition", revenues are recognized at such time as (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller's price to the buyer is fixed or determinable and (4) collectability is reasonably assured. Specifically, oil and gas sales are recognized as income at such time as the oil and gas are delivered to a viable third party purchaser at an agreed price. Interest income is recognized as it is earned.

Long-Lived Assets

Equipment is stated at acquired cost less accumulated depreciation. Office equipment is depreciated on the straight-line basis over the estimated useful lives (five to seven years).

Impairment of long-lived assets is recognized when events or changes in circumstances indicate that the carrying amount of the asset or related group of assets may not be recoverable. If the expected future undiscounted cash flows are less than the carrying amount of the asset, an impairment loss is recognized at that time. Measurement of impairment may be based upon appraisal, market value of similar assets or discounted cash flows. There was no impairment for the fiscal year ended March 31, 2012 and 2011.

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In January 2010, the FASB issued ASU No. 2010-06, which is included in the Codification under ASC 820, Fair Value Measurements and Disclosures (“ASC 820”). This update requires the disclosure of transfers between the observable input categories and activity in the unobservable input category for fair value measurements. The guidance also requires disclosures about the inputs and valuation techniques used to measure fair value and became effective for interim and annual reporting periods beginning January 1, 2010. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

Recently enacted accounting standards

During the year, The Financial Accounting Standards Board (“FASB”) has issued ASU No. 2011-02 through ASU 2011-12, which are not expected to have a material impact on the consolidated financial statements upon adoption.

**NOTE 2: RECEIVABLE FROM JOINT INTERESTS**

The Company is the operator of certain wells acquired in the Expanded Bedford Agreement (see note 4). Pursuant to a joint interest operating agreement (the “Joint Interest Agreement”), the Company charges the other owners of the Grace Wells for their pro-rata share of operating and workover expenses. These receivables are carried on the Company’s balance sheet as Receivable from Joint Interests. At March 31, 2012 and 2011, the amount of these receivables is \$155,708 and \$184,992, respectively. During the year ended March 31, 2012, the Company deemed the collectability of the receivable from joint interests in the amount of \$135,708 and 178,922 respectively as unlikely. As a result, the Company credited \$43,214 to operations during the year ended March 31, 2012 reducing bad debt expense.

**NOTE 3: PROPERTY AND EQUIPMENT**

A summary of property and equipment at March 31, 2012 and 2011 is as follows:

|                                | <b>March 31,<br/>2012</b> | <b>March 31,<br/>2011</b> |
|--------------------------------|---------------------------|---------------------------|
| Office Equipment               | \$ 41,778                 | \$ 41,778                 |
| Leasehold improvements         | 7,989                     | 7,989                     |
|                                | <u>49,767</u>             | <u>49,767</u>             |
| Less: Accumulated depreciation | (48,734)                  | (41,885)                  |
| <b>Total</b>                   | <u>\$ 1,033</u>           | <u>\$ 7,882</u>           |

Depreciation expense for the years ended March 31, 2012 and 2011 was \$6,849 and \$9,807.

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**NOTE 4: INTELLECTUAL PROPERTY RIGHTS**

A summary of the intellectual property rights at March 31, 2012 and 2011, are as follows:

|                                  | <u>March 31,</u><br><u>2012</u> | <u>March 31,</u><br><u>2011</u> |
|----------------------------------|---------------------------------|---------------------------------|
| Intelli-well                     | \$ 425,850                      | \$ 425,850                      |
| Ultrasonic Mitigation Technology | -                               | -                               |
| Leak Location Technology         | -                               | -                               |
| BIO-CAT Well and pipeline        | -                               | -                               |
|                                  | <u>425,850</u>                  | <u>425,850</u>                  |
| Less: accumulated amortization   | (244,864)                       | (202,276)                       |
| Total                            | <u>\$ 180,986</u>               | <u>\$ 223,574</u>               |

Amortization expense for the year ended March 31, 2012 and 2011 was \$42,588 and \$42,584, respectively.

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**NOTE 5: OIL AND GAS PROPERTY ACTIVITY**

The table below shows the Company's working interests in the Grace Wells as of March 31, 2012 and 2011:

| Well      | March 31,<br>2011<br>Working<br>Interest | Additional<br>Acquisition | March 31,<br>2012<br>Working<br>Interest |
|-----------|--|---------------------------|--|
| Grace #1  | 65.25%                                   | 0%                        | 65.25%                                   |
| Grace #2  | 55.75%                                   | 0%                        | 55.75%                                   |
| Grace #3  | 64.00%                                   | 0%                        | 64.00%                                   |
| Grace #5A | 52.00%                                   | 0%                        | 52.00%                                   |
| Grace #6  | 58.00%                                   | 0%                        | 58.00%                                   |

The Company has reached an agreement to purchase a 13.50% working interest in the Grace # 1, a 22.50% working interest in the Grace # 2, a 14.50% working interest in the Grace # 3 and an 11.50% working interest in the Grace # 5A, and a 21.50% working interest in the Grace #6, for \$43,837, from 17 working interest owners. We closed this purchase in January 2011.

