

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

COMMISSION FILE NO.: 0-50469



**GREENSHIFT CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**59-3764931**

(IRS Employer  
Identification No.)

**5950 Shiloh Road East, Suite N, Alpharetta, Georgia**

(Address of principal executive offices)

**30005**

(Zip Code)

**(212) 994-5374**

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the prior 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer [  ] Accelerated filer [  ] Non-accelerated filer [  ] Smaller reporting company []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 15, 2012, there were 29,373,071 shares of common stock outstanding.

**GREENSHIFT CORPORATION**  
**QUARTERLY REPORT ON FORM 10Q**  
**FOR THE FISCAL QUARTER ENDED MARCH 31, 2012**

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**PART I – FINANCIAL INFORMATION**

**ITEM 1 FINANCIAL STATEMENTS**

**GREENSHIFT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF MARCH 31, 2012 (UNAUDITED) AND DECEMBER 31, 2011**

	<b>3/31/2012</b>	<b>12/31/2011</b>
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash	\$ 835,286	\$ 1,364,994
Accounts receivable, net of doubtful accounts	883,144	1,956,377
Inventories, net	1,178,890	1,153,357
Deferred financing fees, net	337,458	--
Prepaid expenses and other assets	25,119	41,418
Total current assets	3,259,897	4,516,146
<i>Other Assets:</i>		
Intangible assets, net	121,057	127,215
Minority investments	2,501,324	2,501,324
Deposits	70,634	51,910
Total other assets	2,693,015	2,680,449
<b>TOTAL ASSETS</b>	<b>5,952,912</b>	<b>7,196,595</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<i>Current Liabilities:</i>		
Accounts payable	3,558,293	3,697,216
Accrued expenses	1,757,480	2,602,476
Accrued expenses – deferred employee compensation	1,325,465	1,333,380
Accrued interest payable	4,427,644	3,925,884
Accrued interest payable – related party	73,067	69,909
Deferred revenue	1,065,326	1,197,404
Current portion of long term debt	1,806,322	1,806,316
Current portion of convertible debentures, net	30,186,727	30,330,995
Current liability for conversion feature	--	11,111
Amounts due to minority shareholders	750,472	750,472
Liabilities of discontinued operations, current	137,000	137,000
Total current liabilities	45,087,795	45,862,163
<i>Long term Liabilities:</i>		
Liability for preferred stock – related party	941,002	944,471
Convertible debentures – related party	4,423,846	4,531,000
Total long term liabilities	5,364,848	5,475,471
<b>Total Liabilities</b>	<b>50,452,643</b>	<b>51,337,634</b>
<i>Stockholders' Equity (Deficit):</i>		
Convertible preferred stock, \$0.001 par value, 5,000,000 shares authorized:		
Series B: 2,480,544 shares issued and outstanding	2,481	2,481
Series D: 862,262 and 862,262 shares issued and outstanding, respectively	863	862
Common stock: \$0.0001 par value, 20,000,000,000 authorized 23,001,389 and 18,098,873 shares issued and outstanding, respectively	2,299	1,809
Additional paid in capital	117,364,960	117,027,377
Accumulated deficit	(161,870,333)	(161,173,568)
Total stockholders' equity (deficit)	(44,499,731)	(44,141,039)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 5,952,912</b>	<b>\$ 7,196,595</b>

*The notes to the Consolidated Financial Statements are an integral part of these statements.*

**GREENSHIFT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**

	<b>Three Months Ended</b>	
	<b>3/31/2012</b>	<b>3/31/2011</b>
Revenue	\$ 2,912,029	\$ 2,731,400
Performance bonuses	--	4,986,568
Total revenue	2,912,029	7,717,968
Costs of goods sold	1,312,492	934,252
Gross profit	1,599,537	6,783,716
<i>Operating expenses:</i>		
Sales, general and administrative expenses	1,656,365	1,001,908
Total operating expenses	1,656,365	1,001,908
Income (loss) from operations	(56,828)	5,781,808
<i>Other Income (Expense):</i>		
Gain (loss) on extinguishment of debt	13,361	5,890,960
Gain (loss) on sale of asset	--	(222,199)
Liquidated damages	--	(650,000)
Amortization of debt discount & deferred financing	(37,495)	(8,333)
Interest income	10,181	17,944
Change in conversion liabilities	(50,254)	568,745
Change in conversion liabilities - related party	3,470	13,880
Interest expense	(506,043)	(999,155)
Interest expense – related party	(73,157)	(259,986)
Total other income (expense), net	(639,938)	4,351,856
Income (loss) before provision for income taxes	(696,766)	10,133,664
(Provision for)/benefit from income taxes	--	--
Income (loss) from continuing operations	(696,766)	10,133,664
<i>Discontinued Operations:</i>		
Gain (loss) from disposal of discontinued operations	--	--
Income (loss) from discontinued operations	--	--
Total income (loss) from discontinued operations	--	--
Net income (loss)	\$ (696,766)	\$ 10,133,664
Weighted average common shares outstanding, basic	19,440,421	15,003,784
Weighted average common shares outstanding, diluted	19,440,421	540,610,326
<i>Earnings (Loss) per Share:</i>		
Income (loss) from continuing operations – basic	\$ (0.04)	\$ 0.68
Income (loss) from discontinued operations – basic	0.00	0.00
Net income (loss) per share – basic	\$ (0.04)	\$ 0.68
Income (loss) from continuing operations – diluted	\$ (0.04)	\$ 0.02
Income (loss) from discontinued operations - diluted	0.00	0.00
Net income (loss) per share – diluted	\$ (0.04)	\$ 0.02

*The notes to the Consolidated Financial Statements are an integral part of these statements.*

**GREENSHIFT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**

	<b>Three Months Ended</b>	
	<b>3/31/2012</b>	<b>3/31/2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (696,766)	10,133,664
<i>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</i>		
Depreciation	--	115,311
Amortization of intangibles	6,158	6,158
Amortization of debt discount and deferred financing costs	37,495	8,333
Non-cash payment of performance bonus applied to convertible debenture	--	4,986,568
Loss (gain) on extinguishment of debt	(13,361)	(5,890,961)
Loss on sale of assets	--	222,199
Change in net assets of disposal group	--	7,500
Change in conversion liabilities	46,785	(582,625)
Interest accretion on notes receivable	--	(17,754)
Expenses incurred by issuance of debentures	--	83,094
Forgiveness of debt	--	--
Change in inventory valuation	--	--
Direct payment of operating expense by affiliates under debentures	--	--
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	1,073,233	(274,475)
Deferred financing costs	(374,953)	--
Prepaid expenses	31,298	(491,014)
Inventory	(25,533)	(21,344)
Deposits	(18,723)	--
Deferred revenue	(132,078)	614
Accrued interest	506,043	101,573
Accrued interest – related party	66,933	215,125
Accounts payable and accrued expenses	(971,238)	(46,261)
Net cash provided by (used in) operating activities	(464,708)	(456,509)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of inventory components	--	43,600
Proceeds from sale of property, plant and equipment	--	2,500,000
Additions to and acquisition of property, plant and equipment	--	(13,739)
Loans to related party	--	(8,271)
Net cash provided by (used in) investing activities	--	2,521,590
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of notes payable - related party	--	(50,000)
Proceeds from convertible debentures – related party	--	54,075
Repayment of convertible debentures	--	(2,000,000)
Repayment of convertible debentures – related party bridge	(65,000)	--
Net cash provided by (used in) financing activities	(65,000)	(1,995,925)
Net increase (decrease) in cash	(529,708)	69,156
Cash at beginning of period	1,364,994	18,420
Cash at end of period	\$ 835,286	\$ 87,576

*The notes to the Consolidated Financial Statements are an integral part of these statements.*

**GREENSHIFT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 BASIS OF PRESENTATION**

REFERENCES TO THE COMPANY

In this Quarterly Report on Form 10-Q, the terms “we,” “our,” “us,” “GreenShift,” or the “Company” refer to GreenShift Corporation, and its subsidiaries on a consolidated basis. The term “GreenShift Corporation” refers to GreenShift Corporation on a standalone basis only, and not its subsidiaries.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and entities which we control. All significant intercompany balances and transactions have been eliminated on a consolidated basis for reporting purposes.

COST METHOD OF ACCOUNTING FOR UNCONSOLIDATED SUBSIDIARIES

The Company accounts for its 10% investment in ZeroPoint Clean Tech, Inc. under the cost method. Application of this method requires the Company to periodically review these investments in order to determine whether to maintain the current carrying value or to write off some or all of the investments. While the Company uses some objective measurements in its review, the review process involves a number of judgments on the part of the Company’s management. These judgments include assessments of the likelihood of ZeroPoint to obtain additional financing, to achieve future milestones, make sales and to compete effectively in its markets. In making these judgments the Company must also attempt to anticipate trends in ZeroPoint’s industry as well as in the general economy.

USE OF ESTIMATES IN THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts previously reported within the consolidated financial statements have been reclassified to conform to the current year presentation.

**NOTE 2 DESCRIPTION OF BUSINESS**

We develop and commercialize clean technologies that facilitate the more efficient use of natural resources. We are focused on doing so today in the U.S. ethanol industry, where we innovate and offer technologies that improve the profitability of licensed ethanol producers.

We generate revenue by licensing our technologies to ethanol producers in exchange for ongoing royalty and other license fees. Several plants were licensed to use our technologies during 2011 and 2012. Prior to February 15, 2011, we were also party to license agreements with ethanol producers that were granted the right to use our technologies and equipment at their locations in return for royalties equal to the spread between the market price of the corn oil recovered by our licensees with our technologies and equipment and a discounted purchase price. Our sales and costs of sales include the sales and the costs of the corn oil produced by these licensees with our technologies and equipment through February 15, 2011, the effective date of the YA Corn Oil Transaction (see Note 9, *Debt Obligations*, below).

### **NOTE 3 GOING CONCERN**

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of March 31, 2012, the Company had \$835,286 in cash, and current liabilities exceeded current assets by \$41,827,898. These matters raise substantial doubt about the Company's ability to continue as a going concern. Our ability to satisfy our obligations will depend on our success in obtaining financing, our success in developing revenue sources, and our success in negotiating with the creditors. Management's plans to resolve the Company's working capital deficit include increasing revenue. There can be no assurances that the Company will be able to eliminate its working capital deficit and that the Company's historical operating losses will not recur. The accompanying financial statements do not contain any adjustments which may be required as a result of this uncertainty.

### **NOTE 4 SIGNIFICANT ACCOUNTING POLICIES**

#### **SEGMENT INFORMATION**

We determined our reporting units in accordance with FASB ASC 280, "*Segment Reporting*" ("ASC 280"). We evaluate a reporting unit by first identifying its operating segments under ASC 280. We then evaluate each operating segment to determine if it includes one or more components that constitute a business. If there are components within an operating segment that meet the definition of a business, we evaluate those components to determine if they must be aggregated into one or more reporting units. If applicable, when determining if it is appropriate to aggregate different operating segments, we determine if the segments are economically similar and, if so, the operating segments are aggregated. We have one operating segment and reporting unit. We operate in one reportable business segment; we provide technologies and related products and services to U.S.-based ethanol producers. We are organized and operated as one business. We exclusively sell our technologies, products and services to ethanol producers that have entered into license agreements with the Company. No sales of any kind occur, and no costs of sales of any kind are incurred, in the absence of a license agreement. A single management team that reports to the chief operating decision maker comprehensively manages the entire business. We do not operate any material separate lines of business or separate business entities with respect to our technologies, products and services. The Company does not accumulate discrete financial information according to the nature or structure of any specific technology, product and/or service provided to the Company's licensees. Instead, management reviews its business as a single operating segment, using financial and other information rendered meaningful only by the fact that such information is presented and reviewed in the aggregate. Discrete financial information is not available by more than one operating segment, and disaggregation of our operating results would be impracticable.

#### **REVENUE RECOGNITION**

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collection is reasonably assured. The Company recognizes revenue from licensing of the Company's corn oil extraction technologies when corn oil sales occur. Licensing royalties are recognized as earned by calculating the royalty as a percentage of gross corn oil sales by the ethanol plants. For the purposes of assessing royalties, the sale of corn oil is deemed to occur when shipped, which is when four basic criteria have been met: (i) persuasive evidence of a customer arrangement; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured, and (iv) product delivery has occurred, which is generally upon shipment to the buyer of the corn oil. Deposits from customers are not recognized as revenues, but as liabilities, until the following conditions are met: revenues are realized when cash or claims to cash (receivable) are received in exchange for goods or services, or when assets received in such exchange are readily convertible to cash or claim to cash, or when such goods or services are transferred. When an income item is earned, the related revenue item is recognized and any deferred revenue is reduced. To the extent revenues are generated from the Company's licensing support services, the Company recognizes such revenues when the services are completed and billed. The Company provides process engineering services on fixed price contracts. These services are generally provided over a short period of less than three months. Revenue from fixed price contracts is recognized on a pro rata basis over the life of the contract as they are generally performed evenly over the contract period. The Company additionally performs under fixed-price contracts involving design, engineering, procurement, installation, and start-up of oil recovery and other production systems. Revenues and fees on these contracts are recognized using the

percentage-of-completion method of accounting, and specifically the efforts-expended percentage-of-completion method using measures such as task duration and completion. The efforts-expended approach is used in situations where it is more representative of progress on a contract than the cost-to-cost or the labor-hours methods. The asset, “costs and estimated earnings in excess of billings on uncompleted contracts,” represents revenues recognized in excess of amounts billed. The liability, “billings in excess of costs and estimated earnings on uncompleted contracts,” represents billings in excess of revenues recognized.

