evolution fuels

ANNUAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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Part A General Company Information

Item I The exact name of the issuer and its predecessor (if any).

Meadow Springs, Inc. (Initial)

Earth Biofuels, Inc. (11/09/05)

Evolution Energy, Inc. (4/15/09)

Evolution Fuels, Inc. (5/1/09)

Item II The address of the issuer's principal executive offices.

3001 Knox Street, Suite 403

Dallas, TX 75205

Phone: 866-765-4940 Fax: 214-389-9805

www.evolution-fuels.com

Other OTC: EVFN

Prior Other OTC: EBOF.PK, EVFL.PK

Item III The jurisdiction(s) and date of the issuer's incorporation or organization.

The issuer was incorporated in the state of Nevada on July 15, 2002, under the name, Meadows Springs, Inc. Effective November 14, 2005; the domicile of the issuer was moved to Delaware by means of a merger. Effective April 15, 2009, the issuer changed its name to Evolution Fuels, Inc.

Part B Share Structure

Item IV The exact title and class of securities outstanding.

In answering this item, provide the exact title and class of each class of outstanding securities. In addition, please provide the CUSIP and trading symbol.

CLASS	CUSIP #	TRADING SYMBOL
Common Stock	Cusip # 30049F 106	EVFN
Preferred Stock, Series A	Cusip# 30049F 106	
Preferred Stock, Series B	Cusip # 30049F 106	
Preferred Stock, Series C	Cusip # 30049F 106	

Item V Par or stated value and description of the security.

A. *Par or Stated Value*. Provide the par or stated value for each class of outstanding securities.

CLASS	PAR VALUE
Common Stock	$.00001
Redeemable Preferred Stock, Series A	$.00001
Redeemable Preferred Stock, Series B	$.00001
Redeemable Preferred Stock, Series C	$.00001

B. *Common or Preferred Stock*.

1. For common equity, describe any dividend, voting and preemption rights.

   None

2. For preferred stock, describe the dividend, voting, conversion and liquidation rights as well as redemption or sinking fund provisions.

   Redeemable Preferred Stock, Series A

   Dividend Rate and Rights. Holders of the Series A Preferred Stock shall be entitled to receive dividends or other distributions with the holders of the Corporation's common stock, par value $.00001 (the "Common Stock") on an as converted basis when, as, and if declared by the Directors of the Corporation.

   Voting. On any matter presented to the stockholders of the Corporation for their action or consideration at any meeting of stockholders of the Corporation (or by written consent of stockholders in lieu of meeting), each holder of outstanding shares of Series A Preferred Stock shall be entitled to cast fifty votes for each share of Series A Preferred Stock held. Except as provided by law or by the other provisions of this Certificate, holders of Series A Preferred Stock shall vote together with the holders of Common Stock as a single class.

Conversion. Each share of Series A Preferred Stock shall be convertible into such number of fully paid and non-assessable shares of Common Stock as is determined by dividing the Series A Original Issue Price, $1.00, by the Series A Conversion Price, initially $0.02, or in the event of a Deemed Liquidation Event $.0025, in effect at the time of conversion.

Liquidation/Redemption. Holders of the Series A Preferred Stock have the right to require redemption of their shares upon certain "deemed liquidation events" including a merger, share exchange or consolidation, and to receive out of the assets of the Corporation said redemption in event of a corporate dissolution.

<u>Redeemable Preferred Stock, Series B</u>

Dividend Rate and Rights. Holders of the Series A Preferred Stock shall be entitled to receive dividends or other distributions with the holders of the Corporation's common stock, par value $.00001 (the "Common Stock") on an as converted basis when, as, and if declared by the Directors of the Corporation.

Voting. Holders of the Series B Preferred Stock have no voting rights.

Conversion/Redemption. The shares of the Preferred Stock are redeemable over a two (2) year period. The shares are redeemable such that one eighth (1/8) of the shares of Preferred Stock purchased by the Holder per the Subscription Agreement (the "Redemption Shares") are redeemable each quarter over the eight subsequent, consecutive 90 day quarters commencing six (6) months following the original issuance date of the Preferred Stock by the Corporation to the Holder. Each of the Redemption Shares is redeemed at $7.00 per share (a 20% annualized rate of return based on a valuation of $5.00 per share of the Preferred Stock over a two year period). Once the Corporation has received the Redemption Shares from the Holder after a Redemption Date, the Redemption Shares may be redeemed, at the sole discretion of the Corporation, in cash, or in shares of the Corporation's Common Stock payable at a 20% discount to the VWAP on the Redemption Date.

Liquidation. Upon any liquidation, dissolution or winding-up of the Corporation, the holders of the Series B Preferred Stock shall be entitled to receive out of the assets of the Corporation an amount equal to the $5.00 per share, and if the assets of the Corporation shall be insufficient to pay in full such amounts, then in priority behind the holders of the Series A Preferred Stock the entire assets to be distributed to the holders shall be distributed among the holders ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full.

<u>Redeemable Preferred Stock, Series C</u>

Dividend Rate and Rights. Holders of the Series A Preferred Stock shall be entitled to receive dividends or other distributions with the holders of the Corporation's common stock, par value $.00001 (the "Common Stock") on an as converted basis when, as, and if declared by the Directors of the Corporation.

Voting. On any matter presented to the stockholders of the Corporation for their action or consideration at any meeting of stockholders of the Corporation (or by written consent of stockholders in lieu of meeting), each holder of outstanding shares of Series C Preferred Stock shall be entitled to cast one hundred million votes for each share of Series C Preferred Stock held. Except as provided by law or by the other provisions of this Certificate, holders of Series C Preferred Stock shall vote together with the holders of Common Stock as a single class.

Conversion. Each share of Series C Preferred Stock shall be convertible, at the option of either (i) the holder thereof or (ii) the Corporation, at any time, into the same number of fully paid and nonassessable shares of Common Stock.

3. Describe any other material rights of common or preferred stockholders.

   Holders of the Series A Preferred Stock must approve by a majority vote of the shares held by such Holders any material changes to the Company's corporate structure, including amendments to its Certificate of Incorporation, dissolution, issuances of Preferred A Stock, and changes to the number of Directors.

4. Describe any provision in issuer's charter or by-laws that would delay, defer or prevent a change in control of the issuer.

   None.

Item VI The number of shares or total amount of the securities outstanding for each class of securities authorized.

In answering this item, provide the information below for each class of securities authorized**.** Please provide this information (i) as of the end of the issuer's most recent fiscal quarter and (ii) as of the end of the issuer's last two fiscal years.

(i) Period end date;
(ii) Number of shares authorized;
(iii) Number of shares outstanding;
(iv) Freely tradable shares (public float);
(v) Total number of beneficial shareholders; and
(vi) Total number of shareholders of record.

	PERIOD END DATE	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES OUTSTANDING	FREELY TRADABLE SHARES	TOTAL NUMBER OF BENEFICIAL SHAREHOLDERS	TOTAL NUMBER OF SHAREHOLDERS OF RECORD
COMMON STOCK	12/31/2009	100,000,000,000	224,418,502	98,402,917	4	433
PREF. STOCK, SERIES A	12/31/2009	13,000,000	12,276,991		4	12
PREF. STOCK, SERIES B	12/31/2009	2,000,000	1,819,854		11	19
PREF. STOCK, SERIES C	12/31/2009	500	125		1	1
COMMON STOCK	12/31/2008	2,500,000,000	415,253,768	279,628,132	8	172
PREF. STOCK, SERIES A	12/31/2008	13,000,000	5,741,991			8

PREF. STOCK, SERIES B	12/31/2008	2,000,000	708,586			8
COMMON STOCK	12/31/2007	4,000,000	276,554,134	112,052,501	9	195
PREF. STOCK, SERIES A	12/31/2007	13,000,000	0			
PREF. STOCK, SERIES B	12/31/2007	2,000,000	0			

Part C Business Information

Item VII The Name and address of the transfer agent

Direct Transfer
201 Shannon Oaks Circle, Suite 105
Cary, NC 27511

Direct Transfer is registered under the Exchange Act and is regulated by the Securities and Exchange Commission.

Item VIII The nature of the issuer's business.

The principal business of Evolution Fuels, Inc. ("Evolution", or, the "Company"), a Delaware corporation, is the development of retail renewable fuel stations which will provide blends of ethanol from 10% to 85% (E10 to E85), and to establish truck stops modeled after the Willie's Place Truck Stop in Carl's Corner, TX. The Company intends to supply biodiesel to these retail locations from its own biodiesel production facility. Evolution's primary plans and operations are located in Texas and Oklahoma.

The Company was originally organized as a Nevada corporation on July 15, 2002 under the name, Meadows Springs, Inc. Its fiscal year end is December 31, and it has not been in a bankruptcy, receivership, or similar proceeding. On November 9, 2005 a merger with Earth Biofuels, Inc. ("Earth Biofuels"), a Delaware corporation, occurred resulting in a change of name and domicile to Delaware. As part of this merger shares of common stock were issued to shareholders pursuant to a 6 for 1 forward split of the Company's common stock.

Earth Biofuels initially focused on the production of biodiesel and the distribution of biodiesel blends to wholesale and retail markets. In early 2006 the Company began marketing blended biodiesel to truck stops and worked to identify locations in Texas to construct and/or acquire facilities for the production of biodiesel.

The Company established a biodiesel production facility in Durant, Oklahoma that was completed in early 2007. Shortly thereafter the price of virgin feedstock oils became too prohibitive to operate the plant as it was configured, and the plant ceased operations by the third quarter of 2007.

On July 24, 2006, Evolution entered into a securities purchase agreement pursuant to which Evolution issued $52.5 million aggregate senior convertible notes that were due in 2011 to eight institutional investors. The notes initially carried an 8% coupon, payable quarterly, and were convertible into shares of common stock at $2.90 per share. In connection with the issuance of the notes, Evolution also issued five-year warrants to purchase 9,051,725 shares of common stock to the investors and five-year warrants to purchase 1,357,759 shares of common stock to Evolution's placement agent, at $2.90 per share.

Due to ongoing renegotiations with the above investors, Evolution did not make the first quarterly interest payments due October 1, 2006, or register the underlying securities within 30 days from closing in accordance with the original securities purchase agreement dated July 24, 2006 and August 11, 2006. As such, penalties and interest accrued at the default rate of 15% interest, plus 1.5% for the amount outstanding for registration penalties, and an 18% late charge. Additionally there was a redemption penalty of 20% due upon settlement of the notes.

During the second quarter of 2007, certain of the note holders, filed with the bankruptcy courts a Chapter 7 - Involuntary Liquidation against the Company. On November 14, 2007, Evolution Fuels, Inc., (the "Company") negotiated and executed a settlement agreement (the "Agreement"). The Agreement required the creditors to dismiss their petition of bankruptcy. Under the terms of the Agreement, the Company granted certain security interests to the creditors and agreed to execute a restructuring plan within 160 days. A confession of judgment was signed by the Company noting the entire amount of debt and penalties due under the original notes of $100,651,173. Total accrued penalties were approximately $48,151,000 at that time..

On June 30, 2008, the Company sold its wholly owned subsidiary New ELNG to PNG Ventures Inc. ("PNG") via a Share Exchange Agreement (the "Exchange Agreement"), in exchange for the issuance of 7,000,000 shares of the of common stock of the PNG. Prior to the completion of the Share Exchange, Earth LNG, Inc, a Texas corporation ("ELNG") had transferred to New ELNG all right and marketable title to the member interests of Applied LNG Technologies USA, LLC and Arizona LNG, L.L.C. and all their other assets that, together, comprise the LNG business, resulting in the characterization of the transfer as an asset sale of the Company's subsidiary. The investors holding $52.5 million in senior unsecured notes were granted an irrevocable proxy regarding the 7 million shares the Company received in the exchange. In addition, the notes to the investors were amended with new conversion rates to Company shares, and/or are exchangeable into the PNG shares with limitations on the exchanges. Accordingly, the Company did not have voting control over the 7,000,000 shares of PNG Ventures, Inc. and a change of control has occurred with regard to the LNG business.

As a result, earnings from the LNG business through the date of disposition and gain on sale have been included in the financial statements for the year ended December 31, 2008. The financial statements of the LNG business are reported as discontinued operations in the statement of operations and its associated assets and liabilities are classified separately in the balance sheet. Prior periods have been reclassified to conform to the current-period presentation.

