

FREESTONE RESOURCES, INC.
Form 10-K
September 28, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 30, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

FREESTONE RESOURCES, INC.
(Exact name of registrant as specified in its charter)

NEVADA (State or other jurisdiction of incorporation)	000-28753 (Commission File Number)	33-0880427 (IRS Employer Identification No.)
Republic Center, Suite 1350 325 N. St. Paul St. Dallas, TX (Address of Principal Executive Offices)		75201 (Zip Code)

Registrant's telephone number, including area code: 214-880-4870

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par value \$0.001

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes No

Indicate by a check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Securities Exchange Act. Yes No

Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports) (2) has been subject to such filing requirement for the past 90 days. Yes No

Indicate by check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (s229.405 of this chapter)

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is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="radio"/>	Accelerated Filer	<input type="radio"/>
Non-Accelerated Filer	<input type="radio"/>	Smaller Reporting Company	<input checked="" type="radio"/>

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

Aggregate market value of the voting stock held by non-affiliates of the registrant as of September 26, 2011: \$12,680,157

Indicate the number of Shares of outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: As of September 26, 2011, the Registrant had 52,612,760 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements as the term is defined in the Private Securities Litigation Reform Act of 1995 or by the U.S. Securities and Exchange Commission in its rules, regulations and releases, regarding, among other things, all statements other than statements of historical facts contained in this report, including statements regarding our future financial position, business strategy and plans and objectives of management for future operations. The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “could,” “target,” “likely,” “will,” “expect” and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. In addition, our past results of operations do not necessarily indicate our future results.

Other sections of this report may include additional factors which could adversely affect our business and financial performance. New risk factors emerge from time to time and it is not possible for us to anticipate all the relevant risks to our business, and we cannot assess the impact of all such risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ materially from those contained in any forward-looking statements. Those factors include, among others, those matters disclosed in this Annual Report on Form 10-K.

Except as otherwise required by applicable laws and regulations, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this report, whether as a result of new information, future events, changed circumstances or any other reason after the date of this report. Neither the Private Securities Litigation Reform Act of 1995 nor Section 27A of the Securities Act of 1933 provides any protection to us for statements made in this report. You should not rely upon forward-looking statements as predictions of future events or performance. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Company Background

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’s flagship technology, the Oil Recovery Unit (“ORU”), was developed for the extraction of hydrocarbons of value from ground soils, oil sands, vessels and other hydrocarbon-containing materials. The ORU’s primary use is for the cleanup of hydrocarbon contamination, and the extraction of hydrocarbons of value from oil sands and oil shale.

Freestone is also actively researching complimentary technologies that will be utilized with the ORU system in order to provide complete production and remediation solutions to oil and gas operators, drillers, and producers. The technologies currently under evaluation include systems designed to recycle frac water and produced water.

Available Information

The Freestone website is www.freestonerresourcesinc.com. The Company’s references to the URLs for these websites are intended to be inactive textual references only. The Company’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of

the Securities Exchange Act of 1934, as amended, are filed with the U.S. Securities and Exchange Commission (the “SEC”).

The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy, and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Technology Development Business

Freestone is actively developing relationships with oil and gas companies, as well as environmental service companies that can benefit from the ORU's unique abilities to extract hydrocarbons of value from various mediums. One such relationship includes the Company's issuance of a License Agreement to Hydrex Technologies, LLC ("Hydrex"), a Texas limited liability company for the use and utilization of the Company's ORU system in various territories.

Products and Services

Oil Recovery Units and Solvent Testing

Freestone has been engaged in extensive laboratory testing of solvents to perfect the ORU systems. Most tests of the aforementioned solvents have included the extraction of oil from oil sands and oil shale, as well as the extraction of hydrocarbons from contaminated soils. The ORU systems were licensed to Hydrex Technologies, LLC so that they can be built for commercial use.

Freestone's current well assets and leases were purchased for the purpose of testing various solvents and technologies designed to increase oil and gas production. These leases contain wells that have paraffin and asphaltine problems, and the tests are allowing the company to perfect a treatment method that can be marketed to potential customers.

Acquisition of Earth Oil Services, Inc.

