FREESTONE RESOURCES, INC.
Form 10-Q
July 23, 2008

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 March 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)

Delaware	33-0880427
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

11 Washington Street Hawthorne, NJ 07506
(Address of principal executive offices)

(973) 949-3200
(Issuer's telephone number)

N/A
(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 |X|

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 |X| No | |

As of July 19, 2008 there were 50,025,260 shares of Common Stock of the issuer outstanding.

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PART I FINANCIAL STATEMENTS

Freestone Resources, Inc.
Consolidated Balance Sheets
(Unaudited)

	As of March 31, 2008	As of June 30, 2007
Assets		
Current Assets		
Cash	$ 46,280	$ -
Accounts receivable	17,856	-
Note receivable	16,468	16,468
Total current assets	80,604	16,468
Proved oil and gas properties, full cost accounting, net	57,465	-
Equipment and other fixed assets, net	259,141	-
Other assets - Petrozene contract, net	1,000	-
Total Assets	$ 398,210	$ 16,468
Liabilities and Shareholders' Equity/(Deficit)		
Current liabilities		
Accounts payable	$ 6,185	$ 19,013
Accounts payable – related party	5,872	5,872
Current portion of long-term debt	12,267	
Total current liabilities	24,324	24,885
Long-term liabilities		
Note payable	40,403	-
Total Liabilities	64,727	24,885
Shareholders' Equity/(Deficit):		
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, 50,025,260 and 19,260,260 shares issued and outstanding respectively	50,025	19,260
Additional paid in capital	13,967,265	13,707,203
Accumulated deficit	(13,683,807)	(13,734,880)
Total shareholders' equity/(deficit)	333,483	(8,417)
Total Liabilities and Shareholders' Equity/(Deficit)	$ 398,210	$ 16,468

See accompanying notes to financial statements

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Nine Months Ended March 31, 2008	Nine Months Ended March 31, 2007
Revenue				
Petrozene	$ 4,400	$ -	$ 406,726	-
Oil & Gas	44,417	-	83,686	-
Total Revenue	48,817	-	490,412	-
Operating expenses:				
Cost of sales – Petrozene	-	-	151,800	-
Lease operating costs	18,598		21,055	
Depreciation and depletion	8,630	-	14,383	-
General and administrative	82,999	252,974	251,488	655,156
Total operating expenses	110,227	(252,974)	438,726	655,156
Net operating income/(loss)	(61,410)	(252,974)	51,686	(655,156)
Other income (expense)				
Gain on debt forgiveness	-	-	-	165,388
Interest expense	(519)	-	(613)	(11,694)
Total other income (expense)	(519)	-	(613)	153,694
Net Income/(Loss)	$ (61,929)	$ (252,974)	$ 51,073	$ (501,472)
Basic and diluted loss per share	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.03)
Weighted average shares outstanding:				
Basic and diluted	39,740,012	18,341,460	36,389,824	17,096,910

See accompanying notes to financial statements

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

	Common Shares	Par	Paid-in Capital	Retained (Deficit)	Totals
Balances: 06/30/2007	19,260,260	$ 19,260	$ 13,707,203	$ (13,734,880)	$ (8,417)
Shares issued for Services	540,000	540	107,460		108,000
Net income				(118,025)	(118,025)
Balances: 09/30/2007	19,800,260	19,800	13,814,663	(13,852,905)	(18,442)
Shares issued for Services	200,000	200	27,800		28,000
Shares issued for oil and gas assets	30,000,000	30,000	119,577		149,577
Net income				231,027	231,027
Balances: 12/31/2007	50,000,260	50,000	13,962,040	(13,621,878)	390,162
Shares issued for Services	25,000	25	5,225		5,250
Net income				(61,929)	(61,929)
Balances: 03/31/2008	50,025,260	$ 50,025	$ 13,967,265	$ (13,683,807)	$ 333,483

See accompanying notes to financial statements

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Freestone Resources, Inc.
Consolidated Statement of Cash Flows
(Unaudited)

