

FREESTONE RESOURCES, INC.

Form 10-Q

November 09, 2012

**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 September 30, 2012

**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) (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

As of November 5, 2012 there were 62,080,677 shares of Common Stock of the issuer outstanding.

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

## Assets

	(Unaudited) September 30, 2012	(Audited) June 30, 2012
Current Assets:		
Cash	\$ 339,180	\$ 147,635
Accounts receivable	—	—
Deposits and other assets	—	—
Total Current Assets	339,180	147,635
Oil and gas properties used for research and development	23,000	23,000
Fixed assets, net of accumulated depreciation of \$20,284 and \$15,032	26,259	31,512
Total fixed assets, net	49,259	54,512
Other assets	600	600
Total Assets	\$ 389,039	\$ 202,747

## Liabilities and Stockholders' Equity

Current Liabilities:		
Accounts payable	\$ 10,527	\$ 6,200
Accrued expenses	9,282	6,908
Notes payable-related parties	—	6,691
Equity Investment in Freestone Water Solutions	—	11,978
Stock to be issued	307,000	23,000
Total Current Liabilities	326,809	54,777
Long-term Liabilities:		
Asset retirement obligations	40,915	40,915
<b>Total Liabilities</b>	<b>367,724</b>	<b>95,692</b>

Stockholders' Equity (Deficit):

Common stock, \$.001 par value, 100,000,000 shares Authorized 58,364,010 and 58,364,010 shares issued and outstanding, respectively	58,364	58,364
Additional paid in capital	17,038,065	17,038,065
Accumulated deficit	(17,075,114)	(16,989,374)
Stockholders' Equity	21,315	107,055
Total Liabilities and Stockholders' Equity	\$389,039	\$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 Months Ended September 30, 2012 and 2011****(Unaudited)**

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Since Reentering the Development Stage (July 1, 2010 to September 30, 2012
Revenue:			
Oil and gas revenues resulting from research activities	\$—	\$4,757	\$46,569
Total revenue resulting from research activities	—	4,757	46,569
Operating expenses:			
Lease operating costs	6,513	2,700	54,852
Depreciation	5,252	5,252	37,506
Stock based compensation	—	—	1,145,100
General and administrative	73,953	75,301	636,763
Total operating expenses	85,718	83,253	1,874,221
Operating loss	(85,718 )	(78,496 )	(1,827,652 )
Other income (expense):			
Interest income (expense)	—	—	(2,273 )
Other income related to the settlement of the EOS litigation	—	—	1,665,834
Revision to ARO estimate	—	—	(6,057 )
Loss on Equity Method Investment	(22 )	—	(12,000 )
Gain on sale of asset	—	—	20,541
Total other income (expense)	(22 )	—	1,666,045

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Net income (loss)	\$ (85,740 )	\$ (78,496 )	\$ (161,607 )
Basic and diluted loss per share	\$ (0.00 )	\$ (0.00 )	
Weighted average shares outstanding:			
Basic and diluted	58,364,010	52,512,760	

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, 2010 to September 30, 2012)****And the Three Months Ended September 30, 2012****(Unaudited)**

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid in Capital	Deficit	Total
Balance, June 30, 2010	71,718,994	\$71,719	\$16,299,789	\$(16,913,507 )	\$(541,999 )
Common stock issued for cash	3,712,500	3,713	440,787	—	444,500
Common stock issued for Demo equipment	100,000	100	58,485	—	58,585
Common stock issued for services	5,300,000	5,300	948,700	—	954,000
Common stock issued for warrants	500,000	500	23,500	—	24,000
Common stock returned for EOS acquisition	(28,818,734)	(28,819 )	(1,232,545 )	—	(1,261,364)
Net loss	—	—	—	421,391	421,391
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 cancelled 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
Net loss				(85,740 )	(85,740 )
Balance, September 30, 2012	58,364,010	\$58,364	\$17,038,065	\$(17,075,114 )	\$21,315



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

**Freestone Resources, Inc.****(A Development Stage Company)****Consolidated Statements of Cash Flows****Three Months Ended September 30, 2012 and 2011****(Unaudited)**

