LITTLEFIELD CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

LITTLEFIELD CORPORATION

DECEMBER 31, 2012

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PS&Co. Padgett Stratemann

Independent Auditor's Report

To the Board of Directors
Littlefield Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Littlefield Corporation and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Littlefield Corporation and its subsidiaries as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Padgett, Stratemann & Co., L.L.P.

Certified Public Accountants
August 27, 2013

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Littlefield Corporation

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 444,042	$ 1,650,634
Accounts receivable, net of allowance for doubtful accounts of $22,200 and $22,200, respectively	581,232	548,338
Other current assets	254,705	233,984
Note receivable – current portion	75,000	75,000
Total Current Assets	**1,354,979**	**2,507,956**
Property and Equipment – at cost, net of accumulated depreciation and amortization	**6,845,835**	**7,299,125**
Other Assets:		
Goodwill	3,195,433	5,921,890
Intangible assets, net of accumulated amortization	1,243,393	1,392,351
Note receivable, net of allowance of $90,000	58,108	163,290
Other non-current assets	189,448	315,004
Total Other Assets	**4,686,382**	**7,792,535**
TOTAL ASSETS	**$ 12,887,196**	**$ 17,599,616**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Long term debt, current portion	$ 2,450,816	$ 525,939
Trade accounts payable	147,494	250,893
Accrued expenses	1,121,059	1,046,904
Total Current Liabilities	**3,719,369**	**1,823,736**
Long-Term Liabilities:		
Long term debt, net of current portion	989,323	3,268,643
Other liabilities, related party	---	130,224
Total Long-Term Liabilities	**989,323**	**3,398,867**
Total Liabilities	**4,708,692**	**5,222,603**
Stockholders' Equity:		
Common stock, $0.001 par value, (40,000,000 shares authorized, 18,817,406 shares and 18,817,406 shares issued, respectively, 17,399,727 shares and 17,337,901 shares outstanding, respectively)	18,818	18,818
Additional paid-in-capital	31,359,359	31,310,859
Treasury stock – 1,417,679 and 1,479,505 shares, at cost	(1,350,831)	(1,409,566)
Accumulated deficit	(21,848,842)	(17,543,098)
Total Stockholders' Equity	**8,178,504**	**12,377,013**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 12,887,196**	**$ 17,599,616**

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2012	2011
REVENUES:		
Entertainment	$ 8,148,247	$ 9,311,398
Other	106,226	123,174
TOTAL REVENUES	**8,254,473**	**9,434,572**
DIRECT COSTS AND EXPENSES:		
Direct salaries and other compensation	1,051,588	792,295
Rent and utilities	2,866,627	2,974,965
Other direct operating costs	1,983,563	1,830,395
Depreciation and amortization	1,002,301	951,719
License expense	85,112	75,507
TOTAL DIRECT COSTS AND EXPENSES	6,989,191	6,624,881
GROSS MARGIN	**1,265,282**	**2,809,691**
GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and other compensation	1,137,028	1,353,102
Legal and accounting fees	462,372	861,476
Depreciation and amortization	77,020	81,610
Stock-based compensation expense	80,663	99,381
Other general and administrative	588,202	794,422
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**2,345,285**	**3,189,991**
TERMINATION COSTS	(309,565)	---
IMPAIRMENT CHARGES	(2,726,457)	(388,742)
OPERATING INCOME (LOSS)	**(4,116,025)**	**(769,042)**
OTHER INCOME AND EXPENSES:		
Interest income	5,069	14,688
Interest expense	(145,795)	(150,056)
Other	(12,343)	(1,459)
TOTAL OTHER INCOME AND EXPENSES	**(153,069)**	**(136,827)**
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(4,269,094)	(905,869)
PROVISION FOR INCOME TAXES	36,650	47,894
NET INCOME (LOSS)	**$ (4,305,744)**	**$ (953,763)**

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS
(continued)

	Years Ended December 31,	
	2012	**2011**
EARNINGS (LOSS) PER SHARE:		
Basic earnings (loss) per share	$ (0.25)	$ (0.06)
Diluted earnings (loss) per share	$ (0.25)	$ (0.06)
Weighted average shares outstanding – basic	17,354,118	17,324,586
Weighted average shares outstanding – diluted	17,354,118	17,324,586

Amounts may not add due to rounding.

See notes to consolidated financial statements.

