

FREESTONE RESOURCES, INC.
Form 10-Q/A
October 30, 2015

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 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
(State or other jurisdiction of incorporation or organization)

90-0514308
(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 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

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 No

As of October 30, 2015 there were 86,138,177 shares of Common Stock of the issuer outstanding.

EXPLANATORY NOTE

We are filing this amendment to this Quarterly Report to reflect the review of our financial statements for the periods indicated by a PCAOB registered certified public accounting firm that was engaged by us as our certified public accounting firm on February 11, 2015. Subsequent to the filing of the initially filed Quarterly Report for the periods indicated, we were advised that our former certified public accounting firm was no longer a PCAOB registered public accounting firm. This Quarterly Report also reflects a restatement as more fully described in Note 11 of the financial statements.

Freestone Resources, Inc.**Consolidated Balance Sheets****(Unaudited)****As of March 31, 2014 and June 30, 2013**

Assets

| | March 31, 2014 | June 30, 2013 |
|--|---------------------------|--------------------------|
| | (Restated) | |
| Current Assets: | | |
| Cash | \$7,556 | \$205,767 |
| Accounts receivable | 81 | — |
| Total Current Assets | 7,637 | 205,767 |
| Oil and gas properties used for research and development | — | 20,000 |
| Fixed assets, net of accumulated depreciation of \$16,564 and \$61,093 | 27,470 | 47,889 |
| Total fixed assets, net | 27,470 | 67,889 |
| Investment in Aqueous Services | — | 109,763 |
| Other assets | — | 8,910 |
| Total Assets | \$35,107 | \$392,329 |

Liabilities and Stockholders' Equity

| | | |
|------------------------------|---------|---------|
| Current Liabilities: | | |
| Accounts payable | \$5,431 | \$5,452 |
| Accrued expenses | 466 | 5,784 |
| Derivative liability | — | 279,625 |
| Total Current Liabilities | 5,897 | 290,861 |
| Long-term Liabilities: | | |
| Asset retirement obligations | 14,470 | 40,497 |
| Total Liabilities | 20,367 | 331,358 |

Stockholders' Equity:

| | | |
|--|--------------|--------------|
| Common stock, \$.001 par value, 100,000,000 shares authorized, 71,543,177 and 68,318,177 shares issued and outstanding, respectively | 71,543 | 68,318 |
| Additional paid in capital | 18,629,213 | 18,117,111 |
| Accumulated deficit | (18,686,016) | (18,124,458) |
| Stockholders' Equity | 14,740 | 60,971 |
| Total Liabilities and Stockholders' Equity | \$35,107 | \$392,329 |

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

Freestone Resources, Inc.**Consolidated Statements of Operations****(Unaudited)****For the Three and Nine Months Ended March 31, 2014 and 2013**

| | Three Months Ended March 31, 2014 (Restated) | Three Months Ended March 31, 2013 | Nine Months Ended March 31, 2014 (Restated) | Nine Months Ended March 31, 2013 |
|---|---|---|--|--|
| Revenue: | | | | |
| Oil and gas revenues resulting from research activities | \$— | \$— | \$— | \$8,983 |
| Petrozene sales | 150 | — | 12,758 | — |
| Total revenues | 150 | — | 12,758 | 8,983 |
| Operating expenses: | | | | |
| Cost of revenue | — | — | 5,511 | — |
| Lease operating costs | 2,122 | 6,731 | 28,964 | 15,690 |
| Depreciation | — | 6,205 | 14,055 | 16,710 |
| Gain (Loss) on sale of asset | — | — | (11,027) | — |
| Gain (Loss) on Equity Method Investment | — | (5,035) | 14,283) | (4,999) |
| Impairment of equity investment | — | — | 95,480 | — |
| Impairment of oil & gas investment | — | — | 12,575 | — |
| General and administrative | 258,968 | 67,824 | 414,475 | 373,502 |
| Total operating expenses | 261,090 | 75,725 | 574,316 | 400,903 |
| Operating loss | (260,940) | (75,725) | (561,558) | (391,920) |
| Other income (expense): | | | | |
| Warrant expense | — | — | — | (278,273) |
| Other income (expense) | — | 188 | — | 166 |
| Total other income (expense) | — | 188 | — | (278,107) |
| Net loss | \$(260,940) | \$75,537 | \$(561,558) | \$(670,027) |
| Basic and diluted loss per share | \$(0.00) | \$(0.00) | \$(0.01) | \$(0.01) |
| Weighted average shares outstanding: | | | | |
| Basic and diluted | 69,423,912 | 62,702,416 | 68,896,918 | 62,594,192 |