Nine Months Ended March 31	2008	2007
Cash flows from operating activities:		
Net income/(loss)	$ 51,073	$ (501,472)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	14,383	-
Common stock issued for services	141,250	642,820
Gain on debt forgiveness	-	(165,388)
Change in accounts receivable	(17,856)	-
Change in note receivable and prepaid expenses	-	253
Change in accounts payable and accrued expenses	(140,062)	23,787
Change in other assets	(1,000)	-
Net cash provided by operating activities	47,788	-
Cash flows from financing activities:		
Payments on notes payable	(1,508)	-
Net cash used in financing activities	(1,508)	-
Net increase in cash and cash equivalent	46,280	
Cash and cash equivalent at beginning of period	-	-
Cash and cash equivalent at end of period	$ 46,280	$ -
Supplemental cash flow information:		
Cash paid for interest	$ 612	$ -
Cash paid for income taxes	-	-
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	-

See accompanying notes to 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") 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 and nine months ended March 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, 2007 Form 10-KSB. Notes to the consolidated financial statements which substantially duplicate the disclosure contained in the audited financial statements for fiscal 2007 as reported in the Form 10-KSB 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 periodically 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 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 March 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

During the three months ended September 30, 2007, Freestone issued 540,000 shares of common stock valued at $108,000 to consultants for services.

During the three months ended December 31, 2007 Freestone issued 30,000,000 shares for a building, certain oil and gas assets, the assumption of certain liabilities related to those assets and assignment of a Petrozene supply contract, and 200,000 shares of common stock valued at $28,000 to consultants for services.

During the three months ended March 31, 2008 Freestone issued the following common stock:
25,000 shares of common stock valued at $5,250 consultants for services.

Note 4 – Change in Control

On November 1, 2007, the Company agreed to issue 30,000,000 shares of common stock in exchange for a building, certain oil and gas assets, the assumption of certain liabilities related to those assets and assignment of a contract for Petrozene. Petrozene is a chemical which dissolves parafins and asphaltines in oil wells, oil tanks, and other oil structures and therefore is used as an aid to increase production of oil and gas properties. The transaction resulted in a change of control of the Company. As a result of the change in control, the Company's utilization of net operating losses generated prior to the change in control to reduce future income taxes payable may be limited under IRC Section 382.

In conjunction with the issuance of the 30,000,000 shares disclosed above, the following persons became officers and directors of the Registrant. They are as follows:

Lloyd Lane	President and Director
James Carroll	Vice President and Director
Tom Bonner	Secretary and Director
Mike Doran	Vice President and Director
Clayton Carter	Vice President and Director

Note 5 – Accounts Payable – Related Party

On November 1, 2007, the Company assumed certain debt in conjunction with the issuance of the 30,000,000 shares of common stock including a note for $50,000 to a relative of the President and $8,000 due to officers. These debts were for funds paid for the recompletion/workover of the wells which was expended prior to the November 1, 2007 transaction. These debts were paid in the quarter ended March 31, 2008.

Note 6 – Note Payable

On November 1, 2007, the Company assumed certain debt in conjunction with the issuance of the 30,000,000 shares of common stock 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. The note is payable in monthly installments of $754, interest rate of 7.75%, due May 2011. As of March 31, 2008, the balance of the mortgage note is approx. $52,670.

Note 7 – Subsequent Events

On March 31, 2008, James Carroll resigned as CEO of the Corporation and Lloyd Lane was appointed CEO. Mr. Carroll remained as CFO.

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 has 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.

Petrozene

The current management of Freestone Resources Inc. has been engaged in extensive laboratory and oil field testing of Petrozene for the past two years. Most tests of Petrozene has involved treatment for paraffin and asphaltine elimination within oil tank bottoms, oil flow lines, oil production tubing, well bore and oil formation strata. During the testing and use of Petrozene we have found additional characteristics of Petrozene that have marketable possibilities. Petrozene inhibits corrosion, removes scale, dissolves iron sulfide and decreases the viscosity of oil. Management believes the oil field studies and laboratory test results indicate that Petrozene has tremendous financial potential.