Littlefield Corporation

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Description	-Common Stock- Shares	Value	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Total
Balance December 31, 2010	**17,324,439**	**$ 18,818**	**$ 31,214,949**	**$(1,422,355)**	**$ (16,589,335)**	**$ 13,222,077**
Stock-based compensation	---	---	99,381	---	---	99,381
Issuance of treasury stock pursuant to employee stock purchase plan and employee 401(k) deferrals	13,462	---	(3,471)	12,789	---	9,318
Net income (loss) for the year ended December 31, 2011	---	---	---	---	(953,763)	(953,763)
Balance December 31, 2011	**17,337,901**	**$ 18,818**	**$ 31,310,859**	**$(1,409,566)**	**$ (17,543,098)**	**$ 12,377,013**
Stock-based compensation	---	---	80,663	---	---	80,663
Issuance of treasury stock pursuant to employee stock purchase plan and employee 401(k) deferrals	61,826	---	(32,163)	58,735	---	26,572
Net income (loss) for the year ended December 31, 2012	---	---	---	---	(4,305,744)	(4,305,744)
Balance December 31, 2012	**17,399,727**	**$ 18,818**	**$ 31,359,359**	**$(1,350,831)**	**$ (21,848,842)**	**$ 8,178,504**

See notes to consolidated financial statements

Littlefield Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(4,305,744)	$ (953,763)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,079,321	1,033,329
Stock-based compensation expense	80,663	99,381
Impairment	2,726,457	388,742
(Gain) loss on sale of equipment	12,343	20,924
Increase (decrease) in cash flows as a result of changes in asset and liability account balances:		
Accounts receivable, net	(32,894)	(14,453)
Other assets	(49,388)	(34,670)
Trade accounts payable	(103,399)	(54,469)
Accrued expenses and other current liabilities	126,122	202,934
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(466,519)**	**687,955**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(490,809)	(1,036,353)
Purchase of goodwill and intangibles	---	(528,110)
Proceeds from repayment of notes receivable, net	105,182	105,173
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(385,627)**	**(1,459,290)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(502,574)	(703,146)
Proceeds from notes payable	2,200,000	210,000
Payoff of refinanced notes payable	(2,051,872)	---
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**(354,446)**	**(493,146)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,206,592)**	**(1,264,481)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,650,634	2,915,115
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 444,042**	**$ 1,650,634**

See notes to consolidated financial statements

Littlefield Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2012	2011
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments:		
Interest	$ 145,795	$ 150,056
Income taxes	$ 37,913	$ 71,038
Non-cash transactions:		
Issuance of treasury stock under deferred compensation plan	$ 20,718	$ 7,440
Issuance of treasury stock under employee stock purchase plan	$ 5,854	$ 1,878
Purchase of acquisition assets in exchange for notes payable	$ ---	$ 832,057

See notes to consolidated financial statements.

NOTE 1 – BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Littlefield Corporation actively participates in the U.S. charitable bingo market. The Company's corporate headquarters is located in Austin, Texas, and the Company operates primarily through wholly owned subsidiaries in Texas, South Carolina, Alabama and Florida. The Company generates its revenues from bingo centers in all four states.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Littlefield Corporation and its subsidiaries (herein collectively referred to as the "Company"). All significant intercompany accounts and transactions have been eliminated in the consolidation.

Reclassifications

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income (loss).

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with maturities of three months or less at the date of acquisition or which are readily convertible to cash without penalty.

Accounts Receivable

Accounts receivable consist of amounts due from charitable organizations that conduct bingo events at the Company's various bingo centers and are generally payable within one month of the event. Receivables also include rent due from operators of concessions located within certain bingo centers. Accounts receivable are not secured. Management provides an allowance for doubtful accounts, which reflects its estimate of the uncollectible receivables. In the event of non-performance, the maximum exposure to the Company is the recorded amount of receivables, net of allowance for doubtful accounts, at the balance sheet date.

Property and Equipment

The cost of equipment, furniture, and fixtures is depreciated over the estimated useful lives of the assets, ranging from two to seven years, using the straight-line method. Leasehold improvements are amortized over the lesser of the remaining term of the lease or the estimated useful lives. Buildings are amortized over forty years, which approximates their estimated useful lives. Building improvements are amortized over their estimated useful lives, which range from seven to forty years. Upon sale, retirement, or abandonment of assets, the related cost and accumulated depreciation are eliminated from the accounts and gains or losses are reflected in income. Repairs and maintenance expenses that do not extend asset lives are expensed as incurred.

Advertising

Advertising costs are expensed when incurred or the first time the advertising takes place. During 2012, the Company had advertising expenses of approximately $87,000 compared to approximately $93,000 in 2011.

NOTE 1 – BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and Intangible Assets

Intangible assets, which primarily consist of goodwill, bingo licenses and non-compete covenants resulting from the acquisition of bingo entities are periodically reviewed by management to evaluate the future economic benefits or potential impairments, which may affect their recorded values. Goodwill represents the excess of the cost of assets acquired over the fair market value of those tangible assets on the date of their acquisition. Under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, *Intangibles – Goodwill and Other*, goodwill acquired in a business combination for which the acquisition date is after June 30, 2001, shall not be amortized, but shall be reviewed for impairment in value. The Company has defined a single operating segment in that the Company's operations share similar economic characteristics and similar customers, among other characteristics.

