

FREESTONE RESOURCES, INC.
Form 10-Q
February 11, 2010

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, 2009

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)

33-0880427
(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)

(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

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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 February 12, 2010 there were 68,418,994 shares of Common Stock of the issuer outstanding.

Freestone Resources, Inc.
Consolidated Balance Sheets
As of December 31, 2009 and June 30, 2009

Assets

| | (Unaudited) December 31, 2009 | (Audited) June 30, 2009 |
|-----------------------------|-------------------------------------|----------------------------|
| Current Assets: | | |
| Cash | \$ 3,048 | \$ 4,815 |
| Accounts receivable | 4,559 | 4,559 |
| Deposits and other assets | 25,944 | 5,068 |
| Total Current Assets | 33,551 | 14,442 |
| Fixed assets, net | 38,809 | 33,052 |
| Other assets | 31,378 | 1,000 |
| Investment in Bleeding Rock | 250,010 | - |
| Licenses | 150,000 | - |
| Intangible asset | 10,000 | - |
| Goodwill | 1,254,149 | - |
| | 1,695,537 | 1,000 |
| Total Assets | \$ 1,767,897 | \$ 48,494 |

Liabilities and Stockholders' Equity (Deficit)

Current Liabilities:

| | | |
|---------------------------------------|------------|-----------|
| Accounts payable and accrued expenses | \$ 270,895 | \$ 24,431 |
| Accounts payable-related party | 171,307 | - |
| Stock to be issued | 160,000 | - |
| Note payable to bank | - | 25,997 |
| Notes payable-related parties | 43,800 | 25,000 |
| Line-of-credit | 14,908 | - |
| Total Current Liabilities | 660,910 | 75,428 |

Long-term Liabilities:

| | | |
|------------------------------|---------|---------|
| Asset retirement obligations | 41,123 | 41,123 |
| Total Liabilities | 702,033 | 116,551 |

Stockholders' Equity (Deficit):

Common stock, \$.001 par value, 100,000,000 shares
authorized, 66,718,994 and 35,115,260 shares issued

| | | |
|--|---------------|---------------|
| and outstanding, respectively | 66,719 | 35,115 |
| Additional paid in capital | 15,804,789 | 14,572,244 |
| Accumulated deficit | (14,805,644) | (14,675,416) |
| Stockholders' equity (deficit) | 1,065,864 | (68,057) |
| Total Liabilities and Stockholders' Equity (Deficit) | \$ 1,767,897 | \$ 48,494 |

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

Freestone Resources, Inc.
Consolidated Statements of Operations
For the Three and Six Months Ended December 31, 2009 and 2008
(unaudited)

| | Three Months Ended Dec 31, 2009 | Three Months Ended Dec 31, 2008 | Six Months Ended Dec 31, 2009 | Six Months Ended Dec 31, 2008 |
|---|---|---|--|--|
| Revenue: | | | | |
| Oil and gas revenues resulting from research activities | \$5,703 | \$33,030 | \$27,195 | \$69,292 |
| Total revenue resulting from research activities | 5,703 | 33,030 | 27,195 | 69,262 |
| Operating expenses: | | | | |
| Cost of revenue | - | 940 | - | 5,499 |
| Lease operating costs | 2,528 | 5,072 | 5,221 | 47,164 |
| Depreciation and depletion | 620 | 6,943 | 1,239 | 13,885 |
| Impairment expense | - | - | 1,800 | - |
| General and administrative | 125,927 | 41,765 | 152,235 | 280,925 |
| Total operating expenses | 129,075 | 54,720 | 160,495 | 347,473 |
| Operating loss | (123,372) | (21,690) | (133,300) | (278,211) |
| Other income (expense): | | | | |
| Gain on settlement of debt | 6,200 | - | 6,200 | |
| Interest income (expense) | (2,443) | (1,194) | (3,128) | (4,185) |
| Other income (expense) | 4,559 | - | - | - |
| Total other income (expense) | 8,316 | (1,194) | 3,072 | (4,185) |
| Net loss | \$(115,056) | \$(22,884) | (130,228) | \$(282,396) |
| Basic and diluted loss per share | \$0.00 | \$0.00 | 0.00 | \$0.00 |
| Weighted average shares outstanding: | | | | |
| Basic and diluted | 66,718,994 | 52,180,260 | 52,119,443 | 52,168,548 |

