

FREESTONE RESOURCES, INC.  
Form 10-Q  
May 15, 2013

**U.S. SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2013

**OR**

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

Commission File Number 000-28753

**FREESTONE RESOURCES, INC.**

(Exact name of small business issuer as specified in its charter)

Nevada 33-0880427  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

Republic Center, Suite 1350

325 N. St. Paul Street Dallas, TX 75201

(Address of principal executive offices)

(214) 880-4870

(Issuer's telephone number)

Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 is a large accredited filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accredited filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large Accredited Filer  Accelerated Filer   
Non-Accredited Filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (SS325.405 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

As of April 30, 2013 there were 64,443,177 shares of Common Stock of the issuer outstanding.

**Freestone Resources, Inc.****(A Development Stage Company)****Consolidated Balance Sheets****As of March 31, 2013 and June 30, 2012**

## Assets

	<b>(Unaudited) March 31, 2013</b>	<b>(Audited) June 30, 2012</b>
Current Assets:		
Cash	\$60,095	\$147,635
Accounts receivable	—	—
Total Current Assets	60,095	147,635
Equipment at oil and gas properties used for research and development	23,000	23,000
Fixed assets, net of accumulated depreciation of \$52,751 and \$36,040	46,857	31,512
Total fixed assets, net	69,857	54,512
Investment in Aqueous Services	104,999	—
Other assets	13,362	600
Total Assets	\$248,313	\$202,747

## Liabilities and Stockholders' Equity

Current Liabilities:		
Accounts payable	\$2,939	\$6,200
Accrued expenses	8,159	6,908
Notes payable-related parties	—	6,691
Investment in Freestone Water	—	11,978
Derivative liability - warrants	278,273	—
Stock to be issued	—	23,000
Total Current Liabilities	289,371	54,777
Long-term Liabilities:		
Asset retirement obligations	40,915	40,915
Total Liabilities	330,286	95,692

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Stockholders' Equity (Deficit):

Common stock, \$.001 par value, 100,000,000 shares authorized, 62,743,177 and 58,364,010 shares issued and outstanding, respectively	62,743	58,364
Additional paid in capital	17,514,685	17,038,065
Accumulated deficit	(17,659,401 )	(16,989,374)
Stockholders' Equity (Deficit)	(81,973 )	107,055
Total Liabilities and Stockholders' Equity	\$248,313	\$202,747

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

**Freestone Resources, Inc.****(A Development Stage Company)****Consolidated Statements of Operations****For the Three and Nine Months Ended March 31, 2013 and 2012****And for the Period Since Reentering the Development Stage (July 1, 2011 to March 31, 2013)****(unaudited)**

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012	Since Reentering Developing Stage (July 1, 2011 to March 31, 2013
Revenue:					
Oil and gas revenues resulting from research activities	\$—	\$787	\$8,983	\$5,705	\$55,552
Total revenue resulting from research activities	—	787	8,983	5,705	55,552
Operating expenses:					
Lease operating costs	6,731	2,072	15,690	10,611	64,029
Depreciation	6,205	5,252	16,710	15,756	48,964
Stock Based Compensation	—	191,100	—	191,100	1,145,100
General and administrative	67,824	47,201	373,502	169,482	936,312
Total operating expenses	80,760	245,625	405,902	386,949	2,194,405
Operating loss	(80,760 )	(244,838 )	(396,919 )	(381,244 )	(2,138,853)
Other income (expense):					
Warrant expense	—	—	(278,273 )	—	(278,273 )
Interest income (expense)	188	—	166	—	(2,107 )
Gain (Loss) on sale of asset	—	—	—	—	20,541
Other income related to the settlement of EOS litigation	—	—	—	—	1,665,834
Gain (Loss) on Equity Method Investment	5,035	—	4,999	—	(6,979 )
Revision to ARO estimate	—	—	—	—	(6,057 )
Total other income (expense)	5,223	—	(273,108 )	—	1,392,959

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Net loss	\$ (75,537 )	\$ (244,838 )	\$ (670,027 )	\$ (381,244 )	\$ (745,894 )
Basic and diluted loss per share	\$ (0.00 )	\$ (0.00 )	\$ (0.01 )	\$ 0.00	
Weighted average shares outstanding:					
Basic and diluted	62,702,416	53,251,198	62,594,192	52,783,074	

