

PETROSONIC ENERGY, INC.
Form 10-K/A
September 27, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM 10-K/A

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE
ACT OF 1934**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the fiscal year ended December 31, 2012

Commission File Number: 000-53881

PETROSONIC ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of

incorporation or organization)

914 Westwood Boulevard, No. 545

Los Angeles, California 90024

(Address of principal executive offices)

(855) 626-3317

(Issuer's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was \$15,612,478.

At April 30, 2013, there were 79,166,405 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable.

EXPLANATORY NOTE

On June 13, 2013 Petrosonic Energy, Inc. (the “Company”) received a letter from the Securities and Exchange Commission relating to the Form 10-K for the year ended December 31, 2012 that was filed on May 3, 2013 (the “Original Report”). The Company filed Amendment No. 1 to the Original Report on July 12, 2013 to respond to the comment letter. On August 14, 2013 the Securities and Exchange Commission issued a comment letter to Amendment No. 1. The purpose of this amendment (“Amendment No. 2”) is to respond to the comment letter.

The disclosures in Amendment No. 2 continue to speak as of the date of the Original Report, and do not reflect events occurring after the filing of the Original Report. Accordingly, Amendment No. 2 should be read in conjunction with our other filings made with the Securities and Exchange Commission subsequent to the filing of the Original Report and any other amendments to those filings. The filing of Amendment No. 2 shall not be deemed to be an admission that the Original Report, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

PETROSONIC ENERGY, INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document and the documents incorporated by reference herein contain forward-looking statements. We have based these statements on our beliefs and assumptions, based on information currently available to us. These forward-looking statements are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations, our total market opportunity and our business plans and objectives set forth under the sections entitled “Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Forward-looking statements are not guarantees of performance. Our future results and requirements may differ materially from those described in the forward-looking statements. Many of the factors that will determine these results and requirements are beyond our control. In addition to the risks and uncertainties discussed in the sections titled “Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” investors should consider the following:

- our ability to successfully implement our business strategy,
- our limited cash and our history of losses,
- whether our technology will perform as expected,
- the acceptance of our technology by the oil industry,
- emerging competition and rapidly advancing technology in our industry that may outpace our technology,
- our ability to raise cash as and when we need it,
- the impact of competition and changes to the competitive environment on our products and services, and
- other factors detailed from time to time in our filings with the Securities and Exchange Commission.

These forward-looking statements speak only as of the date of this report. We do not intend to update or revise any forward-looking statements, except as required by law.

PART I

References to “we,” “our,” “us,” the “Company”, or the “Registrant” refer to Petrosonic Energy, Inc. (previously Bearing Mineral Exploration, Inc.), a Nevada corporation and its majority-owned subsidiary, Petrosonic Albania sh.a, sometimes referred to as “Petrosonic Albania” or “Petrosonic”, a body corporate under the laws of Albania. The outstanding capital stock of Petrosonic Albania is owned 60% by the Company and 40% by Albnafita, a body corporate under the laws of Albania. Albnafita is wholly-owned by our Chief Executive Officer and director, Art Agolli.

ITEM 1. BUSINESS

Overview of Our Business

We were incorporated in the State of Nevada on June 11, 2008 under the name “Bearing Mineral Exploration, Inc.”, with authorized capital stock of 75,000,000 shares at \$0.001 par value. We were organized for the purpose of conducting gold exploration activities on a mineral claim located in the Province of Newfoundland, Canada. We were not able to establish the existence of a commercially minable gold deposit and sought other viable business opportunities.

On April 17, 2012, we issued 20,000,003 (post-split) shares of our common stock to Art Agolli, at that time our sole officer and director, in exchange for all of his right, title and interest in a letter of intent with Sonoro Energy Ltd. (“Sonoro”), a Canadian publicly traded company (TSX-V:SNV) based in Calgary, Alberta, Canada. Sonoro was the holder of all of the legal and equitable rights and entitlements to a sonic reactor and technology that it developed for the treatment and upgrading of heavy oil by sonicated solvent de-asphalting. Mr. Agolli owns approximately 1.5% of Sonoro's issued and outstanding shares of common stock (based on the number of shares of common stock reported by Sonoro to be outstanding on December 31, 2012, which is the most recent report currently available) and during 2011 he provided business development consulting services to Sonoro.

On May 16, 2012, we effected an 11.25-for-1 forward stock split of our common stock and an increase in our authorized number of common shares to 843,750,000. Additionally, on May 16, 2012, we changed our name to "Petrosonic Energy, Inc." to better reflect our new business direction.

On July 27, 2012, pursuant to the terms of an Asset Purchase and Sale Agreement (the "Purchase Agreement") we acquired certain assets from Sonoro, including technology relating to the treatment and upgrading of heavy oil by sonicated solvent de-asphalting, two sonic reactors, one located in Albania and one located in Richmond, British Columbia, Canada, and a solvent recovery system originally located in or around Turin, Italy, which has been moved to Petrosonic's facility in Albania. On the same day, pursuant to the terms of a Share Purchase Agreement with Sonoro, we acquired 60,000 shares of Petrosonic Albania sh.a.

Pursuant to the terms of the Purchase Agreement, in exchange for the assets, we agreed to pay to Sonoro the following consideration: (i) CDN \$250,000, which was paid in June 2012, (ii) a convertible debenture in the principal amount of CDN\$250,000, which was issued in July 2012 (the "Debenture") and (iii) a 10% royalty interest in our realized net revenues for a period of 10 years from the time we commence commercial operations, which will occur when we process an average of 50 barrels of feed stock per day over a period of 30 consecutive days utilizing the technology acquired. Sonoro had the right to demand repayment of the Debenture prior to the maturity date, which was July 27, 2014, if we raised gross proceeds of not less than \$1,750,000 in financing over a period of 24 months. In January 2013, we completed a financing of gross proceeds in excess of \$1,750,000. Sonoro thereafter demanded payment of the Debenture, which we paid in January 2013.

Our obligation to complete the purchase of the assets was conditioned upon, among other things, the completion of a review of the financial condition, business affairs, properties and title of the assets, the completion of financing raising at least \$500,000, and the termination of a license agreement between Sonoro and Petrosonic Albania sh.a.

Until the closing of the purchase transaction, Sonoro agreed that, without our written consent, it would not engage in any transaction other than the ordinary course of business or permit any liens or other encumbrances to be placed against the assets; sell or transfer the assets; permit any material adverse change to occur with respect to the assets; or make any material change with respect to the business of Petrosonic Albania sh.a.

The Purchase Agreement contained representations and warranties from Sonoro relating to its due incorporation, due execution of the Purchase Agreement, ownership of the technology and the sonic reactors, its solvency and its compliance with the securities laws of Alberta. Sonoro also agreed to indemnify us for any damages we sustain after the closing date as a result of a breach of the representations and warranties. We provided representations and warranties regarding our due incorporation and due execution of the Purchase Agreement. We agreed to indemnify Sonoro for any damages sustained by Sonoro as a result of a breach of any of our representations and warranties.

Pursuant to the Purchase Agreement, Sonoro entered into a non-competition and non-solicitation agreement with us (the “Non-Compete Agreement”) and into a consulting agreement (the “Consulting Agreement”). The Non-Compete Agreement has a term of 5 years. During that period, Sonoro agrees that it will not compete with us anywhere in the world, save and except for in the Republic of Iraq, in any business activity or transaction directly relating to the assets we purchased. Sonoro also agrees that it will not solicit any employee, agent, salesperson, contractor, customer, supplier or dealer of or to us as of the date of the Non-Compete Agreement, or within the one year prior to the date of the Non-Compete Agreement, to leave, to stop selling to, or to stop buying from us or otherwise to cease dealing with us. Pursuant to the Consulting Agreement, Sonoro agrees to make certain employees available to us on a part-time basis to provide ongoing technical support to us for a period of one year. We agree to pay certain costs relating to travel from Canada to Albania for the employees and to reimburse Sonoro for the salaries of the employees.

Contemporaneous with the completion of this transaction, we entered into a license agreement with Sonoro (the “Iraq License Agreement”) for commercialization of our newly acquired technology by Sonoro in the Republic of Iraq. The license is non-exclusive, royalty-free and fully paid-up. The license lasts for the period that Sonoro uses our technology in the Republic of Iraq. The Iraq License Agreement may be terminated by either party upon 30 days written notice if the other party materially violates any of the provisions or conditions of the license and fails to discontinue or remedy such violation within the 30 day period or by either party immediately if the other party becomes insolvent or unable to pay its debts as they mature, institutes a bankruptcy or insolvency proceeding or has such a proceeding instituted against it which is not dismissed within 30 days, makes an assignment for the benefit of creditors, or commences dissolution or liquidation proceedings.

On September 15, 2012, we signed a memorandum of understanding with Quadrise Canada Corporation, a private emulsion technology company for the upstream and downstream oil industry that has an exclusive license in a heavy crude and asphaltene emulsification technology. The technology enables us to convert de-asphalted oil and asphaltenes into readily marketable emulsified fuel oil and high-end asphalt. In accordance with the agreement, Quadrise licensed to us, on an exclusive basis, the right to use the technology in Albania and for projects to be determined in Iraq. The license also allows us to expand our use of the technology into other jurisdictions, subject to Quadrise’s rights. In accordance with the memorandum of understanding, Quadrise delivered to our plant in Albania a synthetic fuel manufacturing unit capable of delivering 120 bbl/hour of feedstock. Ownership of the manufacturing unit is retained by Quadrise and Quadrise retains control, through a blend master designated by Quadrise, of the process and operation of the manufacturing unit. Pursuant to the memorandum of understanding, we are to provide the feedstock which will be processed into synthetic heavy hydrocarbon emulsion fuel oil. We are responsible for the capital and operating costs associated with the operation of the manufacturing unit in Albania. We are permitted by the memorandum of understanding to operate the technology for a testing period of three months, to assess its commercial viability, including new operations we may undertake in other jurisdictions, including Iraq. The fee for manufacturing the synthetic heavy hydrocarbon emulsion fuel oil is based on the type of feedstock and water used, but for the purposes of the memorandum of understanding, the cost was estimated to be approximately \$6.30 per barrel of synthetic heavy hydrocarbon emulsion fuel oil based on an average of 500 barrels per day average monthly input of feedstock. If we increase the volume above 1,000 barrels per day, the cost is expected to be reduced. Quadrise has also agreed to work with us for other applications of the technology that may reduce costs or enhance the value of our projects in Albania. The memorandum of understanding also includes provisions for the preparation of a master service agreement between us and Quadrise.

Following the consummation of these transactions, we believe that we are not a shell corporation as that term is defined in Rule 405 of the Securities Act and Rule 12b-2 of the Exchange Act. Our primary operations will consist of

both heavy oil emulsification, wherein we use the technology licensed to us by Quadrise Canada Corporation to make heavy crude oil less viscous so that it can be used for fuel oil and, once our facility in Albania is completed, we will begin upgrading heavy crude oil with the sonication technology we acquired from Sonoro. This process will not only reduce viscosities, but will separate and remove asphaltenes from heavy crude oil. Asphaltenes are defined by scientists as any petroleum product that dissolves in toluene, but doesn't dissolve in pentane or heptane solutions. Among the asphaltenes found in heavy crude oil are sulphur, vanadium and nickel. We expect our facility to be complete in the fourth quarter of 2013 and to begin sonication operations during the first quarter of 2014. The audited financial statements of Petrosonic Albania sh.a for the fiscal years ended December 31, 2011 and 2010 can be found in our Annual Report on Form 10-K/T filed with the SEC under "Item 8. Financial Statements and Supplementary Data". For accounting purposes, we have accounted for the Purchase Agreement under the purchase method of accounting.

We have earned no revenue and have accumulated losses since inception. We expect to generate operating losses during some or all of our planned development stages, which raises substantial doubt about our ability to continue as a going concern. In view of these matters, our ability to continue as a going concern is dependent upon our ability to meet our financial requirements and to raise additional capital, which may likely involve the further issuance of capital stock, and the success of our future operations.

Sonication Operation Plans and Business Focus

API gravity is a measure of how heavy or light a petroleum liquid is compared to water, one of the qualitative measures for crude oil. Petrosonic has acquired a commercial process which improves heavy oil densities by 6 to 15 API from as low as 8 API, reduces viscosities of oil by 99% to pipeline specifications and reduces sulphur and heavy metals by over 50%.

This process is especially beneficial to producers with the following intrinsic challenges:

- stranded heavy oil due to transportation issues
- diluent supply issues
- limited refining markets (light oil refiners struggle with heavy oil)
- heavy discounts due to
- o density adjustments
- o high sulfur content
- o high metals content

It is estimated that there are approximately 7.5 billion barrels of oil reserves present in Albania. Current production in Albania is approximately 21,000 to 22,000 barrels of oil per day ("bopd").
(<http://www.balkananalysis.com/albania/2012/02/05/albania-oil-industry-enjoys-revival-but-investor-government-relations-remain>)

We plan to have our first 1,000 bopd stand-alone facility operational by the end of the 4th quarter of 2013 in Albania. If we are able to successfully establish our first commercial facility, we believe heavy oil producers may then integrate the Petrosonic system at their cost into their treatment facilities. Petrosonic would license the sonication technology and retain a royalty fee, or we may form joint ventures with heavy oil producers to install and manage the plants

jointly. Petrosonic may also choose to develop its own stand-alone facilities.

Further upside opportunities exist in several other applications which we are developing, including, heavy oil emulsification, waste oil separation and oil separations from drill cuttings.

Vision and Strategy

During 2013 and 2014 we plan to work toward completion of the following milestones:

Complete the section of the Albanian facility that will be dedicated to the emulsification technology. A portion of the Albanian processing facility will be devoted to the emulsification of de-asphalted oil and asphaltenes using the technology that we acquired from Quadrise Canada Corporation. On April 10, 2013 we announced the execution of a Master Toll Services Agreement with IDK Petrol Albania Sila, an Albanian energy company. Under the agreement, IDK engaged us as a processor and producer of heavy hydrocarbon emulsion fuel oil and emulsified bitumen from heavy oil and agreed to pay us per barrel fees based on both the quantity of oil to be processed and the quality of the end product produced. Pricing of the processed oil, delivery dates and specifications, among other terms, will be determined at the time each purchase order is issued. The Master Toll Services Agreement does not require IDK to provide a minimum amount of feedstock during the term of the agreement. We have completed installing all of the equipment and infrastructure necessary to begin emulsifying heavy crude oil and we received the fire permit that is required before we can undertake emulsification processing. We expect to begin generating revenues from emulsification processing in the fourth quarter of 2013.

Expand emulsification processing to other countries. As noted in the discussion of our agreement with Quadrise Canada Corporation, Quadrise licensed to us, on an exclusive basis, the right to use the emulsification technology in Albania and for projects to be determined in Iraq. The license also allows us to expand our use of the technology to sell emulsified oil into other jurisdictions, subject to Quadrise's rights. We expect to begin to expand our use of the emulsification technology to sell emulsified oil into other countries during 2014. We cannot estimate what this will cost us, since we will only emulsify the oil as we receive orders.

Complete the section of the Albanian facility that will be dedicated to the sonication process. We expect to complete the section of the Albanian facility that will be dedicated to the sonication process during the fourth quarter of 2013. We estimate that completion of the facility could cost as much as \$1.7 million. If we are able to complete the facility as planned, we expect to begin generating revenues during 2014 from utilizing the technology we acquired from Sonoro to develop a business relating to the treatment and upgrading of heavy oil by sonicated solvent de-asphalting.

Key Success Factors

Our success will be dependent upon:

- our ability to attract and develop numerous emulsification and sonication projects once our facility is complete;
- access to an ample producer oil supply and our ability to find equitable profit distribution;
- our ability to minimize technical risk through avoidance of scale up issues; and
- our ability to find strategic partners who can help finance our operations and/or gain quick access to markets.

We are also considering selling the asphaltenes generated by our process. Asphaltenes are present in most petroleum materials, and in all heavy oils and bitumens from oil sands. Asphaltenes can be used in road construction, waterproofing and roofing. Using our technology, we can separate the asphaltenes from the oil being processed. We have undertaken third party testing of these asphaltenes on a batch basis and, based on the results, we have had discussions with asphalt producers for potential contracts. We are in the process of developing this business opportunity, although we have no customers for asphaltenes at this time and we have no competitive presence in this market.

Priorities

Our immediate priorities are to:

- strengthen our operations and management as we move forward in the oil sector;
- complete the facility in Albania, which we expect to commission by the end of the fourth quarter of 2013;
- establish a second country oil processing project; and

- build a firm backlog of projects with financing commitments.

The Industry

Traditional Heavy Oil Opportunities

Crude oil is the world's most actively traded commodity. Heavy crude oil is a type of highly viscous crude oil that does not flow easily (sometimes referred to as non-conventional oil). Typically, it is defined as crude oil with an API gravity of less than 22 API. For example, Canadian extra-heavy crude (Athabasca bitumen) has a viscosity of 10,000+ cP. (The cgs physical unit for dynamic viscosity is the *poise* (P). It is more commonly expressed, particularly in ASTM standards, as *centipoise* (cP).) Water at 20°C has a viscosity of 1.0020 cP, about the same as cold molasses, and API gravity between 8-14 API. In comparison, WTI, a type of light crude oil used as a benchmark in oil pricing of New York Mercantile Exchange's oil futures, has an API of approximately 39.6. Heavy oils can be upgraded to high quality light synthetic oils using specialized refining processing.