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Since Reentering Developing Stage (July 1, 2010 to September 30, 2012)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$(85,740 )	\$(78,496 )	\$(161,607 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,252	5,252	37,506
Shares issued for demonstration equipment	—	—	58,585
(Gain) on sale of investment asset	—	—	(20,541 )
Stock based compensation	—	—	1,145,100
Decrease in revision of ARO estimate	—	—	6,057
Shares issued for warrants	—	—	24,000
Changes in operating assets and liabilities:			
Write-off in note receivable	—	—	—
Change in account receivable	—	2,153	22,029
Change in inventory of Petrozene	—	—	—
Change in other assets	—	—	2,187
Change in accounts payable	6,000	(2,023 )	(238,569 )
Change in accounts payable – related party	—	—	(150,009 )
Change in accrued expenses	702	(1,329 )	(4,949 )
Net cash provided by (used in) operating activities	(73,786 )	(74,443 )	719,788
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Dissolution of equity investment	(11,978 )	—	—
Sale of investment asset	—	—	30,000
Purchase of fixed assets	—	—	(58,585 )
Net cash used in investing activities	(11,978 )	—	(28,585 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments on note payable	—	—	—
Payments on note payables – related party	(6,691 )	(3,243 )	(34,321 )
Proceeds from sale of stock	—	—	758,600

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Stock returned upon settlement of litigation	—	—	(1,261,364)
Stock to be issued	284,000	15,000	157,000
Net cash provided by (used in) financing activities	277,309	11,757	(380,085 )
NET CHANGE IN CASH	191,545	(62,686 )	311,118
CASH AT BEGINNING OF PERIOD	147,635	93,015	28,062
CASH AT END OF PERIOD	\$ 339,180	30,329	\$ 339,180
Supplemental cash flow information:			
Cash paid for interest	\$ 94	\$ —	\$ 430
Non-cash investing activities:			
Stock returned upon settlement of litigation	\$ —	\$ —	\$(1,261,364)
Stock based compensation	\$	\$	\$ 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**

**September 30, 2012**

**(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.

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 three months ended September 30, 2012 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 three months ended September 30, 2012 and 2011 have been made.

The Company consolidates its subsidiaries in accordance with ASC 810, "*Business Combinations*", 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”. Revenue will be recognized only when all of the following criteria have been met:

1. Persuasive evidence of an arrangement exists;
2. Ownership and all risks of loss have been transferred to buyer, which is generally upon shipment;
3. The price is fixed and determinable; and
4. Collectability is reasonably assured.

Revenue is recorded net any of sales taxes charged to customers.

Income Taxes:

The Company has adopted ASC 740-10 “*Income Taxes*”, which requires the use of the liability method in the computation of income tax expense and the current and deferred income taxes payable.

Equipment:

Equipment is 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 and amortization are provided using the straight-line method over the estimated useful lives of the assets, which are 3 to 30 years. Oil and gas properties were purchased primarily for product testing and are depreciated over their estimated useful lives of 3 years but not reduced below estimated salvage value.

Earnings per Share:

Basic earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share include the effects of any outstanding options, warrants and other potentially dilutive securities. For the periods presented, there were no potentially dilutive securities outstanding, therefore basic earnings per share equals diluted earnings per share.



Fair Value Measurements:

ASC Topic 820, “*Fair Value Measurements and Disclosures*”, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair value of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Corporation’s credit worthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

Accounts Receivable:

Accounts Receivable are carried at their face amount, less an allowance for doubtful accounts. On a periodic basis, the Company evaluates accounts receivable and establishes the allowance for doubtful accounts based on a combination of specific customer circumstances and credit conditions, based on a history of write offs and collections. The Company’s policy is generally not to charge interest on trade receivables after the invoice becomes past due. A receivable is considered past due if payments have not been received within agreed upon invoice terms. Write offs are recorded at a time when a customer receivable is deemed uncollectible. The Company had no bad debt accruals at September 30, 2012 and June 30, 2012.

Oil and Gas Properties:

Freestone is actively purchasing marginal oil and gas properties and leasing properties that will be used in the further research and development of its oil enhancement technologies. This research focuses on the types of formations that will benefit the most from the use of the solvent, as well as the various applications from production and storage to end cycle refinement.