#### BASIC AND DILUTED INCOME (LOSS) PER SHARE

The Company computes its net income or loss per common share under the provisions of ASC 260, “*Earnings per Share*,” whereby basic net income or loss per share is computed by dividing the net loss for the period by the weighted-average number of shares of common stock outstanding during the period. Dilutive net loss per share excludes potential common shares issuable upon conversion of all derivative securities if the effect is anti-dilutive. Thus, common stock issuable upon exercise or conversion of options, warrants, convertible preferred stock, or convertible debentures are excluded from computation of diluted net loss per share, but are included in computation of diluted net income per share. During the three months ended March 31, 2012, we reported net loss and accordingly dilutive instruments were excluded from the net loss per share calculation for such periods. However, we reported net income during the quarter ended March 31, 2011, and, in accordance with ASC 260, included potentially dilutive instruments in the fully diluted net income per share calculation on the assumption that all convertible instruments have been fully converted.

#### FINANCIAL INSTRUMENTS

The carrying values of accounts receivable, other receivables, accounts payable and accrued expenses approximate their fair values due to their short term maturities. The carrying values of the Company’s long-term debt approximate their fair values based upon a comparison of the interest rate and terms of such debt to the rates and terms of debt currently available to the Company. It was not practical to estimate the fair value of the convertible debt. In order to do so, it would be necessary to obtain an independent valuation of these unique instruments. The cost of that valuation would not be justified in light of the materiality of the instruments to the Company.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In September 2011, the FASB amended the guidance on testing for goodwill impairment that allows an entity to elect to qualitatively assess whether it is necessary to perform the current two-step goodwill impairment test. If the qualitative assessment determines that it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step test is unnecessary. If the entity elects to bypass the qualitative assessment for any reporting unit and proceed directly to Step One of the test and validate the conclusion by measuring fair value, it can resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 did not have a material impact on the Company’s results of operations or financial condition.

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2011-04, “*Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*.” ASU No. 2011-04 is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs, by ensuring that fair value has the same meaning in U.S. GAAP and IFRSs and that their respective disclosure requirements are the same except for inconsequential differences in wording and style. The amendments in ASU No. 2011-04 apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity’s shareholders’ equity in the financial statements. Some of the disclosures required by ASU No. 2011-04 are not required for nonpublic entities. These amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the Board does not intend for the amendments to result in a change in the application of the requirements in ASC Topic 820. Some of the amendments clarify the Board’s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing

information about fair value measurements. The adoption of ASU 2011-04 did not have a material impact on the Company's results of operations or financial condition.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying financial statements.

## NOTE 5 FAIR VALUE DISCLOSURES

Effective July 1 2009, the Company adopted ASC 820, *Fair Value Measurements and Disclosures*. This topic defines fair value for certain financial and nonfinancial assets and liabilities that are recorded at fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance supersedes all other accounting pronouncements that require or permit fair value measurements. The Company accounted for the convertible debentures in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the convertible debentures could result in the note principal and related accrued interest being converted to a variable number of the Company's common shares.

Effective July 1 2009, the Company adopted ASC 820-10-55-23A, *Scope Application to Certain Non-Financial Assets and Certain Non-Financial Liabilities*, delaying application for non-financial assets and non-financial liabilities as permitted. ASC 820 establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In January 2010, the FASB issued an update to ASC 820, which requires additional disclosures about inputs into valuation techniques, disclosures about significant transfers into or out of Levels 1 and 2, and disaggregation of purchases, sales, issuances, and settlements in the Level 3 rollforward disclosure. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009 except for the disclosures about purchases, sales issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded securities and exchange-based derivatives
- Level 2 inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, mutual funds, and fair-value hedges
- Level 3 unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded, non-exchange-based derivatives and commingled investment funds, and are measured using present value pricing models

The following table presents the embedded derivative, the Company's only financial assets measured and recorded at fair value on the Company's Consolidated Balance Sheets on a recurring basis and their level within the fair value hierarchy during the three months ended March 31, 2012:

*Embedded conversion liabilities as of March 31, 2012:*

Level 1	\$	--
Level 2		--
Level 3		3,104,449
Total conversion liabilities	\$	<u>3,104,449</u>

The following table reconciles, for the period ended March 31, 2012, the beginning and ending balances for financial instruments that are recognized at fair value in the consolidated financial statements:

Balance of embedded derivatives at December 31, 2011	\$	3,079,447
--	----	-----------

Write off due to restructured terms	--
Present value of beneficial conversion features of new debentures	2,429
Accretion adjustments to fair value – beneficial conversion features	75,375
Reductions in fair value due to repayments/redemptions	(31,020)
Reductions in fair value due to principal conversions	(21,782)
Balance at March 31, 2012	<u>\$ 3,104,449</u>

The fair value of the conversion features are calculated at the time of issuance and the Company records a conversion liability for the calculated value. The Company recognizes the initial expense for the conversion liability which is added to the carrying value of the debenture or the liability for preferred stock. The Company also recognizes expense for accretion of the conversion liability to fair value over the term of the note. The Company has adopted ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in each debenture and/or convertible preferred share could result in the note principal and/or preferred shares being converted to a variable number of the Company's common shares.

#### NOTE 6 PROPERTY AND EQUIPMENT

During the three months ended March 31, 2011, the Company liquidated its interest in its remaining corn oil extraction systems for a total of \$12.5 million (see Note 9, *Debt Obligations*, below). Pursuant to ASC 410-20, *Asset Retirement Obligations*, the Company had recognized the fair value of the asset retirement obligation for the removal of its corn oil extraction facilities. The present value of the estimated asset retirement costs was capitalized as part of the carrying amount of the related long-lived assets. This liability was \$691,435 as of December 31, 2010, and it has been written-off in connection with the satisfaction of the closing conditions for the YA Corn Oil Transaction during the three months ended March 31, 2011 (see Note 9, *Debt Obligations*, below).

#### NOTE 7 INVENTORIES

The Company maintains an inventory of equipment and components used in systems designed to extract corn oil from licensed ethanol production facilities. The inventory, which consists of equipment and component parts, is held for sale to the Company's licensees on an as needed basis. Inventories are stated at the lower of cost or market, with cost being determined by the specific identification method. Inventories at March 31, 2012 and December 31, 2011 were \$1,178,890 and \$1,153,357, respectively.

#### NOTE 8 DEFERRED REVENUE

Deposits from customers are not recognized as revenues, but as liabilities, until the following conditions are met: revenues are realized when cash or claims to cash (receivable) are received in exchange for goods or services or when assets received in such exchange are readily convertible to cash or claim to cash or when such goods/services are transferred. When such income item is earned, the related revenue item is recognized, and the deferred revenue is reduced. To the extent revenues are generated from the Company's licensing support services, the Company recognizes such revenues when services are completed and billed. The Company has received deposits from its various clients that have been recorded as deferred revenue in the amount of \$1,065,326 and \$1,197,404 as of the periods ended March 31, 2012 and December 31, 2011, respectively.

#### NOTE 9 DEBT OBLIGATIONS

The following is a summary of the Company's financing arrangements as of March 31, 2012:

	<u>3/31/2012</u>
<i>Current portion of long term debt:</i>	
Mortgages and other term notes	\$ 21,743
Current portion of convertible notes payable	50,000
Current portion of subsidiary notes payable	1,734,579
Total current portion of long term debt	<u>\$ 1,806,322</u>
<i>Current portion of convertible debentures:</i>	
YA Global Investments, L.P., 6% interest, conversion at 90% of market	\$ 21,558,711
Andypolo, LP, 6% interest, conversion at 90% of market	4,391,643
Barry Liben, 6% interest, conversion at 90% of market	111,000
Circle Strategic Allocation Fund, LP, 6% interest, conversion at 90% of market	282,968

EFG Bank, 6% interest, conversion at 90% of market	190,000
Epelbaum Revocable Trust, 6% interest, conversion at 90% of market	336,618
JMC Holdings, LP, 6% interest, conversion at 90% of market	226,137
Dr. Michael Kesselbrenner, 6% interest, conversions at 90% of market	18,500
David Moran & Siobhan Hughes, 6% interest, conversion at 90% of market	61,797
Susan Schneider, 6% interest, conversions at 90% of market	20,500
Stuttgart, LP, 6% interest, conversion at 90% of market	257,143
Yorkville Advisors (GP), LLC, 6% interest, conversion at 90% of market	70,718
Conversion liabilities	<u>2,660,992</u>
Total current portion of convertible debentures	<u>\$ 30,186,727</u>

*Long term convertible debentures:*

Acutus Capital, LLC, 6% interest, no conversion discount	890,000
Minority Interest Fund (II), LLC, 6% interest, no conversion discount	2,959,907
Viridis Capital, LLC, 6% interest, no conversion discount	237,939
Related Party Debenture, 6% interest, no conversion discount	251,000
Related Party Debenture, 6% interest, no conversion discount	<u>85,000</u>
Total long term convertible debentures	<u>\$ 4,423,846</u>

A total of \$31,949,581 in principal from the convertible debt noted above is convertible into the common stock of the Company. The following chart is presented to assist the reader in analyzing the Company's ability to fulfill its fixed debt service requirements (net of note discounts) as of March 31, 2012 and the Company's ability to meet such obligations:

Year	Amount
2012	\$ 29,332,057
2013	4,423,846
2014	--
2015	--
2016	--
Thereafter	--
Total minimum payments due under current and long term obligations	<u>\$ 33,755,903</u>

**YA GLOBAL INVESTMENTS, L.P.**

On June 17, 2010, the Company and its subsidiaries signed a series of agreements with YA Global Investments, L.P. ("YA Global") to reduce convertible debt due from the Company to YA Global (the "YACO Agreements"). On July 30, 2010, the Company and YA Global entered into an agreement pursuant to which the transactions contemplated by the YACO Agreements (the "YA Corn Oil Transaction") were to close effective August 1, 2010 (the "Effective Date") subject to satisfaction of certain closing conditions. The conditions to effectiveness of this transaction were satisfied and the transaction was deemed effective for reporting purposes as of February 15, 2011. Since the conditions of closing were not satisfied as of December 31, 2010, the Company's results of operations for the year ended December 31, 2010 were reported on the basis that the closing of the YA Corn Oil Transaction had not occurred as of such date. The YACO Agreements provided for various GreenShift-owned corn oil extraction facilities based on GreenShift's patented and patent-pending technologies to be transferred as of August 1, 2010 to a newly formed entity, YA Corn Oil Systems, LLC ("YA Corn Oil"). In exchange, \$10,000,000 of the convertible debt issued by GreenShift to YA Global was deemed satisfied as of August 1, 2010. The conditions for the YA Corn Oil Transaction were satisfied as of February 15, 2011, and the Company subsequently earned a performance bonus of \$2,486,568 as of February 28, 2011 and another bonus of \$2,500,000 as of March 31, 2011. The Company recognized a \$5.8 million gain on extinguishment of debt and reduced liabilities for asset retirement obligation and accounts payable by an additional \$847,000 as a result of the completion of the YA Corn Oil Transaction. The performance bonuses earned during 2011 were recognized as revenue and applied to reduction of the Company's convertible debt with YA Global pursuant to the terms of the YACO Agreements. Certain indemnification events subsequently occurred, resulting in the Company recording an accrued expense of about \$2.1 million during the year ended December 31, 2011. The Company entered into an Amended and Restated Management Agreement with YA Corn Oil on January 17, 2012, pursuant to which the foregoing amounts were reconciled, resulting in the payment to YA Global of such expense in the form of convertible debt. The Company's accrual is evaluated at the completion of each reporting period, and additional expense or income will be recognized in the future should an event come to pass which either justifies reduction or removal of the liquidated damages accrual, or otherwise gives rise to an actual or a potential, but determinable, expense.

In connection with the completion of the YA Corn Oil Transaction, the Company issued YA Global an amended and restated convertible debenture in the amount of \$33,308,023, inclusive of previously accrued interest (the "A&R Debenture"). The A&R Debenture matures on December 31, 2012 and bears interest at the rate of 6% per annum. YA Global shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company's common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company's common stock during the 20 consecutive trading days immediately preceding the conversion date. YA Global will not be permitted, however, to convert into a number of shares that would cause it to own more than 4.99% of the Company's outstanding common shares. The A&R Debenture is additionally subject to ongoing compliance conditions, including the absence of change of control events and timely issuance of common shares upon conversion. The difference between August 1, 2010 date of the YACO Agreements and the February 15, 2011 effective date for reporting purposes resulted in an increased interest expense of \$915,464 as of December 31, 2010 that was subsequently, on February 15, 2011, eliminated in connection with the completion of the YA Corn Oil Transaction.

During the year ended December 31, 2011, YA Global subdivided the A&R Debenture and assigned to a total of sixteen of its equity-holders portions of the A&R Debenture totaling \$6,281,394 in principal, which assignments reduced the balance due to YA Global alone under the A&R Debenture as of December 31, 2011. \$6,177,028 of the portion of the A&R Debenture assigned by YA Global remained outstanding at December 31, 2011. The Company accounted for the A&R Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the A&R Debenture could result in the note principal being converted to a variable number of the Company's common shares. The Company had determined the fair value of the A&R Debenture at December 31, 2011 to be \$23,525,327 which represented the face value of the debenture plus the present value of the conversion feature. During the three months ended March 31, 2012, the Company recognized an increase in the in conversion liability relating to the A&R Debenture of \$2,430 for assignments and/or repayments during the period and recorded an expense of \$44,498 for the accretion of the present value of the conversion liability for the period. The carrying value of the A&R Debenture was \$23,598,408 at December 31, 2011, including principal of \$21,558,711 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$2,039,697 at March 31, 2012 to its estimated settlement value of \$2,173,192 at December 31, 2012. Interest expense of \$325,978 for the A&R Debenture was accrued for the three months ended March 31, 2012.

#### RELATED PARTY OBLIGATIONS

As of December 31, 2010, the Company had convertible debentures payable to Minority Interest Fund (II), LLC ("MIF") in an aggregate principal amount of \$3,988,326 (the "MIF Debenture"). Prior to September 30, 2011, MIF was entitled to convert the accrued interest and principal of the MIF convertible debenture into common stock of the Company at a conversion price equal to 80% of the lowest daily volume weighted average price for the twenty trading days preceding conversion. During the three months ended March 31, 2012, MIF converted \$105,930 of the principal balance and interest due to MIF into 1,678,354 shares of Company common stock. The balance of the MIF Debenture at March 31, 2012 was \$2,959,907. Interest expense of \$26,395 for these obligations was accrued for the three months ended March 31, 2012.