Heavy oil, compared to light crude oil, has specific technical issues relating to production, transportation, and refining. Light crude oil is easier and less expensive to produce, since it generally has a higher percentage of light hydrocarbons that can be recovered with simple distillation at a refiner. Heavy crude oil can't be produced, transported and refined by conventional methods because it has high concentrations of sulfur and metals, particularly nickel and vanadium. Heavy crude oil requires extra refining to produce more valuable and in-demand products, such as gasoline, home heating oil and diesel fuel. These challenges must be overcome in order for heavy oil to become a significant contributor to global growing demand.

Global Need, Supply and Production

Until recent years conventional, light crude oil has been abundantly available and has easily met world demand for this form of energy. By 2007, however, demand for crude oil worldwide substantially increased, straining the supply of conventional oil. This has led to consideration of alternative or insufficiently utilized energy sources, among which heavy crude oil and natural bitumen are perhaps the most readily available to supplement short- and long-term needs. Heavy oil has long been exploited as a source of refinery feedstock, but has commanded lower prices because of its lower quality relative to conventional oil. Natural bitumen is a very viscous crude oil that may be immobile in the reservoir. (When natural bitumen is mobile in the reservoir, it is generally known as extra-heavy oil.) (U.S. Geological Survey, "Heavy Oil and Natural Bitumen Resources in Geological Basins of the World", Report 2007-1084). According to "2010: Survey of Energy Resources", a report issued by the World Energy Council, the volume of original oil in place in known deposits of natural bitumen and extra-heavy oil appears to be at least of the same order of magnitude as the volume of original oil in place at discovered conventional (light) oil accumulations. Total resources of heavy oil in known accumulations are 3,396 billion barrels of original oil in place. The total natural bitumen resource in known accumulations amounts to 5,505 billion barrels of oil originally in place.

The following chart shows the regional distribution of heavy oil and natural bitumen in billions of barrels:

Region	Heavy Oil	Bitumen
North America	651	2,391
South America	1,127	2,260
Europe	75	17
Africa	83	46
Transcaucasia	52	430
Middle East	971	0
Russia	182	347
South Asia	18	0
East Asia	168	10
Southeast Asia and Oceania	68	4

*Does not include extra-heavy oil.

Source: U.S. Geological Survey Report 2007-1084, Heavy Oil and Natural Bitumen Resources in Geological Basins of the World

As the table above indicates, heavy oils are found around the world, with an estimated 54% of the world's heavy oil and an estimated 84% percent of the natural bitumen located in the Western Hemisphere. The Eastern Hemisphere, however, contains an estimated 85% of the world's light oil reserves, with the Middle East accounting for approximately 56% of these reserves.

Among the more notable heavy oil reserves are: Venezuela's Orinoco Heavy Oil Belt; Canada's Athabasca Oil Sands; Russia's Volga-Ural Basin; Brazil's offshore Campos Basin; Alaska's Prudhoe Bay; and China's Luda field in Bohai Bay.

Significance of Traditional Heavy Oil

Around the globe, some of the most prolific oilfields are reaching maturity and have begun to experience reduced production rates. What large conventional oilfields remain lie mostly in the lands of Middle Eastern, OPEC nations. At the same time, the world's demand for oil continues to grow every year, fueled in part by the rapidly growing economies of China and India. This declining availability of conventional oil combined with rising demand has driven up oil prices and put more pressure on the search for alternate energy sources.

Into the picture come the tremendous deposits of heavy oil and bitumen, a solid or viscous material with adhesive properties which is derived from petroleum, that are found in the Western hemisphere. These non-conventional resources are more difficult to extract, so they have barely been touched in the past. With the price of oil reaching new highs in 2005 and 2006, investments in these more challenging oil deposits are rapidly accelerating.

The U.S. oil industry alone has invested \$86 billion in “frontier hydrocarbons” since 2000, developing technologies to recover and convert inferior grades of oil, such as heavy oil and bitumen, into a more usable form for refineries, and to turn waste and residue hydrocarbons into high-value products.

The worldwide importance of heavy oils will continue to emerge as the price of oil remains high and the demand for it remains strong. For example, the tight worldwide oil supply is expected to continue to force crude prices higher and turn Canada’s oil sands into the single largest contributor to net new global supply by the end of the decade, according to CIBC World Markets: *“All of the net increase in oil production is expected to come from non-conventional sources,”* says Jeff Rubin, chief economist at CIBC World Markets, *“While deepwater oil is the primary source today, we forecast that the Canadian oil sands will become the single largest contributor to incremental global supply by 2010.”*

Industry Trends in Production and Transport of Heavy Oil

The market factors behind Petrosonic's upgrading derive from the oil industry's needs relative to the production and refining infrastructure. As production shifts more to heavier oil it becomes necessary for refining capacity to adapt to it, either by pre-upgrading the oil or by major refining changes. Until then heavy oil producers face a penalty due to refining and pipeline infrastructure limitations driven by:

- the need to maintain low capital costs and operating costs;
- the ability to produce and transport heavy oil within the same systems as those established for conventional oil, i.e. using existing transport pipelines;
- delivery of heavy oil to the point of sale with reduced expenditures on diluents;
- production and transportable technology that allows the exploitation of heavy oil reserves at lower total cost, particularly for smaller fields – without massive infrastructure expenditures.

Issues for Heavy Oil Producers

Because of the demands placed by the industry on the production and transport of heavy oil, heavy oil producers, especially small to medium size ones, face price penalties:

- smaller producers face high costs due to the need to blend heavy oil with diluents for pipeline transportation or face penalties for failure to meet pipeline specifications for viscosity and API;
- fixed producer "upgrading" facilities to increase the API have been limited by the poor economics of small scale and short production life;
- upgrading is generally limited to de-asphalting (removal of heavy asphaltene components – up to 16% by mass) and vis-breaking (low temperature cracking).

Second Country Oil Projects

One of our goals is to establish oil processing projects in countries other than Albania. The discussions below illustrate opportunities that we believe could make it possible for us to expand into other countries.

Oil Sands

The world's two largest sources of bitumen (and related extraction and recovery operations) are in Canada and in Venezuela. There are also known oil shale or bituminous reserves in the United States, Mexico, South America, Africa, Kazakhstan and other locations.

In Canada, oil sands are found in three locations in the province of Alberta: The Athabasca, Peace River and Cold Lake regions. They cover 141,000 square kilometers.

Oil Sands Production in Canada

The Canadian oil sands industry is dominated by large integrated multi-national companies, including Albion Sands Energy Inc., Canadian Natural Resources Limited, Chevron, EnCana Corporation, Husky Energy Inc., Imperial Oil Resources Limited, Petro-Canada (Fort Hills), Shell Canada Limited, Suncor Energy Inc. and Syncrude Canada Ltd.

More recent entrants, with projects under development or already underway, include TOTAL (Joslyn), Exxon Mobil, Synenco, Fort Hills (UTS), Kearl Lake Project with Imperial Oil Resources Limited, and BP (British Petroleum).

There is an estimated 1.7 to 2.5 trillion barrels of bitumen in place in Alberta's oil sands. Canada's recoverable oil resource is second only to Saudi Arabia's. Approximately 1.3 million barrels are produced per day and production is expected to grow to three million barrels per day by 2020. Over the next 10 years there is expected to be over \$60 billion of direct capital expenditures into development of the oil sands. ("Facts about Alberta's Oil Sands and its Industry", Oil Sands Discovery Centre, www.oilsandsdiscovery.com.) But to produce one million barrels of oil a day requires withdrawals of enough water from the Athabasca River to sustain a city of two million people every year. Despite some recycling, the majority of this water never returns to the river and is pumped into some of the world's largest man-made dykes containing toxic waste.

Oil sands extraction usually takes at least two tons of oil sand to fill one barrel of upgraded synthetic crude oil. Furthermore, for every barrel of synthetic oil produced in Alberta, more than 80 kg of greenhouse gases are released into the atmosphere, and 3 to 5 barrels of waste water are dumped into tailing ponds. Production waste streams released into ponds have still relatively large amounts of unrecovered bitumen and expensive diluents (as much as 4%). In large volumes typical for the oil extraction, these waste streams pose major environmental burdens as well as lost economic potential, inasmuch as we believe, based on our knowledge of bitumen and naphtha recovery processes, that we would be able to separate the oil from the waste and sell the heavy crude oil into the market.

Bitumen and naphtha recovery processes involve separation of the complex mixtures of mineral matter (sand, clay), water and small amounts of soluble organic from the bitumen. Current operators use a combination of energy (hydro-transport, heat, conventional mixing), chemical (caustic) addition, flotation and light solvent dilution to achieve the necessary separations. We are in the process of testing the theory that taking the bitumen and diluents out of the waste oil in the tailing ponds will be substantially similar to removing impurities from the bitumen, such as clay and other metals.

Petrosonic's Opportunity

We believe Petrosonic will be able to take advantage of an opportunity that traditional upgrading technology cannot address – upstream upgrading on smaller scales. The viability of upgrading is constantly changing due to production mix, refining infrastructure costs, and oil pricing. However, there are three markets for small upgraders that make sense:

Pipeline systems where access to the pipeline requires blending of heavy oil. Condensate prices and heavy oil differentials have been stable for some time and long term projections indicate that low condensate prices following the global economic slow-down will be short-lived;

Heavy oil producers in markets where light oil dominates refinery infrastructure. Internationally there are several markets like this; and

Markets where upgrading asphalt by-products can command premium prices. This is especially attractive in the United States, given the economic infrastructure stimulus measures being implemented through the 2009 American Recovery and Reinvestment Act, which provides \$105.3 billion for infrastructure investment.

To take advantage of these opportunities Petrosonic must be able to:

- economically upgrade heavy oil from small and medium sized producers;
- add value and allow producers to capture a larger share of the market price for refinery products; and
- provide operating plants to heavy oil producers in return for tolling process fees or purchase heavy oil at a premium to blenders.

Upgraded oil provides uplift in crude's value and eliminates issues related to transport of crude oil to pipeline and refinery companies.

The Petrosonic Process

As noted above, the Petrosonic heavy oil process will enable heavy sour oil and bitumen (from most heavy oil and oil sands fields in the world) to be converted from nominally an API gravity of 8° to 14° to a value-added synthetic crude oil of between 18° and 23° API. This is achieved through the reduction of undesirable constituents of the raw heavy oil and/or bitumen. The process incorporates two stages: solvent de-asphalting and distillation.

While solvent de-asphalting and distillation are both proven and well known technologies, the innovation associated with the Petrosonic upgrading process lies in the rapid de-asphalting achieved by sonication of the de-asphalting phase with the Petrosonic reactor stage.

Test Data

Sonoro completed an extensive test program of heavy oils both in house and independently with the complete upgrading process which has shown to consistently achieve the target improvements in API. The tests were carried out in Sonoro's research and development site in Richmond, British Columbia (in house). The lab work for the specifics of the de-asphalted oil and asphaltenes generated was carried out by Alberta Research Council in their laboratory (independent) in Edmonton, Alberta. The tests were carried out during 2010 and 2011. For Canadian bitumen samples this represents an upgrade from nominally 10° API to 25° API. The test program included heavy oils and bitumen from the Canadian Athabasca and Lloydminster fields, heavy oil from U.S. refineries, and crude oil from two international oil producers. The upgraded oil quality is typically:

- **Density** - from 23° to 28° API gravity, meeting pipeline specifications.
- **Viscosity** - less than 100 cSt at 25°C (greater than 99% reduction), meeting pipeline specifications.
- **Liquid yields** - From 85% to 92% by volume depending on the quantity and quality of asphaltene by-product required.
- **Sulphur** - reduction by up to 40% by mass.
- **Heavy Metals** - typical reduction of vanadium up to 80% and nickel by up to 88% by mass.

The following tables illustrate some of the data from the extensive test program that Sonoro conducted. This is critical in establishing the application of the Petrosonic process on a broad basis.

The table below (Table 1) shows key performance parameters for Alberta/Cold Lake oil:

Table 1

Analysis	Raw Bitumen	Upgraded Oil [Petrosonic ID 090309E-2]
Total Acid Number (TAN)	1.24	1.18
API Gravity	14.4	26.0
Density @15°C	0.9690	0.8982
Nickel	46	17
Vanadium	95	38
Sulphur	3.62	2.46

Table 2 shows a PONA (fundamental heavy oil testing of paraffins, olefins, naphthenes and aromatics) summary by hydrocarbon group for Alberta/Cold Lake oil using commercially available light naphtha:

Table 2

Group	Raw Bitumen		Upgraded Oil [Petrosonic ID: 090309E-2]	
	% Wt	% Mol	% Wt	% Mol
Aromatics	14.175	14.871	17.318	18.545
i-Paraffins	25.572	23.856	24.912	24.031
Naphthenes	30.728	33.450	19.017	20.217
Olefins	11.431	11.147	5.064	4.837
Paraffins	4.715	4.695	30.547	29.677
Oxygenates	0.000	0.000	0.000	0.000
Unidentified	13.380	11.981	3.142	2.694
Plus	0.000	0.000	0.000	0.000
TOTAL	100.00	100.00	100.00	100.00

Table 3 shows a PONA summary by carbon number for Alberta/Cold Lake oil. Table 3 reflects the effectiveness of the Petrosonic upgrading process through the reduction in the oil's carbon number from C9/C10 to C7/C8, which indicates the generation of new lighter end fractions, each having a lower density and thus serving to increase the API. Given the high sensitivity of the API calculation to density, even small changes in density create significant gains in API quality.

Table 3

Carbon #	Raw Bitumen		Upgraded Oil [Petrosonic Code 090309E-2]	
	% Wt	% Mol	% Wt	% Mol
C4	0.001	0.002	-	-
C5	0.060	0.100	0.079	0.125
C6	3.063	4.296	2.979	4.053
C7	17.245	21.005	21.711	25.435
C8	17.245	18.619	33.183	33.915
C9	29.209	27.721	25.799	23.367
C10	17.940	15.127	10.057	8.179
C11	1.511	1.149	2.512	1.868
C12	-	-	0.478	0.328
C13	-	-	0.049	0.030
C14	-	-	0.010	0.006
>C15	13.726	11.981	3.143	2.694
TOTAL	100.00	100.00	100.00	100.00

The following table (Table 4) illustrates some of the data from the extensive test program that Sonoro conducted. This is critical in establishing the application of the Petrosonic process on a broad basis.

Table 4

Country	Source	Raw				Upgraded					
		Specific API	Vanadium (g)	Nickel (g)	Sulphur (%)	Total Acid Number (TAN)	API	Vanadium (g)	Nickel (g)	Sulphur (%)	Total Acid Number (TAN)
Canada	CP	10.6	169.0	80.0	4.5	0.98	24.5	29.2	12.0	2.64	0.73
Canada	CDL	14.4	95.0	46.0	3.62	1.24	26.0	38.0	17.0	2.46	1.18
US (Texas)	TG	17.4	12.0	5.4	3.73	0.59	27.9	4.2	1.9	2.78	0.99
US (Texas)	TK	14.9	15.0	16.0	3.85	0.56	27.5	4.4	4.2	2.51	0.58
US (Texas)	TQ	11.2	15	16	3.33	1.71	25.9	2.9	3.1	2.51	0.55
Albania	AB	10.8	348.4	68.5	5.96	0.56	25.1	56	8.6	3.96	0.3
Albania	AD	10.2	287.0	57.0	3.98	0.52	29.0	65.9	12.2	3.27	0.73
Albania	AM	21.0	110.0	19.0	2.43	1.07	31.9	48.4	7.7	2.88	0.85
Venezuela	VP	9.4	492.0	105.0	4.26	5.26	21.7	220	45.4	2.96	3.68
US (Utah)	US	14.5	23.8	12.2	1.18	3.19	32.5	1.7	1.0	0.62	0.26

Stages in the Petrosonic Process

Step 1: Solvent De-asphalting

The primary process of solvent de-asphalting dissolves bitumen in a common paraffinic solvent. The solvent is selected to ensure complete dissolution of the oil-soluble component of the bitumen with the solvent to form a de-asphalted oil while the insoluble hydrocarbon component known as asphaltenes are readily filtered through simple separation. This asphaltene fraction is concentrated with heavy metals such as nickel and vanadium as well as sulphur.

The Petrosonic reactor, using its low-frequency/high-energy/high-amplitude reactor design, allows for significant improvement in the mass transfer efficiency of the solvent de-asphalting step in particular, cutting the de-asphalting time required from 6 to 10+ hours to 2 minutes.

Step 2: Solvent Recovery

At the completion of the two-stage Petrosonic upgrading process, the upgraded oil is required to be separated from the solvent through a standard solvent recovery process such as an evaporator or distillation column. Given the significant differential in boiling points of the upgraded oil and the solvent for recovery, the separation process is economical and readily applicable to recover solvent with a solvent residual of less than 4% remaining in the oil. Such a small solvent residual in the oil is well within the expected quality parameters for pipeline and refinery specifications. The recovered solvent is reused at the solvent de-asphalting stage to complete the loop on the Petrosonic upgrading process.

Petrosonic's Technology

SonoProcess

We believe Petrosonic's technology advantage is based upon the use of our Petrosonic reactor technology and the unique cavitation and enhanced mass transfer effects that it provides. Petrosonic has developed a unique competency in the design of enhanced mass transfer energy processes and the proprietary applications that result from this.

In recent years the use of cavitation technologies and ultrasound has been researched extensively for oil processing – usually in the context of desulphurization or “cold cracking”. Our own research does not support this and we make no claims that it can create a unique upgrading process. The chemistries used in the Petrosonic process are established and our advantage is that we make these more effective by reducing the time of separation and the energy input required to de-asphalt the crude oil from asphaltene and heavy metals.