Since 2002, goodwill and intangible assets with indefinite lives are no longer amortized. These indefinite-lived assets only pertain to halls in the state of Texas. The Company has one class of asset that is classified as indefinite and not subject to periodic amortization. This class of asset is known as a "Grandfathered license." In discussing these Grandfathered licenses, a distinction should be made as to the types of bingo licenses the Company owns. There are two classes of commercial lessor licenses in Texas, Grandfathered and a Tier. The Grandfathered license refers to any license that was in existence prior to 1989 in which a non-renewal has not occurred.

A Grandfathered license allows the operator to have up to seven (7) charities in a hall and charge up to $600 per session in rent. These licenses are regulated by the Texas Lottery Commission and must be renewed each year. There is an annual fee associated with the renewal of these licenses, which is expensed throughout the year. There are a limited number of these licenses available and they are traded between individuals and organizations. They are a traded commodity, in that they have a cash value which is determined by the market place. These licenses can only be revoked or canceled by failing to renew them by the renewal date or for illegal activity.

A Tier license is deemed by the Company to have no value as an asset and is not recorded as an asset. A Tier commercial lessor license is any license issued after 1989 or any license issued prior to 1989 in which a non-renewal occurred. A Tier license allows the operator to have one (1) charity in a hall and charge up to $600 per session in rent. These licenses are issued, renewed, and applied for through the Texas Lottery Commission. The only cost associated with obtaining and keeping this type of license is an annual renewal fee, which is expensed throughout the year. These licenses are not sold on a negotiated basis, at this time.

In South Carolina, there are promoter and solicitor licenses with set fees that are renewed each year and expensed during the year. In Alabama, there is a business license which is based upon the gross amount of rents, these too are renewed annually and expensed during the year. These licenses are not recorded as assets and, therefore, have no related amortization.

Non-compete covenants are amortized over the periods of the stated benefits, ranging from one to five years, and are monitored for contractual compliance. If the projected undiscounted future cash flows related to the intangible assets are less than the recorded value, the intangible asset is written down to fair value.

Revenue Recognition

The Company generates revenues from the following sources and recognizes revenue when earned and collectability is probable:

(i) Bingo:

Bingo rents, paper sales, and head tax payments are received from charitable organizations through various sub-lease agreements of the Company's bingo centers. Revenues are determined by customer attendance, spending and prize payouts, profit splits, as well as state regulations, which may dictate the number of bingo sessions a charity can conduct and rent limits that can be paid to a commercial lessor, such as the Company. Revenues are accrued and accounted for in the month that they are due when realizable. Revenues that are generated by amounts, such as customer attendance, are recognized in the month they are earned and collectability is probable.

NOTE 1 – BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

(ii) Other:

Other revenues are earned concessions, vending machines, bingo supplies, and other sources. Other revenues are recognized in the month they are earned when collectability is probable.

Income Taxes

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax basis and financial reporting carrying amounts of assets and liabilities. The Company periodically evaluates its deferred tax assets and adjusts any related valuation allowance based on the estimate of the amount of such deferred tax assets which the Company does not believe will meet the "more-likely-than-not" recognition criteria.

Per Share Data

Basic earnings (loss) per share of common stock is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares actually outstanding during each period. Diluted earnings (loss) per share of common stock is calculated by dividing net income (loss) by the fully diluted weighted average number of common shares outstanding during each period, which includes dilutive stock options and convertible shares.

Stock-Based Compensation

The Company applies FASB ASC 718, *Compensation – Stock Compensation* and FASB ASC 505, *Equity,* using the modified prospective method of implementation, whereby the prospective method records the compensation expense from the implementation date forward, but leaves prior periods unchanged in accounting for its stock options.

Recently Issued Accounting Pronouncements

In September 2011, the FASB updated FASB ASC 350, *Intangibles – Goodwill and Other*, which gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines 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 impairment test is unnecessary. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted the update as required as of the period ended March 31, 2012 and concluded it did not have a material impact on its consolidated financial position or results of operations.

NOTE 2 – LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2012, the Company's principal sources of liquidity were $0.4 million of cash and cash equivalents and $0.4 million remaining available under a line of credit with a large stockholder. The Company's current forecast projects that these sources of liquidity will be sufficient for at least the twelve months following December 31, 2012 and assumes the refinanced debt secured by real estate will be extended. This forecast assumes revenues during 2013, which are subject to seasonal fluctuations, remain sufficient to generate cash flows from operations. The Company also anticipates cash benefits from reductions in operating expenses implemented during 2012.

NOTE 2 – LIQUIDITY AND CAPITAL RESOURCES (continued)

The Company's cash requirements may vary materially from those now planned because of changes in the Company's operations, including an inability to achieve expected revenues, greater than expected expenses, changes market conditions, and other adverse developments. These events could have a negative effect on the Company's available liquidity sources during the next 12 months.