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

**Freestone Resources, Inc.****(A Development Stage Company)****Consolidated Statement of Stockholders' Equity****For the Period Since Reentering the Development Stage (July 1, 2011 to March 31, 2013)****And the Nine Months Ended March 31, 2013****(Unaudited)**

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid in Capital	Deficit	
Balance, June 30, 2011	52,512,760	\$52,513	\$16,538,716	\$(16,492,116)	\$99,113
Common stock issued for cash	3,701,250	3,701	310,399	—	314,100
Common stock issued for services	2,450,000	2,450	188,650	—	191,100
Common stock canceled for Hydrex agreement	(300,000 )	(300 )	300	—	----
Net loss	—	—	—	(497,258 )	(497,258)
Balance, June 30, 2012	58,364,010	\$58,364	\$17,038,065	\$(16,989,374)	\$107,055
Common stock issued for services	600,000	600	168,400	—	169,000
Common Stock Issued for cash	3,779,167	3,779	308,220	—	311,999
Net loss				(670,027 )	(670,027)
Balance, March 31, 2013	62,743,177	\$62,743	\$17,514,685	\$(17,659,401)	\$(81,973 )

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





**Freestone Resources, Inc.****(A Development Stage Company)****Consolidated Statements of Cash Flows****Nine Months Ended March 31, 2013 and 2012****And for the Period Since Reentering the Development Stage (July 1, 2011 to March 31, 2013)****(Unaudited)**

	Nine Months Ended March 31, 2013	Nine Months Ended March 31, 2012	Since Reentering Developing Stage (July 1, 2011 to March 31, 2013)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$(670,027)	\$(381,244)	\$(745,894 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	16,710	15,756	48,964
(Gain) Loss on Equity Method Investment	(4,999 )	—	(4,999 )
Shares issued for demonstration equipment	—	—	58,585
Warrant expense	278,273	—	278,273
(Gain) on sale of investment asset	—	—	(20,541 )
Stock based compensation	—	191,100	1,145,100
Decrease in revision of ARO estimate	—	—	6,057
Shares issued for services	169,000	—	193,000
Changes in operating assets and liabilities:			
Change in account receivable	—	2,153	22,029
Change in other assets	(12,762 )	(600 )	(10,575 )
Change in accounts payable	—	(19,642 )	(244,569 )
Change in accounts payable – related party	—	(5,000 )	(150,010 )
Change in accrued expenses	(2,010 )	—	(7,661 )
Net cash provided used in operating activities	(225,815)	(197,477)	567,759
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Sale of investment asset	—	—	30,000
Investment in Freestone Water Solutions	(11,978 )	—	—
Investment in Aqueous Services	(100,000)	—	(100,000 )

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Purchases of fixed assets	(32,055 )	—	(90,640 )
Net cash used in investing activities	(144,033)	—	(160,640 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments on note payables – related party	(6,691 )	(4,865 )	(34,321 )
Proceeds from sale of stock	311,999	84,100	1,070,599
Stock returned upon settlement of litigation	—	—	(1,261,364)
Stock to be issued	(23,000 )	53,000	(150,000 )
Net cash provided by financing activities	282,308	132,235	(375,086 )
<b>NET CHANGE IN CASH</b>	<b>(87,540 )</b>	<b>(65,242 )</b>	<b>32,033</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>147,635</b>	<b>93,015</b>	<b>28,062</b>
<b>CASH AT END OF PERIOD</b>	<b>\$60,095</b>	<b>27,773</b>	<b>\$60,095</b>
<b>Supplemental cash flow information:</b>			
Cash paid for interest	\$22	\$343	\$358
<b>Non-cash investing activities:</b>			
Stock returned upon settlement of litigation	\$—	\$—	\$(1,261,364)
Stock Based Compensation	\$—	\$191,100	\$1,145,100

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

**Freestone Resources, Inc.**

**(A Development Stage Company)**

**Notes to Consolidated Financial Statements**

**March 31, 2013**

**(Unaudited)**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities, History and Organization:

Freestone Resources, Inc. (“Freestone” or the “Company”) is an oil and gas technology development company. The Company is located in Dallas, Texas and is incorporated under the laws of the State of Nevada.