Our intent is to expand the uses of our Sonoprocess™ technology by adding complementary proprietary process technologies, such as the emulsion process we have licensed from Quadrise Canada Corporation and by using even more conventional and cheaper solvents, such as propane.

Petrosonic reactors are based on low-frequency and high-amplitude:

· an electromagnetic drive puts a massive steel bar into resonance and this allows efficient transfer of energy to the reaction chambers;

· there are no moving parts and so Petrosonic reactors have a high reliability and operational availability;

· the reaction chambers are attached at the mid-node points one half wavelength from the drive system, enabling the reactors to apply Petrosonic energy to physical, chemical and biological processes; and

Petrosonic reactors are thus able to achieve more sustainable processes – better reactivity, less reagents, less energy, greater effectiveness and more product for overall economic advantage.

Petrosonic Heavy Oil Process Provisional and PCT Patent Applications

As part of the transaction with Sonoro, we acquired the following heavy oil process provisional and PCT applications based on the Sonoprocess™:

· *Patent Application No: WO2009111871. Jurisdiction: WIPO. Title: Method for Treating Heavy Crude Oil. Application Status: Closed.*

· *Patent Application No: EA201071060. Jurisdiction: Eurasisa. Title: Method for Treating Heavy Crude Oil. Status: Pending.*

· *Patent Application No: EP2260089. Jurisdiction: Europe. Title: Method for Treating Heavy Crude Oil. Status: Pending.*

· *Patent Application No: 2156/MUMNP/2010. Jurisdiction: India. Title: Method for Treating Heavy Crude Oil. Status: Pending.*

*Patent Application No: US 13/822,818. Jurisdiction: United States. Title: Method for Treating Heavy Crude Oil.
Status: This application is pending at the USPTO and awaiting examination.*

Competition

Currently heavy oil is upgraded by refineries and upgraders (refineries that upgrade crude to synthetic crude grade level but not to full end products such as diesel, jet fuel etc.). These facilities refine large quantities of crude from 60,000 to 500,000 bbl/day and they are capital intensive, require long lead times, significant engineering and intensive water use.

There have been other technologies introduced that upgrade heavy oil via other methods such as Headwaters Incorporated's proprietary HCAT technology or Ivanhoe Energy's HTL heavy oil upgrading technology. However, these technologies upgrade heavy crudes in smaller volumes and are also very complex, capital intensive and require intense use of energy and water. They also have the associated environmental downsides such as carbon emissions.

Disadvantages of Petrosonic Process/Technology

There are few inherent disadvantages to the Petrosonic process. The technology has been proven on a batch basis, but long-term 24 hour operations have not yet been attempted. In addition, one sonicator at current dimensions can process up to 500 barrels of heavy oil per day, thus requiring additional sonicators to increase the processing capacity. While the processing capacity of one sonicator can be an advantage for small and medium size operations, it may be considered as a disadvantage for larger operations.

In addition, there are technical and logistical risks associated with the Sonoprocess™ rollout in Albania. These risks can be attributed to two general categories of risk: operational and logistical, which are influenced by the market risk factors which are presented separately.

The design of the sonicator chambers and the solvent recovery equipment was based on an estimation of the required solvent and any changes and variations in the solvent will impact the overall ability to commission the project. Our process relies on the availability of certain solvents such as light naphtha, pentane and LPGs. Light naphtha and pentane are liquids and LPGs are liquefied gases and as such require different pressures and heat to be mixed with heavy crude and recovered. In case the liquid solvents are not available for any reason in the jurisdiction in which we are operating, changing from one solvent to the other will require some modifications to our equipment and process. These modifications may cause some interruption or delays of the processing.

The ability to procure suitable safe installation for commissioning the equipment is critical given the limited number of suitable contractors available in Albania. The ability to source and deliver piping or other equipment could cause

commissioning or optimization delays. The equipment to be assembled into a continuous heavy oil upgrading process has not been operated in the proposed configuration elsewhere. The process is expected to operate as designed but unforeseen assembly and commissioning situations are normal and expected. Remaining equipment to be ordered is minor in scope but any delays or problems in sources of supply from European sources could lead to minor delays.

Marketing and Sales Strategy

Petrosonic's business model as it relates to sonicated de-asphalting of heavy oil is to provide integrated upgrading systems to heavy oil producers in exchange for revenue sharing in the economic uplift produced as a result of the Sonoprocessing™. Given the relative ease of integration and transportation, the process is designed to be easily applicable to the upstream and midstream constituents. The immediate marketing and sales strategy is to sell our processing services on toll or joint venture basis to heavy oil upstream producers directly or process for third parties at our stand alone facilities on toll basis. As a result, business models can take on various forms:

- Oil Producers: Decrease viscosity and need for diluents; improve quality; increase marketability; increase price.
- Pipeline Operators: Decrease viscosity and need for diluent resulting in increased throughput.

- Storage & Blending Operators: Increase yield and quality.
- Refiners: Increase yield and quality. Rapid de-asphalting with less diluent and less cost. De-bottleneck refinery.

Customers

Our target customers are heavy oil producers, industrial groups that consume fuel oil and refineries that refine heavy oil. In addition, our potential customers consist of heavy oil trading companies and, assuming the development of our business to sell asphaltenes, asphalt producers and consumers of asphalt products such as construction companies that require asphaltenes as raw material for production of asphalt. In April 2013 we entered into a Master Toll Services Agreement with IDK Petrol Albania Sila (“IDK”). Pursuant to the agreement, which has a term of one year but may be renewed, IDK will provide Petrosonic with feedstock for processing. There is no minimum amount of feedstock that IDK is required to provide. The charge for processing will be determined on a transaction-by-transaction basis.

Employees

We have currently 3 full-time employees and 4 part-time employees. From time to time we also retain the services of independent consultants. The consultants provide general business services to us, such as assistance with regulatory matters and engineering services, as well as providing expertise in areas including legal services, investor relations services and business development services.

Environmental Laws and Regulations

The Company will be subject to the Law of Environmental Protection, the primary environmental law of Albania, the location of its processing facility. In accordance with this law, all companies that store and process hydrocarbons must apply for and receive an environmental permit issued by the Ministry of the Environment and the local government where the plant is located, in this case, the Fier Environmental Regional Office. The Company has applied to both entities and expects the permit to be received by the end of July 2013. Since the Company's processes do not require any extensive use of water or energy or generate any emissions, it does not fall under more complicated and lengthy environmental permit requirements typical for refineries or upgraders. Albania also requires the Company to obtain a fire safety permit from the Fier Environmental Regional Office as part of the permit application. The Company has installed all of the necessary equipment required for anti-fire measures and regulations in the country and in May 2013 we were certified by the inspection authority.

Procurement of Equipment

The Company will rely on a third party contractor to manufacture the sonicators and other related equipment according to its design and specifications. The Company has received quotes from the third party manufacturer and expects that it will be able to obtain all the necessary equipment to grow its processing capacity in the future. The manufacturer has the production and financial capability and capacity to fulfill our orders in the future. In addition, the Company has access to several local and international fabricators and engineering firms to carry out the necessary assembly of the equipment and increase capacity of its processing plant in the future.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below together with all of the other information included in this Form 10-K before making an investment decision with regard to our securities. The statements contained in or incorporated into this Form 10-K that are not statements of historic or present facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. If any of the following events described in these risk factors actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to our Business

We have incurred losses in prior periods and may incur losses in the future.

Since our inception on May 24, 2010 (date of inception of our Predecessor) through December 31, 2012, we have sustained recurring net losses resulting in an accumulated deficit \$596,731 as of December 31, 2012. We cannot be assured that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and uncertainties inherent in the establishment of a business enterprise including, but not limited to, lack of operating capital, lack of skilled personnel and lack of demand for our process. There can be no assurance that we can execute our business plan, which involves implementing our process of converting heavy sour oil and bitumen to a value-added synthetic crude oil. Even if we are successful in implementing our business plan, there is no assurance that our future operations will be profitable. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

Our future is dependent upon our ability to obtain financing. If we do not obtain such financing, we may have to cease our activities and investors could lose their entire investment.

There is no assurance that we will operate profitably or generate positive cash flow in the future. Until our process is proven and we begin generating enough revenue to sustain our operations, we expect to require additional financing. Since July 27, 2012, the date we acquired the Sonoprocess™ technology from Sonoro Energy Ltd., we have raised \$3.1 million through the sale of our common stock, which we intend to use over the next 12 months to sustain our business operations, pay the fees and expenses of operating as a public company, continue construction of the facility in Albania, and hire additional employees. In the future, we may not be able to obtain financing on commercially reasonable terms or terms that are acceptable to us when financing is required.

On April 3, 2013 the Alberta Securities Commission issued a cease trade order against us because we failed to file an annual information form (“AIF”) for the year ended December 31, 2012. We filed the AIF on May 3, 2013. Thereafter, we made an application to the Alberta Securities Commission to revoke the cease trade order. The Alberta Securities Commission advised that they would not be in a position to revoke the cease trade order on the basis that we are the subject of an ongoing investigation by the Enforcement Department of the Alberta Securities Commission. The investigation concerns trading and promotional activity related to our securities. The cease trade order requires that trading or purchasing cease in respect of any of our securities until the order has been revoked or varied. We are cooperating with the Alberta Securities Commission in the investigation. If the cease trade order is not revoked by the time we need to raise additional capital, we may be unable to engage in sales of our securities to raise money. In that case, unless we are able to find other methods of financing such as, for example, finding a partner with the financial means to pay for some or all of the construction, we may not have the resources to complete the facility in Albania or to implement other parts of our business plan, such as expanding our operations into other countries.

Because we may never earn revenues from our operations, our business may fail and investors may lose all of their investment in our Company.

The Company was formed on June 11, 2008. We have no history of revenues from operations. We have yet to generate positive earnings and there can be no assurance that we will ever operate profitably. Our company has a limited operating history. If our business plan is not successful and we are not able to operate profitably, then our stock may become worthless and investors may lose all of their investment in our company.

We have reported a net loss of \$272,812 for the period from August 1, 2012 through December 31, 2012. If we are unable to generate significant revenues from our processing facility in the future, we will not be able to earn profits or continue operations. There is no history upon which to base any assumption as to the likelihood that we will prove successful, and we can provide no assurance that we will generate any revenues or ever achieve profitability. If we are unsuccessful in addressing these risks, our business will fail and investors may lose all of their investment in our company.

Our auditors have indicated that our recurring losses raise substantial doubt as to our ability to continue as a going concern.

Our audited financial statements for the year ended December 31, 2012 were prepared on a going concern basis. However, we have suffered recurring losses since inception and our auditors have indicated that there is substantial doubt as to our ability to continue as a going concern. Until we earn revenues that are adequate to support our operations, which may never happen, our ability to maintain our status as an operating company is entirely dependent upon obtaining adequate cash to finance our overhead and implement our business plan. In order to meet our operating expenses, we have sold debt and equity securities and we expect to continue selling our securities to raise money in the future. There is considerable uncertainty as to whether we will be able to obtain financing on terms acceptable to us. There is no assurance that we will be able to implement our business plan or continue our operations.

We may not be fully indemnified against financial losses in all circumstances where damage to or loss of property, personal injury, death or environmental harm occur.

As is customary in our industry, our contracts will typically provide that our customers indemnify us for claims arising from the injury or death of their employees, the loss or damage of their equipment, damage to the reservoir and pollution emanating from the customer's equipment or from the reservoir (including uncontained oil flow from a reservoir). Conversely, we will typically indemnify our customers for claims arising from the injury or death of our employees, the loss or damage of our equipment, or pollution emanating from our equipment. Our contracts will typically provide that our customer will indemnify us for claims arising from catastrophic events, such as a well blowout, fire or explosion.

Our indemnification arrangements may not protect us in every case. For example, from time to time we may enter into contracts with less favorable indemnities or perform work without a contract that protects us; our indemnity arrangements may be held unenforceable in some courts and jurisdictions; or we may be subject to other claims brought by third parties or government agencies. Furthermore, the parties from which we seek indemnity may not be solvent, may become bankrupt, may lack resources or insurance to honor their indemnities, or may not otherwise be able to satisfy their indemnity obligations to us. The lack of enforceable indemnification could expose us to significant potential losses.

Further, our assets generally are not insured against loss from political violence such as war, terrorism or civil commotion. If any of our assets are damaged or destroyed as a result of an uninsured cause, we could recognize a loss of those assets.

Our operations are subject to environmental and other laws and regulations that may expose us to significant liabilities and could reduce our business opportunities and revenues.

We expect to be subject to various environmental laws and regulations in the countries in which we operate. The government of Albania requires us to obtain an environmental permit for our facility and a fire safety permit. We prepared all the necessary paperwork and applied for the environmental permit, but it has not been issued yet. Since our operations do not require any use of water, extensive energy or generate any emissions we do not anticipate that we will be subject to the more complicated and lengthy environmental permit requirements typical for refineries or upgraders. We installed the necessary equipment required for anti-fire measures and regulations in the country and in May 2013 we were certified by the inspection authority. If we fail to comply with the environmental laws to which we are subject, we may incur significant liabilities and our business opportunities could be reduced.

We are subject to significant foreign exchange and currency risks that could adversely affect our operations and our ability to reinvest earnings from operations, as well as mitigate our foreign exchange risk through hedging transactions, may be limited.

Since we currently conduct a significant portion our operations outside the United States, our business is subject to foreign currency risks, including currency exchange rates fluctuations and difficulties in converting local currencies into U.S. dollars. The exchange rates between the Albanian Lek, the Canadian dollar, the Euro and the U.S. dollar and other foreign currencies is affected by, among other things, changes in local political and economic conditions. Such currency fluctuations may materially affect the Company's financial position and results of operations and a material change in currency rates in our markets could affect our future results as well as affect the carrying values of our assets.

We generally attempt to denominate our contracts in U.S. dollars or in the currencies of our costs. However, we may enter into contracts that subject us to currency risk exposure, primarily when our contract revenue is denominated in a currency different than the contract costs. We anticipate that a significant portion of our consolidated revenue and consolidated operating expenses will be in foreign currencies. As a result, we will be subject to risks resulting from changes in foreign exchange rates and limitations on our ability to reinvest earnings from operations in one country to fund the financing requirements of our operations in other countries.

Customer credit risks could result in losses.

The concentration of our future customers in the energy industry may impact our overall exposure to credit risk as customers may be similarly affected by prolonged changes in economic and industry conditions. Those countries that rely heavily upon income from hydrocarbon exports would be hit particularly hard by a drop in oil prices. Further, laws in some jurisdictions in which we may operate could make collection difficult or time consuming. We intend to perform ongoing credit evaluations of our customers and generally do not plan to require collateral in support of our trade receivables. While we may maintain reserves for potential credit losses, we cannot assure such reserves will be sufficient to meet write-offs of uncollectible receivables or that our losses from such receivables will be consistent with our expectations.

Global political, economic and market conditions could affect projected results.

Our operating results are based on our current assumptions about oil supply and demand, oil prices, rig count and other market trends. Our assumptions on these matters are in turn based on currently available information, which is subject to change. The oil industry is extremely volatile and subject to change based on political and economic factors outside our control. A weakened global economic climate generally results in lower demand and lower prices for oil, which reduces drilling, processing and production activity, which in turn results in lower revenues and income for us. Worldwide drilling activity and global demand for oil may also be affected by changes in governmental policies and sovereign debt, laws and regulations related to environmental or energy security matters, including those addressing alternative energy sources and the risks of global climate change.

Worldwide economic conditions, and the related demand for oil, may in future periods be significantly weaker than we have assumed.

We may be unable to recognize expected revenue from future contracts.

Our potential customers, some of whom may be national oil companies, could have significant bargaining leverage over us and may elect to cancel or revoke contracts, not renew contracts, modify the scope of contracts or delay contracts, in some cases preventing us from realizing expected revenue and/or profit.

Increases in the prices and availability of our raw materials could affect our results of operations.

We expect to use significant amounts of raw materials (including steel and other metals, chemicals, plastics, polymers and energy inputs) for producing our products and maintaining our facilities and some of our fixed assets. The price of these raw materials has a significant impact on our cost of producing products for sale or constructing fixed assets used in our business. There can be no assurance that the prices of raw materials will remain within a manageable range and will be readily available. If we are unable to obtain necessary raw materials or if we are unable to minimize the impact of increased raw material costs or to realize the benefit of cost decreases in a timely fashion through our supply chain initiatives or pricing, our margins and results of operations could be adversely affected.

Our long-term growth depends upon technological innovation and commercialization.

Our ability to deliver our long-term growth strategy depends in part on the commercialization of new technology. A central aspect of our growth strategy is to improve our products and services through innovation, to obtain technologically advanced products through internal research and development and/or acquisitions, to protect proprietary technology from unauthorized use and to expand the markets for new technology by leveraging our infrastructure. Our success will depend on our ability to commercialize the technology that we have acquired and demonstrate the enhanced value our technology brings to our customers' operations. Our major technological advances include, but are not limited to, those related to the design of enhanced mass transfer energy processes and reactors. We cannot be assured of the successful commercialization of, and above-average growth from, our new products and services, as well as legal protection of our intellectual property rights. Any failure in the commercialization of our technology could adversely affect our business and results of operations.

If we are unable to enforce our intellectual property rights or if our intellectual property rights become obsolete, our competitive position could be adversely impacted.