NOTE 3 – ACQUISITIONS AND REORGANIZATIONS

During 2011 the Company purchased three additional halls. The acquisitions were accounted for as a purchase. Unless otherwise noted, the Company funded the purchase price from existing cash balances. The consolidated financial statements include the operating results from the date of acquisition. Unless otherwise noted, pro-forma results of operations have not been presented because the effects of those operations were not material. In accordance with FASB ASC 805, *Business Combinations*, the total purchase consideration has been allocated to the assets acquired and liabilities assumed, including identifiable assets, based on their respective estimated fair values at the date of acquisition.

The Company acquires bingo halls through its appropriately formed and licensed wholly-owned corporate subsidiaries in the states in which it operates.

2011

In January 2011, the Company completed the acquisition of a bingo hall in South Carolina for cash and a note payable. The acquired bingo hall commenced operations January 6, 2011.

In January 2011, the Company reached a settlement of its case in Abilene, as described more fully in *Note 14 – Commitments and Contingencies*.

In June 2011, the Company completed the acquisition of a bingo hall in South Carolina for cash and a note payable. The acquired bingo hall commenced operations effective June 1, 2011.

In November 2011, the Company completed the acquisition of a bingo hall in South Carolina for cash and a note payable. The acquired bingo hall commenced operations effective November 14, 2011.

NOTE 4 – IMPAIRMENTS AND OTHER CHARGES

During the third quarter of 2012, the President and Chief Executive Officer ("CEO") was replaced and paid approximately $300,000 in severance.

For the year ended December 31, 2012, the Company reduced the carrying value of goodwill by $2,726,457 based upon the performance of South Carolina operations and subsequent sale after December 31, 2012 described in Note 15.

During 2011, the Company closed two bingo halls and in accordance with FASB ASC 350, *Intangibles – Goodwill and Other* and FASB ASC 360, *Property, Plant and Equipment*, the Company wrote-down $388,742 for the carrying value of goodwill in the amount of $316,308 and leasehold improvements in the amount of $72,434.

These costs are included in Termination Costs and Impairment Charges in the accompanying statement of operations for the years ended December 31, 2012 and 2011.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2012 and 2011 consists of the following:

	2012	2011
Land	$ 771,720	$ 760,467
Buildings	3,611,289	3,566,950
Leasehold improvements	6,238,726	6,048,706
Equipment, furniture, and fixtures	3,835,525	3,835,901
Automobiles	231,945	178,161
	14,689,205	14,390,185
Less: Accumulated depreciation and amortization	(7,843,370)	(7,091,060)
Property and equipment, net	$ 6,845,835	$ 7,299,125

Depreciation and amortization expense of property and equipment charged to operations for the years ended December 31, 2012 and 2011 was $930,363 and $905,690, respectively.

NOTE 6 – ACCRUED EXPENSES

Accrued expenses at December 31, 2012 and December 31, 2011, consisted of the following:

	2012	2011
Accrued contract termination costs	$ 206,982	$ 206,982
Accrued compensation costs	272,589	208,696
Accrued property taxes	174,350	201,689
Other accrued expenses	467,138	429,537
Total accrued expenses	$ 1,121,059	$ 1,046,904

The contract termination costs were associated with certain underperforming bingo halls in Texas and recorded in accordance with FASB ASC 420, *Exit or Disposal Cost Obligations.*

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill at December 31, 2012 and 2011 is as follows:

	Gross Carrying Amount	Accumulated Amortization	Total
Goodwill at December 31, 2010	$ 6,669,963	$ (1,195,816)	$ 5,474,147
Goodwill acquired during period	764,051	---	764,051
Goodwill impairment losses	(463,083)	146,775	(316,308)
Goodwill at December 31, 2011	$ 6,970,931	$ (1,049,041)	$ 5,921,890
Goodwill acquired during period	---	---	---
Goodwill impairment losses	(3,122,264)	395,807	(2,726,457)
Goodwill at December 31, 2012	$ 3,848,667	$ (653,234)	$ 3,195,433

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Intangible assets at December 31, 2012 and 2011 consist of the following:

	Gross Carrying Amount	Accumulated Amortization	Total
Intangible Assets with Indefinite Lives:			
Bingo licenses at December 31, 2010	$ 881,339	(51,974)	$ 829,365
Licenses acquired during the period	---	---	---
Bingo licenses at December 31, 2011	$ 881,339	(51,974)	$ 829,365
Licenses acquired during the period	---	---	---
Bingo licenses at December 31, 2012	$ 881,339	(51,974)	$ 829,365
Intangible Assets with Finite Lives:			
Covenants not to compete at December 31, 2010	$ 392,500	(281,875)	$ 110,625
Change in covenants not to compete	580,000	(127,639)	452,361
Asset impairment	(45,000)	45,000	---
Covenants not to compete at December 31, 2011	$ 927,500	(364,514)	562,986
Change in covenants not to compete	---	(148,958)	(148,958)
Covenants not to compete at December 31, 2012	$ 927,500	(513,472)	414,028
Intangible Assets, net of accumulated amortization			$1,243,393

Amortization expense charged to operations for the years ended December 31, 2012 and 2011 totaled $148,958 and $127,639, respectively.