The Company’s primary business is the development of new technologies that allow for the utilization of oil and gas resources in an environmentally responsible and cost effective way, as well as the development of technologies that can be used in the environmental cleanup of oil-based contaminant byproducts.

On November 16, 2012 the Company entered into a Company Agreement of Aqueous Services, LLC (“Aqueous”), a Texas limited liability company, with International Aqueous Investments, LLC and Pajarito W&M, LP. Aqueous is a joint venture between the Company and the two aforementioned parties, whereas the Company owns a 33.33% interest in Aqueous. Aqueous is a full water management company with access to a fresh water well that has been permitted to up to one thousand five hundred acre-feet of water per annum. A facility is being constructed near the well that is owned and operated by Aqueous for the purpose of providing water for oil and gas activities in the Eagle Ford. This site includes a designated location for the recycling frac water and produced water. The Company will account for net income (losses) from Aqueous by the equity investment method.

Development Stage Company

The Company is a development-stage company as defined in FASB Accounting Standards Codification (“ASC”) 915 “*Development Stage Enterprises*”. As of July 1, 2010 the Company reentered the development stage entity because it is devoting substantially all of its efforts to raising capital and establishing its business and principal operations, and no sales have been derived to date from its principal operations. The Company reentered the development stage due to management's decision to cease any operations of the oil separation technology licensed by Earth Oil Services, Inc. Instead, the Company began development of its own oil separation technology. The development of the aforesaid technology resulted in the need to raise additional capital for the construction and development of a prototype Oil Recovery Unit.

Unaudited Interim Financial Statements:

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission. These financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary to present fairly the balance sheet, statement of operations, statement of stockholders' equity and statement of cash flows for the periods presented in accordance with accounting principles generally accepted in the United States. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to SEC rules and regulations. It is presumed that users of this interim financial information have read or have access to the audited financial statements and footnote disclosure for the preceding fiscal year contained in the Company's Annual Report on Form 10-K. The results of operations for the nine months ended March 31, 2013 are not necessarily indicative of the results of operations for the full year or any other interim period. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and Financial Statements and notes thereto included in the Company's June 30, 2012 Form 10-K.

Significant Accounting Policies:

The Company's management selects accounting principles generally accepted in the United States of America and adopts methods for their application. The application of accounting principles requires the estimating, matching and timing of revenue and expense. It is also necessary for management to determine, measure and allocate resources and obligations within the financial process according to those principles. The accounting policies used conform to generally accepted accounting principles which have been consistently applied in the preparation of these financial statements.

The financial statements and notes are representations of the Company's management which is responsible for their integrity and objectivity. Management further acknowledges that it is solely responsible for adopting sound accounting practices, establishing and maintaining a system of internal accounting control and preventing and detecting fraud. The Company's system of internal accounting control is designed to assure, among other items, that 1) recorded transactions are valid; 2) valid transactions are recorded; and 3) transactions are recorded in the proper period in a timely manner to produce financial statements which present fairly the financial condition, results of operations and cash flows of the Company for the respective periods being presented.

Basis of Presentation

The Company prepares its financial statements on the accrual basis of accounting. All intercompany balances and transactions are eliminated. Investments in subsidiaries, where the Company has a controlling interest, are reported using the equity method. For those businesses that the Company does not have a controlling interest, they are accounted through the Noncontrolling Interest method. Management believes that all adjustments necessary for a fair presentation of the results of the nine months ended March 31, 2013 and 2012 have been made.

The Company consolidates its subsidiaries in accordance with ASC 810, "*Business Combinations*", (formally SFAS 141R) and specifically ASC 810-10-15-8 which states, "The usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, or over 50% of the outstanding voting shares of another entity is a condition pointing toward consolidation."

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recently Issued Accounting Pronouncements:

The Company 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.

Cash and Cash Equivalents:

Cash and cash equivalents includes cash in banks with original maturities of three months or less and are stated at cost which approximates market value, which in the opinion of management, are subject to an insignificant risk of loss in value.

Revenue Recognition:

The Company recognizes revenue from the sale of products in accordance with ASC 605-15 "Revenue Recognition", (formerly Securities and Exchange Commission Staff Accounting Bulletin No. 104, "*Revenue Recognition in Financial Statements*" ("SAB 104")). Revenue will be recognized only when all of the following criteria have been met:

1. Persuasive evidence of an arrangement