We utilize a variety of intellectual property rights in our services. We view our portfolio of process and design technologies as one of our competitive strengths and we use it as part of our efforts to differentiate our service offerings. We may not be able to successfully preserve these intellectual property rights in the future and these rights could be invalidated, circumvented, challenged or infringed upon. In addition, the laws of some foreign countries in which our services may be sold may not provide adequate protection of our intellectual property rights. If we are unable to protect and maintain our intellectual property rights, or if there are any successful intellectual property challenges or infringement proceedings against us, our ability to differentiate our service offerings could diminish. In addition, if our intellectual property rights or work processes become obsolete, we may not be able to differentiate our service offerings and some of our competitors may be able to offer more attractive services to our customers. As a result, our business and financial performance could be materially and adversely affected.

International and political events may adversely affect our operations.

A significant portion of our revenue will be derived from foreign operations, which exposes us to risks inherent in doing business in each of the countries where we transact business. The occurrence of any of the risks described below could have a material adverse effect on our business operations and financial performance. With respect to any particular country, these risks may include:

- expropriation and nationalization of our assets in that country;
- political and economic instability;
- civil unrest, acts of terrorism, force majeure, war, or other armed conflict;
- currency fluctuations, devaluations, and conversion restrictions;
- confiscatory taxation or other adverse tax policies;
- governmental activities that limit or disrupt markets, restrict payments, or limit the movement of funds;
- governmental activities that may result in the deprivation of contract rights; and
- governmental activities that may result in the inability to obtain or retain licenses required for operation.

Due to the unsettled political conditions in many oil-producing countries, our financial performance may be subject to the adverse consequences of war, the effects of terrorism, civil unrest, strikes, currency controls, and governmental actions. We expect that some of our potential customers' operations will be conducted in areas that have significant amounts of political risk. In addition, military action or continued unrest in the Middle East could impact the supply and price of oil, disrupt our customer's operations in the region and elsewhere, and increase our costs related to security worldwide.

Economic and political developments in Albania may adversely affect our business.

A significant portion of our operations and assets are currently located in Albania. As a result, our financial condition, results of operations and business may be affected by and are subject to the general condition of the Albanian economy, the devaluation of the Albania Lek as compared to the U.S. Dollar, Albanian inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Albania, including changes in the laws and policies that govern foreign investment, as well as changes in United States laws and regulations relating to foreign trade and investment, over which we have no control. There can be no assurance as to the future effect of any such changes on our results of operations, financial condition, or cash flows.

The dangers inherent in our operations could cause disruptions and could expose us to potentially significant losses, costs, or liabilities. Any significant interruptions in the operations of any of our facilities could materially and adversely affect our business, financial condition, and results of operations.

Our operations are subject to significant hazards and risks inherent in refining operations and in transporting and storing crude oil. These hazards and risks include, but are not limited to, the following:

- natural disasters;

- weather-related disruptions;

- fires;

- explosions;

- pipeline ruptures and spills;

- third-party interference;

- disruption of natural gas deliveries;

- disruptions of electricity deliveries; and

- mechanical failure of equipment at our refineries or third-party facilities.

Any of the foregoing could result in production and distribution difficulties and disruptions, environmental pollution, personal injury or wrongful death claims, and other damage to our properties and the properties of others. There is also risk of mechanical failure and equipment shutdowns both in general and following unforeseen events.

Our activities will initially be conducted at our facility in Albania. This facility constitutes a significant portion of our operating assets. Because of the significance to us of this operation, the occurrence of any of the events described above could significantly disrupt our processing of crude oil, and any sustained disruption could have a material adverse effect on our business, financial condition, and results of operations.

We may incur significant costs to comply with environmental and health and safety laws and regulations.

Our operations and properties are subject to national and local Albanian environmental, health, and safety regulations governing, among other things, the generation, storage, handling, use, and transportation of petroleum and hazardous substances, the emission and discharge of materials into the environment, waste management, and the monitoring, reporting, and control of greenhouse gas emissions. If we fail to comply with these regulations, we may be subject to administrative, civil, and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other entities and individuals. A failure to comply, and any related proceedings, including lawsuits, could result in significant costs and liabilities, penalties, judgments against us, or governmental or court orders that could alter, limit, or stop our operations.

In addition, new environmental laws and regulations, including new regulations relating to alternative energy sources, new regulations relating to fuel quality, and the risk of global climate change regulation, as well as new interpretations of existing laws and regulations, increased governmental enforcement, or other developments could require us to make additional unforeseen expenditures. Many of these laws and regulations are becoming increasingly stringent, and the cost of compliance with these requirements can be expected to increase over time. We are not able to predict the impact of new or changed laws or regulations or changes in the ways that such laws or regulations are administered, interpreted, or enforced. The requirements to be met, as well as the technology and length of time available to meet those requirements, continue to develop and change. To the extent that the costs associated with meeting any or all of these requirements are substantial and not adequately provided for, there could be a material adverse effect on our business, financial condition, and results of operations.

We may not have sufficient crude oil to be able to run our Albania facility at full capacity.

Our Albanian facility will process crude oil from the local regions around the facility. To the extent sufficient local crude oil cannot be contracted to process and we are unable to contract sufficient crude oil from non-local sources to supply the Albanian facility, we may not have sufficient crude oil to run the Albanian facility at full capacity, which could have a material adverse impact on our business, financial condition, and results of operations.

We could incur substantial costs or disruptions in our business if we cannot obtain or maintain necessary permits and authorizations.

Our operations require permits and authorizations under various laws and regulations of Albania, including environmental and health and safety laws and regulations. These authorizations and permits are subject to revocation, renewal, or modification and can require operational changes, which may involve significant costs, to limit impacts or potential impacts on the environment and/or health and safety. A violation of these authorization or permit conditions or other legal or regulatory requirements could result in substantial fines, criminal sanctions, permit revocations, injunctions and/or a shutdown of our facility. In addition, major modifications of our operations could require modifications to our existing permits which could have a material adverse effect on our business, financial condition, or results of operations.

Risks Associated with our Company and our Securities

We will be required to incur significant costs and require significant management resources to evaluate our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act, and any failure to comply or any adverse result from such evaluation may have an adverse effect on our stock price.

As a smaller reporting company as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, we are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”). Section 404 requires us to include an internal control report with the Annual Report on Form 10-K. This report must include management’s assessment of the effectiveness of our internal control over financial reporting as of the end of the fiscal year. This report must also include disclosure of any material weaknesses in internal control over financial reporting that we have identified. Failure to comply, or any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on the trading price of our equity securities. Management believes that its internal controls and procedures are currently not effective to detect the inappropriate application of U.S. GAAP rules. Management realizes there are deficiencies in the design or operation of our internal control that adversely affect our internal controls which management considers to be material weaknesses including those described below:

- The Company's management is relying on external consultants for purposes of preparing its financial reporting
- i) package and may not be able to identify errors and irregularities in the financial reporting package before its release as a continuous disclosure document.
 - ii) As the Company is governed by one officer who is also a director, there is an inherent lack of segregation of duties and lack of independent governing board.

Achieving continued compliance with Section 404 may require us to incur significant costs and expend significant time and management resources. We cannot assure you that we will be able to fully comply with Section 404 or that we and our independent registered public accounting firm would be able to conclude that our internal control over financial reporting is effective at fiscal year end. As a result, investors could lose confidence in our reported financial information, which could have an adverse effect on the trading price of our securities, as well as subject us to civil or criminal investigations and penalties. In addition, our independent registered public accounting firm may not agree with our management's assessment or conclude that our internal control over financial reporting is operating effectively.

All of our assets, and our Chief Executive Officer, who is also a director, are located outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or this individual.

All of our assets are located outside the United States. In addition, our Chief Executive Officer, who is also a director, is a national and resident of a country other than the United States, and all or a substantial portion of his assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or this individual, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, you may be effectively prevented from pursuing remedies under United States federal and state securities laws against us or this individual.

Our business is dependent on a key executive and the loss of this key executive could adversely affect our business, future operations and financial condition.

We are dependent on the services of our Chief Executive Officer, Art Agolli. Mr. Agolli has many years of experience and an extensive background in the oil industry in general. We may not be able to replace that experience and knowledge with other individuals. We do not have a “Key-Man” life insurance policy on Mr. Agolli. The loss of our key executive or our inability to attract and retain additional highly skilled employees may adversely affect our business, future operations, and financial condition.

The elimination of monetary liability against our directors, officers and employees under Nevada law and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by our company and may discourage lawsuits against our directors, officers and employees.

Our Articles of Incorporation contain a provision permitting us to eliminate the personal liability of our directors to our company and shareholders for damages for breach of fiduciary duty as a director or officer to the extent provided by Nevada law. The foregoing indemnification obligations could result in the Company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors and officers even though such actions, if successful, might otherwise benefit our company and shareholders.

Our stock is categorized as a penny stock. Trading of our stock may be restricted by the SEC’s penny stock regulations which may limit a shareholder’s ability to buy and sell our stock.

Our stock is categorized as a penny stock. The SEC has adopted Rule 15c-9 which generally defines “penny stock” to be any equity security that has a market price (as defined) less than US\$ 5.00 per share or an exercise price of less than US\$ 5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer’s confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser’s written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

FINRA sales practice requirements may also limit a shareholder's ability to buy and sell our stock.

In addition to the "penny stock" rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

To date, we have not paid any cash dividends and no cash dividends will be paid in the foreseeable future.

We do not anticipate paying cash dividends on our common stock in the foreseeable future and we may not have sufficient funds legally available to pay dividends. Even if the funds are legally available for distribution, we may nevertheless decide not to pay any dividends. We presently intend to retain all earnings for our operations.

A limited public trading market exists for our common stock, which makes it more difficult for our stockholders to sell their common stock in the public markets.

Our common shares are currently traded under the symbol "PSON," and have in the past traded with low or no volume, based on quotations in the Over-the-Counter Market meaning that the number of persons interested in purchasing our common shares at or near bid prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is still relatively unknown to stock analysts, stock brokers, institutional investors, and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven company such as ours or purchase or recommend the purchase of our shares until such time as we became more viable. Additionally, many brokerage firms may not be willing to effect transactions in the securities. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot give you any assurance that a broader or more active public trading market for our common stock will develop or be sustained, or that trading levels will be sustained.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for "penny stocks" has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by

one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the future volatility of our share price.

If we issue additional shares in the future, it will result in the dilution of our existing shareholders.

Our Articles of Incorporation authorize the issuance of up to 843,750,000 shares of common stock with a par value of \$0.001 per share. Our Board of Directors may choose to issue some or all of such shares to acquire one or more companies or properties and to fund our overhead and general operating requirements. The issuance of any such shares may reduce the book value per share and may contribute to a reduction in the market price of the outstanding shares of our common stock. If we issue any such additional shares, such issuance will reduce the proportionate ownership and voting power of all current shareholders. Further, such issuance may result in a change of control of our corporation.

ITEM 2. PROPERTIES

Our head office is located at Suite 204, 205 – 9 Avenue SE, Calgary, AB, Canada, T2G 0R3. Art Agolli, our Chief Executive Officer and a director, is providing the office free of charge, although he is under no obligation to do so. Our main telephone number is (403) 708-7869.

Our processing facility is located in Fier, Albania. Albania's heavy oil upstream and downstream industries are located in Fier and the facility is only a few miles away from the heavy oil producing fields. It is also located 35 kilometers away from Albania's only deep sea port and export facility, the PIR Vlora terminal. Our processing facility is still under construction. The facility will be used for both emulsifying heavy oil and de-asphalting heavy oil and bitumen by sonication. We expect the construction related to our operations to be complete during 2013. Once complete, we expect the facility to be adequate for our operations for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

None.

PART II

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

Market Information

Our common stock is presently quoted on the Financial Industry Regulatory Authority's ("FINRA") Over-the-Counter marketplace under the name "Petrosonic Energy, Inc." and under the symbol "PSON". Our common stock par value is \$0.001 per share.

There is no established trading market for shares of our common stock and there has been a limited number of trades of our common stock on the OTCBB during the last two fiscal years. We cannot provide assurance that any established trading market for our common stock will develop or be maintained.

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The following table sets forth, for the fiscal quarters indicated, the high and low bid price for our common stock, as reported on the OTCBB. The quotations below reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not represent actual transactions.

Fiscal Year Ended		High Bid	Low Bid
December 31, 2012			
Fourth Quarter	10-1-12 to 12-31-12	\$0.84	\$0.49
Third Quarter	7-1-12 to 9-30-12	\$0.67	\$0.45
Second Quarter	4-1-12 to 6-30-12	\$2.50	\$0.12
First Quarter	1-1-12 to 3-31-12	\$1.25	\$1.06

High Bid Low Bid

Transition Period 11-01-11 to 12-01-11 No activity No activity

Fiscal Year Ended		High Bid	Low Bid
October 31, 2011			
Fourth Quarter	8-1-11 to 10-31-11	1.05	1.05
Third Quarter	5-1-11 to 7-31-11	1.75	1.01
Second Quarter	2-1-11 to 4-30-11	0.85	0.85
First Quarter	11-1-10 to 1-31-11	0.90	0.65

Shareholders

As of April 30, 2013 there were 92 shareholders of record of our common stock based upon the shareholders' listing provided by our transfer agent. Our transfer agent is Signature Stock Transfer, Inc. The transfer agent's address is 2632 Coachlight Court, Plano, Texas 75093 and its phone number is (972) 612-4120.

Dividends

We have never paid cash dividends on our common stock. We intend to keep future earnings, if any, to finance the expansion of our business, and we do not anticipate that any cash dividends will be paid in the foreseeable future. Our future payment of dividends will depend on our earnings, capital requirements, expansion plans, financial condition and other relevant factors that our Board of Directors may deem relevant. Our accumulated deficit, which at December 31, 2012 was \$596,731, currently limits our ability to pay dividends.

Securities Authorized For Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plan not approved by security holders	250,000	\$ 0.83	0
Equity compensation plan not approved by security holders	250,000	\$ 0.75	0

In conjunction with their agreement to join our Board of Directors, we issued options to two of our directors. Each option grant permitted the director to purchase 250,000 shares of our common stock. The exercise price for the option granted to Richard Rutkowski on March 18, 2013 is \$0.83 per share while the exercise price for the option granted to Alfred Fischer on March 27, 2013 was \$0.75 per share. We currently have no other equity compensation plans,

although during 2013 we expect to formally adopt an equity compensation plan which will permit us to grant awards of common stock, options to purchase common stock or other equity securities to officers, directors, employees, consultants and agents who provide bona fide services to us not in conjunction with a capital raising transaction or stock promotional activities. As of the report date the terms of the options is yet to be determined.

Recent Sale of Unregistered Securities

We did not sell any equity securities during the quarter ended December 31, 2012 that were not previously disclosed in a quarterly report on Form 10-Q or in a current report on Form 8-K.

Alberta Securities Commission Cease Trade Order

On April 3, 2013 the Alberta Securities Commission issued a cease trade order against us because we failed to file an annual information form (“AIF”) for the year ended December 31, 2012. We filed the AIF on May 3, 2013. Thereafter, we made an application to the Alberta Securities Commission to revoke the cease trade order. The Alberta Securities Commission advised that they would not be in a position to revoke the cease trade order on the basis that we are the subject of an ongoing investigation by the Enforcement Department of the Alberta Securities Commission. The investigation concerns trading and promotional activity related to our securities. The cease trade order requires that trading or purchasing cease in respect to any of our securities until the order has been revoked or varied. We are cooperating with the Alberta Securities Commission in the investigation. The cease trade order does not prohibit the purchase and sale of our securities among our stockholders in markets outside of Alberta, Canada.

ITEM 6. SELECTED FINANCIAL DATA

Pursuant to Item 301(c) of Regulation S-K, the Company, as a smaller reporting company, is not required to provide the information required by this item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our financial statements and the notes to those financial statements that are included elsewhere in this Form 10-K. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Risk Factors, Cautionary Notice Regarding Forward-Looking Statements and Business sections in this Form 10-K. We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions to identify forward-looking statements.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited financial statements and accompanying notes of Petrosonic Energy, Inc. for the years ended December 31, 2012 and 2011.

Overview

We are a development stage company. Our business plan includes treating and upgrading heavy oil by sonicated solvent de-asphalting with the technology we acquired from Sonoro and using the technology we acquired from Quadrise Canada Corporation to emulsify heavy oil to make it less viscous, so that it can be used as fuel oil. We are in the process of bringing online our first facility located in Albania, which is expected to be able to process and de-asphalt up to 1,000 barrels per day of heavy oil and to emulsify 3,000 barrels of oil per day. One of our two sonic reactors is installed in this facility. We have not generated any revenue since inception. We expect to begin revenue generating operations when the construction of our Albanian facility, including the installation of all equipment required for our operations and the acquisition of a permit to operate, is complete. We expect, although we cannot guarantee, that the facility will be complete and ready for operations by the end of 2013. Aside from the revenue we expect to generate from operating this facility, we plan to generate revenue from the technology by integrating it into oil producer treatment facilities. As described below, we have funded our operations to date through the issuance of convertible debentures and sales of shares of our common stock.

We have borrowed money and sold shares of our common stock to raise the funds necessary to begin the implementation of our business plan. These transactions included the following:

- Between March 23, 2012 and June 21, 2012 we issued CDN\$250,000 and \$115,000 in convertible promissory notes. In March 2013, three notes totaling \$115,000 plus accrued interest and one note totaling CDN\$50,000 plus accrued

interest were converted into 707,405 shares of our common stock. The notes totaling \$115,000 were due to be repaid on March 26, 2013 (\$50,000), April 18, 2013 (\$25,000) and June 21, 2013 (\$40,000). The note totaling CDN\$50,000 is due to be repaid on June 6, 2013. The convertible promissory note in the amount of CDN\$200,000 was issued to our Chief Executive Officer and director, Art Agolli. Repayment of the note issued to Mr. Agolli is scheduled for June 6, 2013.