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

Freestone Resources, Inc.**Consolidated Statements of Cash Flows****(Unaudited)****Nine Months Ended March 31, 2014 and 2013**

| | Nine Months Ended March 31, 2014 (Restated) | Nine Months Ended March 31, 2013 |
|---|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(561,558) | \$(670,027) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 14,055 | 16,710 |
| (Gain) Loss on Equity Method Investment | 14,283 | (4,999) |
| (Gain) on sale of asset | (11,027) | — |
| Impairment of Equity Investment | 95,480 | — |
| Impairment of Oil & Gas Investment | 12,575 | — |
| Warrant Expense | (4,098) | 278,273 |
| Shares issued for services | 189,800 | 169,000 |
| Changes in operating assets and liabilities: | | |
| Change in account receivable | (81) | — |
| Change in other assets | 8,910 | (12,762) |
| Change in accounts payable | (22) | — |
| Change in accrued expenses | (5,317) | (2,010) |
| Net cash provided used in operating activities | (247,000) | (225,815) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sale of investment asset | 5,000 | — |
| Investment in Freestone Water Solutions | — | (11,978) |
| Investment in Aqueous Services | — | (100,000) |
| Purchases of fixed assets | (6,211) | (32,055) |
| Net cash used in investing activities | (1,211) | (144,033) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on note payables – related party | — | (6,691) |
| Proceeds from sale of stock | 50,000 | 311,999 |
| Stock to be issued | — | (23,000) |
| Net cash provided by financing activities | 50,000 | 282,308 |

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| | | |
|--|-----------|-----------|
| NET CHANGE IN CASH | (198,211) | (87,540) |
| CASH AT BEGINNING OF PERIOD | 205,767 | 147,635 |
| CASH AT END OF PERIOD | \$7,556 | 60,095 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$— | \$22 |
| Non-cash investing activities: | | |
| ARO liability assumed by purchaser of oil & gas property | \$26,027 | \$— |

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

Freestone Resources, Inc.

Notes to Consolidated Financial Statements

March 31, 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 frac water and produced water. More information about Aqueous Services can be found at: <http://www.aqueousservices.com>.

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 nine months ended March 31, 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, 2013 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. Management believes that all adjustments necessary for a fair presentation of the results of the three and nine months ended March 31, 2014 and 2013 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."

These financial statements replace the financial statements originally issued for the quarter ended December 31, 2013 and included in the Company's quarterly 10Q report filed February 13, 2014. Subsequent to that filing our auditor of

record, The Hall Group, was determine not to have a valid PCAOB license and that filing was disallowed by the SEC. These financial statements have been adjusted for subsequent events between February 13, 2014 and date of reissue requiring the impairment of certain assets.

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", (formerly 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.

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, as there was a net loss from operations, any potentially dilutive securities would be considered anti-dilutive and have been excluded from the fully diluted shares outstanding. Therefore, primary earnings per share equals fully diluted.

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 March 31, 2014 and June 30, 2013.

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.

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.

Recent Accounting Pronouncements:

During the quarter ended December 31, 2013, the Company elected the early adoption of changes to *ASC 915 Development Stage Enterprises* which eliminated certain reporting requirements including identification of the Company as a development stage enterprises in financial statement headings, discussion of development stage enterprises in Note 1 Summary of Accounting Policy and the presentation of cumulative data in the statements of income and cash flows.

Reclassifications:

Certain prior year accounts have been reclassified to conform with current year presentation.

