FREESTONE RESOURCES, INC.
Form 10-Q
November 10, 2014

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, 2014

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	90-0514308

(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 |

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (SS325.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files), Yes [X] No [ ]

As of November 12, 2014 there were 73,763,177 shares of Common Stock of the issuer outstanding.

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Freestone Resources, Inc.

Consolidated Balance Sheets

As of September 30, 2014 and June 30, 2014

Assets

	(Unaudited) September 30, 2014	**(Audited) June 30, 2014**
Current Assets:		
Cash	$10,908	$73,106
Accounts receivable	81	81
Deposits and other assets	5,625	—
Total Current Assets	16,615	73,187
Oil and gas properties used for research and development	—	—
Fixed assets, net of accumulated depreciation of $23,210 and $19,689	71,639	48,480
Total fixed assets, net	71,639	48,480
Investment in Aqueous Services, LLC	73,115	78,423
Other assets	3,625	3,625
Total Assets	$164,994	$203,715

Liabilities and Stockholders' Equity

Current Liabilities:		
Accounts payable	$18,233	$9,320
Accrued expenses	466	466
Derivative Liability	279,625	279,625
Stock to be issued	22,000	—
Total Current Liabilities	320,323	289,411
Long-term Liabilities:		
Asset retirement obligations	14,470	14,470
Total Liabilities	334,793	303,881
Stockholders' Equity (Deficit):		

Common stock, $.001 par value, 100,000,000 shares Authorized 73,543,177 and 73,543,177 shares issued and outstanding, respectively	73,543	73,543
Additional paid in capital	18,471,686	18,471,686
Accumulated deficit	(18,715,028)	(18,645,395)
Stockholders' Equity	(169,799)	(100,166)
Total Liabilities and Stockholders' Equity	$164,994	$203,715

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

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Freestone Resources, Inc.

Consolidated Statements of Operations

For the Three Months Ended September 30, 2014 and 2013

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Revenue:		
Oil and gas revenues resulting from research activities	$—	$—
Other oil and gas related revenues	—	6,460
Total revenue from oil and gas activities	—	6,460
Operating expenses:		
Cost of Revenue	—	2,925
Lease operating costs	2,575	56
Depreciation	3,520	6,874
Stock based compensation	—	—
General and administrative	58,230	75,359
Total operating expenses	64,325	85,214
Operating loss	(64,325)	(78,754)
Other income (expense):		
Interest income (expense)	—	—
Other income related to the settlement of the EOS litigation	—	—
Other income	—	836
Warrant expense	—	—
Revision to ARO estimate	—	—
Loss on Equity Method Investment	(5,308)	(8,357)
Gain on sale of asset	—	—
Total other income (expense)	(5,308)	(7,521)
Net income (loss)	$(69,633)	$(86,275)
Basic and diluted loss per share	$(0.00)	$(0.00)
Weighted average shares outstanding:		
Basic and diluted	73,543,177	68,820,894

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

Freestone Resources, Inc.

Consolidated Statement of Stockholders' Equity

For the Year Ended June 30, 2014

And the Three Months Ended September 30, 2014

(Unaudited)

	Common Stock		Additional Paid in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, June 30, 2013	68,318,177	$68,318	$18,117,111	$(18,124,458)	$60,971
Common stock issued for cash	2,625,000	2,625	167,375	—	170,000
Common stock issued for services	2,600,000	2,600	187,200	—	189,800
Net loss	—	—	—	(520,937)	(520,937)
Balance, June 30, 2014	73,543,177	$73,543	$18,471,686	$(18,645,395)	$(100,166)
Common stock issued for cash	—	—	—	—	—
Net loss	—	—	—	(69,633)	(69,633)
Balance, September 30, 2014	73,543,177	$73,543	$18,471,686	$(18,715,028)	$(169,799)

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

Freestone Resources, Inc.
Consolidated Statements of Cash Flows
Three Months Ended September 30, 2014 and 2013
(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(69,633)	$(86,275)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,520	6,874
Shares issued for demonstration equipment	—	—
(Gain) loss on equity method investment	5,308	8,357
(Gain) on sale of investment asset	—	—
Stock based compensation	—	—
Decrease in revision of ARO estimate	—	—
Shares issued for warrants	—	—
Changes in operating assets and liabilities:		
Write-off in note receivable	—	—
Change in account receivable	—	—
Change in inventory of Petrozene	—	—
Change in other assets	(5,625)	—
Change in accounts payable	8,913	(4,172)
Change in accounts payable – related party	—	—
Change in accrued expenses	—	455
Net cash provided by (used in) operating activities	(57,518)	(74,761)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in Freestone Water Solutions	—	—
Sale of investment asset	—	—
Purchase of fixed assets	(26,680)	—
Net cash used in investing activities	(26,680)	—
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	—	—
Payments on note payables – related party	—	—
Proceeds from sale of stock	—	50,000
Stock returned upon settlement of litigation	—	—
Derivative liability	—	—
Stock to be issued	22,000	—
Net cash provided by (used in) financing activities	22,000	50,000
NET CHANGE IN CASH	(62,198)	(24,761)
CASH AT BEGINNING OF PERIOD	73,106	205,767
CASH AT END OF PERIOD	$10,908	$181,006
Supplemental cash flow information:		
Cash paid for interest	$—	$—
Non-cash investing activities:		
Stock returned upon settlement of litigation	$—	$—

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

Freestone Resources, Inc.