We also purchased a 5.75% working interest in the Grace # 1, a 6.25% working interest in the Grace # 2, an 8.5% working interest in the Grace # 3, a 4.50% working interest in the Grace # 5A and a 3.50% working interest in the Grace # 6, during the year ended March 31, 2011 by issuing 294,000 shares of common stock to two (2) working interest owners.

Producing oil and gas properties consist of the following:

|                             | March 31,<br>2012 | March 31,<br>2011 |
|-----------------------------|-------------------|-------------------|
| Lincoln County, Oklahoma    | \$ 67,565         | \$ 67,565         |
| Other properties, net       | 1,049,514         | 1,049,514         |
| Asset retirement obligation | 46,364            | 49,260            |
| Property impairments        | (481,072)         | (481,072)         |
| Less: Depletion             | (474,090)         | (453,547)         |
| Net                         | <u>\$ 208,281</u> | <u>\$ 231,720</u> |

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**NOTE 6: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consisted of the following:

|                  | <u>March 31,</u><br><u>2012</u> | <u>March 31,</u><br><u>2011</u> |
|------------------|---------------------------------|---------------------------------|
| Accounts payable | \$ 409,094                      | \$ 483,533                      |
| Accrued interest | 172,286                         | 96,973                          |
| <b>Total</b>     | <b>\$ 581,380</b>               | <b>\$ 580,506</b>               |

**NOTE 7: NOTES PAYABLE**

On May 8, 2006, the Company entered into a convertible note payable agreement with a shareholder in the amount of \$100,000. The note carries an interest rate of 10% per annum and matures of November 8, 2006. The note holder has the right to convert the note and accrued interest at a rate of \$0.01 per share. The value of this conversion feature was treated as a loan discount for the full \$100,000 of the loan and was amortized to interest expense over the life of the loan. On May 8, 2007 the note was extended for one year. The conversion feature of the note was valued at \$25,852 and was treated as a prepaid loan costs. The prepaid loan costs have been amortized over the life of the new note. On October 19, 2007, the note holder converted \$30,000 of principal plus accrued interest of \$16,152 for 1,350,000 shares of common stock. On November 30, 2007, the note holder converted \$10,000 of principal for 950,000 shares of common stock. On January 31, 2008, the note holder converted \$10,000 of principal and accrued interest of \$600 for 1,250,000 shares of common stock. On February 29, 2008, the note holder converted \$8,000 of principal for 1,250,000 shares of common stock. On March 31, 2008, the note holder converted \$5,000 of principal for 1,250,000 shares of common stock. On March 31, 2008, the note holder converted \$5,000 of principal for 1,250,000 shares of common stock. On June 6, 2008, the note holder converted \$7,000 of principal and \$1,372 of accrued interest for 1,550,000 shares of common stock. On June 23, 2008, the note holder converted \$10,000 of principal and \$395 of accrued interest for 1,500,000 shares of common stock. On October 15, 2008, the note holder converted \$5,000 of principal and \$10,000 of interest for 3,300,000 shares of common stock. On December 3, 2008, the note holder converted \$3,000 of principal and \$201 of interest for 2,000,000 shares of common stock. On February 24, 2009, the note holder converted \$2,000 of principal and \$167 of accrued interest into 4,000,000 shares of common stock. During the three months ended September 30, 2009, the Company issued 33,000,000 shares for the conversion of \$2,000 of principal and \$367 of accrued interest on this note, and for other consideration. During the three months ended December 31, 2009, the Company issued 30,000,000 shares of common stock for the conversion of \$1,000 principal and \$361 of accrued interest on this note and for other considerations. During the period ended March 31, 2012, the Company issued 466,640 shares of common stock for the conversion of \$500 principal and \$407 of accrued interest. Interest in the amount of \$339 and \$530 was accrued on this note during the year ended March 31, 2012 and 2011, respectively. The maturity of this note has been extended until April 1, 2013.

|  | <u>March 31, 2012</u> | <u>March 31, 2011</u> |
|--|-----------------------|-----------------------|
|  | \$ 4,500              | \$ 5,000              |

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On November 11, 2008, the Company issued a convertible promissory note to an investor in the amount of \$50,000. The note carries an interest rate of 10% per annum and a maturity date of October 1, 2009. The note holder has the right to convert the note and accrued interest into shares of the Company's common stock at a rate of \$0.10 per share. In addition to the note, the investor received three-year warrants to purchase 500,000 shares of the Company's common stock at a price of \$0.10 per share. The Company valued these warrants using the Black-Sholes valuation model, and charged the fair value of the warrants in the amount of \$11,310 as a discount on notes payable. The discount is being amortized to interest expense over the life of the note via the effective interest method. Interest in the amount of \$3,008 and \$3,044 was accrued on this note during the year ended March 31, 2012 and 2011, respectively. Accrued interest was \$5,876 and \$2,868 respectively at March 31, 2012 and 2011. During the This note has been extended until April 1, 2013.