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

Freestone Resources, Inc.
 Consolidated Statement of Stockholders' Equity/(Deficit)
 For the Year Ended June 30, 2009 and
 the Six Months Ended December 31, 2009
 (Unaudited)

| | Common Stock | | Additional Paid in Capital | Accumulated Deficit | Total |
|---|--------------|-----------|----------------------------------|------------------------|--------------|
| | Shares | Amount | | | |
| Balance , June 30, 2008 | 50,025,260 | \$50,025 | \$ 13,964,084 | \$(13,734,880) | \$ 295,854 |
| Common stock issued for services | 10,955,000 | 10,955 | 512,295 | - | 523,250 |
| Common stock issued for note payable | 2,000,000 | 2,000 | 68,000 | - | 70,000 |
| Common stock – cancelled | (27,865,000) | (27,865) | 27,865 | - | - |
| Net loss | | | | (957,161) | (957,161) |
| Balance, June 30, 2009 | 35,115,260 | \$35,115 | \$ 14,572,244 | \$(14,675,416) | \$(68,057) |
| Common stock issued for acquisition of EOS | 31,603,734 | 31,604 | 1,232,545 | - | 1,264,149 |
| Net loss | | | | (130,228) | (130,228) |
| Balance, December 31, 2009 | 66,718,994 | \$66,719 | \$ 15,804,789 | \$(14,805,644) | \$ 1,065,864 |

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

Freestone Resources, Inc.
 Consolidated Statements of Cash Flows
 For the Six Months Ended December 31, 2009 and 2008
 (Unaudited)

| | Six months ended December 31, | |
|---|----------------------------------|-----------------|
| | 2009 | 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(130,228) | \$(282,396) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,239 | 13,885 |
| Shares issued for services | - | 215,500 |
| Changes in operating assets and liabilities: | | |
| Write-off in note receivable | - | 16,468 |
| Change in account receivable | - | 37,077 |
| Change in inventory of Petrozene | - | (90,771) |
| Change in other assets | (41,244) | (11,300) |
| Change in accounts payable and accrued expenses | (8,710) | 39,962 |
| Change in accounts payable - related party | (3,713) | 95,914 |
| Change in line-of-credit | (3,092) | - |
| Net cash provided by (used in) operating activities | (185,748) | 34,339 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Intangible assets acquired with subsidiary | (10,000) | |
| Purchases of fixed assets | (6,996) | (36,463) |
| Net cash used in investing activities | (16,996) | (36,463) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on note payable | (1,994) | (2,062) |
| Proceeds from note payable | 32,971 | 13,279 |
| Proceeds from sale of common stock to be issued | 160,000 | - |
| Net cash provided by financing activities | 190,977 | 11,217 |
| NET CHANGE IN CASH | (1,767) | 9,093 |
| CASH AT BEGINNING OF PERIOD | 4,815 | 13,548 |
| CASH AT END OF PERIOD | \$3,048 | \$22,641 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$3,126 | \$4,185 |
| Non-cash investing activities: | | |
| Acquisition of oil and gas interests and fixed assets for stock | \$- | \$330,989 |
| Stock issued for purchase of subsidiary | \$1,264,149 | - |
| Licenses assumed in acquisition of subsidiary | \$150,000 | - |
| Intangible asset | \$10,000 | - |
| Assumption of accounts payable and note payable in acquisition of subsidiary | \$400,000 | \$181,412 |

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

Freestone Resources, Inc.
Notes to Consolidated Financial Statements
(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.

The Company acquired one hundred percent (100%) of the issued and outstanding stock of Earth Oil Services, Inc., a Nevada corporation (“EOS”), in a stock based transaction on September 24, 2009. The Company issued 31,603,734 shares of restricted common stock of the Company in consideration for this transaction. EOS owns certain exclusive, territorial, license agreements to a proprietary technology that is a chemical solvent that can separate, extract and recycle hydrocarbon contaminants from ground soils, tar sands, vessels and other materials. This technology is marketed under the name EncapSol (“EncapSol”). EOS has engaged a fabricator to build a prototype machine (the “Prototype”) designed to be used in conjunction with EncapSol. EOS is indebted to the fabricator for its development of the Prototype. EOS is now a wholly owned subsidiary of Freestone and all intercompany accounts have been eliminated in consolidation.