On December 24, 2008, the Company and the holders of the Company's Amended and Restated Senior Secured Convertible Exchangeable Notes and Series B Senior Secured Convertible Exchangeable Notes entered into an Amendment and Exchange Agreement (the "Amendment and Exchange Agreement") and consummated the transactions contemplated thereby, pursuant to which, among other things:

The Company exchanged:

- $26,000,000 of an Amended and Restated Senior Secured Convertible Exchangeable Note held by three investors for a senior secured convertible note in the aggregate principal amount of $13,235,000 (the "Series C Note"), which is convertible in shares of common stock, par value $0.001 per share (the "Common Stock"), of the Company, in accordance with the terms thereof and

- $3,000,000 of the outstanding principal amount of existing Series B Senior Secured Convertible Exchangeable Note issued to one Investor for a senior secured convertible note in the aggregate principal amount of $1,765,000 (the "Series D Note), which is convertible in shares of Common Stock in accordance with the terms thereof.

- Neither the Series C Note nor the Series D Note is exchangeable into shares of common stock, par value $0.001 per share of PNG Ventures, Inc., a Nevada corporation;

- In addition to the above transactions, one investor exchanged $56,000,000 of an Amended and Restated Senior Secured Convertible Exchangeable Note for 5.6 million shares of common stock of PNG corporation. This left the Company with 1,400,000 shares of PNG stock which is pledged to other investors holding Amended and Restated Senior Secured Convertible Exchangeable Note

- Subject to the satisfaction of certain equity conditions, the Company may at any time, at it option, require the Investor to convert the remaining aggregate principal amount of $5,000,000 of the Amended and Restated Senior Secured Convertible Exchangeable Note of the Investor in Common Stock, in whole or in part; and

- The Company, certain of its subsidiaries and the Investor entered into a reaffirmation agreement (the "Reaffirmation Agreement"), which reaffirms the security interest granted by the Company and certain of its subsidiaries with respect to the Amended and Restated Senior Secured Convertible Exchangeable Notes, the Series B Senior Secured Convertible Exchangeable Notes, the Series C Note and the Series D Note.

The Series C Note ranks pari passu with the Amended and Restated Senior Secured Convertible Exchangeable Notes and the Series D Note ranks pari passu with the existing Series B Senior Secured Convertible Exchangeable Notes.

The holders of the Company's Amended and Restated Senior Secured Convertible Exchangeable Notes and Series B Senior Secured Convertible Exchangeable Notes consented to the transactions contemplated by the Exchange Agreement.

As a result of all of the above December 24, 2008 transactions, the Company recognized a gain on the exchanges totaling $76,549,435. The gain is included in the financial statements for the period ending December 31, 2008.

In February 2008 the Company closed a financing for the construction of the Willie's Place at Carl's Corner truck stop located near Hillsboro, TX, which was completed and opened for business in January 2009. The Company is partnered with country music legend Willie Nelson and a small group of individuals in the project.

1. The form of organization of the issuer

Evolution Fuels is a Delaware Corporation.

2. The year that the issuer (or any predecessor) was organized

The Company was originally organized as a Nevada corporation on July 15, 2002 under the name, Meadows Springs, Inc.

3. The issuer's fiscal year end date

The Issuers Fiscal year end date is December 31.

4. Whether the issuer (or any predecessor) has been in bankruptcy, receivership or any similar proceeding

Issuer has not been in any bankruptcy, receivership, or any similar proceedings.

5. Any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets

On November 9, 2005 a merger with Earth Biofuels, Inc. ("Earth Biofuels"), a Delaware corporation, occurred resulting in a change of name and domicile to Delaware.

On July 21, 2006, the Company amended it Articles of Incorporation to increase the number of authorized common shares from 250,000,000 (Two Hundred Fifty Million) shares to 400,000,000 (Four Hundred Million) shares.

In November 2006 the Company acquired a liquefied natural gas production facility that produced approximately 80,000 of LNG per day. The facility provided LNG transportation fuel to commercial and municipal fleet vehicles in cities along the southern coast of California.

On June 30, 2008, the Company entered into a Share Exchange Agreement with PNG Ventures Inc. ("PNG") which resulted in PNG acquiring the Company's wholly-owned liquefied natural gas subsidiary in exchange for the transfer to the Company of a majority ownership of PNG.

On December 29, 2008, the Company amended it Articles of Incorporation to increase the number of authorized common shares from 400,000,000 (Four Hundred Million) shares to 2,500,000,000 (Two Billion Five Hundred Million) shares.

On April 22, 2009, the Company amended it Articles of Incorporation to increase the number of authorized common shares from 2,500,000,000 (Two Billion Five Hundred Million) shares to 100,000,000,000 (One Hundred Billion) shares.

6. **Any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the issuer to make payments**

On July 24, 2006, the Company entered into a securities purchase agreement pursuant to which it issued $52.5 million aggregate senior convertible notes that were due in 2011 to eight institutional investors. On August 11, 2006, the Company entered into a securities purchase agreement pursuant to which it issued $1.1 million aggregate senior convertible notes that are due in 2011 to two institutional investors. Due to ongoing renegotiations with the above investors, the Company did not make the first quarterly interest payments due October 1, 2006, or register the underlying securities within 30 days from closing in accordance with the original securities purchase agreement dated July 24, 2006 and August 11, 2006. Subsequent to the second quarter of 2007, certain of the note holders above, filed with the bankruptcy courts a Chapter 7 - Involuntary Liquidation against the Company. On November 14, 2007, the Company negotiated and executed a settlement agreement (the "Agreement") with the group of creditors who had petitioned for an involuntary bankruptcy against the company on July 11 of this year. The Agreement required the creditors to dismiss their petition of bankruptcy. Under the terms of the Agreement, the Company granted certain security interests to the creditors. In June 2008 the Company sold its subsidiary which produced liquefied natural gas, restructured its debts with the above creditors, and then repaid the majority of these debts in December 2008.

Please refer to the Footnotes included in the Financial Statements attached to this disclosure statement for more information regarding certain of the Company's debts.

7. **Any change of control**

None.

8. **Any increase of 10% or more of the same class of outstanding equity securities**

Over the past three years there have been issuances of the Company's preferred shares, series A and B, which resulted in an increase of 10% or more of the outstanding shares of each series as follows:

EQUITY SECURITY	ISSUANCE DATE	ISSUED TO	NUMBER OF SHARES	PERCENT INCREASE
Preferred A	3/28/08	Black Forest Int'l, LLC	100,000	100% (1st issuance)
Preferred A	4/10/08	Black Forest Int'l, LLC	535,000	535%
Preferred A	6/30/08	Black Forest Int'l, LLC	100,000	16%
Preferred A	7/15/08	Apollo Resources Int'l, Inc	2,175,721	296%
Preferred A	7/17/08	Dennis McLaughlin	1,000,000	33%
Preferred A	10/17/08	Apollo Resources Int'l, Inc	500,000	11%
Preferred A	10/17/08	Greenland Capital, Inc.	900,000	17%
Preferred A	1/16/09	Christopher Chambers	1,000,000	15%
Preferred A	1/16/09	Dennis McLaughlin	4,000,000	49%
Preferred B	4/29/08	HDRD, LLC	40,800	100% (1st issuance)
Preferred B	6/4/08	Peter Bell	100,000	245%
Preferred B	7/25/08	Eugene Holmes	50,000	35%
Preferred B	10/2/08	Black Forest Int'l, LLC	149,786	77%
Preferred B	10/24/08	Harborview Master Fund	100,000	29%
Preferred B	12/11/08	Harborview Capital Mgmt	125,000	28%

Preferred B	1/16/09	Bruce Blackwell	100,000	18%
Preferred B	1/16/09	Herbert Meyer	100,000	15%
Preferred B	1/16/09	William Luckett	100,000	13%
Preferred B	1/16/09	Morgan Freeman	100,000	12%
Preferred B	1/16/09	Robert Hepler	200,000	21%
Preferred B	1/16/09	Gerard Gibert	150,000	13%
Preferred B	1/16/09	Christopher Chambers	200,000	15%
Preferred C	4/17/09	Dennis McLaughlin	50	100% (1st issuance)
Preferred C	6/25/09	Dennis McLaughlin	75	60%
Preferred C	10/20/09	Dennis McLaughlin	175	140%

9. Any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization

On June 30, 2008, the Company entered into a Share Exchange Agreement with PNG Ventures Inc. ("PNG") which resulted in PNG acquiring the Company's wholly-owned liquefied natural gas subsidiary in exchange for the transfer to the Company of a majority ownership of PNG.

In June 2009 the Company issued a stock dividend to its shareholders such that one additional share of common stock was issued for every common share held. The issued shares are subject to Rule 144 of the Securities Act of 1933, and are therefore "restricted" until the provisions of Rule 144 are satisfied.

On November 27, 2009 the Company effected a 1-for-600 reverse split of its common stock.

On March 30, 2010 the Company effected a dividend of its ownership of Big Star Media Group, Inc. common stock, and on April 7, 2010 the Company effected a dividend of its ownership of Southwest Resources, Inc. common stock.

10. Any delisting of the issuer's securities by any securities exchange or deletion from the OTC Bulletin Board

In April of 2009 the Company was delisted from the OTC Bulletin Board Exchange for failure to make timely filings.

11. Any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator. State the names of the principal parties, the nature and current status of the matters, and the amounts involved.

On May 2, 2006, Evolution Fuels entered into a letter of intent with Vertex Energy, L.P., which contemplated a joint venture in which a newly created company would own and operate a biodiesel production facility on the Houston Ship Channel in Houston, Texas. As contemplated by the letter of intent, Vertex Energy would acquire a 49% interest in the newly created company in exchange for contributing to the new operating company real property and improvements, including an existing chemical processing facility. The Company would acquire a 51% interest in the operating company in exchange for the payment of $2,500,000 and the issuance of 1,500,000 shares of its common stock to Vertex Energy. In Harris County District Court, Vertex Energy, LP & Benjamin P. Cowart alleged breach of contract on January 26, 2007, and a motion for new trial was granted. Vertex Energy filed its First Amended Petition on February 8, 2008, enjoining Jason Gehrig to the case. A settlement had been reached in 2008, however, due to lack of cash flow the settlement amount was not paid. Subsequent thereto Vertex was awarded a judgment against Evolution. The investment in this company and related plant was deemed impaired due to lack of operations and was charged to earnings totaling $2,435,000 during 2006, and $2,543,000 during 2007, resulting in total estimated impairments of $4,978,000. During the third quarter 2008, approximately $3.3 million was accrued regarding this contingency. On January 26, 2010 the parties entered into a settlement agreement. The Company is currently in default of such agreement but is working in good faith with Vertex to reach a mutually agreeable resolution.

Marc Weill, Tom Gross, and Josh Cohen ("Weill et al.") were investors of Evolution pursuant to convertible promissory notes. Weill et al. sued the Company on March 3, 2008 for $1,500,000.00, plus accrued interest, damages suffered, court costs, and attorney fees. On February 24, 2009 Weill et al. filed a Motion for Summary Judgment that was to be heard by the Court on March 25, 2009. Prior to the Summary Judgment Hearing Weill et al. and Evolution entered into a Rule 11 Agreement regarding the structure of an Agreed Judgment to be executed. On April 4, 2009 Weill et al. and the Company entered into an Agreed Judgment by which Evolution was to pay Weill et al. $2,100,000.00. This amount has not yet been paid and Weill et al are currently pursuing post-judgment remedies. The Company intends to pursue settlement of the matter.

The Company has become subject to various claims and other legal matters in the course of conducting its business. The company has recorded approximately $1 million in regards to various other claims deemed likely in accounts payable and accrued expenses as of December 31, 2009. The Company is actively pursuing settlement agreements with all parties.

A. <u>Business of Issuer</u>.

The mission of Evolution Fuels, Inc. (the "Company" or "Evolution") is to help the United States achieve energy independence by focusing on the creation of downstream renewable fuels retail fuel stations. To do so, the Company plans to establish a chain of retail fuel station/convenience stores and truck stops that offer varying blends of renewable fuels, supplied in part by the Company's own production of biodiesel.

Evolution is a partner in the Willie's Place Truck Stop near Hillsboro, TX, built to establish a high profile flagship truck stop and convenience store that offers renewable fuels. Willie's Place, which opened in December 2008, offers blends of biodiesel fuel to truckers and other travelers, and is a popular travel destination due to its unique design as a tribute to country music legend, Willie Nelson.