Notes to Consolidated Financial Statements

September 30, 2014

(Unaudited)

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities, History and Organization:

Freestone Resources, Inc. (the "Company" or "Freestone") is an oil and gas technology development company that is actively developing and marketing technologies and solvents designed to benefit various sectors in the oil and gas industry. The Company has re-launched its Petrozene™ solvent after months of working with manufactures to develop a new and improved formula. Petrozene™ is predominantly used for paraffin buildup. Petrozene™ can be used for pipelines, oil storage tanks, oil sludge build up, de-emulsification, well treatment, as a corrosion inhibitor and as a catalyst in opening up formations thereby aiding in oil production. More information about Petrozene™ can be found at http://www.petrozene.com.

On November 16, 2012 the Company entered into a Company Agreement of Aqueous Services, LLC ("Aqueous"), a Texas limited liability company, with International Aqueous Investments, LLC and Pajarito W&M, LP. Aqueous is a joint venture between the Company and the two aforementioned parties, whereas the Company owns a 33.33% interest in Aqueous. Aqueous is a full water management company with access to a fresh water well that has been permitted to up to one thousand five hundred acre-feet of water per annum. A facility has been constructed that is owned and operated by Aqueous for the purpose of providing water for oil and gas activities in the Eagle Ford. This site includes a designated location for the recycling frack water and produced water. More information about Aqueous Services can be found at http://www.aqueousservices.com.

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, 2014 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, 2014 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, 2014 and 2013 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.

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, 2014 and June 30, 2014.

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.

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.

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.

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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, 2014 and June 30, 2014 are as follows:

	September 30, 2014	June 30, 2014
Computers & office furniture	$94,849	$68,169
Oil and gas research and development equipment	0	0
Total fixed assets	94,849	68,169
Less: Accumulated depreciation	(23,210)	(19,689)
Total fixed assets, net of accumulated depreciation	$71,639	$48,480

Depreciation expense was $3,520 for the quarter ended September 30, 2014 and $6,874 for the quarter ended September 30, 2013.

NOTE 3 – 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, 2014 the Company had a net loss of $69,633, increasing the deferred tax asset approximately $23,675 at the statutory tax rate of 34%. Deferred tax assets at September 30, 2014 and June 30, 2014 consisted of the following:

Deferred tax asset related to:

	September 30, 2014	June 30, 2014
Prior Year	$1,871,803	$1,694,684
Tax Benefit (Expense) for Current Period	23,675	177,119
Net Operating Loss Carryforward	$1,895,478	$1,871,803
Less: Valuation Allowance	(1,895,478)	(1,871,803)
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 2032. The realization of deferred tax benefits is contingent upon future earnings and is fully reserved at September 30, 2014 and June 30, 2014.

NOTE 4 – 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, 2014, the liability for ARO was $14,470, 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 2014, the Company has not recognized accretion expense, as the oil and gas properties and recorded at salvage value.

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NOTE 5 – 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 $6,805 and $7,303 for the three months ended September 30, 2014 and 2013 respectively. Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2015	$22,605
2016	22,605
2017	22,605
Total	$67,815

NOTE 6 – 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, 2014 and June 30, 2014, respectively, there were 73,543,177 and 73,543,177, common shares outstanding.

During the three months ended September 30, 2014 the Company sold 220,000 shares. The shares were issued subsequent to quarter end and are shown as stocked to be issued at September 30, 2014.

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 research and development for subsequent technologies. The assets and liabilities of the Subsidiary are included in the consolidated financial statements of Freestone.

NOTE 8 – INVESTMENT IN AQUESOUS SERVICES, LLC.

On November 16, 2012 the Company formed Aqueous Services, LLC (“Aqueous”), a Texas limited liability company, with International Aqueous Investments, LLC and Pajarito W&M, LP. The Company made an initial capital contribution of $100,000 in exchange for a 33.33% interest in the joint venture. Aqueous is a full water management company with access to a fresh water well that has been permitted to extract up to one thousand five hundred acre-feet (approximately 500 million gallons) of water per annum. Aqueous constructed and operates a facility to provide fresh water for oil and gas activities in the Eagle Ford. This site also includes a designated location for the recycling frack and production water.

The joint venture is accounted for under the equity method as follows:

	September 30, 2014	June 30, 2014
Beginning Balance	$ 78,423	$ 109,673
Capital Contributions	0	0
Equity in Loss of JV	(5,308)	(31,340)
Period End Balance	$ 73,115	$ 78,423

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, 2014. 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, 2014 and June 30, 2014 were $334,793 and $303,881, respectively.