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 and six months ended December 31, 2009 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, 2009 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 Minority Interest method. Management believes that all adjustments necessary for a fair presentation of the results of the six months ended December 31, 2009 and 2008 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."

- The Company owns 100% of EOS and has applied ASC 810 in consolidating the subsidiary.
- EOS owns 50% of BRC, as does an unrelated third party, Hidden Peak Group. Although each party owns 50%, Hidden Peak Group maintains control of the three person management board with three representatives, and therefore, applying the requirements for consolidations under ASC 810, EOS has not consolidated BRC but shows its impact through the Minority Interest method.

FASB Accounting Standards Codification:

In June 2009, the Financial Accounting Standards Board ("FASB") issued new guidance concerning the organization of authoritative guidance under U.S. Generally Accepted Accounting Principles ("GAAP"). This new guidance created the FASB Accounting Standards Codification ("Codification"). The Codification has become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The Codification became effective for the Company in its quarter ended December 31, 2009. As the Codification is not intended to change or alter existing U.S. GAAP, it did not have any impact on the Company's consolidated financial statements. On its effective date, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative.

Reclassification:

Certain prior year amounts have been reclassified in the consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows to conform to current period presentation. These reclassifications were not material to the consolidated financial statements and had no effect on net earnings reported for any period.

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 the 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 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" (formerly SFAS No. 109), which requires the use of the liability method in the computation of income tax expense and the current and deferred income taxes payable.

Property and Equipment:

Property and equipment are stated at cost less accumulated depreciation. Major renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation is computed by applying the straight-line method over the estimated useful lives which are generally five to seven years.

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.

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 \$0 bad debt accrual at December 31, 2009 and June 30, 2009.

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 EncapSol. 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.

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", (formerly "SFAS" No. 144, 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.

Subsequent Events

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," which establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The pronouncement requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective with interim and annual financial periods ending after June 15, 2009. Management is currently evaluating the impact of the adoption of SFAS 165 but does not expect the adoption of SFAS 165 to impact the Company's results of operations, financial position or cash flows.

Note 2 – Fixed Assets

Fixed assets at December 31, 2009 and June 30, 2009 are as follows:

| | December 31, 2009 | June 30, 2009 |
|---|-------------------------|------------------|
| Computers & office furniture - net of accumulated depreciation | \$8,967 | \$8,967 |
| Oil and gas research and development equipment | 32,996 | 26,000 |
| Gross fixed assets | 41,963 | 34,967 |
| Less: Accumulated depreciation | (3,154) | (1,915) |
| Total equipment and other fixed assets, net of accumulated depreciation | \$38,809 | \$33,052 |

Depreciation and depletion expense was \$620 for the quarter ended December 31, 2009 and \$6,943 for the quarter ended December 21, 2008. Depreciation expense for the six months ended December 31, 2009 was \$1,239 and \$13,885 for the six months ended December 31, 2008. The Company added \$6,996 of assets during the six months ended December 31, 2009.

Note 3 – Note Payable

On October 27, 2008, the Company's wholly owned subsidiary, Freestone Technologies, LLC, was issued an equipment loan by Third Coast Bank in the amount of \$37,352. The terms of the loan include a minimum interest rate of two points over the current bank index (prime rate) or 7.0%, a maturity date of October 27, 2009, and twelve monthly payments of \$3,234. The collateral for the loan includes the equipment purchased from the proceeds of the loan. On October 27, 2009 this loan was paid-in-full. At December 31, 2009 and June 30, 2009 the balance owed was \$0 and \$12,823 respectively.

On April 4, 2009, the Company was issued a Line of Credit from Third Coast Bank in the amount of \$18,000. The terms of this note include a market-rate interest rate (4.0% at June 30, 2009), a maturity date of October 4, 2009 and monthly installment payments of no less than sixty-five dollars per month. On October 27, 2009, this note was renewed. The terms of this note include a market-rate interest rate (4.0%), a maturity date of April 28, 2010 and monthly installment payments of no less than sixty-five dollars per month. At December 31, 2009 and June 30, 2009 the balance owed was \$14,908 and \$18,000 respectively.