As of December 31, 2010, the Company had convertible debentures payable to Viridis Capital, LLC in an aggregate principal amount of \$518,308 (the "Viridis Debenture"). Prior to September 30, 2011, Viridis was entitled to convert the accrued interest and principal of the convertible debenture into common stock of the Company at a conversion price equal to 90% of the lowest daily volume weighted average price for the twenty trading days preceding conversion. The carrying value of the Viridis Debenture consisted of \$237,939 in principal at March 31, 2012. Interest expense of \$3,559 for these obligations was accrued for the three months ended March 31, 2012.

As discussed more fully in Note 13, *Related Party Transactions*, below, the Company entered into agreements with MIF and Viridis to amend and restate the terms of the MIF Debenture and Viridis Debenture effective September 30, 2011 to extend the maturity date to June 30, 2013; to eliminate and contribute \$502,086 in accrued interest and \$1,065,308 of principal; to reduce the applicable interest rate to 6% per annum; to eliminate MIF's and Viridis' right to convert amounts due at a discount to the market price of the Company's common stock; and to reverse various non-cash assignments of debt involving related parties.

The restated balances due to MIF and Viridis at September 30, 2011, were \$3,017,061 and \$237,939, respectively. No interest was payable to either MIF or Viridis after these amendments. These transactions additionally resulted in the issuance of \$1,090,000 and \$351,000 in convertible debt to Acutus Capital, LLC (“Acutus”) and family members of the Company’s chairman, respectively, for cash investments previously provided to the Company.

The terms of these debentures provide for interest at 6% per annum, a maturity date of June 30, 2013, and the right to convert amounts due into Company common stock at 100% of the market price for the Company’s common stock at the time of conversion. MIF received 62,500 shares of Series D Preferred Stock in partial consideration of the contribution of principal and accrued interest and the various other modified terms of MIF’s agreements with the Company. All of the foregoing amounts remain subject to the terms and conditions of the June 2010 subordination agreement by and between MIF and the Company’s senior lender, which agreement limits transfer of shares issued upon conversion of debt to 5% of the average monthly volume for the Company’s common stock.

#### OTHER CONVERTIBLE DEBENTURES

During the year ended December 31, 2011, YA Global assigned \$4,391,643 in convertible debt to Andypolo, LP (“Andypolo” and the “Andypolo Debenture”). Andypolo shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Andypolo Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the Andypolo Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the Andypolo Debenture at December 31, 2011 to be \$4,839,710 which represented the face value of the debenture of \$4,391,643 plus the present value of the conversion feature. During the three months ended March 31, 2012, the Company recorded an expense of \$9,973 for the accretion to fair value of the conversion liability for the period. The carrying value of the Andypolo Debenture was \$4,849,684 at March 31, 2012, including principal of \$4,391,643 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$458,041 at March 31, 2012 to its estimated settlement value of \$487,961 at December 31, 2012. Interest expense of \$65,694 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$321,237 in convertible debt to Stuttgart, LP (“Stuttgart” and the “Stuttgart Debenture”). Stuttgart shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Stuttgart Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the Stuttgart Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the Stuttgart Debenture at December 31, 2011 to be \$298,795 which represented the face value of the debenture of \$271,237 plus the present value of the conversion feature. During the three months ended March 31, 2012, \$14,094 in principal was converted into common stock. During the three months ended March 31, 2012, the Company recorded an expense of \$645 for the accretion to fair value of the conversion liability for the period and recognized a reduction in conversion liability at present value of \$1,471 for the conversions. The carrying value of the Stuttgart Debenture was \$283,875 at March 31, 2012, including principal of \$257,143 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$26,732 at March 31, 2012 to its estimated settlement value of \$28,571 at December 31, 2012. Interest expense of \$3,937 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$263,498 in convertible debt to JMC Holdings, LP (“JMC” and the “JMC Debenture”). JMC shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the JMC Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the JMC Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company

determined the value of the JMC Debenture at December 31, 2011 to be \$190,214 which represented the face value of the debenture of \$170,758 plus the present value of the conversion feature. During the three months ended March 31, 2012, \$8,027 in principal was converted into common stock. During the three months ended March 31, 2012, the Company recorded an expense of \$509 for the accretion to fair value of the conversion liability for the period and recognized a reduction in conversion liability at present value of \$832 for the conversions. The carrying value of the JMC Debenture was \$204,520 at March 31, 2012, including principal of \$185,387 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$19,133 at March 31, 2012 to its estimated settlement value of \$20,599 at December 31, 2012. Interest expense of \$2,825 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$70,266 in convertible debt to David Moran & Siobhan Hughes (“Moran-Hughes” and the “Moran-Hughes Debenture”). Moran-Hughes shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Moran-Hughes Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the Moran-Hughes Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the Moran-Hughes Debenture at December 31, 2011 to be \$77,380 which represented the face value of the debenture of \$70,266 plus the present value of the conversion feature. During the three months ended March 31, 2012, \$8,469 in principal was converted into common stock. During the three months ended March 31, 2012, the Company recorded an expense of \$173 for the accretion to fair value of the conversion liability for the period and recognized a reduction in conversion liability at present value of \$878 for the conversions. The carrying value of the Moran-Hughes Debenture was \$68,206 at March 31, 2012, including principal of \$61,797 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$6,409 at March 31, 2012 to its estimated settlement value of \$6,866 at December 31, 2012. Interest expense of \$984 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$111,000 in convertible debt to Barry Liben (“Liben” and the “Liben Debenture”). Liben shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Liben Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the Liben Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the Liben Debenture at December 31, 2011 to be \$122,225 which represented the face value of the debenture of \$111,000 plus the present value of the conversion feature. During the three months ended March 31, 2012, the Company recorded an expense of \$277 for the accretion to fair value of the conversion liability for the period. The carrying value of the Liben Debenture was \$122,502 at March 31, 2012, including principal of \$111,000 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$11,502 at March 31, 2012 to its estimated settlement value of \$12,333 at December 31, 2012. Interest expense of \$1,660 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$341,550 in convertible debt to Circle Strategic Allocation Fund, LP (“Circle Strategic” and the “Circle Strategic Debenture”). Circle Strategic shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Circle Strategic Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the Circle Strategic Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the Circle Strategic Debenture at December 31, 2011 to be \$376,034 which represented the face value of the debenture of \$341,500 plus the present value of the conversion feature. During the three months ended March 31, 2012, \$58,532 in principal was converted into common stock. During the three months ended March 31, 2012, the Company recorded an expense of \$852 for the accretion to fair value of the conversion liability for the period and recognized a reduction in conversion liability at present value of \$6,068 for the conversions. The carrying value of the Circle Strategic

Debt was \$312,287 at March 31, 2012, including principal of \$282,968 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$29,319 at March 31, 2012 to its estimated settlement value of \$31,441 at December 31, 2012. Interest expense of \$4,681 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$75,000 in convertible debt to EFG Bank (“EFG” and the “EFG Debenture”). EFG shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the EFG Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the EFG Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the EFG Debenture at December 31, 2011 to be \$82,584 which represented the face value of the debenture of \$75,000 plus the present value of the conversion feature. During the three months ended March 31, 2012, the Company recorded an expense of \$187 for the accretion to fair value of the conversion liability for the period. The carrying value of the EFG Debenture was \$82,771 at March 31, 2012, including principal of \$75,000 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$7,771 at March 31, 2012 to its estimated settlement value of \$8,333 at December 31, 2012. Interest expense of \$1,122 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned an additional \$115,000 in convertible debt to EFG Bank (“EFG” and the “EFG Debenture”). EFG shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the EFG Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the EFG Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the EFG Debenture at December 31, 2011 to be \$126,630 which represented the face value of the debenture of \$115,000 plus the present value of the conversion feature. During the three months ended March 31, 2012, the Company recorded an expense of \$287 for the accretion to fair value of the conversion liability for the period. The carrying value of the EFG Debenture was \$126,917 at March 31, 2012, including principal of \$115,000 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$11,917 at March 31, 2012 to its estimated settlement value of \$12,778 at December 31, 2012. Interest expense of \$1,720 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$385,000 in convertible debt to Epelbaum Revocable Trust (“Epelbaum” and the “Epelbaum Debenture”). Epelbaum shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Epelbaum Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the Epelbaum Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the Epelbaum Debenture at December 31, 2011 to be \$423,934 which represented the face value of the debenture of \$385,000 plus the present value of the conversion feature. During the three months ended March 31, 2012, \$48,382 in principal was converted into common stock. During the three months ended March 31, 2012, the Company recorded an expense of \$961 for the accretion to fair value of the conversion liability for the period and recognized a reduction in conversion liability at present value of \$5,016 for the conversions. The carrying value of the Epelbaum Debenture was \$371,497 at March 31, 2012, including principal of \$336,618 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$34,879 at March 31, 2012 to its estimated settlement value of \$37,402 at December 31, 2012. Interest expense of \$5,351 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$34,000 in convertible debt to Judy Klein (“Klein” and the “Klein Debenture”). Klein shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily

volume weighted average price of the Company's common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Klein Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the Klein Debenture could result in the note principal being converted to a variable number of the Company's common shares. The Company determined the value of the Klein Debenture at December 31, 2011 to be \$37,439 which represented the face value of the debenture of \$34,000 plus the present value of the conversion feature. During the three months ended March 31, 2012, \$34,000 in principal was converted into common stock. During the three months ended March 31, 2012, the Company recorded an expense of \$86 for the accretion to fair value of the conversion liability for the period and recognized a reduction in conversion liability at present value of \$3,525 for the conversions. As of March 31, 2012, the balance on the Klein Debenture had been paid in full. Interest expense of \$333 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned an additional \$40,750 in convertible debt to JMC Holdings, LP ("JMC" and the "JMC Debenture"). JMC shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company's common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company's common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the JMC Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the JMC Debenture could result in the note principal being converted to a variable number of the Company's common shares. The Company determined the value of the JMC Debenture at December 31, 2011 to be \$44,871 which represented the face value of the debenture of \$40,750 plus the present value of the conversion feature. During the three months ended March 31, 2012, the Company recorded an expense of \$102 for the accretion to fair value of the conversion liability for the period. The carrying value of the JMC Debenture was \$44,973 at March 31, 2012, including principal of \$40,750 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$4,223 March 31, 2012 to its estimated settlement value of \$4,528 at December 31, 2012. Interest expense of \$610 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$18,500 in convertible debt to Dr. Michael Kesselbrenner TTEE Money Purchase Plan ("Kesselbrenner" and the "Kesselbrenner Debenture"). Kesselbrenner shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company's common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company's common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Kesselbrenner Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the Kesselbrenner Debenture could result in the note principal being converted to a variable number of the Company's common shares. The Company determined the value of the Kesselbrenner Debenture at December 31, 2011 to be \$20,20,371 which represented the face value of the debenture of \$18,500 plus the present value of the conversion feature. During the three months ended March 31, 2012, the Company recorded an expense of \$46 for the accretion to fair value of the conversion liability for the period. The carrying value of the Kesselbrenner Debenture was \$20,417 at March 31, 2012, including principal of \$18,500 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$1,917 at March 31, 2012 to its estimated settlement value of \$2,056 at December 31, 2012. Interest expense of \$277 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$10,000 in convertible debt to MD Global Partners, LLC ("MD Global" and the "MD Global Debenture"). MD Global shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company's common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company's common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the MD Global Debenture in accordance with ASC 480, Distinguishing Liabilities from Equity, as the conversion feature embedded in the MD Global Debenture could result in the note principal being converted to a variable number of the Company's common shares. The Company determined the value of the MD Global Debenture at December 31, 2011 to be \$11,011 which represented the face value of the debenture of \$10,000 plus the present value of the conversion feature. During the three months ended March 31, 2012, \$10,000 in principal was converted into common stock. During the three months ended March 31, 2012, the Company recorded an expense of \$26 for the accretion to fair value of the conversion liability for the period and recognized a reduction in conversion liability at

present value of \$1,037 for the conversions. As of March 31, 2012, the balance on the MD Global Debenture had been paid in full.

During the year ended December 31, 2011, YA Global assigned \$20,500 in convertible debt to Susan Schneider (“Schneider” and the “Schneider Debenture”). Schneider shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Schneider Debenture in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the Schneider Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the Schneider Debenture at December 31, 2011 to be \$22,573 which represented the face value of the debenture of \$20,500 plus the present value of the conversion feature. During the three months ended March 31, 2012, the Company recorded an expense of \$51 for the accretion to fair value of the conversion liability for the period. The carrying value of the Schneider Debenture was \$22,624 at March 31, 2012, including principal of \$20,500 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$2,124 at March 31, 2012 to its estimated settlement value of \$2,278 at December 31, 2012. Interest expense of \$307 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, YA Global assigned \$28,500 in convertible debt to Saul Skoler (“Skoler” and the “Skoler Debenture”). Skoler shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Skoler Debenture in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the Skoler Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the Skoler Debenture at December 31, 2011 to be \$31,370 which represented the face value of the debenture of \$28,500 plus the present value of the conversion feature. During the three months ended March 31, 2012, \$28,500 in principal was converted into common stock. During the three months ended March 31, 2012, the Company recorded an expense of \$85 for the accretion to fair value of the conversion liability for the period and recognized a reduction in conversion liability at present value of \$2,955 for the conversions. As of March 31, 2012, the balance on the Skoler Debenture had been paid in full. Interest expense of \$277 for these obligations was accrued for the three months ended March 31, 2012.