30,000

30,000

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On December 22, 2008, the Company issued a promissory note to an investor in the amount of \$150,000. This note carries an interest rate of 10% per annum and matures of December 15, 2009. In addition to the note payable, the Company issued 7,500,000 shares of common stock to the note holder. The shares are considered a discount to the note payable. At the time of the issuance of the shares to the note holder, the market price of the shares exceeded the fair value of the note payable; as a result the value of the discount was capped at the face value of the note, \$150,000. The discount will be amortized to interest expense over the life of the note, 1 year, via the effective interest method. Interest in the amount of \$15,042 and \$15,000 was accrued on this note during the year ended March 31, 2012 and 2011, respectively. Accrued interest was \$49,109 and \$34,068 at March 31, 2012 and 2011 respectively. This note has been extended until April 1, 2013.

150,000                      150,000

On December 31, 2008, the Company received a cash advance from an investor in the amount of \$100,000. On January 1, 2009, the Company received an additional \$50,000 and the Company entered into a note payable agreement in the amount of \$150,000. The note bears interest at a rate of 10% per annum and matures on December 15, 2009. In addition to the note payable, the Company issued 7,500,000 shares of common stock to the note holder. The shares are considered a discount to the note payable. At the time of issuance of the shares to the note holders, the market price of the shares exceeded the fair value of the note payable; as a result the value of the discount was capped at the face value of the note, \$150,000. The discount will be amortized over the life of the note via the effective interest method. Interest in the amount of \$15,042 and \$15,000 was accrued on this note during the year ended March 31, 2012 and 2011, respectively. Accrued interest was \$48,123 and \$33,082 at March 31, 2012 and 2011 respectively. This note has been extended until April 1, 2013.

150,000                      150,000

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On January 27, 2009, the Company issued a promissory note to an investor in the amount of \$50,000. The note carries an interest rate of 10% per annum and matures on December 15, 2009. In addition to the note payable, the Company issued 1,000,000 shares of common stock to the note holder. The shares are considered a discount to the note payable. The shares are valued using the closing market price on the date the note was signed and have a value of \$25,000. The discount will be amortized over the life of the note via the effective interest method. Interest in the amount of \$5,000 and \$5,000 was accrued on this note during the year ended March 31, 2012 and 2011, respectively. . . . Accrued interest was \$10,863 and \$15,863 at March 31, 2012 and 2011 respectively. This note has been extended until April 1, 2013

50,000

50,000

**AVALON OIL & GAS, INC.**  
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|  |       |        |
|--|-------|--------|
| <p>On March 24, 2010, the Company issued a convertible note payable in the amount of \$50,000. The note carries an interest rate of 8% per annum and matures on December 26, 2010. The note holder has the right to convert the note and accrued interest at a rate of \$0.005 per share. The beneficial conversion feature created a discount on the note in the amount of \$15,000 and is being amortized using the effective interest method over the term of the note. Interest in the amount of \$254 and \$2,738 was recorded for the year ended March 31, 2012 and 2011, respectively. In June 2011, the note was paid off with the issuance of 8,847,059 shares of common stock.</p>   | -0-   | 15,000 |
| <p>On November 28, 2006, Oiltek, of which the Company has a majority interest in, issued a convertible note payable in the amount of \$2,500. This note bears interest at a rate of 8% per annum and matures on October 1, 2007. The principal amount of the note and accrued interest are convertible into shares of the Company's common stock at a price of \$0.01 per share. A beneficial conversion feature in the amount of \$2,500 was recorded as a discount to the note and was amortized to interest expense during the period ended December 31, 2006. Interest in the amount of \$200 and \$200 was accrued on this note during the twelve months ended March 31, 2012 and 2011, respectively. In December 2008, this note extended its maturity date until December 31, 2012.</p> | 2,500 | 2,500  |
| <p>On November 28, 2006, Oiltek, of which the Company has a majority interest in, issued a convertible note payable in the amount of \$5,000. This note bears interest at a rate of 8% per annum and matured on October 1, 2007. The principal amount of the note and accrued interest are convertible into shares of the Company's common stock at a price of \$0.01 per share. A beneficial conversion feature in the amount of \$5,000 was recorded as a discount to the note and was amortized to interest expense during the period ended December 31, 2006. Interest in the amount of \$400 and \$400 was accrued on this note during the twelve months ended March 31, 2012 and 2011, respectively. In December 2008, this note extended its maturity date until December 31, 2012.</p> | 5,000 | 5,000  |
| <p>On December 9, 2010, the Company issued a convertible note payable in the amount of \$25,000. This note bears interest at a rate of 8% per annum and matures on September 6, 2011. Interest in the amount of \$664 and \$986 was recorded for the year ended March 31, 2012 and 2011, respectively. In August of 2011, the note was paid off with the issuance of 19,134,615 shares of common stock.</p>  | -0-   | 25,000 |