NOTE 2 – FIXED ASSETS

Fixed assets at March 31, 2014 and June 30, 2013 are as follows:

| | March 31, 2014 (Restated) | June 30, 2013 |
|---|---------------------------------|------------------|
| Computers & office furniture | \$ 8,967 | \$ 8,967 |
| Collectable art work (not depreciated) | 13,000 | 13,000 |
| Oil and gas research and development equipment | 22,067 | 107,015 |
| Total fixed assets | 44,034 | 128,982 |
| Less: Accumulated depreciation | (16,564) | (61,093) |
| Total fixed assets, net of accumulated depreciation | \$ 27,470 | \$ 67,889 |

Depreciation expense was \$0 for the three months ended March 31, 2014 and \$6,205 for the three months ended March 31, 2013. Depreciation expense was \$14,055 for the nine months ended March 31, 2014 and \$16,710 for the nine months ended March 31, 2013.

The Company disposed of the Carroll lease during the second fiscal quarter of 2014 for \$5,000. The transaction resulted in a gain of \$11,027. The \$5,000 payment was made to Freestone in the third quarter of 2014.

At December 31, 2013 the Company recorded an impairment expense of \$12,575 to reduce its net investment in the Rogers lease to \$14,470. See Note 12 for information regarding subsequent disposal of lease.

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 nine months ended March 31, 2014 the Company had a net loss of \$561,558, increasing the deferred tax asset approximately \$190,929 at the statutory tax rate of 34%. The net deferred tax asset generated by the loss carry-forward has been fully reserved and will expire in the years 2020 through 2031. The realization of deferred tax benefits is contingent upon future earnings and is fully reserved at March 31, 2014 and June 30, 2013.

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 sites 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 March 31, 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 sold the Carroll lease resulting in a reduction in the ARO obligation of \$26,027

NOTE 5 – COMMITMENTS AND CONTINGENCIES

The Company leases office space under a non-cancelable operating lease which was extended in April, 2014 and now expires in July 2017. The lease requires payment of electricity costs. . Future minimum lease payments are as follows:

| <u>Year Ending June 30.</u> | <u>Amount</u> |
|-----------------------------|---------------|
| 2015 | \$22,605 |
| 2016 | 22,605 |
| 2017 | 22,605 |
| Total | \$67,815 |

Rent expense, included in general and administrative expenses, totaled approximately 19,476 and \$21,363 for the nine months ended March 31, 2014 and 2013 respectively.

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 March 31, 2014 and June 30, 2013, there were 71,543,177 and 68,318,177 respectively, common shares outstanding.

During the nine months ended March 31, 2014 the Company sold 625,000 shares for \$50,000 cash.

On February 18, 2014 the Company issued shares of the Company's common stock to certain directors, officers and consultants for services rendered to the Company.

Clayton Carter, the Company's Director and Chief Executive Officer, received 1,000,000 shares of the Company's common stock, G. Don Edwards, the Company's Director and Chief Investment Officer, received 1,000,000 shares of the Company's common stock, and James Carroll, the Company's Director and Chief Financial Officer received 100,000 shares of the Company's common stock. The stock was valued at \$0.73 per share based on the closing price on the date of grant.

The Company also issued 500,000 shares of the Company's common stock to consultants as consideration for services rendered to the Company. The stock was valued at \$0.73 per share based on the closing price on the date of grant.

In each case, the certificates representing the shares carry a legend that the shares may not be transferred without compliance with the registration requirements of the Securities Act of 1933 or in reliance upon an exemption therefrom. For each of these transactions, the Company relied upon Section 4(2) of the Securities Act of 1933 as an exemption from the registration requirements of the Act.

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 AQUEOUS 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 frac

and production water.

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

| | March 31, 2014 (Restated) | June 30, 2013 |
|--------------------------|---------------------------------|------------------|
| Beginning Balance | \$109,763 | \$— |
| Capital Contributions | — | 115,000 |
| Equity in Loss of JV | (14,283) | (5,327) |
| Impairment of Investment | (95,480) | — |
| Period End Balance | \$— | \$109,673 |

Subsequent to year end, the board of directors of Aqueous determined to scale back the fresh water loadout facility due to decreased drilling in the region, which in turn led to a decrease in demand for fresh water from the Aqueous' facility and minimal sales. The Aqueous' board determined to keep the facility intact, and Aqueous will maintain the ability to provide fresh water to vendors on an as needed basis through its contractual term. Based on this decision and minimal sales, the Company impaired its investment down to zero as of December 31, 2013.

NOTE 9 – GOING CONCERN

As reflected in the accompanying consolidated financial statements, Freestone incurred operating losses, and negative cash flow from operations. 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 – SUBSEQUENT EVENTS

On April 16, 2014 the Company sold 2,000,000 shares of common stock for \$120,000 in working capital to private investors.

