

FREESTONE RESOURCES, INC.

Form 10-Q

May 18, 2009

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 December 31, 2008

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
(State or other jurisdiction
of incorporation or
organization)

333-0880427
(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)

2000 E. Lamar Blvd. Ste. 600 Arlington, TX 76006
(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 [X]

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 May 18, 2008 there were 35,115,260 shares of Common Stock of the issuer outstanding.

Freestone Resources, Inc.
Consolidated Balance Sheets

| | (Unaudited) December 31, 2008 | June 30, 2008 |
|---|-------------------------------------|-------------------|
| Assets | | |
| Current Assets: | | |
| Cash | \$ 22,641 | \$ 13,548 |
| Accounts receivable | 5,183 | 42,260 |
| Note receivable | - | 16,468 |
| Inventory of Petrozene | 90,771 | - |
| Total Current Assets | 118,595 | 72,276 |
| Fixed assets, net | 366,780 | 344,202 |
| Other assets | 11,300 | - |
| Petrozene contract, net | 1,000 | 1,000 |
| | 12,300 | 1,000 |
| Total Assets | \$ 497,675 | \$ 417,478 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 63,587 | \$ 23,625 |
| Accounts payable – related party | 101,786 | 5,872 |
| Note payable | 15,000 | 1,721 |
| Current portion – long term debt | 12,267 | 12,267 |
| Total Current Liabilities | 192,640 | 43,485 |
| Long-term Liabilities: | | |
| Long-term debt | 41,189 | 43,251 |
| Asset retirement obligations liability | 34,888 | 34,888 |
| Total Liabilities | 268,717 | 121,624 |
| Stockholders' Equity: | | |
| Preferred stock, \$.001 par value, 5,000,000 shares authorized, -0- shares issued and outstanding | | |
| Common stock, \$.001 par value, 100,000,000 shares authorized, 52,180,260 and 50,025,260 shares issued and outstanding respectively | 52,180 | 50,025 |

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| | | |
|--|--------------|--------------|
| Additional paid in capital | 14,177,429 | 13,964,084 |
| Accumulated deficit | (14,000,651) | (13,718,255) |
| Total stockholders' equity | 228,958 | 295,854 |
| Total Liabilities and Stockholders' Equity | \$ 497,675 | \$ 417,478 |

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

Freestone Resources, Inc.
Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|----------------------|----------------------|----------------------|----------------------|
| | December 31, 2008 | December 31, 2007 | December 31, 2008 | December 31, 2007 |
| Revenue: | | | | |
| Oil and gas | \$ 33,030 | \$ 39,269 | \$ 69,262 | \$ 39,269 |
| Petrozene | - | 402,326 | - | 402,326 |
| Total revenue | 33,030 | 441,595 | 69,262 | \$ 441,595 |
| Operating expenses: | | | | |
| Cost of sales | 940 | 151,800 | 5,499 | 151,800 |
| Lease operating costs | 5,072 | 2,457 | 47,164 | 2,457 |
| Depreciation and depletion | 6,943 | 5,753 | 13,885 | 5,753 |
| General and administrative | 41,765 | 50,558 | 280,925 | 168,489 |
| Total operating expenses | 54,720 | 210,568 | 347,473 | 328,499 |
| Net operating income | (21,690) | 231,027 | (278,211) | 113,096 |
| Other income (expense) | | | | |
| Interest expense | (1,194) | - | (4,185) | (94) |
| Total other income (expense) | (1,194) | - | (4,185) | (94) |
| Net Income / (Loss) | \$ (22,884) | \$ 231,027 | \$ (282,396) | \$ 113,002 |
| Basic and diluted income (loss) per share | \$ 0.00 | \$ 0.01 | \$ (0.01) | \$ 0.00 |
| Weighted average shares outstanding: | | | | |
| Basic and diluted | 52,180,260 | 39,732,869 | 52,168,548 | 29,655,043 |

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

Freestones Resources, Inc.
Consolidated Statement of Shareholders' Equity
(Unaudited)

| | Common Stock Shares | Common Stock Amount | Additional paid in capital | Accumulated Deficit | Total |
|----------------------------------|------------------------|------------------------|-------------------------------|------------------------|------------|
| Balance, June 30, 2008 | 50,025,260 | \$ 50,025 | \$ 13,964,084 | \$ (13,718,255) | \$ 295,854 |
| Common stock issued for Services | 2,155,000 | 2,155 | 213,345 | \$ - | 215,500 |
| Net Loss | | | | (282,396) | (282,396) |
| Balance, December 31, 2008 | 52,180,260 | \$ 52,180 | \$ 14,177,429 | \$ (14,000,651) | \$ 228,958 |