On September 24, 2009 the Company entered into a Stock Purchase Agreement (the "Agreement") with Environmental Services and Support, Inc., a California corporation ("Enviro Serv") and Lawrence Shultz, an individual ("Shultz") that provides for the sale to and purchase by Enviro Serv and Shultz of 31,603,734 shares of common stock of the Company ("Company Shares") in exchange for and purchase by the Company of all of the issued and outstanding shares of capital stock (the "EOSI Shares") of Earth Oil Services, Inc., a Nevada corporation ("EOSI"), plus the payment of a contingency amount of \$250,000 (the "Contingency Amount") by the Company to an Enviro Serv creditor, and the payment of \$150,000 to Enviro Serv in a deferred license fee payment.

Enviro Serv stated that it owned certain proprietary technology that is purportedly a chemical solvent that can separate, extract and recycle hydrocarbon contaminants from ground soils, tar sands, vessels and other materials (the "Technology"). EOSI has an exclusive license to use the Enviro Serv proprietary technology. In this connection, Enviro Serv has engaged a fabricator to build a prototype machine (the "Prototype") designed to be used in conjunction with the Technology. Enviro Serv is indebted to the fabricator for its development of the Prototype. As aforesaid, the Company has agreed to pay this indebtedness (the Contingency Amount) if certain conditions are met such as release of all liens on the Prototype and demonstrations that the Prototype effectively does what it is designed to do, i.e. recover the chemical solvent after use.

The Company filed a lawsuit in the United States District Court for the Northern District of Texas, Dallas Division, on July 9, 2010, Civil Action Number 3:10-cv-01349-O against Lawrence Shultz, Environmental Services and Support, Inc., David Feuerborn and Thomas Jennings for, but not limited to, the rescission of the Agreement. See Item 3, “Legal Proceedings” for additional information.

On June 26, 2011 the Company entered into a Settlement Agreement (the “Settlement Agreement”) with Enviro Serv, Shultz, David Feuerborn, an individual residing in Riverside County, California, and Thomas Jennings, an individual residing in Orange County, California (collectively the “Parties”). The Settlement Agreement permanently and irrevocably effectuates a final and binding global settlement and release of the Parties regarding the pending lawsuit between the Parties in the Northern District of Texas, Cause No. 3:10-CV-01349-O. Furthermore, the Settlement Agreement rescinds the Stock Purchase Agreement entered into by and between the Parties on September 24, 2009, and cancels 28,818,734 shares of Freestone’s common stock of the 31,603,734 shares of Freestone common stock that was originally issued to Enviro Serv and Shultz, and returns said cancelled stock to the Company’s treasury.

Research and Development

Freestone is actively evaluating other oil and gas treatment technologies, solvents, and water treatment systems that enhance the services and technologies offered by the Company. The current technologies under evaluation focus on the waste streams created by the oil and gas industry. These waste streams include: oil-based sludge, frac water, produced water, tailing ponds derived from oil sand production, etc.

Growth Strategy

Freestone is actively pursuing a strategy of growth through the development of joint ventures and license agreements with oil and gas, and environmental service companies that can utilize the ORU systems. Freestone intends to research various methods in which to expand its marketing efforts to refineries, oil and gas storage companies, independent operators, and environmental service companies.

Sale of Natural Gas and Oil

Freestone does not intend to refine its natural gas or oil production. Freestone will sell all or most of its production to certain purchasers in a manner consistent with industry practices at prevailing rates. Freestone currently sells its natural gas to Shoreline Gas, LLC and sells oil to Bargas, Inc, Superior Crude Gathering, Inc., and BML, Inc. Under current conditions, we should be able to find other purchasers, if needed. All of our produced oil is held in tank batteries and then each respective purchaser transports the oil by truck. Respectively, our natural gas is transported via pipeline.

Environmental Matters

Freestone's oil and gas operations and properties ORU operations are subject to extensive and changing federal, state and local laws and regulations relating to environmental protection, including the generation, storage, handling, emission, transportation and discharge of materials into the environment, and relating to safety and health. The recent trend in environmental legislation and regulation generally is toward stricter standards, and this trend will likely continue.

These laws and regulations may:

- require the acquisition of a permit or other authorization before construction or drilling commences and for certain other activities;
- limit or prohibit construction, drilling and other activities on certain lands lying within wilderness and other protected areas; and
- impose substantial liabilities for pollution resulting from its operations, or due to previous operations conducted on any leased lands.