During the year ended December 31, 2011, Cascade assigned \$70,718 in convertible debt to Yorkville Advisors, LLC (“Yorkville” and the “Yorkville Debenture”). Yorkville shall have the right, but not the obligation, to convert any portion of the A&R Debenture into the Company’s common stock at a rate equal to the lesser of (a) \$1.00 or (b) 90% of the lowest daily volume weighted average price of the Company’s common stock during the 20 consecutive trading days immediately preceding the conversion date. The Company accounted for the Yorkville Debenture in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the Yorkville Debenture could result in the note principal being converted to a variable number of the Company’s common shares. The Company determined the value of the Yorkville Debenture at December 31, 2011 to be \$77,870 which represented the face value of the debenture of \$70,718 plus the present value of the conversion feature. During the three months ended March 31, 2012, the Company recorded an expense of \$177 for the accretion to fair value of the conversion liability for the period. The carrying value of the Yorkville Debenture was \$78,046 at March 31, 2012, including principal of \$70,718 and the value of the conversion liability. The liability for the conversion feature shall increase from its present value of \$7,328 at March 31, 2012 to its estimated settlement value of \$7,858 at December 31, 2012. Interest expense of \$1,058 for these obligations was accrued for the three months ended March 31, 2012.

ASC 480, *Distinguishing Liabilities from Equity*, sets forth the requirements for determination of whether a financial instrument contains an embedded derivative that must be bifurcated from the host contract, therefore the Company evaluated whether the conversion feature for Series D Preferred Stock would require such treatment; one of the exceptions to bifurcation of the embedded conversion feature is that the conversion feature as a standalone instrument would be classified in stockholders’ equity. Management has determined that the conversion option would not be classified as a liability as a standalone instrument, therefore it meets the exception for bifurcation of

the embedded derivative under ASC 815, *Derivatives and Hedging*. ASC 815, *Derivatives and Hedging*, addresses whether an instrument that is not under the scope of ASC 480, *Distinguishing Liabilities from Equity*, would be classified as liability or equity; one of the factors that would require liability classification is if the Company does not have sufficient authorized shares to effect the conversion. If a company could be required to obtain shareholder approval to increase the company's authorized shares in order to net-share or physically settle a contract, share settlement is not controlled by the company. The majority of the Company's outstanding shares of Series D Preferred Stock are owned by Viridis Capital, LLC, an entity controlled by Kevin Kreisler, the chairman and chief executive officer of the Company. If all the Series D shares held by Viridis Capital were converted and exceeded the number of authorized common shares, there would be no contingent factors or events that a third party could bring up that would prevent Mr. Kreisler from authorizing the additional shares. There would be no need to have to go to anyone outside the Company for approval since Mr. Kreisler, through Viridis Capital, is the Company's majority shareholder. As a result, the share settlement is controlled by the Company and with ASC 815, *Derivatives and Hedging*. The Company assessed all other factors in ASC 815, *Derivatives and Hedging*, to determine how the conversion feature would be classified.

On September 4, 2008, the Company's subsidiary, GS CleanTech Corporation, entered into a transaction involving the intended issuance of a series of convertible notes totaling \$1,734,579 (the "Bridge Loan"), which notes bear interest at a rate 20% per annum and mature on December 31, 2011. The notes were intended to be convertible into shares of GS CleanTech subsidiary preferred stock (par \$0.001) at the closing by GS CleanTech of a planned preferred stock financing with GE Energy Financial Services (see Note 13, *Commitments and Contingencies*, below). A \$1,259,279 portion of the intended Bridge Loan was retained by the lenders and a portion of that amount was provided to Biofuels Industries Group, LLC ("BIG") during 2008 in contravention of the applicable agreements. Company's subsidiary has accordingly asserted claims against the lenders involving breach and failure of conditions precedent to the effectiveness of the Bridge Loan agreements (see Note 13, *Commitments and Contingencies*, below). Pending adjudication of that dispute, the Company has recorded the Bridge Loan and accrued the associated interest expense. For the three months ended March 31, 2012, interest expense of \$87,693 was accrued.

#### **NOTE 10 GUARANTY AGREEMENT**

Viridis Capital, LLC ("Viridis") is the majority shareholder of the Company and is solely owned by Kevin Kreisler, the Company's founder, chairman and chief executive officer. Viridis has guaranteed all of the Company's senior debt and has pledged all of its assets, including its shares of Company Series D Preferred Stock, to YA Global to secure the repayment by the Company of its obligations YA Global (see Note 11, *Stockholders' Equity*, below). Viridis has also guaranteed all amounts due to Cantrell Winsness Technologies, LLC in connection with the acquisition by the Company's subsidiary of its patented and patent-pending extraction technologies (see Note 13, *Related Party Transactions*, below). The Company has separately agreed to indemnify and hold Viridis harmless from any and all losses, costs and expenses incurred by Viridis in connection with its guaranty of the Company's obligations.

On October 31, 2006, the Company guaranteed a secured note issued by a wholly owned subsidiary of the Company's former subsidiary, GS AgriFuels Corporation, in the principal amount of \$6,000,000 to Stillwater Asset-Backed Fund, LP. The balance due to Stillwater at September 30, 2011 and December 31, 2010 was \$2,071,886. The operations of GS AgriFuels were discontinued during 2009 and this entity was liquidated in 2010.

#### **NOTE 11 STOCKHOLDERS' EQUITY**

##### **SERIES D PREFERRED STOCK**

Shares of the Series D Preferred Stock (the "Series D Shares") may be converted by the holder into Company common stock. The conversion ratio is such that the full 1,000,000 Series D Shares originally issued convert into Company common shares representing 80% of the fully diluted outstanding common shares outstanding after the conversion (which includes all common shares outstanding plus all common shares potentially issuable upon the conversion of all derivative securities not held by the holder). The holder of Series D Shares may cast the number of votes at a shareholders meeting or by written consent that equals the number of common shares into which the Series D Shares are convertible on the record date for the shareholder action. In the event the Board of Directors declares a dividend payable to Company common shareholders, the holders of Series D Shares will receive the

dividend that would be payable if the Series D Shares were converted into Company common shares prior to the dividend. In the event of a liquidation of the Company, the holders of Series D Shares will receive a preferential distribution of \$0.001 per share, and will share in the distribution as if the Series D Shares had been converted into common shares. Effective September 30, 2011, Minority Interest Fund (II), LLC (“MIF”) was issued 62,500 shares of Series D Preferred Stock in partial consideration of the contribution of principal and accrued interest and various other modified terms of MIF’s agreements with the Company. The Company’s Series D Preferred Stock is beneficially owned by Viridis Capital, LLC (634,199 shares), Edward Carroll (187,500 shares), Acutus Capital, LLC (124,875 shares) and Minority Interest Fund (II), LLC (103,534 shares).

ASC 480, *Distinguishing Liabilities from Equity*, sets forth the requirements for determination of whether a financial instrument contains an embedded derivative that must be bifurcated from the host contract, therefore the Company evaluated whether the conversion feature for Series D Preferred Stock would require such treatment; one of the exceptions to bifurcation of the embedded conversion feature is that the conversion feature as a standalone instrument would be classified in stockholders’ equity. Management has determined that the conversion option would not be classified as a liability as a standalone instrument, therefore it meets the exception for bifurcation of the embedded derivative under ASC 815, *Derivatives and Hedging*. ASC 815 addresses whether an instrument that is not under the scope of ASC 480 would be classified as liability or equity; one of the factors that would require liability classification is if the Company does not have sufficient authorized shares to effect the conversion. If a company could be required to obtain shareholder approval to increase the company’s authorized shares in order to net-share or physically settle a contract, share settlement is not controlled by the company. The majority of the Company’s outstanding shares of Series D Preferred Stock are owned by Viridis Capital, LLC, an entity controlled by Kevin Kreisler, the chairman and chief executive officer of the Company. If all the Series D shares held by Viridis Capital were converted and exceeded the number of authorized common shares, there would be no contingent factors or events that a third party could bring up that would prevent Mr. Kreisler from authorizing the additional shares. There would be no need to have to go to anyone outside the Company for approval since Mr. Kreisler, through Viridis Capital, is the Company’s majority shareholder. As a result, the share settlement is controlled by the Company and with ASC 815. The Company assessed all other factors in ASC 815 to determine how the conversion feature would be classified.

#### SERIES F PREFERRED STOCK

Effective January 1, 2010, GS CleanTech Corporation, a wholly-owned subsidiary of the Company, executed an Amended and Restated Technology Acquisition Agreement (“TAA”) with Cantrell Winsness Technologies, LLC (“CWT”), David F. Cantrell, David Winsness, Gregory P. Barlage and John W. Davis (the “Sellers”) pursuant to which the parties amended and restated the method of calculating the purchase price for the Company’s corn oil extraction technology (the “Technology”). The TAA provides for the payment by the Company of royalties in connection with the Company’s corn oil extraction technologies, the reduction of those royalties as the Sellers receive payment, and a mechanism for conversion of accrued or prepaid royalties into Company common stock. To achieve this latter mechanism, the Company agreed to issue to the Sellers a one-time prepayment in the form of 1,000,000 shares of redeemable Series F Preferred Stock with a face value of \$10 per preferred share. The Series F preferred shares are redeemable at face value and a rate equal to the amount royalties paid or prepaid under the TAA. In addition, the Sellers have the right to convert the Series F preferred shares to pay or prepay royalties at a rate equal to the cash proceeds received by the Sellers upon sale of the common shares issued upon conversion Series F preferred shares. The TAA provides for the payment to the Sellers of an initial royalty fee equal to the lesser of \$0.10 per gallon or a percentage of net cash flows, both of which are reduced ratably to \$0.025 per gallon upon payment, prepayment or conversion as described above. The Company’s obligations under the TAA are guaranteed by Viridis Capital, LLC, which guarantee was subordinated by the Sellers to the rights of YA Global under its guaranty agreement with Viridis Capital (see Note 14, *Guaranty Agreements*, below). The Company accounted for the Series F preferred shares in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the convertible Series F preferred shares could result in the preferred shares being converted to a variable number of the Company’s common shares. The Company determined the value of the Series F preferred shares at the grant date to be \$925,926 which represented the estimated value of the preferred shares based on common shares into which they could be converted at the grant date, which included the present value of the conversion feature, which was determined to be \$428,381. During the year ended December 31, 2010, the Company recognized a total expense of \$925,926 based on the grant date value. During the three months ended March 31, 2012, the Company recognized a reduction in conversion liability at present value of \$19,909 for the

redemptions that occurred via payments of royalties under the agreement and recorded an expense of \$16,439 for the accretion to fair value of the conversion liability for the period. The carrying value of the liability for the Series F shares was \$941,002 at March 31, 2012, including the grant date value plus the accretion less redemptions of the conversion liability during the year. The liability for the conversion feature shall increase from its present value of \$443,457 at March 31, 2012 to its estimated settlement value of \$977,193 at June 10, 2020.

The only conditions under which the Company would be required to redeem its convertible preferred stock for cash would be in the event of a liquidation of the Company or in the event of a cash-out merger of the Company.

## COMMON STOCK

The Company completed a 1 for 1,000 reverse stock split on September 9, 2011. This stock split became effective under applicable laws on September 9, 2011. All stock prices, share amounts, per share information, stock options and stock warrants in this report reflect the impact of the reverse stock split. Every thousand shares of issued and outstanding Company common stock was automatically combined into one issued and outstanding share of common stock, without any change in the par value per share. All fractional shares resulting from the reverse split were rounded to a full share. During the three months ended March 31, 2012 and 2011, the Company issued a total of 4,902,516 shares and 425,468 shares of common stock, respectively, upon conversion in period of \$242,157 and \$342,375, respectively, of amounts due pursuant to the Company's various convertible debentures (see Note 9, *Debt Obligations*, above).

## NOTE 12 COMMITMENTS AND CONTINGENCIES

### INFRINGEMENT

On October 13, 2009, the U.S. Patent and Trademark Office ("PTO") issued U.S. Patent No. 7,601,858, titled "*Method of Processing Ethanol Byproducts and Related Subsystems*" (the '858 Patent) to GS CleanTech Corporation, a wholly-owned subsidiary of GreenShift Corporation. On October 27, 2009, the PTO issued U.S. Patent No. 7,608,729, titled "*Method of Freeing the Bound Oil Present in Whole Stillage and Thin Stillage*" (the '729 Patent) to GS CleanTech. Both the '858 Patent and the '729 Patent relate to the Company's corn oil extraction technologies.

On October 13, 2009, GS CleanTech filed a legal action in the United States District Court, Southern District of New York captioned GS CleanTech Corporation v. GEA Westfalia Separator, Inc.; and DOES 1-20, alleging infringement of the '858 Patent ("New York I Action"). On October 13, 2009, GS CleanTech filed a Motion to Dismiss with the same court relative to a separate complaint filed previously by Westfalia captioned GEA Westfalia Separator, Inc. v. GreenShift Corporation that alleged (1) false advertising in violation of the Lanham Act § 43(a); (2) deceptive trade practices and false advertising in violation of New York General Business Law §§ 349, 350 and 350-a; and (3) common law unfair competition ("New York II Action"). On October 13, 2009, Westfalia filed its First Amended Complaint in the New York II Action to include as a plaintiff, ethanol production company Ace Ethanol, LLC, and to add claims seeking a declaratory judgment of invalidity and non-infringement of the '858 Patent. On October 13, 2009, ICM, Inc. filed a complaint in the United States District Court, District of Kansas in the matter captioned ICM, Inc. v. GS CleanTech Corporation and GreenShift Corporation, alleging unfair competition, interference with existing and prospective business and contractual relationships, and deceptive trade practices and also seeking a declaratory judgment of invalidity and non-infringement of the '858 Patent.

On October 15, 2009, in the New York I Action, GS CleanTech filed a Notice of Filing First Amended Complaint for infringement of the '858 Patent, along with a copy of the First Amended Complaint, which added ICM, Ace Ethanol, Lifeline Foods LLC and ten additional DOES as defendants in the New York I Action. On October 23, 2009, GS CleanTech's First Amended Complaint in the New York I Action was entered by the court. On November 5, 2009, in ICM's Kansas lawsuit, GS CleanTech filed a motion to dismiss or, in the alternative, to transfer the Kansas case to New York for inclusion in the New York I Action. Also on November 5, 2009, in ICM's Kansas lawsuit, ICM filed a motion to enjoin CleanTech and GreenShift from prosecuting the claims against ICM in the New York I Action.