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

Freestone Resource, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

| | Six Months Ended December 31, | |
|--|----------------------------------|-----------------|
| | 2008 | 2007 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (282,396) | \$ 113,002 |
| Adjustments to reconcile net loss from continuing operations to net cash used in operating activities: | | |
| Depreciation and amortization | 13,885 | 5,753 |
| Shares issued for services | 215,500 | 136,000 |
| Change in account receivable | 37,077 | (286,297) |
| Change in note receivable | 16,468 | - |
| Change in inventory of Petrozene | (90,771) | - |
| Change in other assets | (11,300) | (1,000) |
| Change in accounts payable | 39,962 | 36,391 |
| Change in accounts payable - related party | 95,914 | - |
| Net cash provided by operating activities | 34,339 | 3,849 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of fixed assets | (36,463) | - |
| Net cash used in investing activities | (36,463) | - |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from note payable | 13,279 | - |
| Payments on long-term debt | (2,062) | - |
| Net cash provided by financing activities | 11,217 | - |
| NET CHANGE IN CASH | 9,093 | 3,849 |
| CASH AT BEGINNING OF PERIOD | 13,548 | - |
| CASH AT END OF PERIOD | \$ 22,641 | \$ 3,849 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 4,185 | \$ 612 |
| Non-cash investing activities: | | |
| Acquisition of oil and gas interests and fixed assets for stock | \$ - | \$ 330,989 |
| Assumption of accounts payable and note payable | \$ - | \$ 181,412 |

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

Freestones Resources, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 – Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Freestone Resources, Inc. ("Freestone" or "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. The results of operations for the three months ended December 31, 2008 and six months ended December 31, 2008 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, 2008 Form 10-K. Notes to the consolidated financial statements which substantially duplicate the disclosure contained in the audited financial statements for fiscal 2008 as reported in the Form 10-K have been omitted.

Critical Accounting Policies

Oil and Gas Properties - Freestone uses the full cost method of accounting for oil and gas properties. Management believes adoption of the full cost method more accurately reflects management's exploration objectives and results by including all costs incurred as integral for the acquisition, discovery and development of whatever reserves ultimately result from our efforts as a whole. Under the full cost method of accounting, all costs associated with acquisition, exploration and development of oil and gas reserves, including directly related overhead costs, are capitalized. Such costs include lease acquisitions, seismic surveys, drilling and completion equipment, estimated future development costs and, where significant, dismantlement, restoration and abandonment costs, net of estimated salvage values. All capitalized costs of oil and gas properties are amortized on the unit-of-production method using estimates of proved reserves.

Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. Unproved or unevaluated properties are evaluated at least annually for impairment on a property-by-property basis. If the results of an assessment indicate that the properties are impaired, the amount of impairment is added to the proved oil and natural gas property costs to be amortized. The unproven properties were purchased in order to test the Company's keystone product Petrozene, and allow the Company to continue research and development of this product.

The capitalized costs are subject to a "full cost ceiling test," which generally limits such costs to the aggregate of the "estimated present value," discounted at a 10 percent (10%) interest rate, of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties. If net capitalized costs exceed this limit, the excess is charged to operations through depreciation, depletion and amortization. Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income.

Freestone proportionally consolidates its interests in oil and natural gas properties.

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.

Note 2 – Going Concern

As reflected in the accompanying consolidated financial statements, Freestone incurred operating losses, and has a negative working capital position as of December 31, 2008. 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 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 3 – Common Stock

On July 2, 2008 Freestone issued 2,155,000 shares of common stock valued at \$215,500 to consultants for services.

Note 4 – Change in Control

On July 1, 2008, the Company agreed to accept the resignation of the following officers and directors:

| | |
|------------|------------------------|
| Lloyd Lane | President and Director |
| Tom Bonner | Secretary and Director |

On July 1, 2008, the Company appointed the following officers and directors:

| | |
|----------------|--------------------------------------|
| Mike Doran | Chief Executive Officer and Director |
| Clayton Carter | President and Director |

Note 5 – Freestone Technologies, LLC

On October 24, 2008 Freestone established and incorporated 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. The assets and liabilities of the Subsidiary are included in the consolidated financial statements of Freestone.

Note 6 – Subsequent Events

On April 17, 2009 the Company entered into an agreement with Lloyd Lane, Tom Bonner, Mike Doran, Jimmy Carter, Clayton Carter and Capital Financial Consultants to liquidate their investments in Freestone. Each surrendered his Freestone common stock issued to him (an aggregate of 27,865,000 shares) upon forming Freestone in exchange for a building, certain oil and gas assets, the assumption of certain liabilities related to those assets and assignment of a Petrozene supply contract.

On April 21, 2009 the Company issued 2,000,000 restricted shares of common stock to Dona Doran in payment of a \$50,000 loan.