Impairment of Long Lived Assets

The Company evaluates, on a periodic basis, long-lived assets to be held and used for impairment in accordance with the reporting requirements of ASC 360-10, “*Accounting for the Impairment or Disposal of Long-Lived Assets*”. The evaluation is based on certain impairment indicators, such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors

that may be present. If these impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, then an estimate of the discounted value of expected future operating cash flows is used to determine whether the asset is recoverable and the amount of any impairment is measured as the difference between the carrying amount of the asset and its estimated fair value. The fair value is estimated using valuation techniques such as market prices for similar assets or discounted future operating cash flows.

Asset Retirement Obligation:

The Company records the fair value of a liability for asset retirement obligations (“ARO”) in the period in which an obligation is incurred and records a corresponding increase in the carrying amount of the related long-lived asset. For Freestone Resources, asset retirement obligations primarily relate to the abandonment of oil and gas properties. The present value of the estimated asset retirement cost is capitalized as part of the carrying amount of oil and gas properties. The settlement date fair value is discounted at Freestone Resource’s credit adjusted risk-free rate in determining the abandonment liability. The abandonment liability is accreted with the passage of time to its expected settlement fair value. Revisions to such estimates are recorded as adjustments to ARO and capitalized asset retirement costs and are charged to operations in the period in which they become known. At the time the abandonment cost is incurred, Freestone Resources is required to recognize a gain or loss if the actual costs do not equal the estimated costs included in ARO.

The amounts recognized for ARO are based upon numerous estimates and assumptions, including future abandonment costs, future recoverable quantities of oil and gas, future inflation rates, and the credit adjusted risk free interest rate.

**NOTE 2 – FIXED ASSETS**

Fixed assets at September 30, 2012 and June 30, 2012 are as follows:

	September 30, 2012	June 30, 2012
Computers & office furniture	\$67,552	\$67,552
Oil and gas research and development equipment	23,000	23,000
Total fixed assets	90,552	90,552
Less: Accumulated depreciation	(41,293)	(36,040)
Total fixed assets, net of accumulated depreciation	\$49,259	\$54,512

Depreciation expense was \$5,252 for the quarter ended September 30, 2012 and \$5,252 for the quarter ended September 30, 2011.

**NOTE 3 – NOTES PAYABLE - RELATED PARTIES**

On May 26, 2009, the Company received a loan from Mike Doran (“Doran”), the Company’s CEO at that time, in the amount of \$25,000. A note payable was formally prepared by the Company but never executed by Doran. The terms of the loan included an interest rate of three and a half percent, and the payment of twelve monthly installments beginning on October 31, 2009. On July 8, 2009, an amended and restated promissory note with similar terms was executed to replace the original note payable, at which time the Company recorded a \$6,200 gain on extinguishment of debt. During the year ended June 30, 2009, the Company received an advance from Doran of \$20,000 which was repaid during the year. As of September 30, 2012 and June 30, 2012 the balance owed to Mr. Doran was \$0 and \$1,691 respectively.

On July 9, 2009, the Company received an advance from James Carter, a shareholder, in the amount of \$25,000. There are no terms on the advance and no interest is paid. At September 30, 2012 and June 30, 2012 the balance owed was \$0 and \$5,000, respectively.

As of June 30, 2012 the Company had a related party receivable of \$15,000 from Freestone Water Solutions, (“FWS”) a joint venture between MEA Solutions, LLC and Freestone Resources, Inc., which was created in September of 2011. Freestone did not have a controlling equity position in FWS nor did Freestone control the board or management of FWS. FWS was in the business of recycling flow back water and produced water for subsequent reuse in the fracking process. MEA and Freestone advanced FWS certain short-term, start-up cash. Profits and losses from FWS will be accounted for under the equity method and reflected as an Investment in Freestone Water Solutions on the balance sheet. As discussed in Note 14 of our June 30, 2012, 10-K, on September 4, 2012, FWS was dissolved. The receivable was written off to bad debt expense in fiscal year 2012, as it was uncollectible. On August 13, 2012 the Company advanced FWS an additional \$12,000. This was written off as of September 4, 2012. As of June 30, 2012 the Company had a liability of \$11,978 related to its negative equity investment in FWS. On September 4, 2012 the Company wrote-off this liability against the \$12,000 advance resulting in a net \$22,000 of write-offs.