During February 2010, GS CleanTech commenced a legal action in the United States District Court, Southern District of Indiana captioned GS CleanTech Corporation v. Cardinal Ethanol, LLC, and a separate legal action in the United States District Court, Northern District of Illinois captioned GS CleanTech Corporation v. Big River Resources Galva, LLC and Big River Resources West Burlington, LLC. ICM sold Cardinal and Big River the equipment that each of Cardinal and Big River have used and are using to infringe the '858 Patent as alleged by GS CleanTech. ICM has assumed the defense of each of the above matters.

During May 2010, GS CleanTech commenced the following additional actions: GS CleanTech Corporation v. Lincolnland Agri-Energy, LLC, in the United States District Court, Northern District of Illinois; GS CleanTech Corporation v. Al-Corn Clean Fuel, LLC; Chippewa Valley Ethanol Company, LLLP; Heartland Corn Products, LLC and Bushmills Ethanol, Inc., in the United States District Court, District of Minnesota; GS CleanTech Corporation v. United Wisconsin Grain Producers, LLC, in the United States District Court, Western District of Wisconsin; GS CleanTech Corporation v. Iroquois BioEnergy Company, LLC, in the United States District Court, Northern District of Indiana; GS CleanTech Corporation v. Blue Flint Ethanol, LLC, in the United States District Court, District of North Dakota; and, GS CleanTech Corporation v. Amaizing Energy Atlantic, LLC; Amaizing Energy Cooperative; Amaizing Energy Denison, LLC; Amaizing Holding Company, LLC; and Lincolnway Energy, LLC, in the United States District Court, Northern District of Iowa.

On May 6, 2010, GreenShift submitted a "*Motion to Transfer Pursuant to 28 U.S.C. § 1407 for Consolidated Pretrial Proceedings*" to the United States Judicial Panel on Multidistrict Litigation (the "Panel") located in Washington, D.C. In this motion, GreenShift moved the Panel to transfer and consolidate all pending suits involving infringement of GreenShift's patents to one federal court for orderly and efficient review of all pre-trial matters. On August 6, 2010, the Panel ordered the consolidation and transfer of all pending suits in the U.S. District Court, Southern District of Indiana for pretrial proceedings (the "MDL Case").

On July 14, 2010, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Adkins Energy, LLC, in the United States District Court, Northern District of Illinois alleging infringement of the '858 Patent. On August 4, 2010, Adkins filed an answer to the complaint and included counterclaims seeking a declaratory judgment that Adkins does not infringe the '858 Patent and that the '858 Patent is invalid, and also alleging breach of contract. On November 30, 2010, the Adkins action was transferred to the MDL Case.

On October 14, 2010, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Flottweg Separation Technology, Inc. and Flottweg AG, in the United States District Court, District of Connecticut alleging infringement of the '858 Patent. On November 15, 2010, GS CleanTech filed an amended complaint alleging that Flottweg Separation Technology, Inc., has infringed the '858 Patent. On November 15, 2010, the Flottweg action was transferred to the MDL Case.

As part of the MDL Case, on November 15, 2010, GS CleanTech amended its complaint filed in the New York I Action to include a claim of patent infringement personally against the founder, CEO and President of ICM, and ICM amended its complaint filed in the Kansas action to include a claim seeking a declaratory judgment that the '858 Patent is unenforceable. On November 30, 2010, in the MDL Case, GS CleanTech filed a motion to dismiss ICM's amended complaint (including its claim seeking a declaratory judgment that the '858 Patent is unenforceable) or, in the alternative, to transfer the Kansas case to New York for inclusion in the New York I Action. ICM has opposed the motion to dismiss. On December 10, 2010, in the MDL Case, GS CleanTech filed motions to strike the affirmative defenses that the '858 Patent is unenforceable asserted by Cardinal Ethanol, LLC; Big River Resources Galva, LLC; and Big River Resources West Burlington, LLC; and Lincolnland Agri-Energy, LLC. Each defendant has opposed the respective motion to strike. On February 14, 2011, GS CleanTech notified the court in the MDL Case that it will not be proceeding with a motion for preliminary injunction. On February 24, 2011, in the MDL Case, in connection with its breach of contract counterclaim against GreenShift Corporation, Adkins Ethanol, LLC filed a motion for judgment on the pleadings or in the alternative partial summary judgment on the issue of liability on the issue of breach of contract and partial summary judgment on the issue of damages. On March 24, 2011, GreenShift filed an opposition to Adkins' motion.

All of the parties in the MDL Action filed their respective briefs with the Court in connection with proposed claim construction for certain claim limitations in the '858 Patent. A hearing on the claim construction matter was then

held by the Court in the MDL Action on August 22, 2011. On September 29, 2011, the Court issued its ruling with respect to claim construction.

There have been no other substantive rulings on the merits on any of the actions included in the MDL Case and Management is unable to characterize or evaluate the probability of any outcome at this time. The Company intends to take all necessary steps to bring infringement of its patents to an end, including filing additional lawsuits involving any and all infringing use of the Company's patents. The Company further plans to seek additional relief for instances of willful infringement. The Company's position is that any infringing ethanol producer is liable for any infringing use of the Company's patented technologies beginning on the publication date of the application that led to the '858 Patent.

#### OTHER MATTERS

The Company's subsidiary, GS COES (Yorkville I), LLC, is party to an action entitled Nosan, et al. v. GS COES (Yorkville I), LLC, et. al., pending as Oakland County, Michigan Circuit Court Case No. 10-110329-CK, an action by nineteen plaintiffs to recover on a guarantee by the subsidiary secured by a pledge in support of a bridge loan arrangement under which a variety of lenders claim to be owed the aggregate principal amount of \$1,734,579, plus interest for claimed breach of their subordinated loan to GS CleanTech Corporation. GreenShift Corporation and GS CleanTech Corporation are not currently parties to this action. The Court has granted a Motion for Change of Venue to allow transfer to Lenawee County, Michigan where the underlying bridge loan arrangement is currently being litigated. GS COES intends to vigorously defend this action. This case is in the discovery phase. At this stage of the proceedings, we cannot evaluate the likelihood of an unfavorable outcome.

GreenShift Corporation, GS CleanTech Corporation and GS COES (Yorkville I), LLC, are party to the matter captioned Dynalectric of Michigan II, Inc. v. Biofuels Industries Group, et al, Lenawee County, Michigan Circuit Court Case No. 09-3584-CK. This action was originally filed as a lien foreclosure and unjust enrichment claim by Dynalectric of Michigan II, Inc., which claim was resolved. GreenShift, as assignee of GS CleanTech, filed a counterclaim, cross-claim and third party complaint against various parties asserting a claim for money due in the amount of \$1,442,082, plus interest, attorney fees and costs, and for foreclosure of its construction lien. Biofuels Industries Group then asserted counterclaims, cross-claims and third party complaints against GreenShift, GS CleanTech, GS COES, Kevin Kreisler and Viridis Capital, LLC claiming breach of contract and seeking damages plus attorney fees, interest and cost. In response, the Company and its subsidiaries has asserted additional claims against Biofuels Industries Group and third party complaints against three of the bridge lenders claiming lender liability and various other claims in excess of \$25,000. On June 6, 2011, Biofuels Industries Group filed for Chapter 11 bankruptcy protection in the Southern District of Michigan, Eastern Division, under which protection the collateral upon which the lien was recorded was sold for substantially less than the first mortgage holder's claimed balance in excess of \$9,000,000. Documentation confirming priority claim to the proceeds has been requested, but is not yet received. Recovery by GS CleanTech on the construction lien does not appear at this time. As to the other claims, this case is in the discovery stage, but was stayed secondary to the bankruptcy filing. We are unable to evaluate the likelihood of an unfavorable outcome or the range of possible loss in the event of an adverse verdict at this time.

The Company is party to the matter entitled JMJ Financial v. GreenShift et. al, an action in which the plaintiff has alleged breach of contract and other causes of action for which the plaintiff seeks damages of about \$300,000 plus costs. The Company intends to vigorously defend this action. At this stage of the proceedings, we cannot evaluate the likelihood of an unfavorable outcome in excess of the amounts previously accrued.

On October 31, 2006, the Company guaranteed a secured note issued by a wholly owned subsidiary of the Company's former subsidiary, GS AgriFuels Corporation, in the principal amount of \$6,000,000 to Stillwater Asset-Backed Fund, LP. The balance due to Stillwater at December 31, 2010 was \$2,071,886. This obligation is guaranteed by the Company; however, Stillwater is party to an intercreditor agreement with the Company's senior lender which provides that no payments can be made by the Company against the balance due to Stillwater until the senior lender has been fully paid. The operations of GS AgriFuels were discontinued during 2009 and this entity was liquidated in 2010.

The Company is also involved in various collection matters for which vendors are seeking payment for services rendered and goods provided. The Company and its subsidiaries are party to numerous matters pertaining to outstanding amounts alleged to be due. Management is unable to characterize or evaluate the probability of any outcome at this time.

Under the Company's insurance programs, coverage is obtained for catastrophic exposures, as well as those risks required to be insured by law or contract. There is a \$2,500 deductible per occurrence for environmental impairments. Environmental liability insurance is carried with policy limits of \$1,000,000 per occurrence and \$2,000,000 aggregate.

Effective March 20, 2008, the Company amended and restated its employment agreements with Kevin Kreisler, the Company's Chief Executive Officer, David Winsness, the Company's Chief Technology Officer, Greg Barlage, the Company's Chief Operating Officer, and Ed Carroll, the Company's Chief Financial Officer. Each agreement also included terms for reimbursement of expenses, periodic bonuses, four weeks' vacation and participation in any employee benefits provided to all employees of GreenShift Corporation.

The Company's Articles of Incorporation provide that the Company shall indemnify its officers, directors, employees and agents to the full extent permitted by Delaware law. The Company's Bylaws include provisions to indemnify its officers and directors and other persons against expenses (including attorney's fees, judgments, fines and amounts paid for settlement) incurred in connection with actions or proceedings brought against them by reason of their serving or having served as officers, directors or in other capacities. The Company does not, however, indemnify them in actions in which it is determined that they have not acted in good faith or have acted unlawfully. The Company is further subject to various indemnification agreements with various parties pursuant to which the Company has agreed to indemnify and hold such parties harmless from and against expenses and costs incurred (including attorney's fees, judgments, fines and amounts paid for settlement) in connection with the provision by such parties of certain financial accommodations to the Company. Such parties indemnified by the Company include YA Global Investments, L.P., YA Corn Oil Systems, LLC, Viridis Capital, LLC, Minority Interest Fund (II), LLC, Acutus Capital, LLC and various family members of the Company's chairman that have provided the Company with cash investments.

#### **NOTE 13 RELATED PARTY TRANSACTIONS**

Minority Interest Fund (II), LLC ("MIF") is party to certain convertible debentures issued by the Company (see Note 9, *Debt Obligations*, above). The managing member of MIF is a relative of the Company's chairman.

The Company entered into agreements with MIF and Viridis to amend and restate the terms of the MIF Debenture and Viridis Debenture effective September 30, 2011 to extend the maturity date to June 30, 2013; to eliminate and contribute \$502,086 in accrued interest and \$1,065,308 of principal; to reduce the applicable interest rate to 6% per annum; to eliminate MIF's and Viridis' right to convert amounts due at a discount to the market price of the Company's common stock; and to reverse various non-cash assignments of debt involving related parties (see Note 9, *Debt Obligations*, above).

The restated balances due to MIF and Viridis at September 30, 2011, were \$3,017,061 and \$237,939, respectively. No interest was payable to either MIF or Viridis after these amendments. These transactions additionally resulted in the issuance of \$1,090,000 and \$351,000 in convertible debt to Acutus Capital, LLC ("Acutus") and family members of the Company's chairman, respectively, for cash investments previously provided to the Company. The terms of these debentures provide for interest at 6% per annum, a maturity date of June 30, 2013, and the right to convert amounts due into Company common stock at 100% of the market price for the Company's common stock at the time of conversion. MIF received 62,500 shares of Series D Preferred Stock in partial consideration of the contribution of principal and accrued interest and the various other modified terms of MIF's agreements with the Company. All of the foregoing amounts remain subject to the terms and conditions of the June 2010 subordination agreement by and between MIF and the Company's senior lender, which agreement limits transfer of shares issued upon conversion of debt to 5% of the average monthly volume for the Company's common stock.

During the year ended December 31, 2011, the Company's chairman waived \$265,192 in deferred salaries due from prior years as of September 30, 2011, \$138,001 in unreimbursed expenses, and \$112,020 previously assigned to an

employee of the Company. Various other related party employees waived an aggregate of \$133,101 in deferred compensation from prior years, and one former employee (a family member of the Company's chairman) agreed to accept payment of \$92,337 in deferred salaries due from prior years in the form of restricted Company common stock at \$0.11 per share.

Between January 1, 2008 and December 31, 2010, Viridis, MIF, Acutus, and management personnel provided us with the cash resources we needed for our overhead needs, including all legal expenses incurred in the prosecution of infringing use of our patented technologies. Viridis is owned by our chairman, MIF is owned by a family member of our chairman, and Acutus is owned by our chairman's attorney. In addition, Viridis has guaranteed all of the Company's debt due to YA Global and all amounts due to Cantrell Winsness Technologies, LLC in connection with the acquisition by the Company's subsidiary of its patented and patent-pending extraction technologies (see Note 14, *Guaranty Agreements*, above). The Company has separately agreed to indemnify and hold Viridis and its affiliates harmless from any and all losses, costs and expenses incurred by Viridis and its affiliates in connection with its and their various investments with the Company as well as Viridis' guarantees of Company's obligations.