The Company is in the early stages of establishing retail fueling/convenience store stations that will provide blends of ethanol from 10% ("E10") up to 85% ("E85"), with an emphasis on promoting mid-range blends such as E20, as well as blends of biodiesel to fuel passenger vehicles on the road today. Additionally, the Company is considering the sale of compressed natural gas (CNG) on a retail basis.

Evolution plans to supply the retail fuel outlets with biodiesel fuel produced from its own production facility in Durant, OK.

Current Situation

Evolution is currently in the process of locating existing fuel station/convenience stores in the Dallas metroplex area that the Company may lease of acquire for the purpose of offering varying blends of ethanol and biodiesel fuel.

Evolution's management strongly believes that one of the paths toward U.S. energy independence must involve the creation of stronger demand for ethanol at the pump. Recent studies performed by the U.S. Department of Energy and others have shown that ethanol blends of up to 20% may be used by many legacy non-"Flexfuel" vehicles without damage to the engine or fuel systems. The Company intends to promote the use of ethanol blends above 10% that can be used today by "Flexfuel" vehicles which are designed to use ethanol fuel blends of up to 85% ("E85"). Further, the Company anticipates that depending upon the make of the truck or automobile, certain vehicles may incur no reduction in fuel efficiency, and possibly might experience an improvement in fuel efficiency by using blends such as E20 or E30.

The Company's management believes that the increased use of ethanol blends of over 10% by the motoring public will help push the demand for ethanol beyond the current "blend wall" caused by the existing limitation of ethanol blends with gasoline of 10%. If more fuel stations are established that offer mid-range blends of ethanol at prices that would likely undercut petroleum gasoline prices, Evolution believes that public demand would increase, thereby creating more market for increased domestic production of ethanol, ideally from cellulosic feedstock sources.

One aspect of the Company's plan is to partner with a local town car service that will fuel its fleet of vehicles at such renewable fuels stations that are established. Evolution has investigated the possibility of working with the federal EPA in providing ongoing maintenance records from the town car fleet as a way to assist efforts to raise ethanol blend standards above the current 10%.

The Company owns a facility located in Durant, Oklahoma, approximately 75 miles from the Dallas – Fort Worth metroplex, which was designed for 10 million gallons per year of biodiesel fuel biodiesel production. The plant was built to use soybean oil as its primary feedstock and has been mostly idle for the past two years due to the high price of virgin oils such as soybean oil against the price of domestic petroleum diesel fuel. In short, the cost of production of biodiesel at the Durant facility has been significantly higher than the domestic market for diesel fuel. This has had a negative affect on the vast majority of biodiesel producers over the course of 2007 and 2008.

The Company owns a 50% interest in a large truck stop located near Hillsboro, Texas. The remaining 50% of "Willie's Place at Carl's Corner" is owned by Truckers Corner, LP, of which Willie Nelson is a partner. The truck stop includes a 12 lane diesel/biodiesel truck fuel island, a gas/E85 car island, 2 sit-down restaurants (similar to Texas Roadhouse), a saloon, a 500 seat live performance theater, a large convenience store with numerous private-branded items and Willie Nelson merchandise, and large acreage for truck parking. The truck stop commenced fuel and convenience store operations during December 2008.

Key Success Factors

A key factor to the Company's success revolves around the Company's ability to establish retail renewable fuel stations, either through acquisition or leases, and the Company's ability to introduce mid-range blends of ethanol and biodiesel to the consuming public. Another factor is the Company's ability to produce quality biodiesel in reasonably close proximity to its intended end use – the Company's retail truck stops and third party fuel distributors outside the local truck stop market. Firm fuel offtake agreements with these third parties will form a base load demand for the fuel. The following factors are most important:

- The establishment of retail renewable fuel stations, either through acquisition or leases.
- The introduction of mid-range blends of ethanol and biodiesel to the consuming public.
- The ability of the Company to manage the fuel station/convenience store operations.
- A successful Durant biodiesel production facility upgrade project in order to produce efficiently and implement a multi-feedstock pretreatment system in order to produce from multiple, lowest-cost feedstocks.
- The Durant biodiesel plant operational by the first quarter of 2010.
- Appropriate staffing and training for safe operations of Durant biodiesel plant by the first quarter of 2010.
- Offtake biodiesel sales agreements by December 2009 from third party fuel distributors and/or brokers.
- Feedstock supply agreements with multiple suppliers of animal fats, used oils, and vegetable oils by December 2009.
- Launch of additional Company truck stops based on the success of the initial Willie's Place Truck Stop in Hillsboro, TX over the course of the next 24 months.

The Durant facility currently carries approximately $7.5 million of debt. Once these initial projects are complete and the model is verified, the Company plans to build out additional renewable fuel stations and truck stops over a staged timeline, using a combination of debt and equity.

The Overall Market

The Renewable Fuel Standard (RFS), passed by Congress in December 2007, increased the minimum quantity of renewable fuel required for blending into gasoline from 9 billion gallons in 2008 to 36 billion gallons by 2022.

The American Coalition for Ethanol, in reference to the Biomass Research and Development Board's National Biofuels Action Plan published in October of 2008, says, "Mid-range ethanol blends are a critical pathway to reducing [the nation's] dependence on gasoline."

Research and testing has been conducted by groups in collaboration with the DOE that show blends of up to 20% ethanol can be used in most legacy automobiles. Specifically, in the summer 2007, the U.S. Department of Energy (DOE) initiated a test program to evaluate the potential impacts of intermediate ethanol blends on legacy vehicles and other engines. Results of those tests can be found in the National Renewable Energy Laboratory's report (Effects of Intermediate Ethanol Blends on Legacy Vehicles and Small Non-Road Engines) published in February, 2009: (http://feerc.ornl.gov/publications/Int_blends_Rpt1_Updated.pdf). The

American Coalition for Ethanol refers to this report by saying "...a report from the DOE's National Laboratories on the successful use of mid-range ethanol blends in vehicles and small engines."

The Company believes that a 20% to 30% blend of ethanol is something that this country can achieve and will cause a meaningful decline in the country's reliance on foreign oil.

According to the Energy Information Administration, total US consumption of diesel fuel for 2007 was over 64 billion gallons. Oklahoma accounted for 2.1% of the total for the year prior, Texas accounted for 9.3%.

The market for biodiesel should not be thought of as a replacement for diesel, rather it is utilized as a fractional adder to diesel fuel, typically in blends of 5% to 20%.

In 2005, a $1.00 per gallon federal blending tax credit was developed to incentivize distributors of diesel fuel to blend biodiesel with their diesel product before shipping to their customers. The $1.00 per gallon is a credit against their federal excise tax payable each month. This credit helps to create a price advantage for marketers and retailers of biodiesel.

Today, most domestic biodiesel consumption is provided by distributors/wholesalers of diesel fuel as 5% to 20% biodiesel/diesel blends delivered to fleet customers and retail fueling stations.

Additional demand exists along the gulf coast as a result of biodiesel export to a strong European market, although recent US legislation has closed a tax credit loophole that had existed for several months.

Taking the diesel consumption numbers from above, a biodiesel market penetration rate of 3% would yield a demand of over 200 million gallons from Oklahoma and Texas fuel markets, and over 49 million gallons within 150 miles of the Durant facility. However, the Evolution Fuels model creates biodiesel demand from its own truck stop business. The Company plans to sell 20% biodiesel/diesel (B20) blends at its truck stop fuel pumps, which equates to an average of 2 million gallons per year of biodiesel per truck stop.

1. The issuer's primary and secondary SIC Codes

The Issuer's SIC Code is 2860 – Industrial Organic Chemicals.

2. If the issuer has never conducted operations, is in the development stage, or is currently conducting operations

The Issuer is currently in the development stage.

3. Whether the issuer is or has at any time been a "shell company"[1];

The Issuer is not considered a Shell Company pursuant to Securities Act Rule 405.

4. The names of any parent, subsidiary, or affiliate of the issuer, and its business purpose, its method of operation, its ownership, and whether it is included in the financial statements attached to this disclosure statement

The Issuer has several subsidiaries, most of which are now dormant:

SUBSIDIARY	BUSINESS PURPOSE	METHOD OF OPERATION	OWNERSHIP	INCLUDED IN FINANCIALS
WN Truck Stop, LLC	Owns Willie's Place Truck Stop	LLC	50%	Yes
Earth Biofuels Distribution Company	Dormant	Corporation	100%	Yes
Earth Biofuels Operating, Inc.	Dormant	Corporation	100%	Yes
Earth Ethanol, Inc.	Dormant	Corporation	100%	Yes
Earth Biofuels of Cordele, LLC	Dormant	LLC	100%	Yes
B20 Customs, LLC	Dormant	LLC	100%	Yes
Vertex Processing, LP	Dormant	Partnership	49%	Yes
EBOF GP, LLC	Dormant	LLC	100%	Yes
Earth Biofuels Retail Fuel Company	Dormant	Corporation	100%	Yes
Earth Biofuels, LLC	Dormant	LLC	100%	Yes
Durant Biofuels, LLC	Holds the Durant biodiesel facility	LLC	100%	Yes
Earth Ethanol of Washington, LLC	Dormant	LLC	100%	Yes

The Issuer has the following affiliates, by virtue of their status as officers or directors of the Company:

AFFILIATE	BUSINESS PURPOSE	METHOD OF OPERATION	OWNERSHIP	INCLUDED IN FINANCIALS
Dennis G. McLaughlin	Chairman & CEO	Individual	Less than 1%	No
Herb Meyer	Director	Individual	Less than 1%	No
Christopher Chambers	Executive Vice President	Individual	Less than 1%	No

5. The effect of existing or probable governmental regulations on the business

Existing and probable government regulations have a significant effect on the Company's business. Provisions in regulatory policies such as the U.S. Farm Bill include renewable fuel incentives language that will impact certain excise tax credits, income tax credits, and federal subsidies to entities in the renewable fuels industry. Certain of these provisions may or may not be passed into law. States too have various incentives programs which can impact the business of the Company. There are federal and state mandates that require certain levels of production and use of renewable fuels over time, such as the Renewable Fuel Standard (RFS), passed by Congress in December 2007, which increased the minimum quantity of renewable fuel required for blending into gasoline from 9 billion gallons in 2008 to 36 billion gallons by 2022. The effects of these governmental regulations could have a positive or negative effect on the business of the Company depending upon the legislation that is actually signed into law, any changes that could be made to existing or probable regulations, the decision to be made later this year by the federal EPA on increasing (or not) the acceptable blend of ethanol into gasoline above 10%, and the possibility that certain federal and state incentive programs will be discontinued.

6. An estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities are borne directly by customers

Over the last two fiscal years the Company has spent an insignificant amount of money on research and development activities.

7. Costs and effects of compliance with environmental laws (federal, state and local)

The Company will incur costs associated with compliance of environmental laws as it progresses with its business plan, specifically with regard to the fueling stations and truck stops that it establishes – costs to stay in compliance with leak monitoring such as annual tank and line test will be immaterial. Costs to maintain adherence to permits for air and water quality at the Company's Durant, OK facility will be approximately $5,000.00 per year.

8. The number of total employees and number of full-time employees.

The Company currently has four full-time employees.

Item IX The nature of products or services offered.

A. Principal products or services, and their markets

The principal products offered by Evolution will be blends of ethanol and biodiesel sold to the public at retail fueling stations that it establishes. Upon completion of the modifications to the Company's biodiesel facility in Durant, OK, certain quantities of 100% biodiesel (B100) will be sold to third party buyers such as fuel brokers and distributors.

B. Distribution methods of the products or services

The finished B100 biodiesel product will most often be sold FOB the Company's plant in Durant, OK. Evolution is pursuing the capability of blending the ethanol fuel at the Company's fuel stations through special "blending pumps", therefore it anticipates taking deliveries of petroleum products and ethanol to each fuel station, to be stored in the existing underground storage tanks.

C. Status of any publicly announced new product or service;

In May 2009 the Company executed a non-binding Letter of Intent ("LOI") with a third party to form a joint venture to construct a new truck stop on Interstate 35 near New Braunfels, TX. Under terms of the LOI Evolution would own 50% of the project. Final definitive documents pursuant to the LOI have not yet been executed and are not likely to be completed.