Future amortization of intangible assets with finite lives is as follows:

Year	Amount
2013	$ 135,833
2014	96,458
2015	88,333
2016	87,500
2017	5,904
Total	$ 414,028

The increases in goodwill and covenants not to compete in 2011 are related to the Company's acquisition activities.

NOTE 8 – LONG-TERM DEBT

Long-term debt at December 31, 2012 and 2011 consists of the following:

	2012	2011
Note payable to bank, due in monthly installments of $16,430, including interest at approximately 4.80% (bank interest-bearing liabilities index plus 4.00%), maturing December 2013, secured by real estate and stockholder guarantee	$ 2,100,000 *	$ ---
Note payable to bank, due in monthly installments of approximately $13,500, including interest at prime plus 0.50%, with a cap of 7.50% and a floor of 3.95%, maturing December 2020, secured by real estate	---	1,729,837 *
Mortgage note payable to a bank, due in monthly installments of $8,382, including interest at 5.25%, maturing April 2022, secured by a deed of trust on the real estate	738,481	473,603 **
Mortgage note payable to a third party, due in monthly installments of $5,578, including interest at 8.00% maturing August 2012, secured by a second lien on the real estate	---	321,381 **
Note payable to bank, due in monthly installments of $8,644, including interest at prime plus 1.00%, with a cap of 8.00% and a floor of 4.50%, maturing June 2014, secured by note receivable	---	255,195 *
Note payable to bank, due in monthly installments of $6,975, including interest at prime plus 0.75%, with a cap of 7.75% and a floor of 4.25% maturing April 2016, secured by real estate	---	329,433 *
Installment note payable to a third party, due in annual installments of $36,667, unsecured, maturing January 2017	183,333	220,000
Installment note payable to a third party, due in monthly installments of $8,943, including interest at 3.00%, unsecured, maturing September 2014	173,825	273,951
Installment note payable to a third party, due in monthly installments of $4,316, including interest at 3.00%, unsecured, maturing October 2015	144,500	191,182
Line of credit with stockholder in the amount of $500,000, interest only loan at 6.00%, secured by a second lien on the real estate, maturing November 2013	100,000	---
	3,440,139	3,794,582
Less current maturities	(2,450,816)	(525,939)
Long-term debt, net of current portion	$ 989,323	$ 3,268,643

* On December 20, 2012, the Company consolidated and refinanced certain loans into a $2.1 million loan with a one year maturity and subject to certain financial covenants. The Company intends to renew the note on or before its maturity date.

** Loans consolidated and extended to April 2022.

NOTE 8 – LONG-TERM DEBT (continued)

Payments of long-term debt for each of the next five fiscal years and thereafter are as follows:

Years Ending December 31,		Total
2013	$	2,450,816
2014		223,061
2015		153,279
2016		110,222
2017		114,317
Thereafter		388,444
	$	3,440,139

NOTE 9 – STOCKHOLDERS' EQUITY

At December 31, 2012, the Company held 1,417,679 treasury shares at an average cost of $0.95. On February 6, 2013, the Company voluntarily terminated its registration under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act") and ceased filing periodic and current reports with the Securities and Exchange Commission (the "SEC"). The Company determined that it had only 105 stockholders of record as of February 5, 2013. Accordingly, the Company filed a Form 15 with the SEC pursuant to Rule 12h-3(b)(1)(i), to notify the SEC of the suspension of its duty to file reports under the Exchange Act. The Company was current in all of its filing obligations under the Exchange Act at that time.

In 2012, the Company issued 61,826 shares of treasury stock under the Employee Stock Purchase Plan and 401(k) Plan at a cost of $26,572. In addition, the Company recognized additional stock-based compensation in the amount of $80,663 related to issued stock options.

In 2011, the Company issued 13,462 shares of treasury stock under the Employee Stock Purchase Plan and 401(k) Plan at a cost of $9,318. In addition, the Company recognized additional stock-based compensation in the amount of $99,381 related to issued stock options.

NOTE 10 – INCOME TAXES

A reconciliation of the expected income tax expense (benefit) based on the U.S. Corporate income and applicable state tax rates of 39% follows:

	2012	2011
Expected income tax (benefit)	$ (1,664,946)	$ (353,289)
Amounts not deductible for federal income tax purposes	7,319	6,604
Other	143,680	288,120
State income taxes, net of federal income tax	22,357	29,215
Change in valuation allowance	1,528,240	77,244
	$ 36,650	$ 47,894

The reconciling item, Other, for 2011 mainly reflects unused net operating loss carryforwards.