Effective December 31, 2010, Viridis and the Company entered into an agreement pursuant to which Viridis acquired the stock of two inactive subsidiaries from the Company for \$5,000. The terms of the agreement provided for the acknowledgment by the parties of the continuing first priority security interest of the Company's senior lender on the stock and assets of each entity, and the continuing guarantees and obligations of Viridis, each entity, and the Company with respect to amounts due from the Company to its senior lender.

Effective January 1, 2010, GS CleanTech Corporation, a wholly-owned subsidiary of the Company, executed an Amended and Restated Technology Acquisition Agreement ("TAA") with Cantrell Winsness Technologies, LLC ("CWT"), David F. Cantrell, David Winsness, Gregory P. Barlage and John W. Davis (the "Sellers") pursuant to which the parties amended and restated the method of calculating the purchase price for the Company's corn oil extraction technology (the "Technology"). The TAA provides for the payment by the Company of royalties in connection with the Company's corn oil extraction technologies, the reduction of those royalties as the Sellers receive payment, and a mechanism for conversion of accrued or prepaid royalties into Company common stock. To achieve this latter mechanism, the Company agreed to issue to the Sellers a one-time prepayment in the form of 1,000,000 shares of redeemable Series F Preferred Stock ("CWT Preferred Shares") with a face value of \$10 per preferred share (see Note 11, *Shareholders' Equity*, above). The CWT Preferred Shares are redeemable at face value and a rate equal to the amount royalties paid or prepaid under the TAA. In addition, the Sellers have the right to convert the CWT Preferred Shares to pay or prepay royalties at a rate equal to the cash proceeds received by the Sellers upon sale of the common shares issued upon conversion CWT Preferred Shares. The TAA provides for the payment to the Sellers of an initial royalty fee equal to the lesser of \$0.10 per gallon or a percentage of net cash flows, both of which are reduced ratably to \$0.025 per gallon upon payment, prepayment or conversion as described above. The Company's obligations under the TAA are guaranteed by Viridis Capital, LLC, which guarantee was subordinated by the Sellers to the rights of YA Global under its guaranty agreement with Viridis Capital (see Note 10, *Guaranty Agreement*, above). As of December 31, 2009, the Company accrued royalty fees payable of \$1,047,832 and prepaid royalty fees of another \$300,000, for a total of \$1,347,832. \$750,000 of this amount was capitalized and then amortized and included in the Company's cost of sales for the years ended December 31, 2011 (\$321,429), December 31, 2010 (\$267,857) and December 31, 2009 (\$160,714). During the year ended December 31, 2009, the Company issued unsecured convertible debentures (collectively, the "TAA Debentures") to each of David Cantrell, David Winsness, Greg Barlage, and John W. Davis in consideration for amounts due and/or accrued pursuant to the TAA (\$1,347,832). The TAA Debentures were acquired by MIF during 2009 and paid to a balance of \$851,422 as of December 31, 2010. The Company subsequently accrued royalties of \$271,186 and \$932,924 during 2010 and 2011, respectively, which amounts were then offset against prepaid royalties of \$300,000 from 2009 and an additional \$519,311 from 2011, corresponding to a balance of about \$678,914 in accrued royalties payable under the TAA as of March 31, 2012.

#### **NOTE 14 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

The following is a summary of supplemental disclosures of cash flow information for the three months ended March 31, 2012 and 2011:

	<u>3/31/2012</u>	<u>3/31/2011</u>
<i>Cash paid for the following:</i>		

Interest	\$	--	\$	--
Total interest paid in cash		--		--
Performance bonuses applied to convertible debentures	\$	--	\$	4,986,568
Debentures converted into common stock		242,157		342,375
Forgiveness of affiliate payable		--		180,000

## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION

*The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated financial condition and results of operations. This discussion should be read in conjunction with the consolidated financial statements included herewith and notes to the consolidated financial statements thereto and the risk factors contained herein.*

### CAUTIONARY INFORMATION REGARDING FORWARD LOOKING STATEMENTS

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This report contains "*forward-looking statements*" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to our outlook or expectations for earnings, revenues, expenses, asset quality or other future financial or business performance, strategies or expectations, or the impact of legal, regulatory or supervisory matters on our business, results of operations or financial condition. Specifically, forward-looking statements may include statements preceded by, followed by or that include the words "*estimate*," "*plan*," "*project*," "*forecast*," "*intend*," "*expect*," "*anticipate*," "*believe*," "*seek*," "*target*," "*may*," "*could*," "*should*," "*will*," or similar expressions. Any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Forward-looking statements contained herein reflect management's judgment based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Future performance cannot be ensured. Although we believe that our expectations regarding future events are based on reasonable assumptions, any or all forward-looking statements in this report may turn out to be incorrect. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and actual future results may vary materially from the results expressed or implied in our forward-looking statements. The cautionary statements in this report expressly qualify all of our forward-looking statements. In addition, we are not obligated, and do not intend, to update any of our forward-looking statements at any time unless an update is required by applicable securities laws. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to, those discussed in Part I, Item 1A, *Risk Factors* of our annual report on Form 10-K for the year ended December 31, 2011. Specifically, we may experience significant fluctuations in future operating results due to a number of economic conditions, including, but not limited to, competition, the actions of third parties infringing our patents, commodity market risks, financial market risks, counter-party risks, risks associated with changes to federal policy or regulation or to the laws upon which our intellectual property rights are based, the timely completion of corn oil extraction projects by our licensees, the amount of corn oil recovered by our licensees, and other risk factors detailed in our reports filed with the SEC. Actual results may differ materially from projected results due, without limitation, to unforeseen developments.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this report or in any document incorporated by reference might not occur. Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report or the date of the document incorporated by reference in this report. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

### OVERVIEW

GreenShift Corporation ("*we*," "*our*," "*us*," "*GreenShift*," or the "*Company*") develops and commercializes clean technologies that facilitate the more efficient use of natural resources. We are focused on doing so today in the U.S. ethanol industry, where we innovate and offer technologies that improve the profitability of licensed ethanol producers.

We invented, developed, commercialized, perfected, and patented new technologies that integrate into the back-end of existing dry mill corn ethanol plants to tap into a new reserve of inedible crude corn oil with an estimated industry-wide output of more than 800 MMGY, an amount capable of offsetting more than about 20 million barrels

of fossil fuel-derived crude oil per year. This corn oil is a valuable feedstock for use in the production of advanced carbon-neutral liquid fuels and other biomass-derived alternatives to fossil fuel-based products.

Our corn oil extraction technologies are widely considered to be the quickest and best path for margin improvement for corn ethanol producers today. The current market value of corn oil recovered by our licensees ranges from about four to six times higher than its value without use of our patented corn oil extraction processes. Our corn oil extraction technologies increase corn-to-biofuel yields while reducing the energy and greenhouse gas intensity of corn ethanol production for dry mill ethanol producers. These benefits correspond to increased ethanol producer income ranging from about \$0.08 to more than \$0.20 per gallon of ethanol produced, depending on the extent to which the producer uses our patented and patent-pending extraction technologies; and, ethanol producer paybacks of less than 1 year at current market prices. No technologies have been developed, commercialized and made available to corn ethanol producers in the history of the ethanol industry that begin to approach these results.

In February 2010, the EPA published its estimate that 70% of the U.S. ethanol industry will use back-end corn oil extraction technology to produce 40% of America's biodiesel feedstock by 2022. At the end of 2010, industry publications were predicting the adoption of back-end corn oil extraction by the entire industry. If that actually occurs, if our patented technologies actually standardize and shift the majority of the U.S. ethanol industry into increased efficiency and profitability, then we will have fulfilled our founding mission of building value by developing and using technology to catalyze disruptive environmental gain.

We believe that the first, best and most cost-effective way to achieve positive environmental change of any magnitude is to develop technology-driven economic incentives that motivate large groups of people and companies to make incremental environmental contributions that are collectively very significant. At projected levels of adoption, that is precisely what our patented corn oil extraction technologies will have done by sustainably producing globally-meaningful quantities of new carbon-neutral liquid fuels for distribution through existing fossil fuel supply chains; displacing more than 20 million barrels per year of crude oil; saving trillions of cubic feet per year of natural gas; eliminating tens of millions of metric tons per year of greenhouse gas emissions; and infusing more than an estimated \$2 billion per year of increased income into the corn ethanol industry – the foundation of North America's renewable fuel production capability.

We are focused on driving and supporting the full utilization of our patented corn oil extraction technologies by as many licensed ethanol plants as possible, as quickly as possible. We generate revenue by licensing our technologies to ethanol producers, and by providing our licensees with success-driven, value-added services and other solutions based upon our expertise, know-how, technologies, and patent position.

We also maintain our strong commitment to continued innovation and have many additional patents pending for our portfolio of strategically-compatible cleantech designed to leverage our extraction platform and further strengthen the significant competitive advantages that our technologies provide to licensed ethanol producers.

## **Plan of Operations**

We have entered into license agreements with ethanol producers corresponding to more than 2.3 billion gallons per year ("BGY") of ethanol production at full production capacity. Revenue for the quarter ended March 31, 2012 was \$3.0 million as compared to \$2.7 million from the same period last year (net of the impact of non-recurring transactions in which we sold our remaining production facilities during the first quarter of 2011 (the "YA Corn Oil Transaction")). We incurred a net loss during the first three months of 2012 of about \$700,000, as compared to a net loss of about \$522,000 in the first quarter of 2011 net of the impact of YA Corn Oil Transaction.

Approximately \$1.7 million in expenses incurred during the first quarter of 2012 were non-cash and included about \$580,000 in accrued interest expense, about \$150,000 in expenses associated with the change in value of the Company's conversion liabilities, and about \$400,000 in accrued royalty expense incurred in connection with our increased corn oil production during the quarter. Another \$600,000 of the non-cash expenses incurred during the first quarter of 2012 related to increased legal costs incurred mostly as a result of our ongoing litigation for patent infringement. We have entered into a modified contingency-based agreement with Cantor Colburn, LLP, our lead counsel in our infringement litigation, pursuant to which we are only required to pay \$50,000 per month in cash. Accordingly, most of the increased legal costs incurred during the quarter were non-cash.

Moving forward, we will continue to work with our licensees to maximize the benefits and minimize the costs of recovering as much corn oil as possible. We will also remain focused on winning new business and increasing our licensed penetration. To do so, we will continue to provide exceptional services, the highest-performing systems packages available, and access to new technologies for further gains in licensee profitability and competitive advantage. We will continue to expand our patent portfolio. We have many additional patents pending and we will remain committed to developing new technologies to further enhance the profitability of our licensees. And, we will stay the course in our ongoing infringement litigation but plan to expand our efforts to aggressively prosecute any entity, manager or other person infringing or inducing infringement of our technologies – all with a view towards enhancing and protecting the significant competitive advantage of our licensees.

Our financial performance for the balance of 2012 and beyond can be expected to be most significantly impacted by the rate at which our existing and new licensees commence production, the amount of corn oil that our licensees produce, the market price for that corn oil, the extent to which we collect reasonable royalties, and the costs incurred in our ongoing litigation for infringement of our patents. In addition, future results may be improved by the impact of event-driven systems integration contracts as we continue to receive significant interest for our engineering and other services in connection with the design, construction, integration and modification of corn oil extraction systems and other new systems for existing and prospective licensees. We are currently party to a number of such agreements which can be expected to contribute to revenue during 2012.

We expect to continue incurring substantial costs in connection with our ongoing litigation for infringement of our patented corn oil extraction technologies. These costs increased during the second half of 2011 and are expected to continue to increase through 2012 in advance of trial, and as we expand our litigation to protect the competitive advantage of our licensees by prosecuting additional producers and other parties infringing our patents. These expenses may delay or otherwise adversely affect our ability to achieve our profitability and debt reduction goals. We hope to eventually eliminate our litigation expense, but we must and will take all necessary steps to bring infringement of our patents to an end. We have reserved cash for this purpose.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This disclosure is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe are proper and reasonable under the circumstances. We continually evaluate the appropriateness of estimates and assumptions used in the preparation of our consolidated financial statements. Actual results could differ materially from those estimates. Key accounting policies, including but not limited to those relating to revenue recognition, property and equipment, impairment of long-lived assets and goodwill, derivative financial instruments, and accounting for income taxes, are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements. See further discussion of our critical accounting policies and estimates, as well as significant accounting policies, in our Form 10-K, as amended, for the year ended December 31, 2011.

#### OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our consolidated financial condition, results of operations or liquidity.

#### INDUSTRY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

##### **Commodity Prices**

The results of licensed ethanol producers are highly impacted by commodity prices, including the spread between the cost of corn and natural gas that they must purchase, and the price of ethanol, corn oil and distillers grains that they sell. Prices and supplies are subject to and determined by market forces over which our licensees have no control, such as weather, domestic and global demand, shortages, export prices, and various governmental policies

in the United States and around the world. As a result of price volatility for these commodities, the ability of our licensees to operate or to commit the capital needed to purchase, build and install the systems needed to use our patented extraction technologies is subject to uncertainty. Increases in corn or natural gas prices or decreases in ethanol or distillers grains prices are likely to put pressure on and may strain the liquidity of our licensees.

The ethanol industry increased production in the fourth quarter of 2011 to meet demand from ethanol blenders in order to take advantage of the Volumetric Ethanol Excise Tax Credit (“VEETC”), prior to its expiration on December 31, 2011. As a result, ethanol inventories at the end of 2011 exceeded normal market levels, which in turn caused ethanol margins to compress to near break-even levels since the end of 2011. According to the Energy Information Administration, ethanol producers industry-wide responded by reducing production by approximately 10% in 2012 as compared to the fourth quarter of 2011. We believe that U.S. ethanol production levels will continue to adjust with marginally efficient plants reducing output until supply and demand return to equilibrium. Further, we believe that the price of corn may be affected by reduced ethanol production levels, although weather, world-wide demand, and other market forces may impact corn prices as well. These factors, in combination with reduced demand for motor fuels in the U.S. resulting from higher gasoline prices and more fuel-efficient vehicles, have negatively affected ethanol producer margins in the first quarter of 2012.