On April 17, 2014 the Company sold an 8.25% revenue interest in its Rogers Oil and Gas Lease for \$20,000 cash. On September 14, 2015 the Company repurchased the same 8.25% revenue interest in the Company's Rogers Oil and Gas Lease for \$20,000. The Company issued 200,000 shares of common stock at \$.10 to satisfy the debt.

In November, 2014 the Company sold 2,225,000 shares for cash of \$220,000

In September, 2014 the Company sold 22,000 shares for cash of \$22,000

On April 14, 2015 Freestone entered into a royalty and commission agreements with certain consultants related to the sale of Petrozene™ for their work in the re-launch of the Petrozene™ product line. These royalty and commission agreements range from 2.5% to 7.5% of the net income the Company receives from Petrozene™ sales, and the agreements also have special royalty provisions for certain customers that expire on April 14, 2016. One of the consultants is related party and the brother of the Chief Executive Officer of the Company

On June 24, 2015 the Company sold 5,000,000 shares of common stock to Dynamis Energy LLC. (Dynamis) for \$500,000 which was used as the partial payment for the purchase of C.C. Crawford Retreading Inc. Freestone also issued to Dynamis Energy LLC warrants to purchase 5M shares of common stock with par value of \$0.001. The warrant is exercisable from the issuance date for 12 months, therefore expiring on 6/24/2016. The exercise price of the warrant will be 80% of the average of the closing price on the 10 days prior to the date of issuance

On June 24, 2015 the Company acquired 100% of the outstanding common stock of C.C. Crawford Retreading Co., Inc., a privately held company, for an aggregate price of \$1,520,000. Terms of the purchase were \$500,000 cash at closing and a note payable to the seller for \$1,020,000.

On June 24, 2015 the Company entered into an agreement with Dynamis in order to form the joint venture FDEP, a Delaware limited liability company. Freestone determined to enter into a joint venture with Dynamis based on their track record and experience in the waste-to-energy industry, and their ability to provide the necessary funding to fully

integrate the production, marketing and sale of Petrozene™ to current and future customers. The terms of the joint venture between the Company and Dynamis are as follows:

- Freestone owns a 70% member interest in FDEP for licensing the rights to use Petrozene™ to FDEP; and Dynamis owns a 30% member interest FDEP in exchange providing funding up to \$5,000,000 to operate the joint venture, and purchase a continuous-feed pyrolysis machine capable of producing a product that can be used to produce Petrozene™; and
- FDEP will be leasing employees from CTR, and said employees will operate the machine. FDEP will reimburse CTR for the leased employees; and
- FDEP has the right, but not the obligation to purchase CTR from Freestone through cash compensation to Freestone, the issuance of additional units in FDEP to Freestone or a combination of both cash and units in FDEP as mutually agreed upon by FDEP and Freestone; and
- FDEP will lease a building from CTR in order to operate the specialized pyrolysis technology for payment of either the ad valorem taxes associated with the rented property or \$1,000 per month depending on which amount is the greater of the two; and
- Dynamis will receive 80% of the distributions from FDEP until they have reached a 25% initial rate of return on funds invested into the joint venture. Once the 25% initial rate of return threshold is met all distributions from FDEP will be split according to the 70 / 30 member interest of FDEP owned by the Company and Dynamis.

On June 24, 2015 FDEP simultaneously entered into a lease agreement with a company that has developed a continuous-feed pyrolysis technology that will be operated by FDEP at the Company's facility in Ennis, Texas. FDEP and the company that developed the pyrolysis technology will split the revenues generated from the machine. FDEP will receive 70% of the revenues generated from the machine, and the company providing the continuous-feed pyrolysis technology will receive 30% of the revenues. This revenue split will remain in place so long as the machine is operating at the Company's facility in Ennis, Texas. The agreement between the two companies allows FDEP the opportunity to ensure that the technology continues to operate properly under the strict conditions that are necessary to produce Petrozene™. If the leased pyrolysis machine operates within certain, predefined parameters then FDEP has the right to purchase additional machines.

On June 29, 2015 the Company also issued 100,000 shares to consultants as consideration for services rendered to the Company. The stock was valued at \$.061 per share based on the closing price on the date of grant.