NOTE 10 – INCOME TAXES (continued)

The provision for income taxes consists of the following:

	2012	2011
Current year income taxes:		
Federal	$ ---	$ ---
State	36,650	47,894
Deferred income taxes:		
Federal	---	---
State	---	---
	$ 36,650	$ 47,894

Deferred tax assets and liabilities as of December 31, 2012 and 2011, are as follows:

	2012	2011
Deferred tax asset	$ 7,798,069	$ 6,337,561
Deferred tax liability	(251,625)	(319,357)
Valuation allowance for deferred tax asset	(7,546,444)	(6,018,204)
Net deferred tax asset	$ ---	$ ---

The components of deferred tax assets (liabilities) at December 31, 2012 and 2011 are as follows:

Deferred tax asset (liability)	2012	2011
Net operating loss carryforward	$ 6,167,005	$ 5,385,602
Depreciation	(251,625)	(319,357)
Allowance for doubtful accounts	8,658	8,658
Accrued expenses and impairments	1,444,343	796,034
Capital loss carryforward	561	561
Other	177,502	146,706
Net deferred tax asset (liability)	$ 7,546,444	$ 6,018,204

The non-current deferred tax liability results from differences in depreciation and amortization of assets and the non-current deferred tax assets mainly result from differences in legal reserves for financial and federal income tax reporting purposes and the deferred tax benefit of net operating losses. Due to continuing operating losses for tax purposes, the net deferred tax asset has been allowed for as it does not meet the "more-likely-than-not" recognition criteria.

The Company recorded approximately $37,000 and $48,000 of state income tax expense for the years ended December 31, 2012 and 2011, respectively. The Company does not expect to incur material federal income tax charges until the depletion of its accumulated federal income tax loss carry-forwards. At December 31, 2012, the Company has net operating loss carry forwards for federal income tax purposes of approximately $15.8 million that begin expiring in the year 2017.

FASB ASC 740, *Income Taxes* addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. If a tax position is more likely than not to be sustained upon examination, then an enterprise would be required to recognize in its financial statements the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. As of December 31, 2012, the Company did not recognize a liability for uncertain tax positions. The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months. The tax years 2008 through 2012 remain open to examination by the major taxing jurisdictions in which the Company files income tax returns.

NOTE 11 – EARNINGS PER SHARE

A reconciliation of basic to diluted earnings (loss) per share is as follows:

Years ended December 31,	**2012 Basic**	**2012 Diluted**	**2011 Basic**	**2011 Diluted**
Numerator:				
Net income (loss)	$ (4,305,744)	$ (4,305,744)	$ (953,763)	$ (953,763)
Net income (loss) available to common stockholders	$ (4,305,744)	$ (4,305,744)	$ (953,763)	$ (953,763)
Denominator:				
Weighted average shares outstanding	17,354,118	17,354,118	17,324,586	17,324,586
Effect of dilutive securities:				
Stock options and warrants	---	---	---	---
Weighted average shares outstanding	17,354,118	17,354,118	17,324,586	17,324,586
Earnings (loss) per share	$ (0.25)	$ (0.25)	$ (0.06)	$ (0.06)

Stock options to acquire 2,524,285 and 1,344,808 shares for the year ended December 31, 2012 and 2011, respectively, were excluded in the computation of diluted earnings per share because the effect of including the stock options would have been anti-dilutive or the options were out of the money.

NOTE 12 – STOCK-BASED COMPENSATION

The Company applies FASB ASC 718, *Compensation – Stock Compensation* and FASB ASC 505, *Equity*, using the modified prospective method of implementation, whereby the prospective method records the compensation expense from the implementation date forward, however, it leaves prior periods unchanged in accounting for its stock options. At December 31, 2011, the Company has implemented five shareholder approved stock option plans. These plans are intended to comply with Section 422 of the Internal Revenue Code of 1986, as amended. The plans collectively provide for the total issuance of 3,600,000 common shares over ten years from the date of each plan's approval. In addition, the plans allow for additional increases of 15% of the then outstanding shares. Effective January 1, 2012, the plans were increased by an additional 3,000,000 common shares over ten years allowing for additional increases of 15% of the then outstanding shares by unanimous approval of the Board of Directors.

The Company recorded approximately $81,000 and $99,000 in compensation expense in the years ended December 31, 2012 and 2011, respectively, related to options issued or stock grants under its stock-based incentive compensation plans. This includes expense related to both options issued in the current year and options issued in prior years for which the requisite service period for those options includes the current year. The fair value of these options was calculated using the Black-Scholes options pricing model. For options issued in 2012 and 2011, the following assumptions were used: dividend yield of 0%, expected volatility of 78%, risk free interest rates of 3.5% and an expected life of 10 years. Treasury stock generally is issued upon stock option exercises.

NOTE 12 – STOCK-BASED COMPENSATION (continued)

Transactions under the stock option plans are summarized below. At December 31, 2012, a total of 695,410 options were outstanding under these plans.