Note 4 – Note Payable (Related Party)

During the year ended June 30, 2008, the Company assumed certain debt in conjunction with the issuance of the 30,000,000 shares of common stock to various individuals affiliated to a now former CEO, Lloyd Lane (Lane), including a mortgage note for approximately \$54,000 secured by the building the Company received as part of the same transaction. The building had a cost basis of \$62,500. During the year ended June 30, 2009, Lane advanced \$110,771 to the Company on a non-interest bearing unsecured basis. Also, later during the year ended June 30, 2009, the building and the related note payable and Petrozene inventory was transferred back to Lane in exchange for the cancellation of 27,865,000 shares of common stock previously issued to him. At December 31, 2009 and June 30, 2009 the balance owed was \$0 and \$0 respectively.

On December 11, 2008, the Company received a loan advanced from Donna Doran in the amount of \$50,000. The advance was non-interest bearing, unsecured and payable in thirty-six installments beginning January 1, 2009. On

April 21, 2009, the advance was converted to 2,000,000 restricted shares of common stock and the Company recognized a \$20,000 loss on the extinguishment of debt. At December 31, 2009 and June 30, 2009 the balance owed was \$0 and \$0 respectively.

On May 26, 2009 the Company received a loan from Mike Doran (Doran), CEO, 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. During the year ended June 30, 2009, the Company received an advance from Mr. Doran of \$20,000 which was repaid during the year. At December 31, 2009 and June 30, 2009 the balance owed was \$18,800 and \$25,000 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 December 31, 2009 the balance owed was \$25,000.

Note 5 – Income Taxes

The Company has adopted ASC 740-10 (formerly SFAS No. 109), 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 six months ended December 31, 2009 the Company had a net loss of \$130,228, increasing the deferred tax \$44,067 asset at the statutory tax rate of 34%. Deferred tax assets at December 31, 2009 and June 30, 2009 consisted of the following:

| | Dec 31, 2009 | Jun 30, 2009 |
|---------------------------------|-----------------|-----------------|
| Net Operating Loss Carryforward | \$571,234 | \$522,009 |
| Less: Valuation Allowance | (571,234) | (522,009) |
| Net Deferred Tax Asset | \$0 | \$0 |

The net deferred tax asset generated by the loss carryforward has been fully reserved. The cumulative net operating loss carry-forward is approximately \$1,680,000 at December 31, 2009 and \$1,535,000 at June 30, 2009, and will expire in the years 2019 through 2029.

The realization of deferred tax benefits is contingent upon future earnings and is fully reserved at December 31, 2009 and June 30, 2009.

Note 6 – Equity Transactions

On September 24, 2009 Freestone issued 31,603,734 shares of common stock valued at \$1,264,149 to Earth Oil Services, Inc., a Nevada Corporation, in consideration for one hundred percent (100%) of the issued and outstanding common stock in Earth Oil Services, Inc.

EOS Summary of Net Assets as of September 24, 2009

| | |
|----------------------------------|-----------|
| Assets | |
| Investment in Bleeding Rock, LLC | \$250,010 |
| Intangible assets | 10,000 |
| Licenses | 150,000 |
| Total Assets | 410,010 |
| Liabilities | |
| Accounts payable | 250,000 |
| Accounts payable – Related Party | 150,010 |
| Total Liabilities | 400,010 |

| | |
|------------|-----------|
| Net Assets | \$ 10,000 |
|------------|-----------|

The transaction generated goodwill of \$1,254,149. This amount has been capitalized and is segregated on our balance sheet.

Note 7 – 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 will also be used to test Freestone’s new chemical solvent, EncapSol. The assets and liabilities of the Subsidiary are included in the consolidated financial statements of Freestone.

Note 8 – 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, 2009. 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 9 – Recent Accounting Pronouncements

In 2009, the FASB issued the following guidance:

FASB ASC 860-10-05: "Accounting for Transfers of Financial Assets—(Prior authoritative literature: FASB Statement No. 166 -- an amendment of FASB Statement No. 140)", which will be effective for the first annual or quarterly period after November 15, 2009.

FASB ASC 810-10-05: "Accounting for Transfers of Financial Assets,(Prior authoritative literature: FASB Statement No. 167 "Amendments to FASB Interpretation No. 46(R)",. which is for the first annual or quarterly period after November 15, 2009.