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|  |                     |                   |
|--|---------------------|-------------------|
| <p>On January 1, 2011 the Company issued a convertible note payable in the amount of \$250,000. This note bears interest at a rate of 8% per annum and will be matured on January 15, 2014. The principal amount of the note and accrued interest are convertible into shares of the Company's common stock at a price of \$0.01 per share. A beneficial conversion feature in the amount of \$95,000 was recorded as a discount to the note and is being amortized to interest expense during the period ended March 31, 2011. A discount of \$94,050 and \$950 was deducted for the years ended March 31, 2012 and 2011 respectively. Interest in the amount of \$20,054 and \$4,329 was accrued on this note during the twelve months ended March 31, 2012 and 2011, respectively. Accrued interest was \$4,329 and \$24,384 at March 31, 2012 and 2011 respectively.</p> | 250,000             | 250,000           |
| <p>On January 1, 2011 the Company issued a convertible note payable in the amount of \$200,000. This note bears interest at a rate of 8% per annum and will be matured on January 16, 2014. The principal amount of the note and accrued interest are convertible into shares of the Company's common stock at a price of \$0.01 per share. A beneficial conversion feature in the amount of \$60,000 was recorded as a discount to the note and is being amortized to interest expense during the period ended March 31, 2011. A discount of \$59,400 and \$600 was deducted for the years ended March 31, 2012 and 2011 respectively. Interest in the amount of \$16,044 and \$3,463 was accrued on this note during the twelve months ended March 31, 2011 and 2010, respectively. Accrued interest was \$19,507 and \$3,463 at March 31, 2012 and 2011 respectively.</p> | 200,000             | 200,000           |
| <p>On February 8, 2011, the Company issued a convertible note payable in the amount of \$50,000. This note bears interest at a rate of 8% per annum and matured on November 8, 2011. The principal amount of the note and accrued interest are convertible into shares of the Company's common stock at a price of \$0.01 per share. A beneficial conversion feature in the amount of \$21,000 was recorded as a discount to the note and was amortized to interest expense during the period ended March 31, 2012. Interest in the amount of \$611 and \$997 was accrued on this note during the twelve months ended March 31, 2012 and 2011, respectively. In August of 2011, the note was paid off with the issuance of 54,777,777 shares of common stock.</p>  | <u>-0-</u>          | <u>50,000</u>     |
| <p>On August 4, 2011 the Company issued a promissory note to an investor in the amount of \$30,000. The note carries an interest rate of 8% per annum and matures on June 20, 2012. The discount of \$12,600 will be amortized over the life of the note via the effective interest method. Interest in the amount of \$1,361 was accrued on this note during the year ended March 31, 2012. In February 2012, the note was paid off with the issuance of 47,108,138 shares of common stock.</p>   | -0-                 | -0-               |
| <p>On January 27, 2012 the Company issued a convertible note payable in the amount of \$200,000. This note bears interest at a rate of 8% per annum and will be matured on January 15, 2015. Interest in the amount of \$3,057 was accrued on this note during the twelve months ended March 31, 2012. Accrued interest was \$3,507 at March 31, 2012.</p>   | 200,000             | -0-               |
| <p>On August 4, 2011 the Company issued a promissory note to an investor in the amount of \$50,000. The note carries an interest rate of 8% per annum and matures on June 20, 2012. The discount of \$21,000 will be amortized over the life of the note via the effective interest method. Interest in the amount of \$2,159 was accrued on this note during the year ended March 31, 2012. Accrued interest was \$2,159 at March 31, 2012. In February 2012, the \$10,000 of the note was paid with the issuance of 15,151,151 shares of common stock. This note has been extended until April 1, 2013.</p>  | 40,000              | -0-               |
| <p>On March 6, 2012 the Company issued a promissory note to an investor in the amount of \$42,500. The note carries an interest rate of 8% per annum and matures on June 20, 2012. The discount of \$12,750 will be amortized over the life of the note via the effective interest method. Interest in the amount of \$233 was accrued on this note during the year ended March 31, 2012. Accrued interest was \$233 at March 31, 2012. This note has been extended until April 2013.</p>  | 42,500              | -0-               |
| <p>Total outstanding</p>   | <u>\$ 1,124,500</u> | <u>\$ 932,500</u> |