**NOTE 4 – INCOME TAXES**

The Company has adopted ASC 740-10, “*Income Taxes*”, which requires the use of the liability method in the computation of income tax expense and the current and deferred income taxes payable (deferred tax liability) or benefit (deferred tax asset). Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

During the three months ended September 30, 2012 the Company had a net loss of \$85,740, increasing the deferred tax asset approximately \$29,152 at the statutory tax rate of 34%. Deferred tax assets at September 30, 2012 and June 30, 2012 consisted of the following:

Deferred tax asset related to:

	September 30, 2012	June 30, 2012
Prior Year	\$1,308,755	\$1,139,687
Tax Benefit (Expense) for Current Period	29,152	169,068
Net Operating Loss Carryforward	\$1,337,907	\$1,308,755
Less: Valuation Allowance	(1,337,907)	(1,308,755)
Net Deferred Tax Asset	\$0	\$0

The net deferred tax asset generated by the loss carryforward has been fully reserved and will expire in the years 2019 through 2031. The realization of deferred tax benefits is contingent upon future earnings and is fully reserved at September 30, 2012 and June 30, 2012.

**NOTE 5 – ASSET RETIREMENT OBLIGATION**

The Company's asset retirement obligation ("ARO") primarily represents the estimated present value of the amount Freestone Resources will incur to plug, abandon and remediate sits producing properties at the end of their productive lives, in accordance with applicable state laws. Freestone Resources determines the ARO on its oil and gas properties by calculating the present value of estimated cash flows related to the liability. At September 30, 2012, the liability for ARO was \$40,915, all of which is considered long term. The asset retirement obligations are recorded as current or non-current liabilities based on the estimated timing of the anticipated cash flows. During 2013, the Company has not recognized accretion expense, as the oil and gas properties are recorded at salvage value.

**NOTE 6 – COMMITMENTS AND CONTINGENCIES**

The Company leases office space under a non-cancelable operating lease that expires in July 2014. The lease requires fixed escalations and payment of electricity costs. Rent expense, included in general and administrative expenses, totaled approximately \$7,120 and \$6,913 for the three months ended September 30, 2012 and 2011 respectively.

**NOTE 7 – EQUITY TRANSACTIONS**

The Company is authorized to issue 100,000,000 common shares at a par value of \$0.001 per share. These shares have full voting rights. At September 30, 2012 and June 30, 2012, respectively, there were 58,364,010 and 58,364,010, common shares outstanding. During the three months ended September 30, 2012 the Company sold 3,450,000 shares which were subsequently issued in October 2012. The shares are reflected on the face of the balance sheet as Stock to be Issued as of September 30, 2012.

**NOTE 8 – FREESTONE TECHNOLOGIES, LLC**

On October 24, 2008. Freestone established Freestone Technologies, LLC (the “Subsidiary”) in the state of Texas. The Subsidiary is wholly owned by Freestone and has certain assets and liabilities relating to the purchase of oil wells. These wells were purchased as additional test wells for Petrozene and research and development for subsequent technologies. The assets and liabilities of the Subsidiary are included in the consolidated financial statements of Freestone.

**NOTE 9 – GOING CONCERN**

As reflected in the accompanying consolidated financial statements, Freestone incurred operating losses, and has a negative working capital position as of September 30, 2012. The above factors raise substantial doubt about

Freestone's ability to continue as a going concern. Freestone's continued existence is dependent on its ability to obtain additional equity and/or debt financing to fund its operations. Freestone plans to raise additional financing and to increase sales volume. There is no assurance that Freestone will obtain additional financing or achieve profitable operations or cash inflows. The consolidated financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or the amount and classification of liabilities that might be necessary as a result of this uncertainty.



**NOTE 10 – FAIR VALUE MEASUREMENTS**

Cash, accounts receivable, accounts payable and other accrued expenses and other current assets and liabilities are carried at amounts which reasonably approximate their fair values because of the relatively short maturity of those instruments.

Accounting Standards Codification (“ASC”) Topic 820, “*Fair Value Measurements and Disclosures*”, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Asset retirement obligations are recorded based on the present value of the estimated cost to retire the oil and gas properties and are depleted over the useful life of the asset. The settlement date fair value is discounted at the Company's credit adjusted risk-free rate in determining the abandonment liability.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The Company's liabilities all valued at Level 3, at fair value as of September 30, 2012 and June 30, 2012 were \$361,724 and \$95,692, respectively.