FASB ASC 825: "Interim Disclosures about Fair Value of Financial Instruments (Prior authoritative literature: FSP No. FAS 107-1 and APB 28-1).

FASB ASC 320-10-65-4: "Recognition and Presentation of Other-Than-Temporary Impairments", (Prior authoritative literature: FSP No. FAS 115-2 and FAS 124-2).

FASB ASC 820-10-65-4: "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly"(Prior authoritative literature FSP No. FAS 157-4).

Management has reviewed these new standards and believes that they will have no material impact on the financial statements of the Company.

Note 10 – Subsequent Events

In 2009, the FASB issued the following guidance:

In January 2010 the Company issued 1,700,000 shares of stock for cash received (\$170,000). Of this stock issued, 1,600,000 shares were recorded as a liability as Stock to be Issued on the December 31, 2009 balance sheet as the cash had been received prior to the quarter-end but the shares had yet been issued.

Note 11 – Proforma Financial Statements

On September 24, 2009 the Company acquired one hundred percent (100%) of the issued and outstanding stock of Earth Oil Services, Inc., a Nevada corporation (“EOS”), in a non-cash transaction. The following proforma Statement of Operations represents the Company as if EOS had been acquired and consolidated as of the beginning of our fiscal year, July 1, 2009. EOS was formed on August 21, 2009, and therefore proforma statements for December 31, 2008 and June 30, 2009 are not required.

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

| | Six Months Ended December 30, 2009 |
|--|---|
| Revenue: | |
| Oil and gas resulting from research activities | \$27,195 |
| Total revenue resulting from research activities | 27,195 |
| Operating expenses: | |
| Cost of revenue | - |
| Lease operating costs | 5,221 |
| Depreciation and depletion | 1,239 |
| Impairment expense | 1,800 |
| Engineering expense | 250,000 |
| General and administrative | 152,235 |
| Total operating expenses | 410,495 |
| Operating income (loss) | (383,300) |
| Other income (expense): | |
| Interest (expense) | (3,128) |
| Gain on settlement of debt | 6,200 |
| Total other income (expense) | 3,072 |
| Net income (loss) | \$(380,228) |
| Basic and diluted income (loss) per share | \$(0.01) |
| Weighted average shares outstanding: | |
| Basic and diluted | 52,119,443 |

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 is currently developing its keystone product, EncapSol.

Acquisition of Earth Oil Services, Inc.:

The Company acquired one hundred percent (100%) of the issued and outstanding stock of Earth Oil Services, Inc., a Nevada corporation ("EOS"), in a non-cash transaction on September 24, 2009. The Company issued 31,603,734 shares of restricted common stock of the Company in consideration for this transaction. EOS owns certain exclusive, territorial, license agreements to a proprietary technology that is a chemical solvent that can separate, extract and recycle hydrocarbon contaminants from ground soils, tar sands, vessels and other materials. This technology is marketed under the name EncapSol ("EncapSol"). EOS has engaged a fabricator to build a prototype machine (the "Prototype") designed to be used in conjunction with EncapSol. EOS is indebted to the fabricator for its development of the Prototype. EOS is now a wholly owned subsidiary of Freestone.

Assets of EOS

EOS holds certain assets that include exclusive territorial license agreements for the use of EncapSol, and 50% ownership of Bleeding Rock, LLC, a Utah corporation ("Bleeding Rock"). Bleeding Rock owns 20,600,000 shares of Green River Resources, Corp., an Alberta Canada corporation. The last Green River Resources, Inc. ("Green River") stock transaction was for stock options to employees of Green River ("Green River Options"). The aforesaid Green River Options were optioned for \$0.35 per share. Thus, the total ownership of Green River Shares owned by Bleeding Rock is valued at \$ 7,210,000. EOS owns 50% (valued at \$3,605,000) of Bleeding Rock, and is entitled to 47% of the profits from EOS' 50% ownership of Bleeding Rock. The recorded value on EOS's audited balance sheet of the investment is \$250,010.

Liabilities of EOS

EOS has certain liabilities that include \$150,000 in license fees owed to Environmental Services and Support, Inc., a non-related third party California corporation ("ESSI"), an invoice in the amount of \$250,000 from SRS Engineering Corporation, a California corporation that built the fourth generation EncapSol Recovery Technology. The Company is responsible for the payment of \$250,000 to the manufacturers of the fourth generation EncapSol Recovery Technology and the payment of \$150,000 license fee to ESSI, totaling \$400,000.