|                                   | <u>Note<br/>Amount</u> | <u>Unamortized<br/>Discounts</u> | <u>Net of<br/>Discount</u> |
|-----------------------------------|------------------------|----------------------------------|----------------------------|
| March 31, 2012:                   |                        |                                  |                            |
| Notes payable – long-term portion | \$ 474,500             | \$ (0)                           | \$ 474,500                 |
| Notes payable – current portion   | 650,000                | (29,069)                         | 620,931                    |
| <b>Total</b>                      | <b>\$ 1,124,500</b>    | <b>\$ (29,069)</b>               | <b>\$ 1,095,431</b>        |

|                                   | <u>Note<br/>Amount</u> | <u>Unamortized<br/>Discounts</u> | <u>Net of<br/>Discount</u> |
|-----------------------------------|------------------------|----------------------------------|----------------------------|
| March 31, 2011:                   |                        |                                  |                            |
| Notes payable – long-term portion | \$ 450,000             | \$ (153,450)                     | \$ 296,550                 |
| Notes payable – current portion   | 482,500                | (33,238)                         | 449,262                    |
| <b>Total</b>                      | <b>\$ 932,500</b>      | <b>\$ (186,688)</b>              | <b>\$ 745,812</b>          |

|   | <u>Twelve months ended March 31,</u> |             |
|---|--------------------------------------|-------------|
|   | <u>2012</u>                          | <u>2011</u> |
| Discount on Notes Payable amortized to interest expense | \$ 203,969                           | \$ 28,313   |

Total Notes payable of \$474,500 will become due on April 1, 2013.

#### **NOTE 8: RELATED PARTY TRANSACTIONS**

##### Promissory Notes

On July 15, 2009, the Company borrowed \$6,000 from an officer of the corporation. The note carried an interest rate of 10% per annum. Interest in the amount of \$426 was accrued on this note during the twelve months ended March 31, 2011. This note was paid in full in January 2011, and the accrued interest was forgiven.

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Preferred Stock

The 100 shares of Series A Preferred Stock, issued to an officer/director as payment for \$500,000 in promissory notes, are convertible into the number of shares of common stock sufficient to represent forty percent (40%) of the fully diluted shares outstanding after their issuance. The Series A Preferred Stock pays an eight percent (8%) dividend. The dividends are cumulative and payable quarterly. The Series A Preferred Stock carries liquidating preference, over all other classes of stock, equal to the amount paid for the stock plus any unpaid dividends. The Series A Preferred Stock provides for voting rights on an "as converted to common stock" basis.

During the years ended March 31, 2012 and 2011, the Company incurred \$40,000 in preferred stock dividends.

The holders of the Series A Preferred Stock have the right to convert each share of preferred stock into a sufficient number of shares of common stock to equal 40% of the then fully-diluted shares outstanding. Fully diluted shares outstanding is computed as the sum of the number of shares of common stock outstanding plus the number of shares of common stock issuable upon exercise, conversion or exchange of outstanding options, warrants, or convertible securities.

Employment Agreements

KENT RODRIGUEZ

During the year ended March 31, 2012, the Company charged to operations the amount of \$48,000 in annual salary for Mr. Rodriguez, of which \$37,233 and \$47,600 was paid to him during the years ended March 31, 2012 and 2011, respectively. As of March 31, 2012 and 2011, the balances of accrued and unpaid salaries were \$196,365 and \$185,200.

**NOTE 9: INCOME TAXES**

Deferred income taxes result from the temporary difference arising from the use of accelerated depreciation methods for income tax purposes and the straight-line method for financial statement purposes, and an accumulation of New Operating Loss carryforwards for income tax purposes with a valuation allowance against the carryforwards for book purposes.

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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Included in deferred tax assets are Federal and State net operating loss carryforwards of approximately \$7,500,000, which will expire beginning in 2028. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon our cumulative losses through March 31, 2012, we have provided a valuation allowance reducing the net realizable benefits of these deductible differences to \$0 at March 31, 2012. The amount of the deferred tax asset considered realizable could change in the near term if projected future taxable income is realized. Due to significant changes in the Company's ownership, the Company's future use of its existing net operating losses may be limited.

A reconciliation between the actual income tax expense and income taxes computed by applying the statutory Federal and state income tax rates to income from continuing operations before income taxes is as follows:

|   | Twelve Months<br>Ended March 31,<br>2012 | Twelve Months<br>Ended March 31,<br>2011 |
|---|--|--|
| Computed "expected" income tax expense at approximately 34% | \$ (238,000)                             | \$ (455,000)                             |
| Change in valuation allowance                               | (238,000)                                | (455,000)                                |
|   | \$ -                                     | \$ -                                     |

The valuation allowance is primarily composed of the net operating loss of the Company.