On July 27, 2012, we completed the acquisition of certain assets from Sonoro Energy Ltd. in exchange for (i) CDN\$250,000, which was paid in June 2012, (ii) a convertible debenture in the principal amount of CDN\$250,000, which was issued in July 2012 and (iii) a 10% royalty interest in our realized net revenues for a period of 10 years from the time we commence commercial operations, which will begin when we process an average of 50 barrels of feed stock per day over a period of 30 consecutive days utilizing the technology acquired.

On January 16, 2013, we closed a private placement with certain accredited investors whereby we sold an aggregate of 12,610,000 shares of our common stock at a price of \$0.25 per share for net proceeds (after the payment of placement agent fees) of \$3,077,500. Investors who invested \$500,000 or more were also issued warrants. We had two investors who invested \$500,000 and each received a five-year warrant for the purchase of 100,000 shares of our common stock at an exercise price of \$0.50 per share. Placement agent fees were paid to Colorado Financial Services and Frank Seifert. We paid commissions of \$75,000 in cash, and issued an aggregate of 75,000 common stock warrants, exercisable at a price of \$0.50 per share, and with a term of two years from the issue date. We paid the debenture we issued to Sonoro from the proceeds of this offering. We believe that the proceeds from this offering will be sufficient to support our operations through the end of the year.

In addition to the shares of common stock issued in payment of the promissory notes and the private placement discussed above, during the period ended June 30, 2013, we engaged in the following securities transactions to purchase services or provide funding for our operations:

On January 1, 2013, we entered into a one year agreement with Loma Management Partners Inc., a firm that provides strategic investor relations services. In connection with the agreement, we agreed to issue 270,000 shares of common stock to the firm. In the event that the agreement is cancelled, we may repurchase for the sum of \$1.00 all of the remaining shares that would have otherwise been earned by the firm during the remainder of the term. The common stock is to be issued in equal monthly installments of 22,500 shares each beginning in January 2013.

On January 11, 2013, we entered into a one year agreement with Richardson & Patel LLP, a firm that provides legal services. In connection with the agreement, we agreed to issue 400,000 shares of common stock to the firm. The shares of common stock are to be issued in quarterly installments beginning in April 2013. Under certain circumstances as described in the agreement, the number of shares may be adjusted based on the type and amount of services provided by the firm. We also agreed to issue up to 500,000 additional shares for work related to the preparation of a registration statement.

On January 15, 2013, we entered into a one year consulting agreement with Benjamin L. Padnos for the purpose of providing financial and investor relations services to us. In connection with the agreement, we agreed to issue 100,000 shares of common stock to Mr. Padnos. The shares are to be issued in four quarterly installments beginning in April 2013.

On April 26, 2013 we entered into a consulting agreement, dated April 24, 2013, with StoryCorp Consulting, Inc., a firm that provides financial, accounting and management services. The agreement does not have a fixed term and can be terminated by us upon 30 days notice. Upon execution of the agreement, StoryCorp was to be paid \$10,000. According to the agreement, we could pay the compensation in cash or we could pay \$7,500 in cash and \$2,500 in restricted common stock. We agreed to a per share price of 80% of the volume weighted average price of our common stock for the prior month, with a \$0.01 minimum price. We chose to pay the \$10,000 in cash. Beginning June 1, 2013, StoryCorp is to be compensated on a monthly basis with a fee of \$7,500 per month. At our election, the monthly fee can be paid in cash or we can pay \$5,000 in cash and \$2,500 in restricted common stock, with the number of shares computed in the manner described above. In addition, at our discretion, we may pay StoryCorp quarterly bonuses payable in cash or restricted stock. For services outside of those described in the agreement, StoryCorp will charge us at the rate of \$250 per hour, payable 50% in cash and 50% in restricted common stock, with the number of shares computed in the manner described above.

During the 2013 year, we expect to generate revenue from emulsification processing and to complete the construction and permitting of our heavy oil de-asphalting facility in Albania. We anticipate that the cost to complete the construction of our facility in Albania will be approximately \$1.7 million. We do not have any commitments for financing, either now or in the future. Once this milestone is achieved, we intend to seek a reputable processor of heavy oil as a joint venture partner and to start building another facility located in Alberta, Canada or another jurisdiction with large heavy oil production and reserves. Our goals in 2013 and 2014 are to complete construction of the de-asphalting facility in Albania, to begin to generate revenue from the emulsification process and the de-asphalting sonication process and to begin to expand our operations into other countries. Ultimately, we expect to generate revenue by licensing our technology to third parties, forming joint ventures to build more processing facilities and through our own stand alone toll processing facilities. We cannot guarantee that our operations will generate significant revenue.

Results of Operations

Year ended December 31, 2012 as compared to the year ended December 31, 2011

Revenue. We did not generate any revenue during the years ended December 31, 2012 and 2011.

Our operations for the year ended December 31, 2012 include the operations for Petrosonic Energy, Inc. and subsidiary for the five month period ended December 31, 2012 plus the operations for our Predecessor company, Petrosonic Albania sh.a, for the seven months ended July 31, 2012. For the five months ended December 31, 2012, we had a net loss attributable to Petrosonic Energy, Inc. consolidated operations of \$262,914 and for the seven months ended July 31, 2012, our Predecessor company had a net loss of \$8,544 for a combined net loss for the year of \$271,458 as compared to a net loss for our Predecessor company of \$15,322 for the year ended December 31, 2011. The net loss for the year ended December 31, 2011 reflected only the net loss from our Predecessor company for that period.

Operating Expenses: Operating expenses increased by \$236,225 to \$251,547 for the year ended December 31, 2012 compared to \$15,322 for the year ended December 31, 2011. The increase in operating expenses resulted primarily from increases in legal, advertising and promotion, accounting, and other administrative costs incurred by us in connection with developing and beginning the implementation of our operating plan and costs related to public company compliance matters. Legal fees for the period totaled \$62,054, or approximately 25% of our operating expenses, advertising and promotion fees for the period totaled \$49,059, or approximately 20% of our operating expenses, accounting fees for the period totaled \$43,076, or approximately 17% of our operating expenses, and shipping expense totaled \$36,684, or approximately 15% of our operating expenses. In addition, we recognized depreciation expense of \$12,194 in the year ended December 31, 2012 compared to depreciation expense of \$-0- in the prior year by our Predecessor company.

Loss from operations. Due to the increase in operating expenses, our loss from operations increased for the year ended December 31, 2012, by \$236,225 to \$251,547 compared to a net loss of \$15,322 incurred by our Predecessor for the year ended December 31, 2011.

Interest expense. Our interest expense increased by \$37,582 to \$37,582 during the year ended December 31, 2012 compared to \$0 for the year ended December 31, 2011. The increase resulted from interest expense on the convertible debentures issued by us to fund our operations and the interest expense associated with the convertible debenture issued to Sonoro in connection with the purchase of the Assets from Sonoro during the year.

Bargain Purchase Gain. The purchase price we paid for the Assets in the transaction with Sonoro was less than the fair value of the net assets acquired. Accordingly, we recorded the net benefit of \$7,741 as a bargain purchase gain.

Net loss attributable to non-controlling interests. We acquired a 60% ownership interest in Petrosonic Albania sh.a. The net loss attributable to non-controlling interest of \$9,898 reflects the portion of the net loss of Petrosonic Albania sh.a for the five month period ended December 31, 2012 attributable to the non-controlling shareholder who continues to own the remaining 40% ownership interest in our subsidiary, Petrosonic Albania sh.a.

Net loss attributable to Petrosonic Energy, Inc. The net loss attributable to Petrosonic Energy, Inc. for the five months ended December 31, 2012 of \$262,914 reflects the net loss of the consolidated operations of Petrosonic Energy, Inc. and Subsidiary for that period after reducing the net loss by the loss attributable to the non-controlling interest described above. The net loss of \$8,544 for the seven months ended July 31, 2012 for our Predecessor reflects the net loss for Petrosonic Albania, sh.a for that period, which loss was attributable in full to the shareholders of Petrosonic Albania, sh.a during that period. Similarly, during the year ended December 31, 2011, the entire net loss of Petrosonic Albania sh.a of \$13,784 was attributable to the shareholders of that company.

Liquidity and Capital Resources

At December 31, 2012, we had cash of \$1,200,676 compared with \$1,655 at December 31, 2011. At December 31, 2012, we had total current assets of \$1,315,271 and total current liabilities of \$515,943, resulting in a working capital balance of \$799,328 on that date. We have incurred an accumulated deficit during the development stage of \$596,731.

Operating activities for the year ended December 31, 2012 resulted in a net increase in the use of cash of \$480,523 to \$374,080 compared with cash provided by operations for the year ended December 31, 2011 by our Predecessor of \$106,443. The increase in the use of cash was attributable primarily to the increase in operating costs and increased interest expense during the year ended December 31, 2012 combined with a use of cash used in the reduction of the level of accounts payable from 2012 compared with cash provided by an increase in accounts payable in the prior year by the Predecessor company.

Investing activities for the year ended December 31, 2012 reflected a reduction in the use of cash of \$341,859 to a use of cash of \$96,974 during the year ended December 31, 2012 compared with a use of cash of \$438,833 during the year ended December 31, 2011. The reduction resulted from a lower level of investment in property and equipment during the year ended December 31, 2012 compared to that of the year ended December 31, 2011 by our Predecessor.

Financing activities for the year ended December 31, 2012 resulted in an increase in cash of \$1,231,250 to \$1,558,828 from \$327,578 in the year ended December 31, 2011. The increase reflects the total of the proceeds from the sales of common stock of \$1,389,500 and the contribution to capital made to our Predecessor of \$169,328 over the capital contribution of \$327,578 made in the year ended December 31, 2011 in our Predecessor.

Effects of foreign exchange on cash. The effects of foreign exchange resulted in cash of \$115,559 being provided during the year ended December 31, 2012 compared with cash of \$6,321 being provided during the year ended December 31, 2011 by our Predecessor. The change reflects the effects of the variability in the rates of exchange of the various currencies in which the Company transacted business during the periods presented.

We will need to raise additional funds in order to continue operations and continue to execute on our business plan. Our cash needs are primarily for working capital to fund our operations and for capital equipment used in the construction of our processing capabilities. We have financed our operations through a variety of debt and equity financings. We presently operate with a level of overhead consistent with the Company's present needs but need to raise additional capital to fund our planned future operations, which will include increasing overhead to support planned increases in the level of operations. We do not have any committed current or future sources of financing. Our management is exploring a variety of options to meet our future cash requirements and capital requirements, including the possibility of debt financings, equity financings, and business combinations. If we fail to obtain the financing

necessary to continue to execute on our business plan, we may be forced to reduce operations or possibly to cease operations.

Going Concern Uncertainties

As of the date of this annual report, there is doubt regarding our ability to continue as a going concern as we have not generated sufficient cash flow to fund our business operations and loan commitments. The financial statements included in this annual report have been prepared on the going concern basis, which assumes that adequate sources of financing will be obtained as required and that our assets will be realized and liabilities settled in the ordinary course of business. If we are not to continue as a going concern, we would likely not be able to realize our assets at values comparable to the carrying value or the fair value estimates reflected in the balances set out in the preparation of the financial statements.

Our future success and viability, therefore, are dependent upon our ability to generate capital financing. The failure to generate sufficient revenues or to raise additional capital may have a material and adverse effect upon us and our shareholders.

Because we have not generated any revenues, and have incurred losses from operations since inception, in their report on our audited financial statements for the latest fiscal year, our independent auditors included an explanatory paragraph regarding substantial doubt about our ability to continue as a going concern.

On April 3, 2013 the Alberta Securities Commission issued a cease trade order against us because we failed to file an annual information form ("AIF") for the year ended December 31, 2012. We filed the AIF on May 3, 2013. Thereafter, we made an application to the Alberta Securities Commission to revoke the cease trade order. The Alberta Securities Commission advised that they would not be in a position to revoke the cease trade order on the basis that we are the subject of an ongoing investigation by the Alberta Securities Commission Enforcement department. The investigation concerns the trading and promotional activity related to our securities. The cease trade order requires that trading or purchasing cease in respect of any of our securities until the order has been revoked or varied. We are cooperating with the Alberta Securities Commission in the investigation. If the cease trade order is not revoked by the time we need to raise additional capital, we may be unable to do so.

Our future is dependent upon our ability to obtain financing. We do not have any committed current or future sources of financing. If we do not obtain financing when we need it, we may be required to severely curtail, or even to cease, our operations.

Critical Accounting Policies

Property and equipment, net

Property and equipment are carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Costs associated with repair and maintenance are expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency of our property and equipment are capitalized and depreciated over the remaining life of the related asset. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are 3 to 5 years for machinery and equipment and 10 years for buildings. We have not recognized depreciation on machinery and equipment since we have not yet completed our production line.

Impairment of Long-Lived Assets

The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the estimated future cash flows (undiscounted) expected to result from the use and eventual disposition of the asset group is less than the carrying amount of the asset group, an impairment loss is recognized which is measured based on the fair value of the asset. Construction in process is impaired when projects are abandoned or terminated. Long-lived assets were not impaired as of December 31, 2012 or 2011.

Research and development

Costs incurred in connection with the development of new products and manufacturing methods are charged to selling, general and administrative expenses as incurred.

Recently Issued Accounting Pronouncements

The Company does not expect the adoption of any recently issued accounting pronouncements to have a significant effect on its financial position or results of operations.

Contractual Obligations and Off-Balance Sheet Arrangements

As of December 31, 2012, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Pursuant to Item 305(e) of Regulation S-K, the Company, as a smaller reporting company, is not required to provide the information required by this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer who is also our principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our principal executive officer/principal financial officer has concluded that our disclosure controls and procedures are not effective, due to the deficiencies in our internal controls over financial reporting described below.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment, as of December 31, 2012, management has concluded that the Company's internal controls over financial reporting were not operating effectively. This was due to deficiencies that existed in the design or operation of our internal controls over financial reporting that adversely affected our internal control and is considered to be material weaknesses.

1. We do not have an Audit Committee – While not being legally obligated to have an audit committee, it is the management's view that such a committee, including a financial expert member, is an utmost important entity level control over our financial statements. To date we have not established an audit committee.
2. Insufficient documentation of financial statement preparation and review procedures - We employ policies and procedures in reconciliation of the financial statements and the financial information based on which the financial

statements are prepared, however, the controls and policies we employ are not sufficiently documented.

We did not maintain proper segregation of duties for the preparation of our financial statements – As of December 31, 2012 the majority of the preparation of financial statements was carried out by one person. This has resulted in several deficiencies including:

a. Significant, non-standard journal entries were prepared and approved by the same person, without being checked or approved by any other personnel.

b. Lack of control over preparation of financial statements, and proper application of accounting policies.

We lack sufficient information technology controls and procedures – As of December 31, 2012, we lacked a proper 4. data back-up procedure, and while backup did take place in actuality, we believe that it was not regulated by methodical and consistent activities and monitoring.

Lack of formal review process that includes multiple levels of review, resulting in several audit adjustments related 5. to consolidation, purchase price allocation, and accounting of the Company's convertible debt and equity transactions.

Management believes that the aforementioned material weaknesses did not impact our financial reporting or result in a material misstatement of our financial statements.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. We are not required to provide an attestation report by our registered public accounting firm pursuant to the rules of the Securities and Exchange Commission.

We have begun to take action to correct the material weaknesses identified in our internal control over financial reporting. In March 2013 we added two independent directors to our Board of Directors. These independent directors have experience in reading and understanding financial statements. We expect to form an audit committee during the 2013 year. During 2013, we will also try to implement the following remediation measures:

1. We intend to appoint additional personnel to assist with the preparation of our financial statements, which will allow for proper segregation of duties as well as additional manpower for proper documentation.

We intend to engage in a thorough review and restatement of our information technology control procedures, in 2. addition to procurement of all hardware and software that will enable us to maintain proper backups, access, control etc.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On May 1, 2013, the Company entered into an amended and restated employment agreement with Art Agolli, the Company's Chief Executive Officer. The effective date of the agreement is January 1, 2013 and continues for an initial period of two years. Under the terms of the agreement, Mr. Agolli is to be paid an annual base salary of \$150,000, is entitled to an annual cash bonus in an amount to be agreed upon each year by Mr. Agolli and the Board of Directors and is entitled to other employee benefits. Within 30 days following each one-year anniversary of the effective date of the agreement, Mr. Agolli is entitled to receive an option to purchase shares of the Company's common stock in an amount to be determined by the Board of Directors or its committee responsible for compensation matters as then constituted. The agreement may be terminated for cause by the Company or by election by either party. If Mr. Agolli's employment is terminated without cause by the Company, Mr. Agolli will be entitled to certain severance payments as described in the agreement.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information for each executive office and each director of the Company.