	Employee Stock Plans		
	Options		**Weighted Average Exercise Price**
Outstanding at December 31, 2010	1,572,410	$	0.43
Granted	450,000		0.56
Exercised	---		---
Forfeited	---		---
Outstanding at December 31, 2011	2,022,410	$	0.46
Granted	1,532,500		0.44
Exercised	---		---
Forfeited	(2,859,500)		0.41
Outstanding at December 31, 2012	695,410	$	0.61

The fair value of options granted during the year ended December 31, 2012, was approximately $73,383; with 32,500 options vested upon grant and 1,500,000 vesting during term of employment.

The fair value of options granted during the year ended December 31, 2011 was approximately $205,900; with 50,000 options vesting upon grant and 400,000 options vesting over four years subject to certain performance criteria.

For 2012, the aggregate intrinsic value represents the value of the Company's closing stock price of $0.25 on the last trading day of the period in excess of the exercise price multiplied by the number of options outstanding or exercisable. The total intrinsic value of options exercised during 2012 was $0, as no options were exercised. Total unrecognized stock-based compensation expense related to non-vested stock options was approximately $95,000 as of December 31, 2012, related to approximately 209,000 shares with a per share weighted average fair value of $0.45. The Company anticipates this expense to be recognized over a weighted average period of approximately 2.2 years, should performance criteria related to 200,000 options be determined likely to be met.

For 2011, the aggregate intrinsic value represents the value of the Company's closing stock price of $0.52 on the last trading day of the period in excess of the exercise price multiplied by the number of options outstanding or exercisable. The total intrinsic value of options exercised during 2011 was $0, as no options were exercised. Total unrecognized stock-based compensation expense related to non-vested stock options was approximately $192,000 as of December 31, 2011, related to approximately 422,000 shares with a per share weighted average fair value of $0.45. The Company anticipates this expense to be recognized over a weighted average period of approximately 3.2 years, should performance criteria related to 400,000 options be determined likely to be met.

NOTE 12 – STOCK BASED COMPENSATION (continued)

The following table summarizes information about options outstanding at December 31, 2012 and 2011, under the Employee Stock Plans:

		Options Outstanding			Options Exercisable	
	Range of Exercise Prices	**Number Outstanding**	**Weighted Avg. Remaining Contractual Life**	**Weighted Avg. Exercise Price**	**Number Exercisable**	**Weighted Avg. Exercise Price**
2012:	$1.26 - 1.87	16,500	3.4 years	$ 1.32	16,500	$ 1.32
	$0.00 - $1.25	678,910	6.4 years	$ 0.60	469,535	$ 0.61
	Total	695,410	6.3 years	$ 0.61	486,035	$ 0.64
2011:	$1.26 - 1.87	16,500	4.4 years	$ 1.32	16,500	$ 1.32
	$0.00 - $1.25	2,005,910	6.8 years	$ 0.45	1,584,035	$ 0.43
	Total	2,022,410	6.8 years	$ 0.46	1,600,535	$ 0.44
	Aggregate intrinsic value	$ 75			$ 75	

The weighted average remaining contractual life of options exercisable as of December 31, 2012 was 7.3 years.

NOTE 13 – RELATED PARTY TRANSACTIONS

In December 2011, the Company renewed and modified a five year employment agreement with its President and CEO for the period January 1, 2012 through December 31, 2016. During the third quarter of 2012, the President and CEO was replaced and paid approximately $300,000 in severance. In accordance with the agreement, the President and CEO, in January 2012, was awarded stock options for 1,500,000 shares of common stock with an exercise price of 110% of the fair market value of the Company's stock on the date of grant. The options were to vest ratably over the five year employment agreement period and were subject to acceleration upon certain conditions. The former President and CEO requested a non-broker-assisted cashless exercise for vested options and the Company determined an amount to directly convert those options would have been less than the exercise price of the vested options and, therefore, were determined to be out-of-the-money options. In accordance with the agreement, the Company accrued as other liabilities, related party $24,000 of deferred compensation in each of the years ended December 31, 2012 and 2011.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

The Company is obligated under various operating leases. Generally, the leases provide for minimum annual rentals as well as a proportionate share of the real estate taxes, insurance, and certain common area charges. Minimum annual rentals under these leases are as follows:

Year Ending December 31,	Minimum Rentals
2013	$ 2,245,213
2014	1,702,082
2015	1,306,475
2016	928,544
2017	570,895
Thereafter	810,834
Total minimum annual rentals	$ 7,564,043

Rent expense for the years ended December 31, 2012 and 2011, amounted to approximately $2.37 million and $2.36 million, respectively.