On April 22, 2009 the Company issued 3,000,000 restricted shares of common stock to Mike Doran, 3,000,000 restricted shares of common stock to Clayton Carter, 1,500,000 restricted shares of common stock to Don Edwards as compensation for past services rendered in lieu of salary.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Freestone Resources, Inc. was involved in the operation of an internet computer supply business until its operations were discontinued in 2001. It had no business until November of 2007 when it entered the oil and gas business when it purchased certain oil and gas properties, related fixed assets and a Petrozene contract which gives the Company the right to purchase Petrozene. The Company was incorporated as Para-Link, Inc. in the State of Texas on January 22, 1997 and on March 10, 1999, Para-Link acquired 100% of the outstanding capital stock of iChargeit Inc. ("iChargeit"). iChargeit was incorporated on January 6, 1999 in the State of Nevada. On March 17, 1999, the Company changed its name to iChargeit. On November 5, 1999 the Company was reincorporated in Delaware. On August 22, 2007, the Company was reincorporated in Nevada and changed its name to Freestone Resources, Inc. in anticipation of going into the oil and gas business.

Results of Operations

Three months Ended December 31, 2008 and December 31, 2007. Compared to six months ended December 31, 2008 and December 31, 2007

Revenue - Our revenue for the three months December 31, 2008 was \$33,030, compared to \$441,595 revenue for the same period in 2007. Revenue increased in the second quarter due to increased in oil and gas sales from wells acquired on November 1, 2007. Our revenue for the six months December 31, 2008 was \$69,262, compared to \$441,595 revenue for the same period in 2007.

Operating Expense - Cost of Petrozene sales was negligible for the three months ended December 31, 2008. Cost of Petrozene sales for the three months ended December 31, 2008 was \$940, compared to \$151,800 for the same period of 2007. There were no Petrozene sales in the three months ended December 31, 2008 and six months ended December 31, 2008. Petrozene sales in the three months ended and six months ended December 31, 2007 were \$402,326. Cost of Petrozene sales for the three months and six months ended December 31, 2007 were \$151,800.

Lease operating expense for the three months ended December 31, 2008 was \$5,072 compared to \$2,457 for the same period in 2007. Lease operating expense increased due to cost associated with wells acquired on November 1, 2007. Lease operating expense for the six months ended December 31, 2008 was \$47,164 compared to \$2,457 for the same period in 2007.

Operating Expense - Total operating expenses for the three months ended December 31, 2008 were \$6,943 of depreciation and depletion expense and \$41,765 of general and administrative expenses respectively, compared to \$5,753 depreciation and depletion expense and \$50,558 of general and administrative expenses for the same period in 2007. Total operating expenses for the six months ended December 31, 2008 were \$13,885 of depreciation and depletion expense and \$280,925 of general and administrative expenses respectively, compared to \$5,753 depreciation

and depletion expense and \$168,489 of general and administrative expenses for the same period in 2007. General and administrative expenses for the six months ended December 31, 2008 include a non-cash expense of \$215,500, see Note 3, Common Stock.

Net Income (Loss) - Net loss for the three months ended December 31, 2008 was \$22,884 compared to net income of \$231,027 for the same period in 2007. - Net loss for the six months ended December 31, 2008 was \$282,396 compared to a net income of \$113,002 for the same period in 2007.

Liquidity and Capital Resources

We have little cash reserves and liquidity to the extent we receive it from operations.

During the six months ended December 31, 2008, our cash and cash equivalent increased by \$9,093 from \$13,548 at June 30, 2008.

Net cash provided by operating activities was \$34,339 for the six months ended December 31, 2008 compared to \$3,849 provided by operating activities for the same period in 2007.

Employees

As of December 31, 2008, Freestone only employees are officers of the Company.

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 qualification in their report included in our annual report on Form 10-K for the year ended June 30, 2008, which raises substantial doubt about our ability to continue as a going concern.

Further, there exist no agreements or understandings with regard to loan agreements by or with the Officers, Directors, principals, affiliates or shareholders of the Company.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Act") is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our President, also serving as our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our President has concluded that the Company's disclosure controls and procedures are not effective because of the identification of a material weakness in our internal control over financial reporting which is identified below, which we view as an integral part of our disclosure controls and procedures.

The material weakness relates to the lack of segregation of duties in financial reporting, as our financial reporting and all accounting functions are performed by an external consultant with no oversight by a professional with accounting expertise. Our President does not possess accounting expertise and our Company does not have an audit committee. This weakness is due to the Company's lack of working capital to hire additional staff. To remedy this material weakness, we intend to engage another accountant to assist with financial reporting as soon as our finances will allow.

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 – Other Information

Item No.2 Unregistered Sales of Equity Securities and use of Proceeds.

During the three months ended December 31, 2008, Freestone issued 2,155,000 restricted shares of common stock valued at \$215,500 to consultants for services. The consultants agreed to acquire the shares for investment purposes only and not for resale. The certificates representing the shares carry a legend that the shares may not be sold or transferred without compliance with the registration requirements of the Securities Act of 1933, as amended (the “Act”) or in reliance upon an applicable exemption there from. In connection with the issue of these shares, the Company relied upon the private offering exemption found in section 4(2) of the Act.

Item No. 6 – 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/ Mike Doran

Mike Doran, CEO

Date: May 18, 2009