Name	Age	Title
Art Agolli	41	President, Chief Executive Officer, Principal Financial Officer and Director
Richard Rutkowski	57	Director
Alfred Fischer	66	Director

Art Agolli – President, Chief Executive Officer, Principal Financial Officer, Director (appointed March 2012)

Mr. Agolli has more than 16 years of successful experience in developing heavy oil projects and, prior to July 2012, provided consulting services to various oil companies. These services consisted of negotiating oil and gas leases, advising on marketing, advising on business development, and assisting with financing. Since February 2009 he has been the CEO of BA Capital, a Calgary based merchant bank serving the energy, mining and technology sectors, which he founded. Mr. Agolli provides at least 140 hours a month in services to Petrosonic. He also provides services to BA Capital. Services provided to BA Capital average approximately 20 hours a month.

Mr. Agolli provided services to Stream Oil & Gas Ltd. as a consultant for business development from September 2008 until March 2009 and as its Executive Vice President from March 20, 2009 until July 2010.

Mr. Agolli was a co-founder and former Vice President of Bankers Petroleum Ltd., a Toronto and London Stock Exchange listed oil and gas company. As its Vice President, Mr. Agolli assisted in building Bankers Petroleum from a start up in April 2004 to a company with a \$2.3 billion market capitalization when he left in August 2008. Bankers Petroleum has a 100% working interest and is the operator of the largest onshore heavy oil field in Europe (Albania). As a consultant to BNK Petroleum, a Toronto Stock Exchange listed company that was spun off from Bankers Petroleum in 2008, Mr. Agolli assisted in the negotiations which permitted that company to begin shale gas extraction operations in Poland. BNK Petroleum now has one of the largest shale gas land positions in the country and in Europe. BNK Petroleum grew from a start-up to a company with a \$700 million market capitalization.

Mr. Agolli was also one of the founders of Sonoro Energy Ltd., a TSX listed company and, during 2011, provided business development consulting services to Sonoro. Sonoro has exclusive rights to development of all heavy oil in Salah ad Din Province in Iraq. From 1998-2001, Mr. Agolli was an international business and corporate development executive with Koch Industries Inc., the largest privately held company in North America. From March 2001 to December 2003 he was CEO of Anonima Petroli Italiana (Albania), a subsidiary company of Api Spa, one of the largest refining and trading oil companies in Italy. Mr. Agolli owns approximately 1.5% of Sonoro's issued and outstanding shares of common stock (based on the number of shares of common stock reported by Sonoro to be outstanding on December 31, 2012, which is the most recent report currently available).

Mr. Agolli started his career as a consultant for the World Bank in Washington DC in 1997. Mr. Agolli holds a Masters Degree in Management from Grand Valley State University in Michigan and an International Relations and Business Degree from the same university. He is a member of the Association of International Petroleum Negotiators, headquartered in Houston, Texas.

Mr. Agolli's knowledge of the energy market and his entrepreneurial experience led us to the conclusion that he should be appointed as a director.

Richard Rutkowski, Director (appointed March 2013)

Mr. Rutkowski has been a director of ClearSign Combustion Corporation, a publicly traded company, since January 2008 and was appointed as Chairman and Chief Executive Officer of ClearSign Combustion Corporation in February 2008. Prior to joining ClearSign Combustion Corporation, Mr. Rutkowski was a co-founder of Microvision, Inc., a leader in optical beam-scanning display and imaging systems and served as the company's Chief Executive Officer and Director from September 1995 until January 2006. In January 2000, Mr. Rutkowski co-founded Lumera Corporation, a leading developer of a broad range of devices used in optical communications, biomedical analysis and broadband imaging that are based on the company's proprietary nano-materials and electro-optic polymers. Mr. Rutkowski served as Vice-Chairman of the Lumera's board from January 2000 until May 2006. From May 2006 to February 2008, Mr. Rutkowski conducted management, finance, and marketing consultancy doing business under the name of Ormont and in 2012 he formed Ormont LLC. From November 1992 to May 1994, Mr. Rutkowski served as Executive Vice

President of Medialink Technologies Corporation (formerly Lone Wolf Corporation), a developer of high-speed digital networking technology for multimedia applications in audio-video computing, consumer electronics, and telecommunications. From February 1990 to April 1995, Mr. Rutkowski was a principal of Rutkowski, Erickson, Scott, a business development consulting firm. He has served as a director of Ideal Power Converters, Inc. since 2012. Mr. Rutkowski has frequently been featured as a speaker or panelist at technology and business conferences, and has appeared on local and national television. He was honored as a Technology Pioneer at the World Economic Forum in 2002 and has been acknowledged by the University of Washington for his support of the University's research efforts. Mr. Rutkowski attended the University of Chicago and has extensive experience in starting and building technology businesses. Mr. Rutkowski's experience as a member of the board of directors and as an executive officer of publicly traded companies led us to the conclusion that he should be appointed as a director.

Alfred Fischer, Director (appointed March 2013)

Since 2003 Mr. Fischer has been the Chief Executive Officer of Quadrise Canada Corporation and Optimal Resources Inc., companies which he helped to found. Mr. Fischer has over 38 years of experience in the oil and gas industry in Canada and internationally. Mr. Fischer first entered the industry with Gulf Canada Resources Limited as an Exploration Geologist. Over the next 22 years he assumed increasing levels of management responsibility in Gulf Canada. From 1988 to 1991, Mr. Fischer served as Manager, International Development, responsible for exploitation and production in Indonesia, Egypt, and Australia offshore. In 1995 Mr. Fischer became Director, Mergers and Acquisitions and was involved in over \$2.2 billion of North American corporate and property acquisitions. In late 1996 Mr. Fischer formed his own consulting firm to continue mergers and acquisitions activities, and specialized in providing senior management and operating services to the petroleum industry. Mr. Fischer's extensive knowledge of, and experience in, the heavy oil industry led us to the conclusion that he should be appointed as a director.

Terms of Office

In accordance with our bylaws and the provisions of the Nevada Revised Statutes, our directors are appointed to hold office until the next annual meeting of the Company's stockholders, when their successors are elected, or until their resignation or removal from office.

Our officers are appointed by the Board of Directors and hold office until removed by the Board.

Involvement in Certain Legal Proceedings

During the past ten years, no director or executive officer was involved in any legal proceedings described in subparagraph (f) of Item 401 of Regulation S-K.

Family Relationships

There are no family relationships between or among the directors and executive officer.

Committees of the Board and Financial Expert

During the year ended December 31, 2012 we had only one director, therefore, all proceedings of the Board of Directors were conducted by resolutions consented to in writing, as permitted by the Nevada Revised Statutes and our bylaws. We do not presently have a policy regarding director attendance at meetings.

In March 2013 we added two independent directors, Messrs. Rutkowski and Fischer, and we intend to add at least one additional independent member to the Board. Although we do not yet have standing audit, nominating or compensation committees, or committees performing similar functions, it is our intention to form those committees during 2013. Until the committees are formed, we currently have a majority of independent directors who will be able to perform the functions of such committees.

We do not presently have among our directors a person meeting all of the qualifications of an audit committee financial expert. It is our intention to appoint a director who meets the qualifications of an audit committee financial expert to the Board of Directors during the 2013 fiscal year.

Nominations to the Board of Directors

Our directors take a critical role in guiding our strategic direction and overseeing the management of the Company. Board candidates are considered based upon various criteria, such as their broad-based business and professional skills and experiences, a global business and social perspective, concern for the long-term interests of our shareholders, diversity, and personal integrity and judgment.

In addition, directors must have time available to devote to Board activities and to enhance their knowledge in the growing business.

In carrying out its responsibilities, the Board will consider candidates suggested by shareholders. We have not adopted any procedures by which our shareholders may recommend nominees to our Board of Directors and that has not changed during the last fiscal year.

Compensation Committee Interlocks and Insider Participation

No interlocking relationship exists between our Board of Directors and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3, 4 and 5 delivered to us as filed with the Securities Exchange Commission, our executive officers and directors, and persons who own more than 10% of our common stock timely filed all required reports pursuant to Section 16(a) of the Securities Exchange Act.

Code of Ethics

We have adopted a code of ethics that applies to our executive officers, including our principal executive officer, who is also our principal financial officer. Our code of ethics is included as an exhibit to our annual report on Form 10-K for the year ended October 31, 2009. Our code of ethics is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION**Executive Compensation - Executive Officers**

The following summary compensation table covers all compensation awarded to, earned by or paid to our principal executive officer and each of the other two highest paid executive officers, if any, whose total compensation exceeded \$100,000 during the year ended December 31, 2012, the two months ended December 31, 2011 and the fiscal year ended October 31, 2011.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-Equity		All Other Compensation	Total
						Incentive Plan	Compensation		
Art Agolli Chief Executive Officer, Chief Financial Officer, (appointed March 2012)	12/31/2012	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	12/31/2011	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Gerhard Schlombs, Principal Executive Officer (resigned March 2012)	12/31/2012	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
	12/31/2011	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Compensation of Directors

We have no standard arrangement to compensate directors for their services in their capacity as directors and during the 2012 year no compensation was paid to our sole director. Directors are not paid for meetings attended. However, in March 2013 we elected two independent directors. We granted an option to purchase 250,000 shares of our common stock to each director. The first option granted has an exercise price of \$0.83 per share while the second option granted has an exercise price of \$0.75 per share. We intend to review and consider future proposals regarding Board compensation. All travel and lodging expenses associated with corporate matters will be reimbursed by us, if and when incurred

Employment Agreements

On May 1, 2013, our Board of Directors approved an amended and restated employment agreement with Art Agolli. The effective date of the agreement is January 1, 2013 and the agreement will terminate on January 1, 2015, unless earlier terminated or extended by its terms. Following the initial term, we and Mr. Agolli may renew the agreement for successive periods of two years.

Mr. Agolli's annual base salary during the term will be \$150,000 and will be subject to annual cost of living increases on January 1st of each year. Mr. Agolli is also entitled to participate in any employee benefit programs adopted by us, and at our expense will be provided with medical and dental benefits. Within 30 days following each one-year anniversary of the effective date of the agreement, Mr. Agolli shall receive an option to purchase shares of our common stock in an amount to be determined by our board of directors and its committee responsible for compensation matters as constituted. The agreement may be terminated for cause by us, or without cause in the case of death, disability (with thirty days' prior notice), or election by either party (with thirty days' prior notice). If Mr. Agolli's employment is terminated without cause, Mr. Agolli will receive accrued but unpaid salary plus the value of accrued but unused vacation, accrued but unpaid bonuses, and applicable reimbursement of business expenses, except that in the event of a termination without cause by us, he shall also receive the foregoing plus a severance equal to the greater of (i) the salary that would be due if employment had not been terminated and (ii) 24 months of annual base salary, in addition to twelve months of employee benefits coverage. If Mr. Agolli's employment is terminated as a result of a change of control, he will be entitled to receive his accrued but unpaid salary and the value of accrued but unused vacation pay through the effective date of the termination, his accrued but unpaid annual bonus, if any, business expenses incurred prior to the effective date of termination and an amount equal to the annual salary due to him for the balance of the term, in a lump sum and without discount to present value, but in no event shall such payment total less than 24 months of salary.

Securities Authorized for Issuance Under Compensatory Plans

Please see Item 5 of this report.

Potential Payments Upon Termination or Change-in-Control

Please see the discussion of Mr. Agolli's employment agreement.

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

Security Ownership

The Company has only one class of stock outstanding, its common stock. The following table sets forth certain information as of April 30, 2013, with respect to the beneficial ownership of our common stock for (i) each director and officer, (ii) all of our directors and officers as a group, and (iii) each person known to us to own beneficially 5% or more of the outstanding shares of our common stock. As of April 30, 2013, there were 79,166,405 shares of common stock outstanding.

To our knowledge, except as indicated in the footnotes to this table or pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to the shares of common stock indicated.

Name and Address of Beneficial Owner (1)(2) Directors and Executive Officers	Shares Beneficially Owned	Percentage Beneficially Owned
Art Agolli Chief Executive Officer, President and Director	20,855,911	(6) 26.39 %
Richard Rutkowski, Director	0	(3) 0 %
Alfred Fischer, Director	0	(3) 0 %
Richard Raisig, Former Chief Financial Officer (4)	0	0 %
All Officers and Directors as a Group (4 persons)	20,855,911	26.39 %
Principal Stockholders		
Gerhard Schlombs (Former officer and former director) 92 Wishing Well Drive Toronto, ON M1T 1J9	14,625,000	18.51 %
SGP Group Inc. (5)		
2 nd Terrace W. Centreville P.O. Box 10567 Nassau, Bahamas	4,276,284	5.41 %

Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. Pursuant to the rules of the SEC, shares of common stock which an individual or group has a right to acquire within 60 days (1) pursuant to the exercise of options or warrants are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be beneficially owned and outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

(2) The address for each of our officers and directors is Suite 300, 714 1st Street, SE, Calgary, Alberta, Canada T2G 2G8

Mr. Rutkowski and Mr. Fischer were each granted an option to purchase 250,000 shares of our common stock. The exercise price of Mr. Rutkowski's option is \$0.83 and the exercise price of Mr. Fischer's option is \$0.75. The (3) exercise prices represent the closing price of our common stock on the date that each Board member was elected. The Board has not yet determined the term of these options or the vesting of the right to purchase the common stock, therefore, we have not reported the option shares as being owned by either individual.

(4) Richard Raisig resigned as our Chief Financial Officer on April 14, 2013.

(5) This information is derived from a public filing and has not been independently verified.

(6) Includes 855,908 shares of common stock that Mr. Agolli could acquire upon conversion of a promissory note in the principal amount of CDN\$200,000.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Certain Relationships and Transactions

At December 31, 2011, our former President; Gerhard Schlombs had advanced \$42,000 to us towards working capital, which amount has subsequently been repaid in full.

The office in which Petrosonic Albania Sh.a. is headquartered is provided to it by Alnafta free of charge, although Alnafta is not required to do so. Alnafta is wholly-owned by Art Agolli, our Chief Executive Officer, Principal Financial Officer and a director. The office in which the Company is headquartered is provided to it by Art Agolli, although he is not required to do so.

During 2010, Albnafta and Sonoro contributed \$207,472 to Petrosonic Albania, sh.a for the purchase of machinery. During 2011, Albnafta and Sonoro contributed \$327,578 to Petrosonic Albania, sh.a. primarily for construction of a building in Albania.

On April 17, 2012 the Company entered into an assignment agreement with Art Agolli, our sole executive officer and director, pursuant to which Mr. Agolli agreed to convey to the Company all of his right title and interest in a letter of intent with Sonoro, the holder of all of the legal and equitable rights and entitlements to a sonic reactor and technology that Sonoro developed for the treatment and upgrading of heavy oil by sonicated solvent de-asphalting (the "Assets and Technology"), in exchange for 20,000,003 (post-split) shares of our common stock having a value of \$160,000. Thereafter, on July 27, 2012, we entered into an Asset Purchase and Sale Agreement with Sonoro in order to acquire a 60% ownership interest in Petrosonic Albania, sh.a. In exchange for the acquisition, we paid to Sonoro the following consideration: (i) CDN\$250,000, (ii) a convertible debenture in the principal amount of CDN\$250,000 (the "Debenture") and (iii) a 10% royalty interest in our realized net revenues for a period of 10 years from the time we commence commercial operations, which is defined as the date upon which we process an average of 50 barrels of feed stock per day over a period of 30 consecutive days utilizing the technology acquired.

On September 15, 2012 we entered into a Memorandum of Understanding with Quadrise Canada Corporation, a private emulsion technology company for the upstream and downstream oil industry that has an exclusive license in a heavy crude and asphaltene emulsification patented technology. According to the agreement, Quadrise delivered to our plant in Albania a manufacturing unit capable of delivering 120 bbl/hour of feedstock. Our director, Alfred Fischer, is a co-founder and an executive officer of Quadrise.

On June 6, 2012 Art Agolli loaned us CDN\$200,000 pursuant to a Convertible Debenture. The unpaid principal amount of the Convertible Debenture accrues interest at the rate of 10% per year. The Convertible Debenture is due and payable on June 6, 2013. Mr. Agolli may convert the principal amount of the Convertible Debenture into shares of our common stock at the rate of \$0.25 per share. The Convertible Debenture is secured with our personal property and the proceeds and products therefrom. On April 12, 2013, CDN\$16,986 in interest was accrued on the principal amount. During the year ended December 31, 2012, CDN\$200,000 was the highest principal amount owed.

On March 18, 2013, in conjunction with being elected to our Board of Directors, we granted an option to purchase 250,000 shares of our common stock to Richard Rutkowski. The exercise price is \$0.83 per share. The option term and the conditions under which the right to purchase the common stock will vest have not yet been determined.

On March 27, 2013, in conjunction with being elected to our Board of Directors, we granted an option to purchase 250,000 shares of our common stock to Alfred Fischer. The exercise price is \$0.75 per share. The option term and the conditions under which the right to purchase the common stock will vest have not yet been determined.

Review, Approval or Ratification of Transactions with Related Persons

We currently have no policies or procedures in place regarding the review and approval of related party transactions. Until March 2013 we had only one director, therefore independent review of related party transactions could not be made by our Board of Directors. We have increased our Board by an additional two members, both of whom are independent directors. We believe that the addition of these two directors will permit appropriate scrutiny of related party transactions.