Basis of Presentation

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."

- The Company owns 100% of EOS and has applied ASC 810 in consolidating the subsidiary.
- EOS owns 50% of BRC, as does an unrelated third party, Hidden Peak Group. Although each party owns 50%, Hidden Peak Group maintains control of the three person management board with three representatives, and therefore, applying the requirements for consolidations under ASC 810, EOS has not consolidated BRC but shows its impact through the Minority Interest method.

Results of Operations

Three and six months Ended December 31, 2009 compared to three and six months Ended December 31, 2008

Revenue - Our revenue for the three months December 31, 2009 was \$5,073, compared to \$33,030 for the same period in 2008. Revenue decreased in the second quarter due to reduced oil and gas sales. Our revenue for the six months December 31, 2009 was \$27,195, compared to \$69,292 for the same period in 2008. This decrease is due to reduced oil and gas sales.

Lease Operating Expense - Lease operating expense for the three months ended December 31, 2009 was \$2,528 compared to \$5,072 for the same period in 2008. Lease operating expenses for the six months ended December 31, 2009 was \$5,221 compared to \$47,164 for the same period in 2008. Lease operating expense decreased for three and six months ended due to cost associated with wells acquired on November 1, 2007.

Operating Expense - Total operating expenses for the three months ended December 31, 2009 were \$620 of depreciation and depletion expense and \$125,927 of general and administrative expenses respectively, compared to \$6,943 depreciation and depletion expense and \$41,765 of general and administrative expenses for the same period in 2008. Total operating expenses for the six months ended December 31, 2009 were \$1,239 of depreciation and depletion expense and \$152,235 of general and administrative expenses respectively, compared to \$13,885 depreciation and depletion expense and \$280,925 of general and administrative expenses for the same period in 2008. The increased costs in the three months ended December 31, 2009 were related to the acquisition of EOS that was completed in September, 2009. The decrease in costs in the six month period ended December 31, 2009 were due to lower oil production in the field thus reducing our variable administrative costs.

Net Income (Loss) - Net loss for the three months ended December 31, 2009 was \$(115,056) compared to net loss of \$(22,884) for the same period in 2008. Net loss for the six months ended December 31, 2009 was \$(130,228) compared to net loss of \$(282,396) for the same period in 2008. The increase in loss in the three month period ended December 31, 2009 is mainly related to the increased administrative expenses mentioned above. The decrease in loss in the six month period ended December 31, 2009 is due to the reduced administrative costs mentioned above as well as the impact of debt forgiveness of \$6,200. A former office of the Company loaned \$25,000 and was repaid \$18,800 and forgave the remaining \$6,200.

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, 2009, our cash and cash equivalent decreased to \$3,048 from \$4,815 at June 30, 2009.

Net cash used by the Company was (\$1,767) for the six months ended December 31, 2009 compared to cash provided of \$9,093 for the same period in 2008. We continue to explore working capital options and in the short-term rely on our line-of-credit and advances/loans from shareholders.

Employees

As of December 31, 2009, 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, 2009, 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 June 30, 2009. 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 effective.

Based upon an evaluation conducted for the period ended June 30, 2009, our Chief Executive and Chief Financial Officer as of June 30, 2009 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.

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 - Not Applicable.

Item 2 - Unregistered Sales of Equity Securities and use of Proceeds.

During the three months ended September 30, 2009, Freestone issued 31,603,734 restricted shares of common stock valued at \$1,264,149 to Larry Shultz and Environmental Services and Support, Inc. Larry Shultz and Environmental Services and Support, Inc. 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 5 - Other Information

On August 12, 2009, the Company agreed to accept the resignation of the following officers and directors:

Michael Doran Chief Executive Officer and Director

On August 12, 2009, the Company appointed the following officers and directors:

Clayton Carter Chief Executive Officer

Don Edwards Director

Item 6 - Exhibits and Reports on Form 8-K

(a) During the three months ended December 31, 2009 the Company filed one Form 8-K.

- December 7, 2009: Filing the audited financial statements of EOS

(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: February 11, 2010

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