D. Competitive business conditions, the issuer's competitive position in the industry, and methods of competition

To date, the number of retail fuel stations that offer blends of ethanol (above 10%, or E10) are relatively few compared to the total number of fuel stations in the United States, particularly in the southwestern and southeastern parts of the U.S. There are currently over 120,000 fuel stations in the U.S., with those offering E85 numbering at approximately 2,200. Today, there are less than five stations in the Dallas-Ft Worth area that offer E85, and less than 30 in the entire state of Texas. There are less than 10 in Oklahoma, less than 10 in Arkansas, less than 5 in Mississippi, less than 10 in Alabama, and zero in Louisiana. Of these, none offer blends of ethanol between 11% to 84%. However, in Kansas a Company called "NewGen Fuel" has started a project to establish fuel stations that offer mid-range blends of ethanol (E20 and E30) that has thus far shown success. It is possible this company would extend its operations into areas of the southwestern and southeastern United States in the future, but given the proximity of its headquarters in Kansas and the headquarters and areas of operations of its partners, it is unlikely.

The truck stop facet of the Company's business experiences competition from a variety of truck stop chains and independent truck stops located in the Company's area of focus – Texas and Oklahoma. Some truck stops will sacrifice fuel margins in order to maximize foot traffic within their convenience stores to sell more merchandise. The company's flagship truck stop, Willie's Place at Carl's Corner, is located 50 miles south of Dallas, TX on Interstate 35E. There are two truck stops located 15 miles north and one located 5 miles south of Willie's Place. Highway truck and car traffic is considerable along this north/south corridor, due in large part to transportation of goods between the U.S. and Mexico.

The Durant biodiesel facility's primary competitors are those biodiesel producers within 200 miles from Durant since their core markets overlap with Durant's. Overall, including Evolution Fuels' Durant plant, five biodiesel plants, active or inactive, are located within 200 miles from Durant. The estimated total diesel consumption within the aggregated core markets is 2,031 mmgy, which relates to 41-102 mmgy of potential biodiesel consumption, assuming a 2-5% market penetration rate. This potential biodiesel market is to be compared to the total biodiesel production capacity of the five plants, roughly 25 million gallons per year. Competition within Durant's core market is therefore minimal since the market is not yet saturated.

E. Sources and availability of raw materials and the names of principal suppliers

Evolution plans to supply ethanol to its future renewable fuel stations from existing distributors, and will likely enlist the assistance of a fuels broker to assist in its procurement. Companies such as Tenaska have marketing arrangements to provide ethanol gallons to various parts of the U.S., including Texas. Biodiesel supplied to the fuel stations and truck stops is planned to be sourced out of the Company's facility in Durant, OK. In the event the plant does not come online when planned then the Company would buy the biodiesel from local distributors such as PM Fuels. Feedstock fats and oils for the Durant facility would come from suppliers such as Griffin Industries or Texas Feed Fats Co., which happens to have its headquarters in Durant, OK.

F. Dependence on one or a few major customers

The Company will not be dependent on a few major customers for its products as it plans to sell its blends of renewable fuels to the public through retail fueling stations.

G. Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts, including their duration

Evolution has no patents, licenses or royalty agreements, etc. as of present.

H. The need for any government approval of principal products or services and the status of any requested government approvals.

Evolution does not need governmental approval of its products so long as the mid-range ethanol blends that are sold at the pump are clearly designated "for Flexfuel vehicles only." Any biodiesel produced at its Durant facility will be tested by a third party lab to ensure the product meets current ASTM specifications.

Item X The nature and extent of the issuer's facilities.

Evolution maintains its corporate offices at 3001 Knox St, Suite 403, Dallas, TX 75205.

Evolution owns an idle biodiesel production facility in Durant, OK that exists on approximately six acres. The facility includes two building structures, tankage and piping. There is currently a first security lien on this property in the amount of approximately $7.5 million.

The Company also owns a bulk storage facility in Greenville, MS that is located on the Mississippi River. This facility, which was formerly a fertilizer storage facility, has not been in use for several years. There is a first security lien on the facility in the amount of $250,000.

The Willie's Place Truck Stop located on Interstate 35E near Hillsboro, TX is owned 50% by the Company and 50% by Truckers Corner, LP. The truck stop includes a 12 lane diesel/biodiesel truck fuel island, a gas/E85 car island, 2 sit-down restaurants (similar to Texas Roadhouse), a saloon, a 500 seat live performance theater, a large convenience store with numerous private-branded items and Willie Nelson merchandise, and large acreage for truck parking. The truck stop commenced fuel and convenience store operations during December 2008. The facility is subject to a first mortgage in the amount of approximately $4.75 million.

Part D Management Structure and Financial Information

Item XI The name of the chief executive officer, members of the board of directors, as well as control persons.

A. Officers and Directors. In responding to this item, please provide the following information for each of the issuer's executive officers, directors, general partners and control persons, as of the date of this information statement:

1. Full name;
2. Business address;
3. Employment history (which must list all previous employers for the past 5 years, positions held, responsibilities and employment dates);
4. Board memberships and other affiliations;
5. Compensation by the issuer; and
6. Number and class of the issuer's securities beneficially owned by each such person.

1. Dennis McLaughlin, Chairman and CEO
2. 3001 Knox St., Suite 403, Dallas, TX 75205
3. Mr. McLaughlin has served as Chairman of Evolution Fuels, Inc. (a publicly traded company) since September of 2005 and as CEO from February of 2006. He is the Chief Executive Officer, President and a Director of Evolution Resources, Inc. since May 2009. He has served as CEO and Chairman of Apollo Resources International, Inc. (a publicly traded company) since October of 2004. He was CEO of Blue Wireless & Data, Inc. (a publicly traded company) from June 2004 through April 2005, and served as Chairman from June 2004 to 2007. He was CEO and Co-Chairman of Ocean Resources, Inc. (a publicly traded company) from September 2003 to January 2005. Prior to that he founded Aurion Technologies, LLC in 1998 and served as CEO and was a Director through 2001. He founded Aurora Natural Gas, LLC in 1993 and served as CEO through 2001. Prior to starting his own companies, he worked as a Manager of Marketing & Transportation for Highland Energy from 1991 to 1993, and before this worked as a gas marketing representative for Clinton Natural Gas from 1990 to 1991. Mr. McLaughlin received a Bachelor of Economics degree from the University of Oklahoma in 1992.
4. Mr. McLaughlin is on the Boards of Directors of Evolution Fuels, Inc., Evolution Resources, Inc., Big Star Media Group, Inc., and Apollo Resources International, Inc.
5. $250,000 per year plus boneses.
6. Common: 403,000,000
   Preferred A 5,250,000
   Preferred B 0
   Preferred C 125

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1. Herbert Meyer, Director
2. PO Box 2089, Friday Harbor, WA 98250
3. Herbert E. Meyer is founder of Real-World Intelligence Inc., a company that designed intelligence systems for corporations throughout the world. He is also

President of Storm King Press, a publishing company whose books and DVDs are sold worldwide. In addition, Mr. Meyer is host and producer of The Siege of Western Civilization, a DVD outlining the threats to our security, our economy, and our culture that has become an international best-seller. During the Reagan Administration, Mr. Meyer served as Special Assistant to the Director of Central Intelligence and Vice Chairman of the CIA's National Intelligence Council. In these positions, he managed production of the U.S. National Intelligence Estimates and other top-secret projections for the President and his national security advisers. Mr. Meyer is widely credited with being the first senior United States Government official to forecast the collapse of the Soviet Union — a forecast for which he later was awarded the U.S. National Intelligence Distinguished Service Medal, the Intelligence Community's highest honor. Formerly an associate editor of Fortune, he has authored several books including The War Against Progress, Real-World Intelligence, and Hard Thinking. Mr. Meyer and his wife, Jill, are co-authors of How to Write, which is among the world's most widely used writing handbooks. Mr. Meyer's essays on intelligence and politics have been published in The Wall Street Journal, National Review Online, Policy Review, and The American Thinker. He is a frequent guest on leading television and radio talk shows.

4. None
5. No compensation by the Issuer other than the securities issued below.
6. Common: 5,000,000
   Preferred A 100,000
   Preferred B 100,000
   Preferred C 0

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1. Christopher "Kit" Chambers, Executive Vice President
2. 3001 Knox St., Suite 403, Dallas, TX 75205
3. Mr. Chambers has been Secretary and Executive Vice President of Evolution Fuels Inc. since November 8, 2005. He is the Executive Vice President, Chief Accounting Officer, and a Director of Evolution Resources, Inc. since May 2009. Mr. Chambers has been a Director and Secretary of Apollo Resources International Inc. since October of 2004 and serves as its Vice President. Mr. Chambers served as the President of Blue Wireless & Data Inc. (formerly, Reva Inc.) from September 27, 2005 to September 13, 2006 and served as its Corporate Secretary from July 2004 to September 13, 2006. He served as the Chief Executive Officer of Blue Wireless & Data Inc., from May 3, 2005 to September 27, 2005. He served as Chief Operating Officer and Secretary of Ocean Resources Inc., a US public company engaged in deep-ocean salvage of commodity metals from October 2003 to January 2005. From January 1999 to December 2001, he was employed by Aurion Technologies LLC, as Vice President of Operations, then as Vice President of Sales Engineering. From March 1994 to December 1998, he served as Vice President, Software Development of Aurora Natural Gas LP. From January 1998 to February 2004, he served as an Independent Consultant in the film/video industry in Dallas, Texas. He serves as Director of Apollo Resources International Inc.
4. Mr. Chambers is on the Boards of Directors of Evolution Fuels, Inc., Evolution Resources, Inc., Big Star Media Group, Inc., and Apollo Resources International, Inc.

5. $180,000 per year.
6.

Common:	1,000,000
Preferred A	1,200,000
Preferred B	200,000
Preferred C	0

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

   None.

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

   None.

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

   None.

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

   None.

C. Disclosure of Family Relationships. Describe any family relationships[2] among and between the issuer's directors, officers, persons nominated or chosen by the issuer to become directors or officers, or beneficial owners of more than five percent (5%) of the any class of the issuer's equity securities.

None.

[2] The term "family relationship" means any relationship by blood, marriage or adoption, not more remote than first cousin.

D. <u>Disclosure of Related Party Transactions</u>. Describe any transaction during the issuer's last two full fiscal years and the current fiscal year or any currently proposed transaction, involving the issuer, in which (i) the amount involved exceeds the lesser of $120,000 or one percent of the average of the issuer's total assets at year-end for its last three fiscal years and (ii) any related person had or will have a direct or indirect material interest. Disclose the following information regarding the transaction:

The Company's Chairman and Chief Executive Officer, Dennis McLaughlin, and the Company's Vice President, Randy Hepler, have personally guaranteed the SBL debt related to the construction of the Willie's Place Truck Stop owned by WN Truck Stop, LLC. The amount of the debt guaranteed is $4.75 million.

Additionally, the Company's Executive Vice President, Kit Chambers, and the Company's Vice President, Randy Hepler, have personally guaranteed a fuel bond for the truck stop mentioned above. The amount of the fuel bond is $200,000.

In October 2005 Earth leased a truck stop in Grenada, Mississippi from RBB Properties, LLC which is controlled by R. Bruce Blackwell, a shareholder and director of Earth. The lease agreement is for a 5 year term and provides for monthly payments of $10,000 for a total aggregate amount of $500,000.

<u>E. Disclosure of Conflicts of Interest</u>. Describe any conflicts of interest. Describe the circumstances, parties involved and mitigating factors for any executive officer or director with competing professional or personal interests.

None.

Item XII Financial information for the issuer's most recent fiscal period.

The issuer shall provide the following financial statements for the most recent fiscal period (whether fiscal quarter or fiscal year).

1) balance sheet;
2) statement of income;
3) statement of cash flows;
4) statement of changes in stockholders' equity;
5) financial notes; and
6) audit letter, if audited

Such financial statements can be found at the end of this Annual Report under "Exhibit A."

Item XIII Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

Financial statements and associated footnotes for the years ended December 31, 2009 and 2008 are incorporated into our financial statements and footnotes included herein.

Item XIV Beneficial Owners.

Beneficial owners Common Stock.