Our business is also directly impacted by commodity price volatility in the market for corn oil. The current market price for corn oil is about \$3.35 per gallon. While demand for extracted corn oil is strong in the biodiesel and multiple other markets, decreases in the price of corn oil will have a negative impact on the amount of cash we are able to produce from our operating activities. Any such decreases may adversely affect our results of operations and financial position.

Our ability to generate and increase revenue from existing and new license agreements is consequently subject to uncertainty, and our results of operations and financial position may be adversely affected by commodity price volatility in the markets for corn, natural gas, ethanol, distillers grain and corn oil.

### **Availability of Capital**

Some ethanol producers have faced financial distress recently, culminating with bankruptcy filings by several companies over the past three years. This, in combination with continued volatility in the capital markets has resulted in reduced availability of capital for the ethanol industry generally. Construction of corn oil extraction systems by our licensees is capital intensive and our licensees may not be able to access the capital they need to pay for the components, equipment and installation services needed to implement our technologies (despite the fact that a new licensee would see a return of capital within less than a year at current corn oil market prices). Our results of operations are dependent on the ability of our licensees to capitalize and profitably operate their businesses. Our financial and operational performance therefore depends to significant extent on numerous factors including prevailing economic conditions, volatile commodity prices, and financial, business and other factors beyond our control.

### **Legislation**

Federal and state governments have enacted numerous policies, incentives and subsidies to encourage the usage of domestically-produced alternative fuel solutions. Passed in 2007 as part of the Energy Independence and Security Act, a federal Renewable Fuels Standard, or RFS, has been and we expect will continue to be a driving factor in the growth of ethanol usage. The RFS Flexibility Act was introduced on October 5, 2011 in the U.S. House of Representatives to reduce or eliminate the volumes of renewable fuel use required by RFS based upon corn stocks-to-use ratios. The Domestic Alternative Fuels Act of 2012 was introduced on January 18, 2012 in the U.S. House of Representatives to modify the RFS to include ethanol and other fuels produced from fossil fuels like coal and natural gas. To further drive growth in the increased adoption of ethanol, Growth Energy, an ethanol industry trade association, and a number of ethanol producers requested a waiver from the EPA to increase the allowable amount of ethanol blended into gasoline from the current 10% level, or E10, to a 15% level, or E15. In October 2010, the EPA granted a partial waiver for E15 for use in model year 2007 and newer model passenger vehicles, including cars, SUVs, and light pickup truck. In January 2011, the EPA granted a second partial waiver for E15 for use in model year 2001 to 2006 passenger vehicles. On February 17, 2012, the EPA announced that evaluation of the health effects tests of E15 are complete and that fuel manufacturers are now able to register E15 with the EPA to

sell. One of the final requirements by the EPA prior to introducing E15 into the marketplace was a survey to verify that E15 met federal fueling specifications. In April 2012, a group of ethanol industry members funded a national survey to meet the EPA's requirement for a fuel survey on E15. As of April 9, 2012, 26 fuel manufacturers were registered to sell E15.

The ethanol industry is supported by a number of market factors that drive its long-term outlook and extend beyond the short-term margin environment. The industry is working to broadly introduce E15 into the retail fuel market following EPA's completion of health effects testing. Another driving factor is the RFS mandate, which continues to increase each year through 2015. The mandate increased to 13.2 billion gallons for 2012, 600 million gallons over the mandated volume in 2011. The makeup of the domestic gasoline market continues to evolve as refiners are producing more CBOB, a sub-grade (84 octane) gasoline, which requires ethanol or other octane sources to meet the minimum octane rating requirements for the U.S. gasoline market. In addition, ethanol export markets are expected to remain active in 2012. Overall, the industry is operating at the mandated levels and ethanol prices have continued to remain at a large discount to gasoline, providing blenders and refiners with a strong economic incentive to blend.

Our licensees sell the corn oil they produce with our technologies into several markets, and primarily for refining into biodiesel or renewable diesel. The production of biodiesel is made significantly more competitive by federal and state tax incentives. These incentives are meant to lower the cost of biodiesel in comparison to petroleum diesel. The biodiesel industry has been dependent on the continuation of certain federal subsidies and regulatory support. The biodiesel tax credit expired on December 31, 2011 and may not be timely renewed, if at all. The revocation or amendment of any one or more of those laws, regulations or programs could adversely affect the market for corn oil and, derivatively, our financial condition.

### **Infringement**

We are currently and are likely in the future to be subject to claims, negotiations or complex, protracted litigation in connection with the enforcement of our intellectual property rights. Intellectual property disputes and litigation are typically very costly and can be disruptive to our business operations by diverting the attention and energies of management and key technical personnel. Litigation and regulatory proceedings are subject to inherent uncertainties, and unfavorable changes in the law or rulings could occur which could materially harm our business and results of operations.

### **COMPONENTS OF REVENUES AND EXPENSES**

Our revenues are derived from our technology licensing activities and the provision of related products and services. We issue royalty-bearing licenses to ethanol producers that use our patented and patent-pending technologies. In return, we receive ongoing royalty fees under our license agreements that are based on the market value of the corn oil produced by our licensees. Our license agreements also call for our provision of technical services to our licensees, which we provide to maximize the benefit of our technologies to our clients and, derivatively, GreenShift by way of increased royalty income. These services include design, procurement, integration and ongoing support services. During 2011, some of our license agreements provided for royalties in the form of a discounted corn oil purchase price. In these cases, our royalty payments were equal to the gross profit realized upon sale of corn oil, or the difference between the market price of the corn oil produced and our discounted purchase price in each relevant license.

Our costs of sales primarily include allocable labor, materials and incidental expenses incurred in connection with our provision of services to our licensees. In addition, during 2011, we owned corn oil extraction systems that were located at and operated by several licensees. Our costs of sales during 2011 accordingly included additional costs incurred in connection with our corn oil purchase rights under the relevant licenses as well as the ongoing maintenance of these systems.

Selling, general and administrative expenses consist of payroll, office expenses, insurance and professional fees for accounting, legal, consulting and investor relations activities. Payroll, including employee salaries, incentives and benefits, are the largest single category of expenditures in selling, general and administrative expenses. Other income (expense) includes interest earned, interest expenses, amortization expenses, income or expenses relating to the changing value of the conversion benefit embedded into our convertible debentures and other non-operating

items. Notably, our agreements with our lenders provide for the accrual of our interest expenses pending conversion or other payment.

## RESULTS OF OPERATIONS

### **Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011**

Total revenues for the three months ended March 31, 2012 were \$2.9 million as compared to \$2.7 million generated during the three months ended March 31, 2011, not including \$5.0 million in non-cash performance bonuses earned in connection with the YA Corn Oil Transaction. The increase in revenue during 2012 was due to the impact of new licenses executed during 2011, increased corn oil production by our licensees. Revenue in future periods can be expected to increase as our licensees commence and achieve full production, but will remain subject to variance in connection with a number of factors, including the rate at which our existing and new licensees commence production, the amount of corn oil that our licensees produce, the market price for that corn oil, the extent to which we collect reasonable royalties, and the degree to which we provide event-driven systems integration services to our licensees involving the design, construction, integration and modification of licensed technologies.

Costs of sales for the three months ended March 31, 2012 were \$1.4 million as compared to about \$0.9 million for the same period last year. The increase in costs of sales during 2012 as compared to 2011 was in part due to increased accrued (non-cash) royalty expenses recorded in connection with our increased licensed production, and costs incurred in connection with systems integration agreements entered into with various of our licensees. Gross profit for the three months ended March 31, 2012 was about \$1.6 million as compared to about \$1.8 million from the first quarter of 2011, net of the YA Corn Oil performance bonuses described above. We expect to achieve increased economies of scale with respect to our costs of sales and gross profit as all of our existing licensees commence production and as we execute new licenses for our various technologies.

Operating expenses for the three months ended March 31, 2012 and 2011 were about \$1.7 million and \$1.0 million, respectively. Operating expenses during 2012 included about \$0.6 million in legal costs, incurred primarily in connection with our ongoing litigation for patent infringement and the completion of amended agreements with YA Global. By contrast, operating expenses during the first quarter of 2011 included about \$0.3 million in professional fees.

Other expense for the three months ended March 31, 2012 was about \$0.6 million, as compared to other expense of about \$1.5 million from 2011 (net of about \$5.9 million in non-recurring gain realized upon extinguishment of debt relating mostly to the completion of the YA Corn Oil Transaction during the first quarter of 2011). The amount for 2012 included about \$0.6 million in accrued interest as compared to about \$1.3 million in accrued interest expense incurred in 2011, corresponding to a reduction of about 55% as a result of previously-disclosed debt reduction efforts. We additionally incurred about \$375,000 in legal costs relating to the execution of amended agreements with YA Global during the first quarter 2012, 90% of which were recorded as deferred financing costs and will be expensed ratably on a monthly basis over the remainder of 2012. Net loss for three months ended March 31, 2012 was about \$0.7 million as compared to a net loss of about \$0.5 million during the same period in 2011, net of the impact of the YA Corn Oil Transaction.

### **Conversion Liabilities**

We accounted for our convertible debt in accordance with ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in the convertible debentures could result in the note principal and related accrued interest being converted to a variable number of our common shares. The conversion feature on these debentures is variable and based on trailing market prices. It therefore contains an embedded derivative. The fair value of the conversion features is calculated at the time of issuance and we record a conversion liability for the calculated value. We recognize additional interest expense for the conversion liability which is added to the principal of the debenture for financial reporting purposes (without an actual increase in the amount we owe to the relevant lender). We also recognize interest expense for accretion of the conversion liability to fair value over the term of the note. The conversion liability is valued at the end of each reporting period and results in a gain or loss for the change in fair value. Due to the volatile nature of our stock, the change in the derivative liability and the resulting gain or loss is usually material to our results. The principal amount on our convertible debentures due to various lenders was about

\$32 million as of March 31, 2012, which amount included conversion liabilities of about \$3.2 million. The change in value of these conversion liabilities during the first quarter of 2012 resulted in other expense during the period of about \$150,000. We recognized additional expense of about \$37,495 for amortization of deferred financing costs during 2012 and \$8,333 for accretion of the debt discount during 2011.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity during 2012 have been cash from the licensing activities discussed above in Results of Operations. During the three months ended March 31, 2012, we used about \$465,000 in net cash in operating activities and about \$65,000 in net cash in financing activities. During the three months ended March 31, 2011, we produced about \$2.5 million in net cash from investing activities, used about \$450,000 in net cash in operating activities, and used about \$2.0 million in net cash in financing activities. Our cash balances at March 31, 2012 and December 31, 2011 were about \$835,000 and \$1.4 million, respectively. The Company had a working capital deficit of about \$42 million at March 31, 2012, about \$35 million of which was attributable to current obligations convertible into Company common stock.

Our financial position and liquidity moving forward will be based on our ability to generate cash flows from our operations, as well as the level of our outstanding indebtedness and our debt service obligations. Our business is highly impacted by commodity price volatility, primarily in the market for corn oil. While demand for extracted corn oil is strong in the biodiesel and multiple other markets, decreases in the price of corn oil will have a negative impact on the amount of cash we are able to produce from our operating activities. Moreover, to the extent that our existing and potential new licensees are all corn ethanol producers, our business is also subject to commodity price risk in the markets for ethanol, distillers grain, corn and natural gas. These risks are partially mitigated for us by the fact that use of our corn oil extraction technologies will enhance the liquidity and financial position of licensed ethanol producers and provide our licensees with vitally important cash flows during periods of reduced ethanol producer margins. However, our ability to generate cash flow may be adversely affected if, for example, a new licensee were forced by a reduced crush spread to suspend operations prior to installing a corn oil extraction system.

We owe about \$27.5 million in debt to YA Global and its assignees and about \$4.4 million to related parties. Our debt to YA Global matures on December 31, 2012, and our debt to related party lenders matures on June 30, 2013. In February 2012, we entered into an amended agreement with YA Global pursuant to which we agreed to begin servicing our debt to YA Global with cash payments of about \$1.6 million during 2012 to supplement equity conversion. We are otherwise not required to pay any of these amounts in cash in advance of the maturity date for the debt, and the lenders have primarily sought repayment in the form of common stock issued upon the conversion of debt. Despite this feature, repayment of the balance of these obligations in cash is an important objective for us moving forward, and we hope to complete a financing during 2012 to refinance and recapitalize all of our remaining convertible obligations.

### ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

### ITEM 4 CONTROLS AND PROCEDURES

Our principal executive officer and principal financial officer participated in and supervised the evaluation of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). The Company's chief executive officer and chief financial officer determined that, as of the end of the period covered by this report, the Company had a material weakness because it did not have a sufficient number of personnel with an appropriate level of knowledge and experience of generally accepted accounting principles in the United States of America (U.S. GAAP) that are commensurate with the Company's financial reporting requirements. As a result, Management concluded that the Company's disclosure controls and procedures were not effective at March 31, 2012.

There have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1 LEGAL PROCEEDINGS

#### INFRINGEMENT

On October 13, 2009, the U.S. Patent and Trademark Office ("PTO") issued U.S. Patent No. 7,601,858, titled "*Method of Processing Ethanol Byproducts and Related Subsystems*" (the '858 Patent) to GS CleanTech Corporation, a wholly-owned subsidiary of GreenShift Corporation. On October 27, 2009, the PTO issued U.S. Patent No. 7,608,729, titled "*Method of Freeing the Bound Oil Present in Whole Stillage and Thin Stillage*" (the '729 Patent) to GS CleanTech. Both the '858 Patent and the '729 Patent relate to the Company's corn oil extraction technologies.