On July 25, 2015 Company sold 3,500,000 shares at \$0.10 per share to provide funding of subsequent costs associated with the acquisition of CTR, as well as general working capital for the Company. This transaction made Gerald M. Johnson a controlling shareholder of the Company. Mr. Johnson also joined the Company's advisory board. Mr. Johnson is the former CFO of Tyson Foods, Inc.

On July 30, 2015 Pajarito W&M, LP and International Aqueous Investment, LLC signed an agreement with the Company to cancel 1,000,000 stock warrants issued at the formation of Aqueous Services, LLC.

On August 21, 2015 FDEP entered into a one year lease with a purchase option for a 10,000 square foot office warehouse adjacent to the Company's facilities in Ennis, TX.

On September 23, 2015 the Company issued shares of the Company's common stock to certain directors, officers and consultants for services rendered to the Company. Clayton Carter, the Company's Director and Chief Executive Officer, received 600,000 shares of the Company's common stock, G. Don Edwards, the Company's Director and Chief Investment Officer, received 600,000 shares of the Company's common stock, and James Carroll, the Company's Director and Chief Financial Officer received 50,000 shares of the Company's common stock. The Company also issued 100,000 shares to consultants as consideration for services rendered to the Company. The shares were valued at \$.19 per shares based on the closing price on the date of grant.

On September 14, 2015 the Company repurchased an 8.25% revenue interest in the Company's Rogers Oil and Gas Lease for \$20,000. The Company issued 200,000 shares of common stock at \$.10 to satisfy the debt.

On September 14, 2015 the Company disposed of its remaining oil and gas properties used for research by transferring 100% of its working interest in the Rogers Oil and Gas Lease to a third party in exchange for assumption of all asset retirement obligations and other liabilities associated with the property.

NOTE 11 - RESTATEMENT

Certain previously reported numbers have been adjusted and are reflected in this table:

Balance Sheet as of March 31, 2014:

| | As Reported | Adjustment | As Adjustment |
|--|-----------------|-----------------|---------------|
| Fixed Assets | \$ 38,113 | \$ (10,643)<A> | \$ 27,470 |
| Investment in Aqueous Service | \$ 86,687 | \$ (86,687) | - |
| Other Assets | \$ 3,625 | \$ (3,625)<A> | - |
| Total Assets | \$ 136,062 | \$ (100,955) | \$ 35,107 |
| Derivative Liability - Warrants | \$ 279,625 | \$ (279,625)<C> | - |
| Total Liabilities | \$ 299,991 | \$ (279,624) | \$ 20,367 |
| Additional Paid In Capital | \$ 18,353,686 | 275,527 <C> | 18,629,213 |
| Accumulated Deficit | \$ (18,589,158) | (96,858)<C> | (18,686,016) |
| Stockholders' Equity | \$ (163,929) | \$ 178,669 | \$ 14,740 |
| Total Liabilities & Stockholders' Equity | \$ 136,062 | \$ (100,955) | \$ 35,107 |

Statement of Operations for the Quarter Ended March 31, 2014:

| | As Reported | Adjustment | As Adjustment |
|---|--------------|---------------|---------------|
| Lease Operating Costs | \$ 2,919 | \$ (797)<A> | \$ 2,122 |
| Depreciation | \$ 1,932 | \$ (1,932)<A> | - |
| (Gain) Loss on Equity Method Investment | \$ 8,793 | \$ (8,793) | - |
| Total Expenses | \$ 272,611 | \$ (11,521) | \$ 261,090 |
| Net Income (Loss) | \$ (272,494) | \$ 11,554 | \$ (260,940) |

Statement of Operations for the Nine Months Ended March 31, 2014:

| | As Reported | Adjustment | As Adjustment |
|---|--------------|----------------|---------------|
| Lease Operating Costs | \$ 25,306 | \$ 3,658 <A> | \$ 28,964 |
| Depreciation | \$ 15,987 | \$ (1,932) <A> | \$ 14,055 |
| (Gain) Loss on Equity Method Investment | \$ 23,076 | \$ (8,793) | \$ 14,283 |
| Impairment of Equity Investment | \$ - | \$ 95,480 | \$ 95,480 |
| Impairment of Oil & Gas Investment | \$ - | \$ 12,575 <A> | \$ 12,575 |
| General and Administrative Expenses | \$ 419,409 | \$ (4,934) <C> | \$ 414,475 |
| Total Expenses | \$ 477,425 | \$ 96,891 | \$ 574,316 |
| Net Income (Loss) | \$ (464,700) | \$ (96,858) | \$ (561,558) |