Name	Address	Shareholdings	Controlled By
Christopher Chambers	3001 Knox St, Suite 403, Dallas, TX 75205	.001%	N/A
Dennis McLaughlin	3001 Knox St, Suite 403, Dallas, TX 75205	.3%	N/A
Herbert E. Meyer	PO Box 2029, Friday Harbor, WA, 78250	.004%	N/A
E-Lionheart, LLC	151 East Post Road, Suite 114, White Plains, NY 10601	7.1%	Edward Bronson

Beneficial owners of the Series A Preferred Stock:

Name	Address	Shareholdings	Controlled By
Apollo Resources Int'l, Inc.	3001 Knox St, Suite 403, Dallas, TX 75205	22%	The entity is a public company
Christopher Chambers	3001 Knox St, Suite 403, Dallas, TX 75205	9.8%	N/A
Greenland Capital, Inc.	4631 Insurance Lane, Dallas, TX 75205	7%	Taber Wetz, 4631 Insurance Lane, Dallas, TX 75205
Dennis McLaughlin	3001 Knox St, Suite 403, Dallas, TX 75205	42.7%	N/A

Beneficial owners of the Series B Preferred Stock:

Name	Address	Shareholdings	Controlled By
Peter Bell	14707 La Grande Dr, Addison, TX 75001	5.5%	N/A
Black Forest Int'l, Inc.	2038 Corte Del Nogal # 110, Carlsbad, CA 92008	8.2%	James Panther, 2038 Corte Del Nogal # 110, Carlsbad, CA 92008
Bruce Blackwell	6070 155 North, Jackson, MS 39272	5.5%	N/A
Christopher Chambers	3001 Knox St, Suite 403, Dallas, TX 75205	11%	N/A
Morgan Freeman	143 Yazoo Ave, Clarksdale, MS 38614	5.5%	N/A
Harborview Capital Management, LLC	850 Third Ave, St 1801, New York, NY 10022	8.9%	Richard Rosenblum, 850 Third Ave, St 1801, New York, NY 10022
Gerard Gibert C/O Venture Technologies	209 E Capitol St, Jackson, MS 39201	8.2%	Gerard Gibert
Robert Hepler	3001 Knox St, Suite 403, Dallas, TX 75205	11%	N/A
William Luckett	143 Yazoo Ave, Clarksdale, MS 38614	5.5%	N/A
Tracy Ross Hepburn	3508 Lexington Ave, Dallas, TX 75205	8.2%	N/A
Herbert Meyer	PO Box 2029, Friday Harbor, WA, 78250	5.5%	N/A

Beneficial owners of the Series C Preferred Stock:

Name	Address	Shareholdings	Controlled By
Dennis McLaughlin	3001 Knox St, Suite 403, Dallas, TX 75205	100%	N/A

Item XV The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure:

1. Investment Banker

   None.

2. Promoters

   None.

3. Counsel

   Jeffrey Quick, Quick Law Group, 900 W. Pearl Street, Suite 300, Boulder, Colorado 80302, (720) 259-3393, jquick@quicklawgroup.com

4. Accountant or Auditor

   Preparation of the financial statements was performed by the Company's management.

5. Public Relations Consultant(s)

   None.

6. Investor Relations Consultant

   CSIR Group, LLC, 79 Madison Avenue, 6th Floor, New York, NY 10016, 212-386-7082, info@csirgroup.com.

7. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement - the information shall include the telephone number and email address of each advisor.

   David Farmer – assisted with the compilation of the financial statements. (214) 334-2887, dfarmer1148@gmail.com.

Item XVI Management's Discussion and Analysis or Plan of Operation.

As the Issuer has sold the its main operations and immediate source of revenues – its liquefied natural gas subsidiary - in June 2008, the Issuer is focused on the development of its business plan revolving around the establishment of retail renewable fuel stations, and the modifications and startup of its biodiesel facility.

A. **<u>Plan of Operation</u>.**

In June 2008 the Company sold its subsidiary which produced liquefied natural gas, and as a result was able to restructure and settle the majority of its debts with its significant investors. Since that time the Company has realized no significant revenues from operations and has focused on developing new opportunities and reformulating its business plan.

Evolution's management strongly believes that one of the paths toward U.S. energy independence must involve the creation of stronger demand for ethanol at the pump. Recent studies performed by the U.S. Department of Energy and others have shown that ethanol blends of up to 20% may be used by many legacy non-"Flexfuel" vehicles without damage to the engine or fuel systems. The Company intends to promote the use of ethanol blends above 10% that can be used today by "Flexfuel" vehicles which are designed to use ethanol fuel blends of up to 85% ("E85"). Further, the Company anticipates that depending upon the make of the truck or automobile, certain vehicles may incur no reduction in fuel efficiency, and possibly might experience an improvement in fuel efficiency by using blends such as E20 or E30.

The Company's management believes that the increased use of ethanol blends of over 10% by the motoring public will help push the demand for ethanol beyond the current "blend wall" caused by the existing limitation of ethanol blends with gasoline of 10%. If more fuel stations are established that offer mid-range blends of ethanol at prices that would likely undercut petroleum gasoline prices, Evolution believes that public demand would increase, thereby creating more market for increased domestic production of ethanol, ideally from cellulosic feedstock sources.

To date, the number of retail fuel stations that offer blends of ethanol (above 10%, or E10) are relatively few compared to the total number of fuel stations in the United States, particularly in the southwestern and southeastern parts of the U.S. There are currently over 120,000 fuel stations in the U.S., with those offering E85 numbering at approximately 2,200. Today, there are less than five stations in the Dallas-Ft Worth area that offer E85, and less than 30 in the entire state of Texas. There are less than 10 in Oklahoma, less than 10 in Arkansas, less than 5 in Mississippi, less than 10 in Alabama, and zero in Louisiana. Of these, none offer blends of ethanol between 11% to 84%.

Over the course of the next twelve months Evolution plans to establish retail renewable fuel stations, either through acquisition or leases, and introduce mid-range blends of ethanol and biodiesel to the consuming public. The Company plans to produce quality biodiesel at its Durant, OK facility which is in reasonably close proximity to its intended end use – the Company's retail truck stops and third party fuel distributors outside the local truck stop market. Evolution has set the following goals over the next twelve months:

- The establishment of ten to twelve retail renewable fuel stations, either through acquisition or leases.
- The introduction of mid-range blends of ethanol and biodiesel to the consuming public.
- A successful Durant biodiesel production facility upgrade project in order to produce efficiently and implement a multi-feedstock pretreatment system in order to produce from multiple, lowest-cost feedstocks.
- The Durant biodiesel plant operational by the first quarter of 2010.
- Appropriate staffing and training for safe operations of Durant biodiesel plant by the first quarter of 2010.

- Offtake biodiesel sales agreements by December 2009 from third party fuel distributors and/or brokers.
- Feedstock supply agreements with multiple suppliers of animal fats, used oils, and vegetable oils by December 2009.

In order to carry out its business plan, the Company anticipates that it will need to continue to raise funds for its general and administrative costs through the sale of its securities until such time as its projects begin to generate revenues.

B. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Not applicable.

C. Off-Balance Sheet Arrangements.

None.

Part E Issuance History

Item XVII List of securities offerings and shares issued for services in the past two years.

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer (1) within the two-year period ending on the last day of the issuer's most recent fiscal year and (2) since the last day of the issuer's most recent fiscal year.

The list shall include all offerings of securities, whether private or public, and shall indicate:

(i) The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);
(ii) Any jurisdictions where the offering was registered or qualified;
(iii) The number of shares offered;
(iv) The number of shares sold;
(v) The price at which the shares were offered, and the amount actually paid to the issuer;
(vi) The trading status of the shares; and
(vii) Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

The Issuer initiated a Rule 504 offering on April 16, 2009, which shares were registered for sale in the State of Texas, and which shares are freely tradable. The total offering amount was $1 million, of which $612,500.00 in the sale of such shares have been received to date.

Part F Exhibits

The following exhibits must be either described in or attached to the disclosure statement:

Item XVIII Material Contracts.

None.

Item XIX Articles of Incorporation and Bylaws.

The Issuer's articles of incorporation and bylaws are hereby incorporated by reference; such documents may be found under the financial reports located under the filings tab for the company (EVFN). The Company's articles of incorporation and bylaws were published as "*Articles of Incorporation – Certificate of Incorporation and Bylaws*" on July 6, 2009.

Item XX Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

A. In the following tabular format, provide the information specified in paragraph (B) of this Item XX with respect to any purchase made by or on behalf of the issuer or any "Affiliated Purchaser" (as defined in paragraph (C) of this Item XX) of shares or other units of any class of the issuer's equity securities.

ISSUER PURCHASES OF EQUITY SECURITIES				
Period	Column (a) Total Number of Shares (or Units) Purchased	Column (b) Average Price Paid per Share (or Unit)	Column (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Column (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month 11/1/07 – 11/30/07	1,835,000 common	$0.0785	1,835,000 common	0
Month 12/1/07 – 1/31/08	1,050,000 common	$0.044	1,050,000 common	0
Month 2/1/07 – 2/28/08	249,000 common	$0.0412	249,000 common	0
Month 9/1/09 – 12/31/09	686,866 common (reverse split-adjusted)	$0.0640	686,866 common (reverse split-adjusted)	0
Month 1/1/10 – 3/24/10	2,085,471 common (reverse split-adjusted)	$0.0034	2,085,471 common (reverse split-adjusted)	0

Footnote: The Issuer announced a common stock repurchase program on November 19, 2007. The plan authorized the repurchase of up to twelve million shares of the Company's issued and outstanding common stock. That plan expired on June 3, 2008. The Issuer announced a common stock repurchase program on September 24, 2009. The plan authorized the repurchase of up to ten billion shares (16.67 million shares adjusted for reverse stock split) of the Company's issued and outstanding common stock. That plan expired on March 24, 2010.

Item XXI Issuer's Certifications.

I, Dennis G. McLaughlin, III, certify that:

1. I have reviewed this Initial Company Information and Disclosure Statement of Evolution Fuels, Inc.;

2. Based on my knowledge, this disclosure statement 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 disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operation and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: April 15, 2010

/s/ Dennis G. McLaughlin, III
Chief Executive Officer

EXHIBIT "A"
Financial Statements

EVOLUTION FUELS, INC.
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Item 3. Annual Financial Statements

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EVOLUTION FUELS, INC.
CONSOLIDATED BALANCE SHEETS
($ in thousands except share amounts)
(Unaudited)

	December 31, 2009	December 31, 2008
Current Assets		
Cash and cash equivalents	$ 10	$ 0
Investments in equity securities	5,821	52
Investments in securities classified as available for sale	0	4,700
Prepaid expenses and other current assets	420	760
Total Current Assets	6,251	5,512
Property, Plant and equipment, net of accumulated depreciation of 2.988,764	4,602	5,456
Investments and advances	11,698	9,685
Prepaid and other long term assets	163	199
Deferred share based compensation	10,485	
Total Assets	$ 33,199	20,852
Current Liabilities		
Accounts payable	$ 1,972	15,270
Accrued interest payable	4,817	2,876
Demand Notes	1,400	1,612
Other Liabilities	12,643	0
Convertible promissory notes, net of discount	6,794	23,000
Notes Payable, secured	7,500	7,500
Accrued income taxes	—	17,610
Total Current Liabilities	35,127	67,868
Commitments and contingencies (Note 13)		
The Company has authorized 100,000,000 shares of preferred stock, and has designated a total of 15,000,500 shares.		
Series A-Redeemable preferred stock, $.0001 par value, $1.00 issue price, 13,000,000 shares designated. 12,276,991 shares issued and outstanding at December 31, 2009; 5,741,991 issued and outstanding at December 31, 2008	11,526	5,742
Series B-Redeemable preferred stock, $.0001 par value, $5.00 issue price, 2,000,000 shares designated, 1,819,854 issued and outstanding at December 31, 2009; and 708,596 issued and outstanding as of December 31, 2008	9,099	3,543
Series C-Redeemable preferred stock, $.0001 par value, 500 shares designated and 300 shares issued and outstanding at December 31, 2009, 0 shares issued and outstanding at December 31, 2008.	—	—
Stockholders' Equity (Deficiency)		
Common Stock, $.00001 par value at December 31, 2009 and $.001 par value at December 31, 2008, 100,000,000,000 shares authorized, 224,991,739shares issued and 221,246,317, outstanding at December 31, 2009; 415,253,787 shares issued and 412,119,634 outstanding at December 31,2008	2	415
Additional paid-in capital	187,232	157,881
Accumulated deficit	(209,561)	(219,071)
Unrealized Gain on securities available for sale		4,700

