FREESTONE RESOURCES, INC.
Form 10-Q
November 09, 2012

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] 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 | X | 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 [X]

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

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
Total Liabilities	367,724	95,692

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.

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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

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.

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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)
CASH FLOWS FROM OPERATING ACTIVITIES:			
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
CASH FLOWS FROM INVESTING ACTIVITIES:			
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)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on note payable	—	—	—
Payments on note payables – related party	(6,691)	(3,243)	(34,321)
Proceeds from sale of stock			758,600

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.

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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