The permits required for our operations may be subject to revocation, modification and renewal by issuing authorities. Governmental authorities have the power to enforce their regulations, and violations are subject to fines or injunctions, or both. In the opinion of management, we are in substantial compliance with current applicable environmental laws and regulations, and have no material commitments for capital expenditures to comply with existing environmental requirements. Nevertheless, changes in existing environmental laws and regulations or in interpretations thereof could have a significant impact on us, as well as the oil and natural gas industry in general.

The Comprehensive Environmental, Response, Compensation, and Liability Act, as amended ("CERCLA"), and comparable state statutes impose strict, joint and several liability on owners and operators of sites and on persons who disposed of or arranged for the disposal of "hazardous substances" found at such sites. It is not uncommon for the neighboring land owners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. The Federal Resource Conservation and Recovery Act, as amended ("RCRA"), and comparable state statutes govern the disposal of "solid waste" and "hazardous waste" and authorize the imposition of substantial fines and penalties for noncompliance. Although CERCLA currently excludes petroleum from its definition of "hazardous substance," state laws affecting our operations may impose clean-up liability relating to petroleum and petroleum related products. In addition, although RCRA classifies certain oil field wastes as "non-hazardous," such exploration and production wastes could be reclassified as hazardous wastes thereby making such wastes subject to more stringent handling and disposal requirements.

ITEM 1A. RISK FACTORS

As a smaller reporting company we are not required to provide the information required by this item.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. DESCRIPTION OF PROPERTY

Freestone's corporate offices are located at Republic Center, Suite 1350, 325 N. St. Paul St. Dallas, TX 75201. Freestone entered into a lease agreement on this property for a term of five years.

ITEM 3. LEGAL PROCEEDINGS

The Company filed a lawsuit in the United States District Court for the Northern District of Texas, Dallas Division, on July 9, 2010, Civil Action Number 3:10-cv-01349-O against Lawrence Shultz (“Shultz”), Environmental Services and Support, Inc. (“ESSI”), David Feuerborn (“Feuerborn”) and Thomas Jennings (Jennings”) (the “Defendants”).

The Company alleges that the Defendants and possibly others, committed fraud by nondisclosure, the common law tort of conversion by pretext and swindling, deceptive trade practices, common law fraud and fraud by misrepresentation/statutory fraud upon the Company in connection with an executed Stock Purchase Agreement (the "Agreement").

The Company is seeking rescission of the Agreement and setting aside the shares of Company common stock issued to the Defendants or their assigns and the recovery of certain sums paid in connection with the agreement. The Company is also seeking a declaratory judgment that the Agreement is void and unenforceable; that the Company's shares of stock issued to one or more of Defendants be cancelled; that the Company may adjust its share register to so reflect such cancellation; that the Agreement is void, unenforceable, and subject to cancellation by this Court; and that the Company's damages were proximately caused by such fraud and deception and the breach of legal duties owed to it by one or more of the Defendants. The Company is also seeking actual damages from the Defendants, jointly and severally, of at least \$1,614,149, as well as reasonable and necessary attorney's fees. The Company is further seeking unliquidated damages within the jurisdictional limits of the United States District Court for the Northern District of Texas, Dallas Division, exemplary damages, statutory damages, prejudgment interest and post judgment interest, compounded annually, and such other and further relief to which the Company may show itself to be justly entitled.

On June 26, 2011 the Company entered into a Settlement Agreement (the "Settlement Agreement") with Enviro Serv, Shultz, David Feuerborn, an individual residing in Riverside County, California, and Thomas Jennings, an individual residing in Orange County, California (collectively the "Parties"). The Settlement Agreement permanently and irrevocably effectuates a final and binding global settlement and release of the Parties regarding the pending lawsuit between the Parties in the Northern District of Texas, Cause No. 3:10-CV-01349-O. Furthermore, the Settlement Agreement rescinds the Stock Purchase Agreement entered into by and between the Parties on September 24, 2009, and cancels 28,818,734 shares of Freestone's common stock of the 31,603,734 shares of Freestone common stock that was originally issued to Enviro Serv and Shultz, and returns said cancelled stock to the Company's treasury.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None. The Company intends to hold an annual shareholder's meeting in the third quarter of the fiscal year ending June 30, 2012.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Common Stock is currently quoted on the OTC:BB under the symbol "FSNR."