Treasury stock at cost (3,134,134 shares)	(226)	(226)
Total Stockholders' Equity (Deficiency)	(22,553)	(56,301)
Total Liabilities and Stockholders' Equity	$ 33,199	20,852

See accompanying notes to consolidated financial statements

EVOLUTION FUELS, INC.
Statements of Operations
(Amounts in 000's)
(Unaudited)

	Year Ended December 31,	
.	**2009**	**2008**
Sales revenue	$ —	$ —
Cost of sales	—	—
Gross profit	—	—
Compensation	3,180	5,187
Other selling, general and administrative	1,823	21,638
Depreciation and amortization	467	1,034
Impairment Loss	0	1,023
Total Operating Expenses		28,883
Net loss from operations	(5,470)	(28,883)
Other income (expense)		
Interest expense	(2,684)	(27,083)
Loss on equity investments	0	(30,509)
Bad Debt Expense	0	(2,319)
Other income (expense)	27,100	74,582
Loss on marketable securities		(725)
Total other income (expense)	24,416	13,946
Net Income (Loss) before taxes	18,946	(14,937)
Net income (loss) per common share		
Basic and diluted net income (loss)	$ .06	$ (0.04)
Weighted average shares outstanding – basic and diluted	320,122	329,519

See accompanying notes to consolidated financial statements

EVOLUTION FUELS, INC..
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2009 and For The Year Ended December 31, 2008
(Amounts in 000's)
(Unaudited)

	Common Stock Shares	Common Stock at Par	Additional Paid in Capital	Other Comprehensive Income (Loss)	Treasury Stock	Accumulated Deficit	Note Receivable from Parent	Totals
Balance December 31, 2007	276,554	$ 276	$ 154,122	$ —	$ (156)	$ (204,277)	$ (4,111)	$ (54,144
Unrealized Gain on Security held for sale	—	—	—	4,700	—	—	—	4,700
Shares issued for services	45,578	45	1,716	—	—	—	—	1,760
Shares issued in connection with preferred stock including, common stock warrants and beneficial conversion feature	73,312	73	1,630	—	—	—	—	1,702
Shares issued for investments	609	1	23	—	—	—	—	24
Treasury Stock	(1,299)	(1)	—	—	(70)	—	—	(71
Parent and affiliate note receivable	—	—	—	—	—	—	4,111	4,111
Shares issued for contracts	10,000	10	190					200
Shares issued to Parent	10,500	11	200	—	—	143	—	354
Net loss	—	—	—	—	—	(14,937)	—	(14,937
Balance December 31, 2008	415,254	$ 415	$ 157,881	$ 4,700	$ (226)	$ (219,071)	$	$ (56,301
Unrealized Gain on Security held for sale	—	—	—	(4,700)	—	—	—	(4,700
Change in Par Value from $.001 to $.0001	—	(2,197))	2,197	—	—	—	—	—
Change in Par Value from $.0001 to $.00001		(3,297)	3,297					
Shares issued for services	1,418,180	1,967	(1,451)	—	—	—	—	516
Stock Dividend	9,678,263	967	2,903	—	—	(3,870)	—	—
Reverse Stock Split 600-1	(98,210,793)	(982)	982					
Dividends of Equity Securities						(5,566)		(5,566)
Shares issued in connection with preferred stock including, common stock warrants and beneficial conversion	12,725,188	276	1,517	—	—	—	—	1,793
Shares issued for debt conversion	64,288,605	1,817	19,896	—	—	—	—	21,713
Shares issued for cash	9,909,722	1,036	10					1,046
Net Income	—	—	—	—	—	18,946	—	18,946
Balance December 31, 2009	224,419	$ 2	$ 187,232	$ -0-	$ (226))	$ (209,561)		$ (22,553

See accompanying notes to consolidated financial statements

EVOLUTION FUELS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended Periods December 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities:		
Net income (loss)	$ 18,946	$ (14,937)
Gain (Loss) from continuing operations	18,946	(14,937)
Depreciation and amortization	854	5,456
Impairment of investments	-0-	1,023
Bad debt	-0-	2,319
Realized losses on Marketable Securities	4,700	725
Gain on exchange of notes	-0-	(74,852)
Share-based compensation expense	1,274	3,250
Debt discount amortization	-0-	27,789
Changes in assets and liabilities:		
Decrease (increase) in:		
Trade accounts receivable	-0-	2,545)
Inventory	-0-	159)
Prepaid expenses & other current assets	340	1,657
Reduction of Taxes Payable	(17,610)	(15,969)
Reduction of Notes payable	(16,418)	22,000
Reduction of Convertible Notes	(12,643)	
Accounts payable and accrued expenses	(13,298)	(2,516)
Accrued interest payable	1,941	45,275
Other	27,122	523
Net cash provided by (used in) operating activities	(4,792)	4,447
Cash Flows From Investing Activities:		
Sale or (Purchase) of equity securities	5,769)	21
Sales of property, plant and equipment	-0-	22,698
Investments and advances	(2,013)	(9,644)
Net cash provided by investing activities	3,756	13,075
Cash Flows From Financing Activities:		
Proceeds from term debt facilities, demand notes, and LOC	-0-)	(30,887)
Proceeds from demand notes	-0-	
Proceeds from sale of treasury stock	-0-	226
Proceeds from issuance of stock	1,046	13,181
Net cash (used) by financing activities	1,046	(17,480)

Net decrease in cash	10	(42))
Cash and cash equivalents		
Beginning of period	-0-	42
End of period	$ 10	$ 0

See accompanying notes to consolidated financial statements

EVOLUTION FUELS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND MANAGEMENT'S PLANS

Organization

Evolution Fuels, Inc., ("Evolution" or "EVFN") was incorporated in the state of Nevada on July 15, 2002. On September 13, 2005, Evolution issued 146,100,000 shares of common stock to Apollo Resources International, Inc., a Utah corporation, ("Apollo") in exchange for 80% of the outstanding shares of common stock of Evolution Fuels, Inc., Inc., a Mississippi corporation. With the acquisition, Apollo owned approximately 88% of the issued and outstanding shares of Evolution. This transaction has been accounted for as a recapitalization effected through a reverse merger, such that Evolution Biofuels Operating, Inc. was the "accounting acquirer" for financial reporting purposes. On October 7, 2005, Evolution Biofuels, Inc., Inc. (the Mississippi Company) changed its name to Evolution Biofuels Operating, Inc. Effective November 14, 2005; the domicile of Evolution was moved to Delaware by means of a merger of Evolution with and into Evolution Biofuels, Inc., a Delaware corporation. In April 2009 the Company changed its name to Evolution Fuels, Inc ("Evolution" or "Company").

The principal business of Evolution Fuels, Inc. ("Evolution", or, the "Company"), a Delaware corporation, currently is the development of retail renewable fuel stations which will provide blends of ethanol from 10% to 85% (E10 to E85), and to establish truck stops modeled after the Willie's Place Truck Stop in Carl's Corner, TX. The Company intends to supply biodiesel to these retail locations from its own biodiesel production facility. Evolution's primary plants and operations are located in Texas and Oklahoma, with certain other operations planned in Mississippi.

On June 30, 2008, the Company sold its wholly owned subsidiary New ELNG to PNG Ventures Inc. ("PNG") via a Share Exchange Agreement (the "Exchange Agreement"), in exchange for the issuance of 7,000,000 shares of the of common stock of the PNG. Prior to the completion of the Share Exchange, Evolution LNG, Inc, a Texas corporation ("ELNG") had transferred to New ELNG all right and marketable title to the member interests of Applied LNG Technologies USA, LLC and Arizona LNG, L.L.C. and all their other assets (other than receivables from EVFN and other subsidiaries of EVFN) that, together, comprise the LNG business, resulting in the characterization of the transfer as an asset sale of EVFN's subsidiary. The investors holding $52.5 million in senior unsecured notes were granted an irrevocable proxy regarding the 7 million shares EVFN received in the exchange. In addition, the notes to the investors were amended with new conversion rates to EVFN shares, and/or are exchangeable into the PNG shares with limitations on the exchanges. Accordingly, EVFN did not have voting control over the 7,000,000 shares of PNG Ventures, Inc. and a change of control has occurred with regard to the LNG business.

As a result, earnings from the LNG business through the date of disposition and gain on sale have been included in the financial statements. for the year ended December 31, 2008. The financial statements of the LNG business are reported as discontinued operations in the statement of operations and its associated assets and liabilities are classified separately in the balance sheet. Prior periods have been reclassified to conform to the current-period presentation. On December 24, 2008, the Company and the holders of the Company's Amended and Restated Senior Secured Convertible Exchangeable Notes and Series B Senior Secured Convertible Exchangeable Notes entered into an

Amendment and Exchange Agreement (the “Amendment and Exchange Agreement”) and consummated the transactions contemplated thereby, pursuant to which, among other things:

The Company exchanged:

• $26,000,000 of an Amended and Restated Senior Secured Convertible Exchangeable Note held by one investor for a senior secured convertible note in the aggregate principal amount of $13,235,000 (the “Series C Note”), which is convertible in shares of common stock, par value $0.001 per share (the “Common Stock”), of the Company, in accordance with the terms thereof and

- $3,000,000 of the outstanding principal amount of existing Series B Senior Secured Convertible Exchangeable Note issued to one Investor for a senior secured convertible note in the aggregate principal amount of $1,765,000 (the “Series D Note), which is convertible in shares of Common Stock in accordance with the terms thereof.

- Neither the Series C Note nor the Series D Note is exchangeable into shares of common stock, par value $0.001 per share of PNG Ventures, Inc., a Nevada corporation;

- In addition to the above transactions, one investor exchanged $56,000,000 of an Amended and Restated Senior Secured Convertible Exchangeable Note for 5.6 million shares of common stock of PNG corporation. This left the Company with 1,400,000 shares of PNG stock which is pledged to other investors holding Amended and Restated Senior Secured Convertible Exchangeable Note

- Subject to the satisfaction of certain equity conditions, the Company may at any time, at its option, require the Investor to convert the remaining aggregate principal amount of $5,000,000 of the Amended and Restated Senior Secured Convertible Exchangeable Note of the Investor in Common Stock, in whole or in part; and

- The Company, certain of its subsidiaries and the Investor entered into a reaffirmation agreement (the “Reaffirmation Agreement”), which reaffirms the security interest granted by the Company and certain of its subsidiaries with respect to the Amended and Restated Senior Secured Convertible Exchangeable Notes, the Series B Senior Secured Convertible Exchangeable Notes, the Series C Note and the Series D Note.

The Series C Note ranks pari passu with the Amended and Restated Senior Secured Convertible Exchangeable Notes and the Series D Note ranks pari passu with the existing Series B Senior Secured Convertible Exchangeable Notes.

The holders of the Company's Amended and Restated Senior Secured Convertible Exchangeable Notes and Series B Senior Secured Convertible Exchangeable Notes consented to the transactions contemplated by the Exchange Agreement.

As a result of all of the above December 24, 2008 transactions, the Company recognized a gain on the exchanges totaling $74,774,435. The gain is included in the financial statements for the period ending December 31, 2008.

Going Concern

Evolution has incurred significant losses from operations through December 31, 2009 and has limited financial resources. The Company has a significant accumulated deficit, negative current ratios and negative tangible net worth at December 31, 2009. These factors raise substantial doubt about our ability to continue as a going concern.

Management intends to raise capital through other offerings, secure collateralized debt financing and use these sources of capital to grow and enhance its alternative fuel production and distribution operations. If additional funds are raised by issuing debt, we may be subject to restrictive covenants that could limit our operating flexibility. Evolution’s performance will also be affected by prevailing economic conditions. Many of these factors are beyond Evolution’s control. There can be no assurance that adequate funds will be available when needed and on acceptable terms, or that a strategic alternative can be arranged. The accompanying financial statements do not reflect any adjustments that might result from the outcome of this uncertainty.

These items, among others, raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of this uncertainty.

There can be no assurance that any of management's plans as described above will be successfully implemented or that the Company will continue as a going concern.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements and the supporting and supplemental material are the responsibility of the management of Evolution Fuels, Inc.

Principles of Consolidation — Evolution's consolidated financial statements include the accounts of Evolution and it's wholly and majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates — The preparation of consolidated 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents — Evolution considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable — Evolution uses the allowance method of accounting for doubtful accounts. The balance is based on historical collections and management's review of the current status of existing receivables and estimate as to their collectability.