The Company is party to certain subleases requiring monthly rent. The tenants provided security deposits totaling $28,800. The minimum annual future receipts under these subleases are as follows:

Year Ending December 31,	Minimum Rent
2013	$ 264,600
2014	267,600
2015	172,200
2016	18,000
Total minimum annual rentals	$ 722,400

(b) Legal

The Company resolved its major litigation during 2011. The Company is also sometimes engaged in routine litigation incidental to its business. In general, the Company will vigorously defend itself against all claims to the fullest extent possible. The legal proceedings exclude certain insurance claims for which the Company believes are covered and defended by existing insurance policies and ordinary and incidental matters.

Littlefield Corporation f/k/a/ American Bingo & Gaming Corporation v. Philip Furtney, Case No.: 2001 CA 4000, Circuit Court of the Twelfth Judicial Circuit in and for Manatee County, Florida.

This suit is no longer pending. The Company sought recovery from the estate of Philip Furtney ("Furtney") for fraud and negligent misrepresentations. This litigation arose from the 1995 acquisition of three Florida bingo centers by a predecessor, American Bingo & Gaming Corporation, from two corporations controlled by Furtney, Pondella Hall for Hire, Inc., ("Pondella") and 800438 Ontario.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)

The case proceeded to trial on October 10, 2011. At the close of the Company's evidence, the trial judge dismissed the case. Although a predecessor judge had denied previous efforts to dismiss the Company's claims based on the doctrine of res judicata and collateral estoppel, the trial judge found that the claims were barred by the doctrine of res judicata and collateral estoppel as a result of the verdict in the 2005 litigation with Pondella and 800438 Ontario; he also found that the evidence was insufficient to establish that Furtney fraudulently induced American Bingo & Gaming Corporation to enter into the purchase of the bingo centers.

The Company has vigorously pursued its claims against Furtney and has the right to appeal this result. However, given the nature of the dismissal and based upon the advice of counsel, no appeal is planned.

Cause No.24, 182-B; *West Texas Bingo, Inc. v. Janie Wall*, in the 104th Judicial District Court of Taylor County, Texas.

This suit is no longer pending. In January 2011, this matter was resolved pursuant to the terms and conditions of a confidential settlement agreement entered into by the parties within which, for consideration, the Defendants surrendered their licenses to play bingo for a specified period of time.

(c) Stock Repurchase Plan

During the second quarter of 1998, the Company authorized a stock repurchase program to purchase up to 1,000,000 shares of its common stock. On February 8, 2000, the Company amended the stock repurchase program to permit purchase of up to 2,000,000 shares of its common stock at such time and prices the Company deems advantageous. The amount was subsequently increased to 3,000,000 shares. During 2009, the Company reinstated its share repurchase program and authorized the purchase of up to an additional $500,000 of its common shares. There is no commitment or obligation on the part of the Company to purchase any particular number of shares, and the program may be suspended at any time at the Company's discretion. Any shares so repurchased will be held as treasury shares and be available for general corporate purposes.

(d) Concentration of Credit Risk

The Company mainly maintains its cash and certificates of deposit in banks which are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At December 31, 2012, approximately $100,000 of cash in banks exceeded FDIC coverage limits.

(e) 401(k) and Employee Stock Ownership Plan

The Company has a 401(k) and Employee Stock Ownership Plan that was instituted in 2001. In 2012, employees were allowed to defer up to 90% of their wages, tax deferred, to a maximum of $17,000 or $22,500, depending upon age, for retirement purposes. The Company has no obligation to match any of the employee deferrals and contributions to the plan are at the discretion of management. For the years ended December 31, 2012 and 2011, the Company did not make any contributions into the Plan.

(f) Employee Stock Purchase Plan

Effective January 1, 2012, the Company replaced its prior 2002 Employee Stock Purchase Plan, which expired on December 31, 2011. The plan allows employees of Littlefield Corporation and any subsidiaries to acquire stock ownership in the Company. The Company has reserved 500,000 shares under this plan. Offering of shares under this plan will commence (1) on the first day of each fiscal year and will end on the last day of the fiscal year or (2) at the sole discretion of the administrators. Any offerings that remain unsold during the offering period shall expire and shall be made available for grant in future offering periods. Eligible employees shall elect to make contributions between 1% and 10% of gross compensation. The exercise price of any shares purchased by a participant shall be at 85% of the lower of the fair market value of the common stock on the date of the grant or date of exercise. Through December 31, 2012, 310,407 shares have been purchased through this program. Of the shares purchased, 13,245 shares were purchased in 2012 and 4,022 in 2011.

NOTE 15 – SUBSEQUENT EVENTS

On May 24, 2013, the Company sold the stock in all South Carolina subsidiaries for approximately $1.8 million effective May 1, 2013. The final purchase price is subject to certain working capital adjustments which are not yet determinable. The sale is expected to result in a gain. The consideration consists mainly of a promissory note of approximately $1.5 million and assumption of approximately $0.3 million of notes payable. The promissory note is payable in equal quarterly installments commencing September 2013 through June 2018, including interest at 3% and is secured by stock of the subsidiaries and a certain guaranty.