#### **NOTE 11 – SUBSEQUENT EVENTS**

There were no reportable subsequent events that occurred as of the filing date.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

**This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth on the forward looking statements as a result of the risks set forth in the Company's filings with the Securities and Exchange Commission, general economic conditions, and changes in the assumptions used in making such forward looking statements.**

### General

On August 22, 2007, the Company changed its name to Freestone Resources, Inc. in anticipation of going into the oil and gas technology development business. Since that time Freestone began developing and acquiring rights to chemical solvents that can increase the production in oil and gas wells, decrease the viscosity of heavy oil, and extract hydrocarbons from various forms of matter. The Company has developed an Oil Recovery Unit ("ORU") in order to chemically remove oil from oil sands and oil contaminated soils.

### Results of Operations

#### Three months ended September 30, 2012 compared to three months ended September 30, 2011

**Revenue** - Our revenue for the three months September 30, 2012 was \$0, compared to \$4,757 for the same period in 2011. Revenue decreased as there was less in-field research and development activity.

**Lease Operating Expense** - Lease operating expense for the three months ended September 30, 2012 was \$6,513 compared to \$2,700 for the same period in 2011. The increase in lease operating expenses is due to maintenance of \$4,200 on one of the leases.

**Operating Expense** - Total operating expenses for the three months ended September 30, 2012 were \$5,252 of depreciation expense and \$73,953 of general and administrative expenses respectively, compared to \$5,252 depreciation expense and \$75,301 of general and administrative expenses for the same period in 2011. The reduced costs of \$4,417 in the three months ended September 30, 2012 were related to a reduction in legal fees of \$20,500, but offset by increased consulting fees of \$11,400, related to the set-up and unwinding of acquisition activities..

**Net Income (Loss)** - Net loss for the three months ended September 30, 2012 was \$85,740 compared to net loss of \$78,496 for the same period in 2011. The change in loss in the three month period ended September 30, 2011 is related to the items discussed above.

### **Liquidity and Capital Resources**

As of June 30, 2012 we have adequate cash reserves due to sale of stock versus cash provided by operations.

The increase in net cash was \$191,545 for the three months ended September 30, 2012 compared to cash used of \$62,686 for the same period in 2011. We continue to explore working capital options and in the short-term rely on our line-of-credit and advances/loans from shareholders. During the three months ended September 30, 2012, our cash and cash equivalent increased to \$339,180 from \$147,634 at June 30, 2012 due to sales of 3,450,000 of common shares, which are included in Shares to be Issued as of September 30, 2012.

### **Employees**

As of September 30, 2012, Freestone had two employees.

### **Need for Additional Financing**

No commitments to provide additional funds have been made by management or other stockholders. Our independent auditors included a going concern explanatory paragraph in their report included in our annual report on Form 10-K for the year ended June 30, 2012, which raises substantial doubt about our ability to continue as a going concern.

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

Not applicable.



## **ITEM 4T: CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2012. This evaluation was accomplished under the supervision and with the participation of our chief executive officer /principal executive officer, and chief financial officer/principal financial officer who concluded that our disclosure controls and procedures are not effective.

Based upon an evaluation conducted for the period ended September 30, 2012, our Chief Executive and Chief Financial Officer as of September 30, 2012 and as of the date of this Report, has concluded that as of the end of the periods covered by this report, we have identified the following material weakness of our internal controls:

Lack of sufficient accounting staff which results in a lack of segregation of duties necessary for a good system of internal control and financial statement presentation and reliance upon independent financial reporting consultants for review of critical accounting areas, disclosures and material non-standard transactions.

### **Changes in Internal Controls over Financial Reporting**

We have not yet made any changes in our internal controls over financial reporting that occurred during the period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## PART II

Items No. 1, 3, 4, 5 - Not Applicable.

### Item 6 - Exhibits and Reports on Form 8-K

(a) During the three months ended September 30, 2012 the Company filed no Form 8-Ks.

(b) Exhibits

Exhibit Number

- 31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

## SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.



FREESTONE RESOURCES, INC.

By /s/ Clayton Carter

Clayton Carter, CEO

Date: November 9, 2012