Accounts Receivable — Tax Credits — Evolution files federal excise tax returns each quarter, claiming refundable biodiesel mixture tax credits. These credits are accounted for on a gross basis and included as part of sales revenues when earned.

Marketable Securities — In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", securities are marked to market with gains and losses being reflected as unrealized for "available for sale" securities, and realized gains or losses for "trading securities". At December 31, 2009 and December 31, 2008, securities available for sale consisted of the 1,200,000 shares and 1,400,000 shares of PNG stock, respectively, previously discussed as part of the December 24, 2008 transactions. The market value of securities held for sale was $300,000 and $4,760,000 at December 31, 2009 and December 31, 2008, respectively. The change in fair value has been included as a separate line item in the equity section of the balance for the respective periods.

Inventory — Inventories of fuel purchased and processed are stated at the lower of cost (on a first-in, first-out, moving-average basis) or market.

Property, Plant and Equipment — Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment is provided using the straight line method at rates based on the following estimated useful lives:

Asset	**Life**
Buildings and improvements	8 - 39 years
Fixtures and equipment	4 - 20 years

The cost of asset additions and improvements that extend the useful lives of property and equipment are capitalized. Routine maintenance and repairs items are charged to current operations. The original cost and accumulated depreciation of asset dispositions are removed from the accounts and any gain or loss is reflected in the statement of operations in the period of disposition.

Impairment of Long-Lived Assets — In accordance with Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", Evolution reviews the carrying value of its long-lived assets annually or whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. Evolution assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

Goodwill and Other Intangible Assets — Evolution accounts for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Goodwill and other intangible assets are periodically tested for impairment. Evolution assesses goodwill for impairment by periodically comparing the fair value of its reporting units to their carrying amounts to determine if there is potential impairment. Fair values for reporting units are determined based on discounted cash flows, market multiples or appraised values as appropriate. The fair value of definite lived intangible assets is determined by using a "relief from royalty" approach.

Revenue — Sales are recorded at net realizable value, net of allowances for returns, upon shipment of products to customers. Evolution records revenue from federal incentive programs related to the production of biodiesel when Evolution has produced and sold the biodiesel and completed all the requirements of the applicable incentive program. Revenues also consist of liquefied natural gas which is sold to end users, and is recognized based on actual volumes of lng sold. Revenue is recognized in accordance with SEC Staff Accounting Bulletin (SAB) No. 104 "Revenue Recognition" ("SAB 104"), when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collectability is probable, delivery of a product has occurred and title and risk of loss has transferred or services have been rendered. Revenues include shipping and handling costs billed to the customers.

Cost of Product Sales — Cost of sales consists primarily of raw materials costs incurred to produce or process our product. Shipping and handling costs are included as a component of costs of product sales in our consolidated statements of operations because we include in revenue the related costs that we bill our customers.

Accounting for Share-Based Compensation — The Company measures all share-based payments, including grants of employee stock options, using a fair-value based method in accordance with Statement of Financial Accounting Standards No. 123R, "Share-Based Payments." The cost of services received in exchange for awards of equity instruments is recognized in the statement of operations based on the grant date fair value of those awards amortized over the requisite service period. The Company utilizes a standard option pricing model, the Black-Scholes model, to measure the fair value of stock options granted.

Evolution determines the measurement date for share-based transactions with non-employees according to the terms of EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". The Company measures fair value of equity instruments using the stock price and other measurement assumptions as of the earlier of either of the date at which a commitment for performance by the counterparty to earn the equity instruments is, or the date at which the counterparty's performance is complete.

Income Taxes — Evolution and its subsidiaries file a consolidated federal tax return. Income taxes are provided based upon the asset and liability method of accounting. Deferred tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities, and are measured using the tax rates expected to be in effect when the differences reverse. Deferred tax assets are also recognized for operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is used to reduce deferred tax assets when uncertainty exists regarding their realization.

Net Loss Per Common Share — Basic and diluted net loss per common share are presented in conformity with the SFAS No. 128, "Earnings Per Share". Diluted net loss per share is the same as basic net loss per share as the inclusion of outstanding options and warrants until their exercise would be anti-dilutive. Share and per-share data presented throughout the financial statements and notes reflect a 6-for-1 forward split that Evolution declared in November, 2005. Basic net income per share is computed by dividing net income available to common shareholders (numerator) by the weighted average number of common shares outstanding during the year (denominator). Diluted net income per share is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the year. Outstanding options and warrants were not included in the computation of diluted loss per share for the three months ended March 31, 2008 and 2007 because their inclusion would be anti-dilutive.

Treasury Stock — The Company accounts for treasury stock using the cost method. Under the cost method, the gross cost of the shares reacquired is charged to a contra equity account. The stock was acquired for reasons other than its retirement, however, its ultimate disposition has not yet been decided.

NOTE 3 — INVENTORIES

At December 31, 2009 and year ended December 31, 2008, the Company had no inventory.

NOTE 4 — PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist of the following at December 31, 2009 and year ended December 31, 2008:

Description	December 31 **2009** ($ in 000's)	**December 31, 2008** ($ in 000's)
Deposits on business related assets and office spaces	172	195
Escrowed interest related to term debt facilities	$ 544	$ 760
Total	716	959
Less current portion	(544)	(760)
Long term prepaid expenses and other assets	$ 172	$ 199

NOTE 5 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2009 and year ended December 31, 2008 consist of the following:

Property, Plant and Equipment	**December 31, 2009** ($ in 000's)	**December 31, 2008** ($ in 000's)
Land	$ 681	$ 681
Buildings and improvements	16,375	16,952
Fixtures and equipment	157	157
Total cost	17,213	17,790
Fixed asset impairment	(9,622)	(9,622
Accumulated Depreciation	(2,989)	(2,711)
Net property, plant and equipment	$ 4,602	$ 5,456

As part of the share exchange, $6,950,000 of the debt related to the Durant plant facility was transferred as part of the sale of the subsidiary, and amended into the new debt on the LNG plant. As a result, the Durant plant was deemed impaired and is recorded at net realizable value, with a charge to earnings for plant impairment of $9,622,000.

Depreciation expense for the nine months ended December 31, 2009 was $466,806.

NOTE 6 — INVESTMENTS, ADVANCES AND NOTES RECEIVABLE FROM RELATED PARTIES

Amounts representing the Corporation's percentage interest in the underlying net assets of other significant subsidiaries, and less-than-majority-owned companies in which a significant ownership percentage interest is held, are included in "Investments and advances". For the year ended December 31, 2008, the Company recorded a $724,879 loss for WN Truck Stop, LLC. All other subsidiaries were dormant. For the twelve months ended December 31, 2009, the Company recorded a $1,074,805 loss on its ownership in WN Truck Stop, LLC. Evidence of loss in value that might indicate impairment of investments in companies accounted for on the equity method is assessed to determine if such evidence represents a loss in value of the Company's investment that is other than temporary. Examples of key indicators include a history of operating losses, negative earnings and cash flow outlook, and the financial condition and prospects for the investee's business segment or geographic region. If evidence of another than temporary loss in fair value below carrying amount is determined, impairment is recognized. In the absence of market prices for the investment, discounted cash flows are used to assess fair value.

The Issuer has several subsidiaries, most of which are now dormant:

SUBSIDIARY	BUSINESS PURPOSE	Method of Operation	OWNERSHIP	INCLUDED IN FINANCIALS
WN Truck Stop, LLC	Owns Willie's Place Truck Stop	Corporation	50%	Yes
Evolution Biofuels Distribution Co.	Dormant	Corporation	100%	Yes
Evolution Biofuels Operating, Inc.	Dormant	Corporation	100%	Yes
Evolution Ethanol, Inc.	Dormant	LLC	100%	Yes
Evolution Biofuels of Cordele, LLC	Dormant	LLC	100%	Yes
B20 Customs, LLC	Dormant	LLC	100%	Yes
Vertex Processing, LP	Dormant	Partnership	49%	Yes
EBOF GP, LLC	Dormant	LLC	100%	Yes
Evolution Biofuels Retail Fuel Company	Dormant	Corporation	100%	Yes
Evolution Biofuels, LLC	Dormant	LLC	100%	Yes
Durant Biofuels, LLC	Holds the Durant biodiesel facility	LLC	100%	Yes
Evolution Ethanol of Washington, LLC	Dormant	LLC	100%	Yes

Investments —

The Company owns a 50% interest in a large truck stop located near Hillsboro, Texas. The remaining 50% of "Willie's Place at Carl's Corner" is owned by Truckers Corner, LP, of which Willie Nelson is a partner. The truck stop includes a 12 lane diesel/biodiesel truck fuel island, a gas/E85 car island, 2 sit-down restaurants (similar to Texas Roadhouse), a saloon, a 500 seat live performance theater, a large convenience store with numerous private-branded items and Willie Nelson merchandise, and large acreage for truck parking. The truck stop commenced fuel and convenience store operations during December 2008.

The Company owns 1,000,000 shares of stock in PNG Ventures Inc. The Company originally obtained the shares as part of a sale of its subsidiary, LNG. The Company has classified the shares as Available for Sale and therefore records the investment at market value at each quarter end. Changes in fair market value are recorded as unrealized gain or loss in the equity section of the balance sheet. The fair market value of the shares was $-0-and $4,760,000 at December 31, 2009 and December 31, 2008, respectively.

NOTE 7 — DEMAND NOTES —

Evolution has several demand notes totaling $1,400,000 as of December 31, 2009. The notes are un-collateralized, with interest from 8% to 10%, all of which is due upon demand.

NOTE 8 — LINE OF CREDIT

The Company has no lines of credit outstanding as of December 31, 2009 and December 31, 2008.

NOTE 9 — CONVERTIBLE DEBT

On June 30, 2008, the Company sold its wholly owned subsidiary New ELNG to PNG Ventures Inc. ("PNG") via a Share Exchange Agreement (the "Exchange Agreement"), in exchange for the issuance of 7,000,000 shares of the of common stock of the PNG. Prior to the completion of the Share Exchange, Evolution LNG, Inc, a Texas corporation ("ELNG") had transferred to New ELNG all right and marketable title to the member interests of Applied LNG Technologies USA, LLC and Arizona LNG, L.L.C. and all their other assets (other than receivables from EVFN and other subsidiaries of EVFN) that, together, comprise the LNG business, resulting in the characterization of the transfer as an asset sale of EVFN's subsidiary. The investors holding $52.5 million in senior unsecured notes were granted an irrevocable proxy regarding the 7 million shares EVFN received in the exchange. In addition, the notes to the investors were amended with new conversion rates to EVFN shares, and/or are exchangeable into the PNG shares with limitations on control has occurred with regard to the LNG business.

As a result, earnings from the LNG business through the date of disposition and gain on sale have been included in the financial statements for the year ended December 31, 2008. The financial statements of the LNG business are reported as discontinued operations in the statement of operations and its associated assets and liabilities are classified separately in the balance sheet. Prior periods have been reclassified to conform to the current-period presentation.

On December 24, 2008, the Company and the holders of the Company's Amended and Restated Senior Secured Convertible Exchangeable Notes and Series B Senior Secured Convertible Exchangeable Notes entered into an Amendment and Exchange Agreement (the "Amendment and Exchange Agreement") and consummated the transactions contemplated thereby, pursuant to which, among other things:

The Company exchanged:
• $26,000,000 of an Amended and Restated Senior Secured Convertible Exchangeable Note held by three investors for a senior secured convertible note in the aggregate principal amount of $13,235,000 (the "Series C Note"), which is convertible in shares of common stock, par value $0.001 per share (the "Common Stock"), of the Company, in accordance with the terms thereof and

- $3,000,000 of the outstanding principal amount of existing Series B Senior Secured Convertible Exchangeable Note issued to one Investor for a senior secured convertible note in the aggregate principal amount of $1,765,000 (the "Series D Note), which is convertible in shares of Common Stock in accordance with the terms thereof.
- Neither the Series C Note nor the Series D Note is exchangeable into shares of common stock, par value $0.001 per share of PNG Ventures, Inc., a Nevada corporation;
- In addition to the above transactions, one investor exchanged $56,000,000 of an Amended and Restated Senior Secured Convertible Exchangeable Note for 5.6 million shares of common stock of PNG corporation. This left the Company with 1,400,000 shares of PNG stock which is pledged to other investors holding Amended and Restated Senior Secured Convertible Exchangeable Note
- Subject to the satisfaction of certain equity conditions, the Company may at any time, at its option, require the Investor to convert the remaining aggregate principal amount of $5,000,000 of the Amended and Restated Senior Secured Convertible Exchangeable Note of the Investor in Common Stock, in whole or in part; and
- The Company, certain of its subsidiaries and the Investor entered into a reaffirmation agreement (the "Reaffirmation Agreement"), which reaffirms the security interest granted by the Company and certain of its subsidiaries with respect to the Amended and Restated Senior Secured Convertible Exchangeable Notes, the Series B Senior Secured Convertible Exchangeable Notes, the Series C Note and the Series D Note.