Director Independence

During the year ended December 31, 2012, we had no independent directors. Our former sole director, Art Agolli, is not independent. We evaluate independence by the standards for director independence established by applicable laws, rules, and listing standards including, without limitation, the standards for independent directors established by The Nasdaq Stock Market, and the Securities and Exchange Commission. In March 2013 we added Richard Rutkowski and Alfred Fischer, two independent directors, to our Board of Directors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

(1) Audit Fees

The aggregate fees billed for each of the last two fiscal years for professional services rendered by MaloneBailey LLP; certified accountant for our audit of annual financial statements and review of financial statements included in our Form 10-Qs or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years was:

2012 \$55,000
2011 \$8,400

(2) Audit-Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance and related services by MaloneBailey LLP; certified accountants that are reasonably related to the performance of the audit or review of our financial statements and are not reported in the preceding paragraph:

2011 \$-
2010 \$-

(3) Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by MaloneBailey LLP; certified accountant for tax compliance, tax advice, and tax planning was:

2012 \$-
2011 \$-

(4) All Other Fees

The aggregate fees billed in each of the last two fiscal years for the products and services provided by the principal accountant, other than the services reported in paragraphs (1), (2), and (3) was:

2012 \$-

2011 \$-

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- 2.1 Asset Purchase and Sale Agreement dated July 27, 2012(1)
- 3.1(a) Articles of Incorporation(2)
- 3.1(b) Amendments to Articles of Incorporation(3)
- 3.2 Bylaws(2)
- 4 Specimen stock certificate(2)
- 10.1 Declaration of Trust of Gerhard Schlombs(2)
- 10.2 Convertible Debenture issued on March 23, 2012 to Sierra Growth, Inc.**
- 10.3 Convertible Debenture issued on April 18, 2012 to Sierra Growth, Inc.**
- 10.4 Convertible Debenture issued June 6, 2012 to Westlake Advisors Corp.*
- 10.5 Convertible Debenture issued June 21, 2012 to Jackson Bennett LLC**
- 10.6 Convertible Debenture dated June 6, 2012 issued to Artan Agolli**+
- 10.7 Form of Convertible Debenture dated July 27, 2012 issued to Sonoro Energy Ltd.(1)
- 10.8 Assignment of Shares of Common Stock dated April 17, 2012 from Art Agolli in favor of Bearing Mineral Exploration Inc.(6)
- 10.9 Non-Compete and Non-Solicitation Agreement dated July 27, 2012 between the registrant and Sonoro Energy Ltd.(1)
- 10.10 Consulting Agreement dated July 27, 2012 between the registrant and Sonoro Energy Ltd.(1)
- 10.11 Share Sale Contract dated July 27, 2012 between the registrant and Sonoro Energy Ltd.(1)
- 10.12 Form of Iraq License Agreement dated July 27, 2012 between the registrant and Sonoro Energy Ltd.(1)
- 10.13 Amended and Restated Employment Agreement dated January 1, 2013 between the registrant and Art Agolli**
- 10.14 Consulting Agreement dated April 26, 2013 between the registrant and StoryCorp Consulting, Inc.(8)
- 10.15 Consulting Agreement dated January 1, 2013 between the registrant and Benjamin L. Padnos**

- 10.16 Consulting Agreement with Ormont Investor Relations and Strategic Communications, LLC and assignment to Loma Management Partners Inc.(9)
- 10.17 Memorandum of Understanding dated September 15, 2012 between the registrant and Quadrise Canada Corporation**
- 10.18 Form of Securities Purchase Agreement dated January 16, 2013(7)
- 10.19 Form of Registration Rights Agreement dated January 16, 2013(7)
- 10.20 Form of Warrant dated January 16, 2013(7)
- 10.21 Enterprise Agreement between Petrosonic Albania sh.a and Pavli Vallja Company dated September 7, 2012**
- 10.22 Warrant dated September 5, 2012 for the purchase of 140,000 shares of common stock issued to Jackson Bennett LLC**
- 10.23 Warrant dated September 24, 2012 for the purchase of 200,000 shares of common stock issued to Jackson Bennett LLC**
- 14 Code of Ethics(5)
- 21 List of Subsidiaries**
- 31.1 Certification of Principal Executive Officer pursuant to 15d-15(e), promulgated under the Securities Exchange Act of 1934*
- 31.2 Certification of Principal Financial Officer pursuant to 15d-15(e) promulgated under the Securities Exchange Act of 1934*
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Principal Executive Officer and Principal Financial and Accounting Officer)*
- 101.1 The following financial statements formatted in Extensive Business Reporting Language (XBRL): (i) consolidated statements of operations, (ii) consolidated statements of cash flows, (iii) consolidated balance sheet, (iv) consolidated statement of changes in stockholders' equity, and (v) the notes to the consolidated financial statements.*

*Filed herewith.

** Previously filed

+Indicates a contract with management.

(1) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 31, 2012.

(2) Incorporated by reference to the registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on December 19, 2008.

- (3) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 18, 2012.
- (4) Incorporated by reference to the registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on February 11, 2013.
- (5) Incorporated by reference to the registrant's Annual Report on Form 10-K for the year ended October 31, 2009 filed with the Securities and Exchange Commission on January 27, 2010.
- (6) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 20, 2012.
- (7) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 23, 2013.
- (8) Incorporated by reference to the registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on September 27, 2013. This exhibit has been re-filed to include the signatures.
- (9) Incorporated by reference to the registrant's Registration Statement on Form S-1/A filed with the Securities and Exchange Commission on September 27, 2013. This exhibit has been re-filed to add Exhibit A, which was not included in the original filing.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on behalf by the undersigned, thereto duly authorized on this 27th day of September 2013.

PETROSONIC ENERGY, INC.
(Registrant)

By: /s/ Art Agolli
Art Agolli
Chief Executive Officer, President and Principal Financial Officer

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

Dated: September 27, 2013

/s/ Art Agolli
Art Agolli, Chief Executive Officer, President,
Principal Accounting and Financial Officer and Director

Dated: September 27, 2013

/s/ Alfred Fischer
Alfred Fischer, Director

EXHIBIT INDEX

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ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Petrosonic Energy, Inc.

INDEX TO FINANCIAL STATEMENTS

ANNUAL FINANCIAL INFORMATION

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Consolidated Statements of Operations and Comprehensive Income (Loss)	F-4
Consolidated Statement of Stockholders' Equity (Deficit)	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

Petrosonic Energy, Inc. and Subsidiary

(a Development Stage Company)

Calgary, Canada

We have audited the accompanying consolidated balance sheet of Petrosonic Energy, Inc. and Subsidiary (collectively, “the Company” or “Successor”) as of December 31, 2012 and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders’ equity (deficit), and cash flows for the period from August 1, 2012 through December 31, 2012. We have also audited the accompanying consolidated balance sheet of Petrosonic Albania, sh.a (“Predecessor”) as of December 31, 2011 and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders’ equity (deficit), and cash flows for the period from January 1, 2012 through July 31, 2012, for the year ended December 31, 2011 and for the period from May 24, 2010 (inception) through July 31, 2012. These financial statements are the responsibility of the Company’s and Predecessor’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the Successor financial statements referred to above present fairly, in all material respects, the financial position of Petrosonic Energy, Inc. and Subsidiary as of December 31, 2012 and the results of their operations and their cash flows for the period from August 1, 2012 through December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the Predecessor financial statements referred to above present fairly, in all material respects, the financial position of Petrosonic Albania, SHA, as of December 31, 2011 and the results of its operations and its cash flows for the period from January 1, 2012

through July 31, 2012, for the year ended December 31, 2011 and for the period from May 24, 2010 (inception) through July 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company suffered recurring losses since inception, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1 to the consolidated financial statements, the accompanying financial statements of the Predecessor have been restated to correct for the presentation and accounting for common shares issued to founders.

/s/ MaloneBailey, LLP

www.malonebailey.com

Houston, Texas

May 2, 2013, except for the Correction of Prior Year Information disclosed in Note 1, as to which the date is September 24, 2013

PETROSONIC ENERGY, INC.**(a Development Stage Company)****CONSOLIDATED BALANCE SHEETS**

	December 31, 2012 Successor	December 31, 2011 Predecessor (Restated)
ASSETS		
Current assets:		
Cash	\$ 1,200,676	\$ 1,655
Receivables	106,666	86,136
Prepaid expenses	7,929	-
Total current assets	1,315,271	87,791
Property and equipment, net of accumulated depreciation of \$12,194 and \$-0-, respectively	735,220	617,924
TOTAL ASSETS	\$ 2,050,491	\$ 705,715
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 21,099	\$ 204,176
Accounts payable to related parties	6,782	-
Accrued liabilities	112,909	-
Short-term debt, net of unamortized discounts of \$239,847	175,153	-
Short-term debt to related parties	200,000	-
Total current liabilities	515,943	204,176
Stockholders' equity:		
Common stock, 843,750,000 and 100,000 shares authorized, \$0.001 and \$25.64 par value, 70,299,003 and 100,000 shares issued and outstanding as of December 31, 2012 and 2011, respectively	70,299	2,564,000
Additional paid-in capital	1,734,170	(2,028,950)
Deficit accumulated during the development stage	(596,731)	(35,118)
Accumulated other comprehensive income	28,312	1,607
Total Petrosonic Energy, Inc. stockholders' equity	1,236,050	501,539
Non-controlling interest	298,498	-
Total stockholders' equity	1,534,548	501,539
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,050,491	\$ 705,715

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

PETROSONIC ENERGY, INC.**(A Development Stage Company)****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

	August 1, 2012	January 1, 2012	Year Ended	May 24, 2010
	Through	Through	December 31,	(Inception)
	December 31,	July 31,	December 31,	Through
	2012	2012	2011	July 31,
	Successor	Predecessor	Predecessor	2012
				Predecessor
Operating Expenses:				
General and administrative expenses	\$ 235,872	\$ 3,481	\$ 15,322	\$ 38,599
Depreciation	7,113	5,081	-	5,081
Total operating expenses	242,985	8,562	15,322	43,680
Loss from operations	(242,985)	(8,562)	(15,322)	(43,680)
Other Income (Expenses):				
Interest income	14	18	-	18
Interest expense	(37,582)	-	-	-
Bargain purchase gain	7,741	-	-	-
Total other income (expenses)	(29,827)	18	-	18
Net loss	(272,812)	(8,544)	(15,322)	(43,662)
Losses attributable to non-controlling interest	9,898	-	-	-
Net loss attributable to Petrosonic Energy, Inc.	\$ (262,914)	\$ (8,544)	\$ (15,322)	\$ (43,662)
Basic and diluted net loss per common share	\$ (0.00)	\$ (0.00)	\$ (0.01)	
Basic and diluted weighted average common shares outstanding	65,692,292	2,564,000	2,564,000	
Other Comprehensive Income:				
Net loss	\$ (272,812)	\$ (8,544)	\$ (15,322)	\$ (43,662)
Foreign currency translation adjustment	28,312	108,666	1,538	110,273

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Comprehensive income (loss)	(244,500)	100,122	(13,784)	66,611
Comprehensive income (loss) attributable to non-controlling interest	9,898	-	-	-	-	-
Comprehensive income (loss) attributable to Petrosonic Energy, Inc.	\$ (234,602)	\$ 100,122	\$ (13,784)	\$ 66,611

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

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PETROSONIC ENERGY, INC.**(A Development Stage Company)****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)****May 24, 2010 (Inception) Through December 31, 2012**

	Petrosonic Energy, Inc.		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Total Petrosonic Energy, Inc.'s Stockholders' Equity	Noncontrolling Interest	
	Common Stock Shares	Amount		Accumulated Deficit	Deficit			
Predecessor – Petrosonic Albania, SHA.								
Balances at May 24, 2010	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Founder shares Common stock issued to founder for license	40,000 60,000	1,025,600 1,538,400	(1,025,600) (1,538,400)	- -	- -	- -	- -	- -
Contributed capital	-	-	207,472	-	-	207,472	-	-
Foreign currency translation	-	-	-	69	-	69	-	-
Net loss	-	-	-	-	(19,796)	(19,796)	-	-
Balances at December 31, 2010 (Restated)	100,000	2,564,000	(2,356,528)	69	(19,796)	187,745	-	-
Contributed capital	-	-	327,578	-	-	327,578	-	-
Foreign currency translation	-	-	-	1,538	-	1,538	-	-
Net loss	-	-	-	-	(15,322)	(15,322)	-	-
Balances at December 31, 2011 (Restated)	100,000	2,564,000	(2,028,950)	1,607	(35,118)	501,539	-	-
Contributed capital	-	-	169,328	-	-	169,328	-	-

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Foreign currency translation	-	-	-	108,666	-	108,666	-
Net loss	-	-	-	-	(8,544)	(8,544)	-
Balances at July 31, 2012 (Restated)	100,000	\$ 2,564,000	\$ (1,859,622)	\$ 110,273	\$ (43,662)	\$ 770,989	\$ -
Successor – consolidated Balances at August 1, 2012	64,649,003	\$ 64,649	\$ 136,364	\$ -	\$ (333,817)	\$ (132,804)	\$ -
Common stock and warrants sold for cash, net	5,650,000	5,650	1,383,850	-	-	1,389,500	-
Beneficial conversion feature	-	-	213,956	-	-	213,956	-
Foreign currency translation	-	-	-	28,312	-	28,312	-
Noncontrolling interest	-	-	-	-	-	-	308,396
Net loss	-	-	-	-	(262,914)	(262,914)	(9,898)
Balances at December 31, 2012	70,299,003	\$ 70,299	\$ 1,734,170	\$ 28,312	\$ (596,731)	\$ 1,236,050	\$ 298,498

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

PETROSONIC ENERGY, INC.**(A Development Stage Company)****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	August 1, 2012	January 1, 2012	Year Ended	May 24, 2010
	Through	Through	December 31,	(Inception)
	December 31,	July 31,	December 31,	Through
	2012	2012	2011	July 31,
	Successor	Predecessor	Predecessor	2012
				Predecessor
Cash flows from operating activities:				
Net loss	\$ (272,812)	\$ (8,544)	\$ (15,322)	\$ (43,662)
Adjustments to reconcile net loss to net cash used in operating activities				
Depreciation	7,113	5,081	-	5,081
Amortization of debt discounts	19,608	-	-	-
Bargain purchase gain	(7,741)	-	-	-
Changes in operating assets and liabilities:				
Accounts receivable	(64,656)	44,126	(82,411)	(42,010)
Prepaid expenses	(7,929)	-	-	-
Accounts payable to related parties	6,782	-	-	-
Accounts payable and accrued expenses	104,126	(199,234)	204,176	4,942
Net cash used in operating activities	(215,509)	(158,571)	106,443	(75,649)
Cash flows from investing activities:				
Net cash acquired in acquisition	11,448	-	-	-
Cash paid for purchase of property and equipment	-	(108,422)	(438,833)	(731,129)
Net cash provided by (used in) investing activities	11,448	(108,422)	(438,833)	(731,129)
Cash flows from financing activities:				
Net proceeds from issuance of common stock	1,389,500	-	-	-
Capital contributions	-	169,328	327,578	704,378
Net cash provided by financing activities	1,389,500	169,328	327,578	704,378
Effects of foreign exchange on cash	8,101	107,458	6,321	113,848
Net increase in cash	1,193,540	9,793	1,509	11,448
Cash, beginning or period	7,136	1,655	146	-

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Cash, end of period	\$ 1,200,676	\$ 11,448	\$ 1,655	\$ 11,448
Supplemental disclosures of cash flow information:				
Cash paid for interest	\$ -	\$ -	\$ -	\$ -
Cash paid for income taxes	-	-	-	-
Non cash investing and financing activities:				
Deposit used for acquisition	\$ 250,000	\$ -	\$ -	\$ -
Convertible note issued for acquisition, net of discount	204,852	-	-	-
Beneficial conversion feature	213,956	-	-	-

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

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Petrosonic Energy, Inc.

(A Development Stage Company)

Notes to Consolidated Financial Statements

NOTE 1 - Nature of Business and Significant Accounting Policies

Nature of Business

Petrosonic Energy, Inc. (“we”, “our” or the “Company”) was incorporated in the state of Nevada on June 11, 2008. The Company is a Development Stage Company, as defined by ASC 915 “Development Stage Entities.”

On May 16, 2012 the Company changed its name to Petrosonic Energy, Inc. to better reflect the Company’s new business direction in anticipation of the purchase of certain rights in technology and assets through the acquisition of a 60% ownership interest in Petrosonic Albania, SHA. from Sonoro Energy Ltd. On July 27, 2012. Concurrent with the name change the Company effected a forward stock split on the basis of 11.25:1, whereby each shareholder would hold 11.25 common shares for every one share previously held. The Company’s share transactions disclosed in the financial statements have been restated retroactively to reflect the forward stock split for all periods presented. From and after the consummation of our purchase of July 27, 2012 (see Note 3), our primary operations consist of developing the business of the processing of heavy oil.

The financial statements included herein for the period from May 24, 2010 through July 31, 2012 are the financial statements of Petrosonic Albania, SHA. (“Predecessor”). The consolidated financial statements included herein for the period from August 1, 2012 through December 31, 2012 are the consolidated financial statements of Petrosonic Energy, Inc. and its 60% owned subsidiary, Petrosonic Albania, SHA. (collectively “Successor”).

Basis of Presentation and Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the Company and its 60% owned subsidiary, Petrosonic Albania, SHA. All significant intercompany accounts and transactions have been eliminated in consolidation.

Correction of Prior Year Information

During the audit of the Company's consolidated financial statements for the year ended December 31, 2012, the Company identified an error in the accounting and presentation of the 40,000 common shares issued to the founders of the Predecessor entity, Petrosonic Albania, SHA, at inception. The 40,000 should have been shown as issued and outstanding at inception. In the previously presented financial statements of the Predecessor for the year ended December 31, 2011, 17 and 178 of these founder's shares were presented as issued and outstanding during the years ended December 31, 2010 and 2011, respectively. This resulted in an adjustment to the previously reported amounts in the financial statements of the Predecessor for the year ended December 31, 2011. In accordance with the SEC's Staff Accounting Bulletin Nos. 99 and 108 (SAB 99 and SAB 108), the Company evaluated this error and, based on an analysis of quantitative and qualitative factors, determined that the error was immaterial to the prior reporting period affected. However, if the adjustments to correct the cumulative effect of the above error had been recorded in the year ended December 31, 2012, the Company believes the impact would have been significant and would impact comparisons to prior periods. Therefore, as permitted by SAB 108, the Company corrected, in the current filing, previously reported results for of the Predecessor for the year ended December 31, 2011.