On October 13, 2009, GS CleanTech filed a legal action in the United States District Court, Southern District of New York captioned GS CleanTech Corporation v. GEA Westfalia Separator, Inc.; and DOES 1-20, alleging infringement of the '858 Patent ("New York I Action"). On October 13, 2009, GS CleanTech filed a Motion to Dismiss with the same court relative to a separate complaint filed previously by Westfalia captioned GEA Westfalia Separator, Inc. v. GreenShift Corporation that alleged (1) false advertising in violation of the Lanham Act § 43(a); (2) deceptive trade practices and false advertising in violation of New York General Business Law §§ 349, 350 and 350-a; and (3) common law unfair competition ("New York II Action"). On October 13, 2009, Westfalia filed its First Amended Complaint in the New York II Action to include as a plaintiff, ethanol production company Ace Ethanol, LLC, and to add claims seeking a declaratory judgment of invalidity and non-infringement of the '858 Patent. On October 13, 2009, ICM, Inc. filed a complaint in the United States District Court, District of Kansas in the matter captioned ICM, Inc. v. GS CleanTech Corporation and GreenShift Corporation, alleging unfair competition, interference with existing and prospective business and contractual relationships, and deceptive trade practices and also seeking a declaratory judgment of invalidity and non-infringement of the '858 Patent.

On October 15, 2009, in the New York I Action, GS CleanTech filed a Notice of Filing First Amended Complaint for infringement of the '858 Patent, along with a copy of the First Amended Complaint, which added ICM, Ace Ethanol, Lifeline Foods LLC and ten additional DOES as defendants in the New York I Action. On October 23, 2009, GS CleanTech's First Amended Complaint in the New York I Action was entered by the court. On November 5, 2009, in ICM's Kansas lawsuit, GS CleanTech filed a motion to dismiss or, in the alternative, to transfer the Kansas case to New York for inclusion in the New York I Action. Also on November 5, 2009, in ICM's Kansas lawsuit, ICM filed a motion to enjoin CleanTech and GreenShift from prosecuting the claims against ICM in the New York I Action.

During February 2010, GS CleanTech commenced a legal action in the United States District Court, Southern District of Indiana captioned GS CleanTech Corporation v. Cardinal Ethanol, LLC, and a separate legal action in the United States District Court, Northern District of Illinois captioned GS CleanTech Corporation v. Big River Resources Galva, LLC and Big River Resources West Burlington, LLC. ICM sold Cardinal and Big River the equipment that each of Cardinal and Big River have used and are using to infringe the '858 Patent as alleged by GS CleanTech. ICM has assumed the defense of each of the above matters.

During May 2010, GS CleanTech commenced the following additional actions: GS CleanTech Corporation v. Lincolnland Agri-Energy, LLC, in the United States District Court, Northern District of Illinois; GS CleanTech Corporation v. Al-Corn Clean Fuel, LLC; Chippewa Valley Ethanol Company, LLLP; Heartland Corn Products, LLC and Bushmills Ethanol, Inc., in the United States District Court, District of Minnesota; GS CleanTech Corporation v. United Wisconsin Grain Producers, LLC, in the United States District Court, Western District of Wisconsin; GS CleanTech Corporation v. Iroquois BioEnergy Company, LLC, in the United States District Court, Northern District of Indiana; GS CleanTech Corporation v. Blue Flint Ethanol, LLC, in the United States District Court, District of North Dakota; and, GS CleanTech Corporation v. Amaizing Energy Atlantic, LLC; Amaizing Energy Cooperative; Amaizing Energy Denison, LLC; Amaizing Holding Company, LLC; and Lincolnway Energy, LLC, in the United States District Court, Northern District of Iowa.

On May 6, 2010, GreenShift submitted a "*Motion to Transfer Pursuant to 28 U.S.C. § 1407 for Consolidated Pretrial Proceedings*" to the United States Judicial Panel on Multidistrict Litigation (the "Panel") located in Washington, D.C. In this motion, GreenShift moved the Panel to transfer and consolidate all pending suits involving infringement of GreenShift's patents to one federal court for orderly and efficient review of all pre-trial matters. On August 6, 2010, the Panel ordered the consolidation and transfer of all pending suits in the U.S. District Court, Southern District of Indiana for pretrial proceedings (the "MDL Case").

On July 14, 2010, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Adkins Energy, LLC, in the United States District Court, Northern District of Illinois alleging infringement of the '858 Patent. On August 4, 2010, Adkins filed an answer to the complaint and included counterclaims seeking a declaratory judgment that Adkins does not infringe the '858 Patent and that the '858 Patent is invalid, and also alleging breach of contract. On November 30, 2010, the Adkins action was transferred to the MDL Case.

On October 14, 2010, GS CleanTech commenced an action entitled GS CleanTech Corporation v. Flottweg Separation Technology, Inc. and Flottweg AG, in the United States District Court, District of Connecticut alleging infringement of the '858 Patent. On November 15, 2010, GS CleanTech filed an amended complaint alleging that Flottweg Separation Technology, Inc., has infringed the '858 Patent. On November 15, 2010, the Flottweg action was transferred to the MDL Case.

As part of the MDL Case, on November 15, 2010, GS CleanTech amended its complaint filed in the New York I Action to include a claim of patent infringement personally against the founder, CEO and President of ICM, and ICM amended its complaint filed in the Kansas action to include a claim seeking a declaratory judgment that the '858 Patent is unenforceable. On November 30, 2010, in the MDL Case, GS CleanTech filed a motion to dismiss ICM's amended complaint (including its claim seeking a declaratory judgment that the '858 Patent is unenforceable) or, in the alternative, to transfer the Kansas case to New York for inclusion in the New York I Action. ICM has opposed the motion to dismiss. On December 10, 2010, in the MDL Case, GS CleanTech filed motions to strike the affirmative defenses that the '858 Patent is unenforceable asserted by Cardinal Ethanol, LLC; Big River Resources Galva, LLC; and Big River Resources West Burlington, LLC; and Lincolnland Agri-Energy, LLC. Each defendant has opposed the respective motion to strike. On February 14, 2011, GS CleanTech notified the court in the MDL Case that it will not be proceeding with a motion for preliminary injunction. On February 24, 2011, in the MDL Case, in connection with its breach of contract counterclaim against GreenShift Corporation, Adkins Ethanol, LLC filed a motion for judgment on the pleadings or in the alternative partial summary judgment on the issue of liability on the issue of breach of contract and partial summary judgment on the issue of damages. On March 24, 2011, GreenShift filed an opposition to Adkins' motion.

All of the parties in the MDL Action filed their respective briefs with the Court in connection with proposed claim construction for certain claim limitations in the '858 Patent. A hearing on the claim construction matter was then

held by the Court in the MDL Action on August 22, 2011. On September 29, 2011, the Court issued its ruling with respect to claim construction.

There have been no other substantive rulings on the merits on any of the actions included in the MDL Case and Management is unable to characterize or evaluate the probability of any outcome at this time. The Company intends to take all necessary steps to bring infringement of its patents to an end, including filing additional lawsuits involving any and all infringing use of the Company's patents. The Company further plans to seek additional relief for instances of willful infringement. The Company's position is that any infringing ethanol producer is liable for any infringing use of the Company's patented technologies beginning on the publication date of the application that led to the '858 Patent.

#### OTHER MATTERS

The Company's subsidiary, GS COES (Yorkville I), LLC, is party to an action entitled Nosan, et al. v. GS COES (Yorkville I), LLC, et. al., pending as Oakland County, Michigan Circuit Court Case No. 10-110329-CK, an action by nineteen plaintiffs to recover on a guarantee by the subsidiary secured by a pledge in support of a bridge loan arrangement under which a variety of lenders claim to be owed the aggregate principal amount of \$1,734,579, plus interest for claimed breach of their subordinated loan to GS CleanTech Corporation. GreenShift Corporation and GS CleanTech Corporation are not currently parties to this action. The Court has granted a Motion for Change of Venue to allow transfer to Lenawee County, Michigan where the underlying bridge loan arrangement is currently being litigated. GS COES intends to vigorously defend this action. This case is in the discovery phase. At this stage of the proceedings, we cannot evaluate the likelihood of an unfavorable outcome.

GreenShift Corporation, GS CleanTech Corporation and GS COES (Yorkville I), LLC, are party to the matter captioned Dynalectric of Michigan II, Inc. v. Biofuels Industries Group, et al, Lenawee County, Michigan Circuit Court Case No. 09-3584-CK. This action was originally filed as a lien foreclosure and unjust enrichment claim by Dynalectric of Michigan II, Inc., which claim was resolved. GreenShift, as assignee of GS CleanTech, filed a counterclaim, cross-claim and third party complaint against various parties asserting a claim for money due in the amount of \$1,442,082, plus interest, attorney fees and costs, and for foreclosure of its construction lien. Biofuels Industries Group then asserted counterclaims, cross-claims and third party complaints against GreenShift, GS CleanTech, GS COES, Kevin Kreisler and Viridis Capital, LLC claiming breach of contract and seeking damages plus attorney fees, interest and cost. In response, the Company and its subsidiaries has asserted additional claims against Biofuels Industries Group and third party complaints against three of the bridge lenders claiming lender liability and various other claims in excess of \$25,000. On June 6, 2011, Biofuels Industries Group filed for Chapter 11 bankruptcy protection in the Southern District of Michigan, Eastern Division, under which protection the collateral upon which the lien was recorded was sold for substantially less than the first mortgage holder's claimed balance in excess of \$9,000,000. Documentation confirming priority claim to the proceeds has been requested, but is not yet received. Recovery by GS CleanTech on the construction lien does not appear at this time. As to the other claims, this case is in the discovery stage, but was stayed secondary to the bankruptcy filing. We are unable to evaluate the likelihood of an unfavorable outcome or the range of possible loss in the event of an adverse verdict at this time.

The Company is party to the matter entitled JMJ Financial v. GreenShift et. al, an action in which the plaintiff has alleged breach of contract and other causes of action for which the plaintiff seeks damages of about \$300,000 plus costs. The Company intends to vigorously defend this action. At this stage of the proceedings, we cannot evaluate the likelihood of an unfavorable outcome in excess of the amounts previously accrued.

On October 31, 2006, the Company guaranteed a secured note issued by a wholly owned subsidiary of the Company's former subsidiary, GS AgriFuels Corporation, in the principal amount of \$6,000,000 to Stillwater Asset-Backed Fund, LP. The balance due to Stillwater at December 31, 2010 was \$2,071,886. This obligation is guaranteed by the Company, however, Stillwater is party to an intercreditor agreement with the Company's senior lender which provides that no payments can be made by the Company against the balance due to Stillwater until the senior lender has been fully paid. The operations of GS AgriFuels were discontinued during 2009 and this entity was liquidated in 2010.

The Company is also involved in various collection matters for which vendors are seeking payment for services rendered and goods provided. The Company and its subsidiaries are party to numerous matters pertaining to outstanding amounts alleged to be due. Management is unable to characterize or evaluate the probability of any outcome at this time.

Under the Company's insurance programs, coverage is obtained for catastrophic exposures, as well as those risks required to be insured by law or contract. There is a \$2,500 deductible per occurrence for environmental impairments. Environmental liability insurance is carried with policy limits of \$1,000,000 per occurrence and \$2,000,000 aggregate.

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

Our investors should consider the risks that could affect us and our business as set forth in Part I, Item 1A, *Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2011. There has been no material change from the risks set forth in that Report.

Although we have attempted to discuss meaningful factors, our investors need to be aware that other factors and risks may become important in the future. New risks may emerge at any time. We cannot predict such risks or estimate the extent to which they may affect our operations and financial performance. Investors should carefully consider the discussion of risks and the other information included in this Quarterly Report on Form 10-Q, including the *Cautionary Information Regarding Forward-Looking Information* provided above in Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

#### **ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the three months ended March 31, 2012, the Company issued a total of 4,902,470 shares to the Company's various convertible debt holders upon their conversion of convertible debenture in the aggregate amount of \$242,157. The sales were exempt pursuant to Section 4(2) of the Securities Act since the sales were not made in a public offering and were made to entities whose principals had access to detailed information about the Company and were acquiring the shares for the entity's own account. There were no underwriters.

#### **ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

None.

#### **ITEM 4 MINE SAFETY DISCLOSURES**

Not Applicable.

#### **ITEM 5 OTHER INFORMATION**

None.

## **ITEM 6      EXHIBITS**

The following are exhibits filed as part of GreenShift's Form 10-Q for the quarter ended March 31, 2012:

### INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as incorporated herein by reference
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as incorporated herein by reference
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to the Sarbanes-Oxley Act of 2002 as incorporated herein by reference
101.INS	XBRL Instance
101.SCH	XBRL Schema
101.CAL	XBRL Calculation
101.DEF	XBRL Definition
101.LAB	XBRL Label
101.PRE	XBRL Presentation

## SIGNATURES

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

### GREENSHIFT CORPORATION

By: /s/KEVIN KREISLER  
KEVIN KREISLER  
Chief Executive Officer

Date: May 15, 2012

By: /s/EDWARD CARROLL  
EDWARD CARROLL  
Chief Financial Officer &  
Chief Accounting Officer

Date: May 15, 2012

**CERTIFICATION OF QUARTERLY REPORT**

I, KEVIN KREISLER, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of GreenShift Corporation;
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.
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.

By: /s/KEVIN KREISLER  
KEVIN KREISLER  
Chief Executive Officer

Date: May 15, 2012

**CERTIFICATION OF QUARTERLY REPORT**

I, EDWARD CARROLL, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of GreenShift Corporation;
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.
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.

By: /s/EDWARD CARROLL  
EDWARD CARROLL  
Chief Financial Officer &  
Chief Accounting Officer

Date: May 15, 2012

EXHIBIT 32.1

**CERTIFICATION OF PERIODIC REPORT**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of GreenShift Corporation (the “Company”), certifies that:

1. The Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2012 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and,
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/KEVIN KREISLER  
KEVIN KREISLER  
Chief Executive Officer

Date: May 15, 2012

By: /s/EDWARD CARROLL  
EDWARD CARROLL  
Chief Financial Officer &  
Chief Accounting Officer

Date: May 15, 2012

This certification is made solely for the purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.