The Series C Note ranks pari passu with the Amended and Restated Senior Secured Convertible Exchangeable Notes and the Series D Note ranks pari passu with the existing Series B Senior Secured Convertible Exchangeable Notes.

The holders of the Company's Amended and Restated Senior Secured Convertible Exchangeable Notes and Series B Senior Secured Convertible Exchangeable Notes consented to the transactions contemplated by the Exchange Agreement.

As a result of all of the above December 24, 2008 transactions, the Company recognized a gain on the exchanges totaling $76,549,435. The gain is included in the financial statements for the period ending December 31, 2008.

In September of 2009, a holder of Series C Convertible Notes exchanged $2,000,000 notes for 200,000 shares of PNG stock. Therefore, as of December 31, 2009, the Company owned 1,200,000. The exchange of the Debt for Stock resulted in the recording of a $2 million gain on the exchange.

NOTE 10 — TERM DEBT FACILITIES

The Company has no term debt facilities as of December 31, 2009

NOTE 11 — CONVERTIBLE PREFERRED SHARES

Preferred Stock issuances

The Company has three classes of Preferred Stock outstanding with 100,000,000 shares authorized and 15,000,500 designated .Redeemable preferred stock Series A, $.0001 par value, $1.00 issue price, 13,000,000 shares designated, 12,296,991 shares issued and outstanding at December 31, 2009; 5,741,991 issued and outstanding at December 31, 2008. Redeemable preferred stock, Series B, $.0001 par value, $5.00 issue price , 2,000,000 shares designated,, 1,819,854 issued and outstanding at December 31, 2009; and 708,596 issued and outstanding as of December 31, 2008. Redeemable preferred stock, Series C, $.0001 par value, 500 shares designated, and 300 shares issued and outstanding at December 31, 2009, 0 shares issued and outstanding at December 31, 2008.

NOTE 12 — STOCKHOLDERS' EQUITY

At December 31, 2009 the Company had 224,991,739 shares of common stock issued with 221,246,617 shares outstanding. The Company had 100,000,000,000 authorized as of December 31, 2009. On July 31, 2009 the Company changed the par value of their common stock from $.0001 to $.00001. The change in par value resulted in a $3,279,078 decrease in common stock par value and a corresponding increase in Additional Paid In Capital. At December 31, 2009, all shares of Common Stock were recorded at a $.00001 par value.

At December 31, 2008, the company had 415,253,787 shares of common stock issued with 412,119,634 shares outstanding with 2,500,000 shares authorized. The par value was $.001. On April 22, 2009, the Company changed the authorized shares to 100,000,000,000 and the par value to $.0001. This change in par value resulted in a $ 2,199,798 decrease in Common Stock par value and a corresponding increase in Additional Paid in Capital.

On June 17, 2009, the Company declared a one for one stock dividend to all common stock shareholders. This resulted in the issuance of 9,678,263,373 shares of common stock at a current market value of $.0004. This resulted in an increase in common stock par value of $967,826 and additional paid in capital of $2,903,479 for a total value of $3,871,305.

Warrants —

Warrants granted by the Company consisted of the following for the year ended December 31, 2008 and the nine months ended December 31, 2009.

Description	Remaining Life		Exercise Price	Warrants
May 4, 2006 convertible debt-(debt repaid), warrants issued to investor	8 - 9 years	$	2.00	920,810
May 26, 2006 convertible debt-(debt repaid), warrants issued to investor and placement agent	8 - 9 years	$	3.84	768,750
June 7, 2006 convertible debt-(debt repaid), warrants issued to investor and placement agent	8 - 9 years	$	2.93	1,545,000
July 10, 2006 convertible debt (debt repaid), warrants issued to investor and placement agent	9-10 years	$	2.50	1,515,000
July 21, 2006 warrants issued for consulting fees	9-10 years	$	0.25	4,000,000
July 24, 2006 convertible debt, warrants issued to investors	9-10 years	$	2.90	9,051,725
January 19, 2007 notes payable, warrants issued to	10 years	$	.01	375,000

noteholders				
February , 2008 warrants issued to investor	10 years	$	.10	1,000,000
March 28, 2008 Preferred share issuance	5 years	$	.0375	2,000,000

The weighted average exercise price for all warrants outstanding as of December 31, 2008 was $2.25 per share. During the year ended December 31, 2008, 20,324,724 shares were repurchased, and 439,635 shares were exercised. The weighted average exercise price for all warrants outstanding as of December 31, 2009 was $1.43 per share.

All warrants have a five-year or ten year expiration. The warrant fair value was determined by using the Black Scholes option pricing model. Variables used in the Black-Scholes option-pricing model include (1) risk-free interest rate, (2) expected warrant life is the actual remaining life of the warrants as of the year end, (3) expected volatility was 100%-400%, and (4) zero expected dividends.

Due to net losses or anti-dilutive features these warrants and conversion options were not presented on the Consolidated Statement of Operations.

NOTE 13 — COMMITMENTS AND CONTINGENCIES

Leases —

The Company leased a truck stop in Grenada, Mississippi from RBB Properties, LLC which is controlled by R. Bruce Blackwell, a shareholder and Director of the Company. The lease agreement provided for monthly payments of $3,110 over a five year term.

Total rent expense for the nine months ended December 31, 2009 and the year ended December 31, 2008 was $ 43,531 and $ 24,831 respectively. The remaining obligation under the lease is $109,960 as of December 31, 2009.

Litigation —

On May 2, 2006, Evolution entered into a letter of intent with Vertex Energy, L.P., which contemplated a joint venture in which a newly created company would own and operate a biodiesel production facility on the Houston Ship Channel in Houston, Texas. As contemplated by the letter of intent, Vertex Energy would acquire a 49% interest in the newly created company in exchange for contributing to the new operating company real property and improvements, including an existing chemical processing facility. Evolution would acquire a 51% interest in the operating company in exchange for the payment of $2,500,000 and the issuance of 1,500,000 shares of its common stock to Vertex Energy. In Harris County District Court, Vertex Energy, LP & Benjamin P. Cowart alleged breach of contract on January 26, 2007, and a motion for new trial was granted. Vertex Energy filed its First Amended Petition on February 8, 2008, enjoining Jason Gehrig to the case. A settlement had been reached in 2008, however, due to lack of cash flow the settlement amount was not paid. Subsequent thereto Vertex was given an agreed judgment by Evolution. The investment in this company and related plant was deemed impaired due to lack of operations and was charged to earnings totaling $$2,435,000 during 2006, and $2,543,000 during 2007, resulting in total estimated impairments of $4,978,000. During the third quarter 2008, approximately $3.3 million has been accrued regarding this contingency. The Court granted Vertex a Turnover Order on the assets owned by Evolution on September 26, 2008. Due to the secured assets of Evolution, Vertex was unable to collect any assets. On March 20, 2009 a Second Motion for Turnover was granted to Vertex. The Second Motion for Turnover was for the membership interest in WN Truck Stop, LLC, at this time the Second Turnover has not been enforced due security interest on the Companies' ownership in the truck stop. Evolution made payments totaling $282,000 during the six months ended June 30, 2009. Recently Vertex and Evolution have been actively involved in reaching a mutually agreeable settlement.

Marc Weill, Tom Gross, and Josh Cohen ("Weill et al.") were investors of Evolution pursuant to convertible promissory notes. Weill et al. sued the Company on March 3, 2008 for $1,500,000.00, plus accrued interest, damages suffered, court costs, and attorney fees. On February 24, 2009 Weill et al. filed a Motion for Summary Judgment that was to be heard by the Court on March 25, 2009. Prior to the Summary Judgment Hearing Weill et al. and Evolution entered into a Rule 11 Agreement regarding the structure of an Agreed Judgment to be executed. On April 4, 2009 Weill et al. and the Company entered into an Agreed Judgment by which Evolution will pay Weill et al. $2,100,000.00.

The Company has become subject to various claims and other legal matters in the course of conducting its business. The company has recorded approximately $1 million in regards to various other claims deemed likely in accounts payable and accrued expenses as of December 31, 2009. The Company is actively pursuing settlement agreements with all parties.

During the course of our operations, we are also subject to audit by tax authorities for varying periods in various federal, state, local, and foreign tax jurisdictions. Disputes may arise during the course of such audits as to facts and matters of law. It is impossible at this time to determine the ultimate liabilities that we may incur resulting from any lawsuits, claims and proceedings, audits, commitments, contingencies and related matters or the timing of these liabilities, if any. If these matters were to be ultimately resolved unfavorably, an outcome not currently anticipated, it is possible that such outcome could have a material adverse effect upon our consolidated financial position or results of operations. However, we believe that the ultimate resolution of such actions will not have a material adverse affect on our consolidated financial position, results of operations, or liquidity.

NOTE 14 — INCOME TAXES

In 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). As such, the Company determined at June 30, 2008 that certain tax liabilities relating to a supply contract relating to the Apollo Resources purchase of the LNG Business in December 2005 should be recorded in the accompanying financial statements totaling $17,610,412. The Company's tax years for 2005 through 2008 are subject to examination by various tax authorities. A number of years may elapse before an uncertain tax position is finally resolved. It is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, but the Company believes that its reserves for income taxes reflect the most probable outcomes. The Company adjusts the reserve, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position would usually require the use of cash and result in the reduction of the related reserve. The resolution of a matter would be recognized as an adjustment to the provision for income taxes and the effective tax rate in the period of resolution.

As of June 30, 2009 the Company determined that the $17.6 million accrued tax liability should be reversed and recognized as an adjustment to the provision for income taxes during the six month period ending June 30, 2009. The Company reviewed the circumstances giving rise to the recording of the uncertain tax liability from December 2005 and determined that the circumstances no longer warranted the accrued liability.

In addition to the above FIN 48 income tax liabilities, the Company has net deferred tax assets resulting from differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. As the ultimate realization of this net tax asset is uncertain, the Company has provided a valuation allowance for the entire amount at December 31, 2009 and December 31, 2008.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent to December 31, 2009, the Company bought back 686,866 shares of its common stock. The Stock Buyback Program was announced on September 24, 2009.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued a new Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification ("ASC") and the Hierarchy of Generally Accepted Accounting Principles*). The FASB ASC became the single source of authoritative nongovernmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. The new codification system reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant SEC guidance organized using the same topical structure in separate sections. This standard, which is now considered FASB ASC Topic No. 105 became effective for financial statements issued for reporting periods that end after September 15, 2009.

In May 2009, the FASB issued *ASC* Topic No. 855 (formerly SFAS No. 165), *Subsequent Events*, which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted the provisions of Topic No. 855 as of June 30, 2009. The adoption of these provisions did not have a significant impact on the Company's consolidated financial statements.

Effective January 1, 2008, the Company adopted ASC Topic No. 820 (formerly SFAS No.157) *Fair Value Measurements*. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under Topic No. 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes how to measure fair value based on a three-level hierarchy of inputs, of which the first two are considered observable and the last unobservable.

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's investment in non-affiliated entity is classified as Level 3 in the fair value hierarchy. The adoption of this Topic did not have a material impact on the Company's consolidated results of operations or financial condition.

Effective January 1, 2008, the Company adopted ASC Topic No. 825, *The Fair Value Option for Financial Assets and Financial Liabilities* (formerly SFAS 159). Topic No. 825 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for specified financial assets and liabilities on a contract-by-contract basis. The Company did not elect to adopt the fair value option under Topic No. 825 on any assets or liabilities not previously carried at fair value.

In March 2008, the FASB issued ASC Topic No. 815, (formerly SFAS 161) *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement No. 133*. The objective of Topic No. 815 is to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of Topic No. 815 did not have any impact on the Company's consolidated financial condition and results of operations.