The Company prior auditors, The Hall Group, did not have a valid PCAOB registration when they reviewed the financial statements <A>for this period. Certain subsequent events to the original issuance of the financial statements provided additional evidence about the condition of the oil and gas assets. Consequently, these assets were

impaired
and
reported
at their
net
realizable
value

The Company prior
auditors, The Hall
Group, did not have
a valid PCAOB
registration when
the reviewed the
financial statements

 for this
period. Certain
subsequent events
to the original
issuance of the
financial statements
provided additional
evidence about
the
condition
of the
investment
in
Aqueous
Services. Consequently,
these
assets
were
impaired
and
reported
at their
net
realizable
value

<C> During the
preparation of our
quarterly report, we
identified an error
related the accounting
for the issuance of
stock warrants. The
warrants were
incorrectly identified
as a derivative. This

resulted in an overstatement of a derivative liability of \$279,625 at December 31, 2013. and an overstatement of expense of \$4,098 due to miscalculation of the value of the warrants. Management evaluated these errors both quantitatively and qualitatively, and determined that the errors were immaterial to the prior year. Pursuant to the SEC SAB Topic 108, the error has been correct in the current period

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 and nine months Ended March 31, 2014 compared to three and nine months Ended March 31, 2013

Revenue - Our revenue for the three months ended March 31, 2014 was \$150 compared to \$0 for the same period in 2013, and was \$12,758 for the nine months ended March 31, 2014 compared to \$8,983 for the same period in 2013. Revenue increased in the nine months ended March 31, 2014, due to Petrozene™ revenues of \$11,390. Fiscal 2013 revenues were oil and gas based as there was more in-field research and development activity.

Cost of Revenues – Cost of sales (Petrozene™) for the three months ended March 31, 2014 and 2013 were \$0 and \$0, respectively. Cost of sales for the nine months ended March 31, 2014 and 2013 were \$5,511 and \$0, respectively. The cost is related to purchasing and transporting the product.

Lease Operating Expense - Lease operating expense for the three months ended March 31, 2014 was \$2,122 compared to \$6,731 for the same period in 2013 and \$28,964 for the nine months ended March 31, 2014 compared to \$15,690 for the same period in 2014. The primary reason for the YTD increase is work done on the Carroll Unit in preparation for sale.

Operating Expense - Total other operating expenses for the three months ended March 31, 2014 were 261,090 compared to \$75,537 for the same period in 2013. The increase for the three months ended March 31, 2014 was primarily due to the issuance of \$189,800 for services.

Total other operating expenses for the nine months ended March 31, 2014 were \$574,316 compared to \$400,903 for the same period in 2013. The increase was primarily due to the impairment of assets during the current year

Net Income (Loss) - Net loss for the three months ended March 31, 2014 was \$261,090 compared to net loss of \$75,537 for the same period in 2013. Net loss for the nine months ended March 31, 2014 was \$561,558 compared to \$670,027 for the same period in 2013. The increase in net loss for the quarter was primarily due to the \$189,800 of stock issuance for serviced described above. The decrease in net loss YTD is primarily due to the one time charge of \$278,273 for stock warrants in 2013.

Liquidity and Capital Resources

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

Net cash used by the Company was \$247,000 for the nine months ended March 31, 2014 compared to cash used of \$225,815 for the same period in 2013. The Company continues to explore working capital. Our cash balance at March 31, 2014 was \$7,556.

Employees

As of March 31, 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, 2013, 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 4: 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 March 31, 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 March 31, 2014, our Chief Executive and Chief Financial Officer as of March 31, 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.

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, 5 - Not Applicable.

Item 6 - Exhibits and Reports on Form 8-K

(a) The Company filed a Form 8-K on February 18, 2014 related to the issuance of 2,600,000 shares of unregistered, restricted shares to officers, consultants and staff of the Company.

(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: October 30, 2015