**NOTE 10: STOCKHOLDERS' EQUITY**

Preferred Stock

The Company is authorized to issue 1,000,000 shares of preferred stock, par value \$0.10 per share. As of March 31, 2012, the Company has 100 shares of preferred stock issued and outstanding.

The 100 shares of Series A Preferred Stock, issued to an officer/director as payment for \$500,000 in promissory notes, are convertible into the number of shares of common stock sufficient to represent 40 percent (40%) of the fully diluted shares outstanding after their issuance. The Series A Preferred Stock pays an eight percent (8%) dividend. The dividends are cumulative and payable quarterly. The Series A Preferred Stock carries liquidating preference, over all other classes of stock, equal to the amount paid for the stock plus any unpaid dividends. The Series A Preferred Stock provides for voting rights on an "as converted to common stock" basis.

During the years ended March 31, 2012 and 2011, the Company incurred \$40,000 in preferred stock dividends, respectively. As of March 31, 2012 and 2011, dividends in the amount of \$35,450 and \$48,200, respectively, had not been paid, and are carried on the Company's balance sheet as Dividends Payable to Related Party.

The holders of the Series A Preferred Stock have the right to convert the preferred stock into shares of common stock such that if converted simultaneously, they shall represent 40 percent (40%) of the fully diluted shares outstanding after their issuance. Fully diluted shares outstanding is computed as the sum of the number of shares of common stock outstanding plus the number of shares of common stock issuable upon exercise, conversion or exchange of outstanding options, warrants, or convertible securities.

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Common Stock

The Company has authorized 3,000,000,000 shares of common stock with a par value of \$0.001 per share. As of March 31, 2012 and 2011, the Company has 767,575,108 and 479,556,004 shares of common stock issued and outstanding.

Common stock issuances during the year ended March 31, 2012:

The Company issued 38,000,000 shares of common stock to consultants for services provided, pursuant to consulting agreements. The value of these shares in the amount of \$45,946 was charged to operations.

The Company issued 250,019,104 shares of common stock for the conversion of a note payable and assumption of debt. The value of these shares in the amount of \$185,923 has been credited to the note payable.

The Company recorded a beneficial conversion feature on a note payable in the amount of \$46,350 that was credited to Additional Paid-in Capital.

Common stock issuances during the year ended March 31, 2011:

The Company issued 52,300,000 shares of common stock to consultants for services provided, pursuant to consulting agreements. The value of these shares in the amount of \$190,050 was charged to operations.

The Company issued 84,144,932 shares of common stock for the conversion of a note payable and assumption of debt. The value of these shares in the amount of \$428,194 has been credited to the note payable.

The Company recorded a beneficial conversion feature on a note payable in the amount of \$170,000 that was credited to Additional Paid-in Capital.

The Company issued 135,650,000 shares of common stock for cash in the amount of \$542,600

The Company issued 22,500,000 shares of common stock to directors of the Company for director's fees. The value of these shares in the amount of \$89,250 was charged to operations.

The Company issued 43,565,000 shares of common stock for financing fees. The value of these shares in the amount of \$114,260 was charged to operations.

The Company cancelled 23,602,121 shares of common stock which had previously been issued in previous fiscal years, and credited the par value of \$23,602 to par value, \$87,439 went to common stock subscribed, and \$6,398 went to additional paid in capital, during the year ended March 31, 2011..

The Company issued 294,000 shares of common stock to interest holders in the Grace Wells pursuant to the buyout agreement. The value of these shares in the amount of \$1,088 was charged to Oil and Gas properties account.

Options

There are no stock options outstanding.

**AVALON OIL & GAS, INC.**  
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Warrants

The following table summarizes the warrants outstanding and the related prices for the shares of the Company's common stock issued to non-employees of the Company at March 31, 2012:

| <b>Warrants Outstanding</b> |                           |   |  | <b>Warrants Exercisable</b>            |                           |  |
|-----------------------------|---------------------------|---|--|--|---------------------------|--|
| <b>Exercise Prices</b>      | <b>Number Outstanding</b> | <b>Weighted Average</b>                   |  | <b>Weighted Average Exercise Price</b> | <b>Number Exercisable</b> | <b>Weighted Average Remaining Contractual Life (years)</b> |
|                             |                           | <b>Remaining Contractual Life (years)</b> |  |  |                           |  |
| \$ 0.10                     | 500,000                   | 0.62                                      |  | \$ 0.10                                | 500,000                   | 0.62   |
| 0.20                        | 125,000                   | 1.69                                      |  | 0.20                                   | 125,000                   | 1.69   |
| 0.60                        | 150,000                   | 1.96                                      |  | 0.60                                   | 150,000                   | 1.96   |
|                             | <u>775,000</u>            | <u>1.05</u>                               |  |  | <u>775,000</u>            | <u>1.05</u>  |