Our representatives have completed the down-hole treatment of approximately 20 shallow oil wells in the South Texas oil fields. The wells in these two leases averaged .25 to .5 BOPD before treatment. Two weeks post-treatment, these wells now average 3.5 BOPD per well. Other independent South Texas wells, which exhibit the same type of asphaltine restrictions, have had similar productivity results after treatment with Petrozene.

Viscosity is an important factor in oil production. The simple explanation is that it is more difficult to flow thick, high viscosity oil. Historically, heavy oil reserves, which abound in North America, have been bypassed for lighter oils due to the viscosity problems associated with production and refining. Even if heavy crude oil was capable of being produced from the well, the oil was often unable to travel by pipeline to refineries due to the thickness, or could only be transported or produced during the summer months when the viscosity was lowered by radiant heat. Methods used in the past to decrease the viscosity of the oil in the pipelines have included pipeline heaters or adding low viscosity condensate at high concentrations (up to 25%) in order to thin the oil. Some chemical treatments have also been tried, but to our knowledge, none have been economically proven. We are negotiating with a large oil and gas service company that is considering using Petrozene in the piping of its existing crude oil pipelines.

Freestone Resources sent a sample of heavy oil from South Texas lease to FESCO Inc. (www.fescoinc.com) in Alice, Texas along with a random sample of Petrozene from our warehouse for testing. We are very pleased with the results of these initial tests and we are currently testing Petrozene with less viscous oils from various geographic locations to validate tests performed by a client that show that Petrozene will decrease a lower viscosity oils (1000 - 4000 cst) at a greater percent change using lower concentrations of Petrozene at even colder temperatures. This will reduces the costs of producing heavier crude oil in colder climates.

Results of Operations

Three months and Nine months Ended March 31, 2008 Compared to Three and Nine Months Ended March 31, 2007

Revenue - Our revenue for the three and nine months ended March 31, 2008 was $48,817 and $490,412 respectively compared to $0 revenue for the same two periods in 2007. Revenue increased in the third quarter due to increased in oil and gas sales from wells acquired on November 1, 2007.

Operating Expense - Cost of Petrozene sales was negligible for the three months ended March 31, 2008. Cost of Petrozen sales for the nine months ended March 31, 2008 was $151,800, compared to $0 for the same period of 2007. There were no Petrozene sales in 2007. Lease operating expense for the three and nine months ended March 31, 2008 was $18,598 and $21,055 respectively, compared to $0 for the same two periods in 2007. Lease operating expense increased due to cost associated with wells acquired on November 1, 2007.

Operating Expense - Total operating expenses for the three and nine months ended March 31, 2008 were $8,630 of depreciation and depletion expense and $82,999 and $251,488 of general and administrative expenses respectively, compared to $0 and $0 deprecation and depletion expense and $252,974 and $655,156 of general and administrative expenses for the same two periods in 2007. For the nine months ended March 31, 2008, our operating expenses are $14,383 depreciation and depletion expense and $251,488 general and administrative expenses, compared to $0 depreciation and depletion expense and $655,166 general and administrative expenses for the same period in 2007.

Net Income (Loss) - Net loss for the three months ended March 31, 2008 was $61,929 compared to a net loss of $252,974 for the same period in 2007. Net income for the nine months ended March 31, 2008 was $51,073 compared to a net loss of $501,472 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 three months ended March 31, 2008, our cash and cash equivalent increased by $46,280 from $0 at June 30, 2007.

Net cash provided by operating activities was $47,788 for the three months ended March 31, 2008 compared to $0 provided by operating activities for the same period in 2007.

Employees

As of March 31, 2008, Freestone Resources 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-KSB for the year ended June 30, 2007, 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.

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ITEM 3. 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 Annual 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

Items No. 1, 2, 3, 4, 5 - Not Applicable.

Item No. 6 - Exhibits and Reports on Form 8-K

(a) We filed a Form 8-K on June 4, 2008 to report the Change in Control of the Company.

(b) Exhibits

Exhibit Number	Name of Exhibit

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/ Lloyd Lane

Lloyd Lane, President, CEO

Date: June 30, 2008