The following tables set forth the quarterly high and low bid prices for the Common Stock for 2011 and 2010. The prices set forth below represent interdealer quotations, without retail markup, markdown or commission and may not be reflective of actual transactions.

Fiscal 2011	High	Low
First Quarter	\$ 0.51	\$ 0.09
Second Quarter	\$ 0.35	\$ 0.10
Third Quarter	\$ 0.35	\$ 0.13
Fourth Quarter	\$ 0.30	\$ 0.12
Fiscal 2010	High	Low
First Quarter	\$ 0.09	\$ 0.03
Second Quarter	\$ 0.39	\$ 0.04
Third Quarter	\$ 0.28	\$ 0.16
Fourth Quarter	\$ 0.89	\$ 0.17

Shareholders

As of June 30, 2011, there were approximately 247 record holders of the Common Stock. This number excludes any estimate by Freestone of the number of beneficial owners of shares held in street name, the accuracy of which cannot be guaranteed.

Dividends

Freestone has not paid cash dividends on any class of common equity since formation and Freestone does not anticipate paying any dividends on its outstanding common stock in the foreseeable future.

Warrants

In June 2011, the Company issued a warrant to purchase 500,000 shares of common stock to Hydrex Technologies, ("Hydrex") in conjunction with the issuance of a License Agreement to Hydrex. The warrants were exercised on June 9, 2011 for \$24,000, which, per the agreement, was 20% of the closing price on the last trading day prior to the exercise. The Company has a similar warrant agreement with Hydrex, in which the warrant is only granted and exercisable upon the completion of commercial-scale Oil Recovery Units within a stated period of time.

Stock compensation

On April 21, 2011 the Company's Board of Directors approved the following stock compensation awards to Officers and stock for services to consultants. All stock awards are subject to Rule 144 restrictions are valued at the closing trading price on that day of \$.18. Clayton Carter, President and CEO, 1,000,000 shares or \$180,000; Don Edwards, Chief Investment Officer and Vice President, 1,000,000 shares or \$180,000; James Carroll, Chief Financial Officer, 500,000 shares or \$90,000; Richard Harris, consultant, 600,000 shares or \$108,000; Jimmy Carter, consultant,

750,000 shares or \$135,000; Cade Carter, consultant, 500,000 shares or \$90,000; S. George Alfonso, the Company's attorney, 200,000 or \$36,000; Mark Smith, consulting accountant, 100,000 shares or \$18,000; Michael McGhan, consultant, 250,000 shares or \$45,000; Richard Feldman, consultant, 250,000 shares or \$45,000; and Jim Miller, consultant, 150,000 shares or \$27,000.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company we are not required to provide the information required by this item.

ITEM 7. MANAGEMENT DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

At present, Freestone's management is focused on the utilization of our unique solvent EncapSol. Freestone's acquisitions of certain oil and gas properties are necessary to conduct research and development for EncapSol, and our hydrocarbon-based product Petrozene. Minimal revenues have been earned and related expenses have been incurred from the incidental operation of these oil and gas interests, as well as miscellaneous fees associated with the corporation. Freestone continues to look for various solvents, chemicals, and technologies that might fit into Freestone's petro-chemical line.

Critical Accounting Policies

Our consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles. As such, management is required to make certain estimates, judgments and assumptions that they believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expense during the periods presented. The significant accounting policies which management believes are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Revenues from oil, gas and natural gas liquids, which are produced from the Company's wells used its research and development activities, are recognized when the products are sold to a purchaser at a fixed or determinable price, delivery has occurred and title has transferred, and collectability of the revenue is reasonably assured.

Stock Based Compensation

Pursuant to Accounting Standards Codification ("ASC") 505, the guidelines for recording stock issued for services require the fair value of the shares granted be based on the fair value of the services received or the publicly traded share price of the Company's registered shares on the date the shares were granted (irrespective of the fact that the shares granted were unregistered), whichever is more readily determinable. This position has been further clarified by the issuance of ASC 820,. ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Accordingly, the Company elected the application of these guidelines. Freestone has determined that the fair value of all common stock issued for goods or services is more readily determinable based on the publicly traded share price on the date of grant.

Research and Development

The Company currently has limited finances available for research and development. As the Company's financial position improves the Company plans to develop an appropriate research and development policy.

Results of Operations for the Year Ended June 30, 2011 Compared to the Year Ended June 30, 2010