Transactions involving warrants are summarized as follows:

|                               | <b>Number of Shares</b> | <b>Weighted Average Price Per Share</b> |
|-------------------------------|-------------------------|---|
| Outstanding at March 31, 2011 | 775,000                 | \$ 0.21                                 |
| Granted                       | -                       | -                                       |
| Exercised                     | -                       | -                                       |
| Cancelled or expired          | -                       | -                                       |
| Outstanding at March 31, 2012 | <u>775,000</u>          | <u>\$ 0.21</u>                          |

**NOTE 11: TECHNOLOGY LICENSE AGREEMENTS**

On July 12, 2006 UMTI entered into a technology license of a patented process for paraffin wax mitigation from crude oil using ultrasonic waves from the University of Wyoming. This license calls for an earned royalty of five percent on net sales of licensed technologies and services; twenty-five percent of all sublicense fees and revenues with an escalating minimum annual royalty which will be credited toward the total royalties due. During the year ended March 31, 2011, the Company determined that the UMTI license value was impaired, which resulted in the impairment expense of \$534,711. As of March 31, 2011, the Company has valued this technology at \$0.

**AVALON OIL & GAS, INC.**  
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**NOTE 12: EARNINGS PER SHARE**

ASC 260-10-45 requires a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations. As the Company is in a loss position during the year ended March 31, 2012 and 2011, there is no dilutive effect included. . The net loss per share was \$0.001 and \$0.004 for March 31, 2012 and 2011.

**AVALON OIL & GAS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13: COMMITMENTS AND CONTINGENCIES**

Commitments and contingencies through the date of these financial statements were issued have been considered by the Company and none were noted which were required to be disclosed.

**NOTE 14: ASC 932-235-55 (formerly referred to as SFAS 69) SUPPLEMENTAL DISCLOSURES (Unaudited)**

Net Capitalized Costs

The Company's aggregate capitalized costs related to natural gas and oil producing activities are summarized as follows:

|   | <b>March 31, 2012</b> | <b>March 31, 2011</b> |
|---|-----------------------|-----------------------|
| Natural gas and oil properties and related equipment: |                       |                       |
| Proven  | \$ 1,163,442          | \$ 1,122,501          |
| Unproven  | 1,867,183             | 1,867,183             |
| Accumulated depreciation, depletion, and impairment   | (955,161)             | (934,619)             |
| Net capitalized costs                                 | \$ 2,075,464          | \$ 2,055,065          |

Costs Incurred

Costs incurred in natural gas and oil property acquisition, exploration and development activities that have been capitalized are summarized as follows:

|                           | <b>March 31, 2012</b> | <b>March 31, 2011</b> |
|---------------------------|-----------------------|-----------------------|
| Acquisition of properties | \$ -                  | \$ 44,927             |
| Development costs         | -                     | -                     |
| Total costs incurred      | \$ -                  | \$ 44,927             |

**AVALON OIL & GAS, INC.**  
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Results of Operations for Natural Gas and Oil Producing Activities

The Company's results of operations from natural gas and oil producing activities are presented below for the fiscal years ended March 31, 2012 and 2011. The following table includes revenues and expenses associated directly with the Company's natural gas and oil producing activities. It does not include any interest costs and general and administrative costs and, therefore, is not necessarily indicative of the contribution to consolidated net operating results of the Company's natural gas and oil operations.

|   | <u>March 31, 2012</u> | <u>March 31, 2011</u> |
|---|-----------------------|-----------------------|
| Production revenues   | \$ 253,882            | \$ 187,913            |
| Production costs  | (128,871)             | (150,308)             |
| Impairment of property  | -                     | -                     |
| Depreciation and depletion expense                            | (69,979)              | (100,869)             |
|   | <u>\$ 55,032</u>      | <u>\$ (63,264)</u>    |
| Imputed income tax provision (1)                              | -                     | -                     |
| Results of operation for natural gas / oil producing activity | <u>\$ 55,032</u>      | <u>\$ (63,264)</u>    |

(1) The imputed income tax provision is hypothetical (at the statutory rate) and determined without regard to the Company's deduction for general and administrative expenses, interest costs and other income tax credits and deductions, nor whether the hypothetical tax provision will be payable.