The following table presents the effect of the correction of prior year information and the impact on the Predecessor's balance sheet for the year ended December 31, 2011:

	As of December 31, 2011		
	As Previously Reported	Adjustments	As Restated
Stockholders' equity:			
Common stock - number of shares issued and outstanding	60,195	39,805	100,000
Common stock	\$1,543,406	\$1,020,594	\$2,564,000
Additional paid-in capital	\$(1,008,356)	\$(1,020,594)	\$(2,028,950)

The correction of the prior year information did not have any impact on the Predecessor's statements of operations or cash flows for the year ended December 31, 2011.

Foreign Currency Translation

Assets and liabilities of foreign operations are translated from Albanian Leks into United States dollar equivalents using the exchange rates in effect at the balance sheet date. Revenues and expenses are translated using the average exchange rates during each period. Adjustments resulting from the process of translating foreign functional currency financial statements into U.S. dollars are included in accumulated other comprehensive income in common shareholders' equity. Foreign currency transaction gains and losses are included in current earnings.

Use of Estimate

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents. The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Management does not believe the Company is exposed to significant credit risk. Management, as well, does not believe the Company is exposed to significant interest rate and foreign currency fluctuation risks during the period presented in these financial statements.

Accounts Receivable

Accounts receivables as of December 31, 2012 and 2011 consisted of a value-added tax receivable from the tax authorities of Albania of \$46,666 and \$86,136, respectively. The Company files for and receives a refund of this amount annually. Accounts receivables as of December 31, 2012 also includes a \$60,000 payment made under a service contract that was subsequently cancelled. The \$60,000 was returned to the Company after December 31, 2012.

Property and Equipment

Property and equipment are carried at the cost of acquisition or construction and depreciated over the estimated useful lives of the assets. Costs associated with repair and maintenance are expenses as incurred. Costs associated with improvements that extend the life, increase the capacity or improve the efficiency of our property and equipment are capitalized and depreciated over the remaining life of the related asset. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are generally 3 to 5 years for machinery and equipment and 10 years for buildings. The Company has not recognized depreciation on machinery and equipment since the Company's production line is under construction and is not ready to be placed in service. Depreciation of the Company's buildings began in 2012 as their construction was completed during 2012.

Impairment of Long-Lived Assets

The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the estimated future cash flows (undiscounted) expected to result from the use and eventual disposition of the asset group is less than the carrying amount of the asset group, an impairment loss is recognized which is measured based on the fair value of the asset. Construction in process is impaired when projects are abandoned or terminated. Long-lived assets were not impaired as of December 31, 2012 or 2011.

Income Taxes

The Company accounts for income taxes using the asset and liability method in accordance with ASC 740, "Accounting for Income Taxes". The asset and liability method provides that deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance to reduced deferred tax assets to the amount that is believed more likely than not to be realized.

Stock-Based Compensation

The Company accounts for stock-based compensation to employees in accordance with ASC 718. Stock-based compensation to employees is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite employee service period. The Company accounts for stock-based compensation to other than employees in accordance with ASC 505-50. Equity instruments issued to other than employees are valued at the earlier of a commitment date or upon completion of the services, based on the fair value of the equity instruments and is recognized as expense over the service period. The Company estimates the fair value of stock-based payments using the Black-Scholes option-pricing model for common stock options and warrants and the closing price of the Company's common stock for common share issuances. There was no stock-based compensation during 2012 or 2011.

Loss Per Share

The Company computes loss per share in accordance with ASC 260, "Earnings per Share" which requires presentation of both basic and diluted earnings per share on the face of the statement of operations. Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of outstanding common shares during the period. Diluted loss per share gives effect to all dilutive potential common shares outstanding during the period. Dilutive loss per share excludes all potential common shares if their effect is anti-dilutive.

Recent Accounting Pronouncements

Company management does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flow.

NOTE 2 – Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The company has generated recurring losses since inception, has an accumulated deficit at December 31, 2012 and does not have sufficient working capital for its planned activities. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Continuation of the Company as a going concern is dependent upon obtaining additional working capital. The management of the Company has developed a strategy, which it believes will accomplish this objective through short-term loans from related parties and additional equity investments, which will enable the Company to continue operations for the coming year. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations, and the attainment of profitable operations.

NOTE 3 - Acquisition

On July 27, 2012, the Company acquired 60,000 shares in Petrosonic Albania SHA., representing a 60% ownership interest in that company from Sonoro Energy Ltd. As consideration for the purchase, the Company paid to Sonoro the following: (i) cash in the amount of CAD\$250,000, (ii) a convertible debenture in the principal amount of CAD\$250,000, and (iii) a 10% royalty interest in our realized net revenues for a period of 10 years from the time we commence commercial operations, which is defined as the date upon which we process an average of 50 barrels of feed stock per day for a period of 30 consecutive days utilizing the technology acquired in this asset purchase. The fair value of the 10% royalty interest was determined to be nominal. The convertible debenture is unsecured, non-interest bearing, has a maturity date of two years from the issue date, is convertible into common stock of the Company at any time following financing by the Company of at least \$500,000. The note will be convertible at the sales price of the financing of at least \$500,000. The fair value of the convertible note was determined to be \$204,852 resulting in an initial discount of \$45,148. Effective July 27, 2012, the Company's primary operations consist of using the assets to develop a business relating to the treatment and upgrading of heavy oil by sonicating solvent de-asphalting and operating the business of Petrosonic Albania SHA. Both parties agreed, for the convenience of month end closing

procedures, to account for the acquisition as if it occurred on July 31, 2012. The results of operations and cash flows obtained through the use of July 31, 2012, rather than July 27, 2012, are not considered to be materially different.

The acquisition of Petrosonic Albania, SHA. from Sonoro is accounted for using the purchase method. As a result of the transaction, Petrosonic Albania, SHA. became a majority owned subsidiary of the Company and the assets and liabilities of the acquired entity have been brought forward at their fair value on the date of the acquisition. Immediately before the transaction, Sonoro Energy Ltd.'s ownership interest in Petrosonic Albania, SHA was 60%. Accordingly, in the fair value allocation, a non-controlling interest of \$308,396 has been recorded, which amount represents the value of the 40% non-controlling interest on the date of the transaction. The 40% non-controlling interest is held by Albnafta, an Albanian registered company that is held 100% by Art Agolli, the Company's President and CEO.

The allocation of the purchase price and the estimated fair market values of the assets acquired and liabilities assumed are shown below:

Purchase Price	
Cash at closing	\$250,000
Convertible note, net of discount	204,852
Total Purchase Price	\$454,852
Assets Acquired and Liabilities Assumed:	
Cash	\$11,448
Accounts receivable	42,010
Property and equipment	722,473
Accounts payable and accruals	(4,942)
Non-controlling interest	(308,396)
	462,593
Bargain Purchase Gain	(7,741)
Total Purchase Price	\$454,852

NOTE 4 – Property and Equipment, Net

Property and equipment consisted of the following as of December 31, 2012 and 2011:

	Successor December 31, 2012	Predecessor December 31, 2011
Construction in progress - machinery and equipment	\$625,475	\$495,985
Construction in progress - buildings	-	121,939
Buildings (10 year useful life)	121,939	-
less: accumulated depreciation	(12,194)	-
Total	\$735,220	\$617,924

The Company is constructing a production line using its proprietary Sonoprocess technology for the upgrading of heavy oil to higher standards for sale in commercial markets. The total cost of the full production line is currently estimated to be approximately \$2,500,000, of which \$637,669 has been incurred through December 31, 2012. Management expects that the production line will be complete and ready for use by the end of the third quarter of 2013.

Depreciation of the buildings began in 2012 upon their completion. There was no depreciation expense during 2011 as the assets were still under construction. Depreciation expense was \$7,113 and \$5,081 for the period from August 1, 2012 through December 31, 2012 and for the period from January 1, 2012 through July 31, 2012, respectively.

NOTE 5 - Related Party Transactions

As of December 31, 2012, the Company had an outstanding payable to its President of \$6,782. The payable is unsecured, non-interest bearing and due on demand.

On June 11, 2012, we borrowed \$200,000 from our President under a convertible debenture. The convertible debenture is unsecured, matures June 11, 2013 and bears interest at 10%. At any time prior to the Maturity Date, if we complete an equity or convertible debenture financing yielding aggregate proceeds of at least \$500,000, our President may elect to convert the debenture in whole or in part into common shares at the same price any shares are sold, or in the case of a convertible debenture, the price of the shares issuable upon conversion.

NOTE 6 - Convertible Notes Payable

Between March and July 2012, the Company borrowed an aggregate of \$165,000 under convertible notes. The debentures are unsecured, bear interest at 10% per annum and mature one year from the issuance date. Until the maturity date, the holders may elect to convert the debenture in whole or in part into common shares at the price of any aggregate financing exceeding \$500,000 less a discount of 25% per share.

On July 27, 2012, the Company issued a convertible note of \$250,000 for the acquisition of Petrosonic Albania, SHA. (see Note 3).

On June 11, 2012, the Company borrowed \$200,000 from its President under a convertible note (see Note 5).

The Company evaluated these convertible notes for derivatives and determined that they do not qualify for derivative treatment. The Company then evaluated the notes for beneficial conversion features and determined that some do contain beneficial conversion features. The aggregate intrinsic value of the beneficial conversion features was determined to be \$213,956. This amount was recorded as a debt discount on December 11, 2012 (the date the company completed a capital raise in excess of \$500,000) that is being amortized over the life of the notes. Total debt discount amortization during the period from August 1, 2012 through December 31, 2012 was \$19,608 consisting of amortization of \$10,721 on the beneficial conversion feature discounts and amortization of \$8,887 on the initial discount recorded against the \$250,000 convertible note issued for the acquisition (see Note 3).

NOTE 7 -Stockholders' Equity

At inception, Sonoro Energy Ltd. was issued 60,000 common shares of the Predecessor, representing a 60% ownership, in exchange for Sonoro's heavy oil technology license. The fair value of the shares at inception was determined to be nominal and Company recorded the acquisition cost of the license at \$-0-, which reflected Sonoro Energy Ltd.'s basis in the license.

At inception, Albnaftha Shpk was issued 40,000 common shares of the Predecessor, representing a 40% ownership. The shares were valued at \$0 as their fair value at inception was determined to be nominal. From inception through July 31, 2012, Albnaftha Shpk contributed an aggregate of \$704,378. Albnaftha Shpk is owned 100% by Art Agolli.

During the period from August 1, 2012 through December 31, 2012, the Company sold an aggregate of 5,650,000 common shares for net cash proceeds of \$1,389,500. In connection with the sales, the company paid stock issuance costs of \$23,000 and issued an aggregate of 363,000 common stock warrants as payment for stock issuance costs. The warrants are exercisable at \$0.50 per share, vest immediately and have terms ranging from 1 to 2 years.

There was no warrant activity prior to August 1, 2012. A summary of the Company's warrant activity between August 1, 2012 and December 31, 2012 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at August 1, 2012	-	\$ -
Granted	363,000	0.50
Exercised	-	-
Forfeited/expired	-	-
Outstanding at December 31, 2012	363,000	\$ 0.50

The following table summarizes the exercise price, number of warrants, weighted average exercise price and the weighted average remaining life (in years) of all warrants outstanding as of December 31, 2012:

Exercise Price	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Life (years)
\$ 0.50	363,000	\$ 0.50	.76

NOTE 8 - Income Taxes

The Company had an accumulated net operating loss of approximately \$597,000 as of December 31, 2012 which begins to expire in 2023. The Company has established a valuation allowance equal to the tax effect of the loss carryforwards and, therefore, no deferred tax asset has been recognized for the loss carryforwards because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

Deferred tax assets consisted of the following as of December 31, 2012 and 2011:

	Successor December 31, 2012	Predecessor December 31, 2011
Net operating losses	\$208,856	\$ 3,512
Valuation allowance	(208,856)	(3,512)
Net deferred tax assets	\$-	\$ -

NOTE 9- Subsequent Events

On January 1, 2013, the Company entered into a one year agreement with a firm that provides strategic investor relations services. In connection with the agreement, the Company agreed to issue 270,000 shares of common stock to the firm. In the event that the agreement is cancelled during its term with required notice, the Company may cancel the remaining shares that would have otherwise been earned by the firm during the remainder of the term. The shares are to be issued in equal monthly installments of 22,500 each beginning in January 1, 2013. On February 26, 2013, the agreement was assigned to another entity affiliated with the original firm.

On January 11, 2013, the Company entered into a one year agreement from December 15, 2012 with a firm that provides legal services. In connections with the agreement, the Company agreed to issue 900,000 shares of common stock to the firm. The shares of common stock are to be issued in quarterly installments beginning in April 2013. Under certain circumstances as described in the agreement, the number of shares may be adjusted based on the type and amount of services provided by the firm.

On January 15, 2013, the Company entered into a one year consulting agreement with an individual for the purpose of providing financial and investor relations services to the Company. In connection with the agreement, the Company

agreed to issue 100,000 shares of common stock to the individual. The shares are to be issued in four quarterly installments beginning in April 2013.

During January 2013, the Company sold 7,640,000 shares of common stock in a private placement with certain accredited investors for aggregate net cash proceeds of \$1,718,000 and a note receivable for \$140,000. The note bears interest at a rate of 5%, is due on March 15, 2013, and is secured by 600,000 shares of Company common stock previously issued to the investor. The Company paid cash commissions of \$52,000 and issued an aggregate of 52,000 common stock warrants as payment of commissions. The warrants are exercisable at a price of \$0.50 per share and have a term of two years from the issue date.

On March 1, 2013 and March 25, 2013, four convertible debentures together with accrued interest were converted into shares of common stock of the Company pursuant to the right of conversion of each of the convertible debentures. In connection with the conversions, the Company issued an aggregate of 707,405 shares of common stock of the Company.

On March 15, 2013, the Company repaid the convertible debenture due to Sonoro in the amount of CDN\$250,000. The repayment was pursuant to the exercise of Sonoro's right to early repayment following the completion of a financing by the Company meeting certain criteria as described in the convertible debenture.

On March 18, 2013, in conjunction with being elected to our Board of Directors, we granted an option to purchase 250,000 shares of our common stock to Richard Rutkowski. The exercise price is \$0.83 per share. The option term and the conditions under which the right to purchase the common stock will vest have not yet been determined.

On March 27, 2013, in conjunction with being elected to our Board of Directors, we granted an option to purchase 250,000 shares of our common stock to Alfred Fischer. The exercise price is \$0.75 per share. The option term and the conditions under which the right to purchase the common stock will vest have not yet been determined.

On April 19, 2013, the Company entered into a 1 year investment banking services agreement. As compensation, upon execution of the agreement, the Company issued 150,000 common shares and 150,000 warrants exercisable at \$0.75 per share with a term of 5 years. The consultant is entitled to a cash commission of 8% of the gross proceeds of any financing transaction the consultant brings to the company plus commissions paid in warrants equal to 10% of the gross proceeds. The warrants will be exercisable at \$0.75 per share and have a term of 5 years.

On April 26, 2013, the Company entered into a consulting agreement with a firm that provides finance, accounting and management services, with specific services described in the agreement. The agreement does not have a fixed term but can be terminated by the Company upon 30 day notice. As compensation, upon execution of the agreement, the consultant is to be paid \$10,000, including \$7,500 of in cash and \$2,500 in restricted common stock with the number of shares calculated based on a price of 80% of the average price of the Company's stock for the prior month, with a \$0.01 minimum price. Subsequently, the consultant is to be compensated on a quarterly basis beginning June 1, 2013 with a fee of \$7,500 per month. At the Company's election, the quarterly fee can be paid all in cash or a combination of \$5,000 in cash and \$2,500 in restricted common stock of the Company. The number of shares to be issued is calculated based on a share price of 80% of the average price of the Company's common stock for the prior month, with a \$0.01 minimum price. In addition, the consultant will be entitled to quarterly bonuses payable in cash or restricted stock at the sole discretion of the Company. For services outside of those described in the agreement, the consultant will charge the Company at the rate of \$250 per hour, payable 50% in cash and 50% in restricted common stock, using the same computation of shares as used for the quarterly payments.

On May 1, 2013, the Company entered into an amended and restated employment agreement with Art Agolli, the Company's Chief Executive Officer. The effective date of the agreement is January 1, 2013 and continues for an initial period of two years. Under the terms of the agreement, Mr. Agolli is to be paid an annual base salary of \$150,000, is entitled to an annual cash bonus in an amount to be agreed upon each year by Mr. Agolli and the Board of Directors and is entitled to other employee benefits. Within 30 days following each one-year anniversary of the effective date of the agreement, Mr. Agolli is entitled to receive an option to purchase shares of the Company's common stock in an

amount to be determined by the Board of Directors or its committee responsible for compensation matters as then constituted. The agreement may be terminated for cause by the Company or by election by either party. If Mr. Agolli's employment is terminated without cause by the Company, Mr. Agolli will be entitled to certain severance payments as described in the agreement.

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