NOTE 11 – SUBSEQUENT EVENTS

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

NOTE 13- SUPPLEMENTAL OIL AND GAS DATA (UNAUDITED)

The following tables set forth supplementary disclosures for oil and gas producing activities in accordance with FASB ASC Topic 932, *Extractive Activities - Oil and Gas* ("ASC 932"). The Company generates revenue from the disposal of oil that is extracted during their research and development activities. Currently, as the Company is in the development stage, 100% of their revenue is generated from the revenue associated with the disposal. The properties were purchased as test properties for the various technologies the Company is developing or would analyze for potential development. In order to get the most accurate data of the testing, the Company was required to purchase and own the wells so the data could be verified as accurate by the Company without the fear of third-party variables. The wells are marginally to poorly producing wells and it is not economically feasible to perform the work necessary to bring them up to the condition in order for them to effectively produce. As the wells are not economically feasible to operate in a capacity other than research and development, and the Company has no intentions to develop the wells, no proved reserves have been estimated. As the wells are not economically feasible, there is no value assigned to the oil and gas leaseholds and the equipment is recorded at salvage value.

Costs Incurred

A summary of costs incurred in oil and gas property acquisition, development, and exploration activities (both capitalized and charged to expense) for the three months ended September 30, 2014 and 2013, as follows:

	2014	**2013**
Acquisition of proved properties	$0	$0
Acquisition of unproved properties	$0	$0
Exploration costs	$0	$0

Results of Operations for Producing Activities

The following table presents the results of operations for the Company's oil and gas producing activities for the three months ended September 30, 2014 and 2013:

	2014	**2013**
Revenues	$ 0	$6,460
Production costs	0	(2,981)
Depletion, depreciation, accretion and valuation provisions	0	0
Exploration costs	0	0

	0	3,479
Income tax expense	0	0
Results of operations for producing activities (excluding corporate overhead and interest costs)	$ 0	$3,479

Reserve Quantity Information

The following table presents the Company's estimate of its proved oil and gas reserves all of which are located in the United States. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of reserves related to new discoveries are more imprecise than those for producing oil and gas properties. Accordingly, the estimates are expected to change as future information becomes available. Oil reserves, which include condensate and natural gas liquids, are stated in barrels and gas reserves are stated in thousands of cubic feet.

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	Oil (Bbls)	Gas (mcf)
Proved developed and undeveloped reserves:		
Balance at June 30, 2013	0	0
Production	0	0
Revisions of previous estimates	0	0
Balance at September 30, 2014	0	0

Proved developed reserves:		
June 30, 2013	0	0
June 30, 2014	0	0
September 30, 2014	0	0

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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

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 currently markets and sells Petrozene™, which is a solvent derived from recycled hydrocarbons. Petrozene™ can cost effectively decrease paraffin buildup in oil and gas wells, and can be utilized to clean oil storage facilities. Furthermore, Petrozene™ has been shown to reduce bottom sediment and water in oil storage tanks and act as a de-emulsification agent.

The Company owns a 33.33% interest in Aqueous Services, LLC ("Aqueous"). Aqueous is a full water management company with access to a fresh water well that has been permitted to up to one thousand five hundred acre-feet of water per annum.

Results of Operations

Three months ended September 30, 2014 compared to three months ended September 30, 2013

Revenue - Our revenue for the three months ended September 30, 2014 was $0, compared to $6,460 for the same period in 2013. Prior year revenue was from sales of Petrozene™ that were not realized in 2014.

Cost of Revenue – Cost of revenues (Petrozene™) were $0 for the three months ended September 30, 2014 versus $2,925 for the same period in 2013. This is the cost related to purchasing and transporting the product and the drop in cost of sales reflected the drop in sales.

Lease Operating Expense - Lease operating expense for the three months ended September 30, 2014 was $2,575 compared to $56 for the same period in 2013. The increase in lease operating expenses is due to maintenance costs.

Operating Expense – Depreciation expense for the three months ended September 30, 2014 and 2013 was $3,520 and $6,874, respectively. Total operating expenses for the three months ended September 30, 2014 and 2013 were $58,230 and $75,359 respectively. The decreased costs of $17,129 in the three months ended September 30, 2014 were primarily due to decreases in payroll and consulting expenses.

Net Income (Loss) - Net loss for the three months ended September 30, 2014 was $69,633 compared to net loss of $86,275 for the same period in 2013. The decrease is primarily due to a reduction in costs as discussed above.

Liquidity and Capital Resources

As of September 30, 2014 we have little cash reserves and liquidity to the extent we receive it from operations and from the sale of stock. Net cash used in operations by the Company was $57,518 for the three months ended September 30, 2014 compared to cash used of $74,761 for the same period in 2013. We continue to explore options for working capital. Our cash balance at September 30, 2014 was $10,908.

Employees

As of September 30, 2014, 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, 2014, 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, 2014. 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, 2014, our Chief Executive and Chief Financial Officer as of September 30, 2014 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.

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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, 2014 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 10, 2014