**AVALON OIL & GAS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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Natural Gas and Oil Reserve Quantities

The following schedule contains estimates of proved natural gas and oil reserves attributable to the Company. Proved reserves are estimated quantities of natural gas and oil that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those which are expected to be recovered through existing wells with existing equipment and operating methods. Reserves are stated in thousand cubic feet (mcf) of natural gas and barrels (bbl) of oil. Geological and engineering estimates of proved natural gas and oil reserves at one point in time are highly interpretive, inherently imprecise and subject to ongoing revisions that may be substantial in amount. Although every reasonable effort is made to ensure that the reserve estimates are accurate, due to their nature reserve estimates are generally less precise than other estimates presented in connection with financial statement disclosures.

|                               | <u>Oil - bbls</u> |
|-------------------------------|-------------------|
| Proved reserves:              |                   |
| Balance as of March 31, 2006  | -                 |
| Purchase of reserves-in-place | 29,815            |
| Extensions and discoveries    | -                 |
| Production                    | (1,043)           |
| Balance as of March 31, 2007  | 28,772            |
| Purchase of reserves-in-place | 11,560            |
| Extensions and discoveries    | 4,216             |
| Change in estimates           | (11,911)          |
| Production                    | (3,504)           |
| Balance as of March 31, 2008  | 29,133            |
| Purchase of reserves-in-place | 22,282            |
| Extensions and discoveries    | -                 |
| Change in estimates           | -                 |
| Production                    | (5,768)           |
| Balance as of March 31, 2009  | 45,647            |
| Purchase of reserves-in-place | -                 |
| Extensions and discoveries    | -                 |
| Change in estimates           | -                 |
| Production                    | (22,514)          |
| Balance as of March 31, 2010  | 23,133            |
| Purchase of reserves-in-place | 4,823             |
| Extensions and discoveries    | -                 |
| Change in estimates           | -                 |
| Production                    | (5,291)           |
| Balance as of March 31, 2011  | 22,665            |
| Purchase of reserves-in-place | -                 |
| Extensions and discoveries    | -                 |
| Change in estimates           | 4,506             |
| Production                    | (2,439)           |
| Balance as of March 31, 2012  | 24,732            |

**AVALON OIL & GAS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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Standardized Measure of Discounted Future Net Cash Flows

The following schedule presents the standardized measure of estimated discounted future net cash flows from the Company's proved reserves for the fiscal years ended March 31, 2012 and 2011. Estimated future cash flows are based on independent reserve data. Because the standardized measure of future net cash flows was prepared using the prevailing economic conditions existing at March 31, 2012 and 2011, it should be emphasized that such conditions continually change. Accordingly, such information should not serve as a basis in making any judgment on the potential value of the Company's recoverable reserves or in estimating future results of operations.

|   | <u>March 31, 2012</u> | <u>March 31, 2011</u> |
|---|-----------------------|-----------------------|
| Future production revenue                             | \$ 1,206,434          | \$ 946,493            |
| Future production costs                               | (665,734)             | (554,316)             |
| Future development costs                              | -                     | -                     |
| Future cash flows before income taxes                 | 540,700               | 392,177               |
| Future income tax                                     | -                     | -                     |
| Future net cash flows                                 | 540,700               | 392,177               |
| Effect of discounting future annual cash flows at 10% | (217,204)             | (119,599)             |
| Standard measure of discounted net cash flows         | <u>\$ 323,496</u>     | <u>\$ 272,578</u>     |

(1) The weighted average oil wellhead price used in computing the Company's reserves were \$103.08 per bbl and \$78.78 per bbl at March 31, 2012 and 2011, respectively. The weighted average gas wellhead price used in computing the Company's reserves were \$3.83 and \$3.97/mmbtu at March 31, 2012 and 2011, respectively.

The following schedule contains a comparison of the standardized measure of discounted future net cash flows to the net carrying value of proved natural gas and oil properties at March 31, 2012 and 2011:

|   | <u>March 31, 2012</u> | <u>March 31, 2011</u> |
|---|-----------------------|-----------------------|
| Standardized measure of discount future net cash flows  | \$ 323,496            | \$ 272,578            |
| Proved natural oil and gas property, net of accumulated depreciation, depletion, and amortization, including impairment         | 208,281               | 231,720               |
| Standardized measure of discount future net cash flows in excess of net carrying value of proved natural oil and gas properties | <u>\$ 115,215</u>     | <u>\$ 40,858</u>      |

**AVALON OIL & GAS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 15: SUBSEQUENT EVENTS**

The Company has evaluated events subsequent to March 31, 2012 to assess the need for potential recognition or disclosure in the report. Such events were evaluated through the date of the financial statements were issued and has determined that there are no such events that are material to the financial statements, or all such material events have been fully disclosed.



## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kent Rodriguez, certify that:

1. I have reviewed this Form 10-K of Avalon Oil & 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(s) 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 15d-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 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 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(s) 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: July 13, 2012

By: /s/ Kent Rodriguez  
Kent Rodriguez  
Chief Executive Officer, President,  
Secretary and Principal Financial Officer

**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 Annual Report of Avalon Oil & Gas, Inc. (the "Company") on Form 10-K for the period ending March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kent Rodriguez, Chief Executive Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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 result of operations of the Company.

Date: July 13 , 2012

By: /s/Kent Rodriguez  
Kent Rodriguez  
Chief Executive Officer, President,  
Secretary and Principal Financial Officer