

FREESTONE RESOURCES, INC.

Form 10-Q

February 19, 2016

**U.S. SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2015

**OR**

**TRANSITION REPORT UNDER SECTION 13 OF 15(d) OF THE EXCHANGE ACT OF 1934**

Commission File Number 000-28753

**FREESTONE RESOURCES, INC.**

(Exact name of small business issuer as specified in its charter)

Nevada 90-0514308  
(State or other jurisdiction of incorporation) (IRS Employer Identification No.)

Republic Center, Suite 1350

325 N. St. Paul Street Dallas, TX 75201

(Address of principal executive offices)

(214) 880-4870

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  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 February 19, 2016 there were 90,325,677 shares of Common Stock of the issuer outstanding.



**Freestone Resources, Inc. and Subsidiaries****Consolidated Balance Sheets****As of December 31, 2015 and June 30, 2015****(Unaudited)**

	December 31, 2015 Successor	June 30, 2015 Successor
<b>ASSETS</b>		
Current Assets		
Cash	\$ 101,989	\$ 38,372
Accounts receivable	85,580	98,208
Inventory	89,860	122,000
Prepaid and Other Assets	37,324	51,151
Total Current Assets	314,753	309,731
Property, plant and equipment, net of accumulated depreciation of \$63,375 and \$16,564	1,669,966	1,665,430
<b>TOTAL ASSETS</b>	<b>\$1,984,719</b>	<b>\$1,975,161</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 179,381	\$ 124,046
Environmental liability	32,000	32,000
Current portion of long term debt	222,881	56,051
Total Current Liabilities	434,262	212,097
Asset Retirement Obligation	—	14,470
Long term debt, less current portion	976,781	1,104,913
<b>TOTAL LIABILITIES</b>	<b>1,411,043</b>	<b>1,331,480</b>

STOCKHOLDERS' EQUITY

Common stock, \$.001 par value, 100,000,000 shares authorized, 86,138,177 and 81,088,177 shares issued and outstanding	86,138	81,088
Additional paid in capital	20,109,728	19,488,278
Accumulated deficit	(19,822,307)	(18,925,985)
Total Stockholder's Equity Attributable to the Company	373,559	643,381
Non-Controlling Interest	200,117	300
TOTAL STOCKHOLDERS' EQUITY	573,676	643,681
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,984,719	\$1,975,161

The Accompanying Notes Are An Integral Part of These Unaudited Consolidated Financial Statements

**Freestone Resources, Inc. and Subsidiaries****Consolidated Statements of Operations****For the Three and Six Months Ended December 31, 2015 and 2014****(Unaudited)**

	Three Months Ended December 31, 2015 Successor	Three Months Ended December 31, 2014 Predecessor	Six Months Ended December 31, 2015 Successor	Six Months Ended December 31, 2014 Predecessor
<b>REVENUE</b>				
Tipping Fee Revenue	\$ 109,975	\$ 119,910	\$ 263,758	\$ 246,146
Tire Repair Revenue	93,567	102,576	206,858	253,968
Used Tire Sales	21,525	40,125	80,400	99,585
Scrap Material Sales	8,850	10,520	20,522	27,450
Total Revenue	233,917	273,131	571,538	627,149
<b>COSTS OF REVENUE</b>				
Tipping Fee Operations	49,683	69,591	112,322	145,010
Tire Repair Used	40,439	42,080	76,927	80,974
Tire Sales	15,672	(4,625)	44,136	6,488
Tire Disposal	57,140	43,769	120,714	81,443
	162,934	150,815	354,099	313,915

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Total Cost of Revenue				
GROSS PROFIT	70,983	122,316	217,439	313,234
OPERATING EXPENSES				
Lease Operating Expenses	-	-	402	-
Joint Venture Start Up Costs	177,009	-	234,627	-
Selling General and Administrative	49,932	38,939	102,160	86,818
Depreciation and Amortization	230,032	94,851	725,695	167,190
Total Operating Expense	28,751	17,381	56,408	32,544
INCOME (LOSS) FROM OPERATIONS	485,724	151,171	1,119,292	286,552
OTHER INCOME (EXPENSES)				
Interest Expense, net	(33,511)	(3,189)	(66,759)	(6,155)
	(33,511)	(3,189)	(66,759)	(6,155)
NET INCOME(LOSS)	(414,741)	(28,855)	(901,853)	26,682
Loss Attributable to Non-Controlling Interest	54,105	-	72,290	-
NET INCOME(LOSS) ATTRIBUTABLE TO	\$ (394,147)	\$ (32,044)	\$ (896,322)	\$ 20,527



FREESTONE

Basic and  
diluted income  
(loss) per share

Net

income

(loss) per

share

(0.00)

(0.01)

Weighted

average

shares

outstanding

Basic

and

diluted

86,138,177

83,861,003

The Accompanying Notes Are An Integral Part of These Unaudited Consolidated Financial Statements

**Freestone Resources, Inc. and Subsidiaries****Consolidated Statement of Cash Flow****For the Six Months Ended December 31, 2015 and 2014****(Unaudited)**

	December 31, 2015 Successor	December 31, 2014 Predecessor
CASH FLOW FROM OPERATING ACTIVITIES		
Net		
Income	\$ (968,612)	\$ 20,527
(Loss)		
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	56,408	32,544
Shares Issued for Services	256,500	-
Changes in operating assets and liabilities		
Decrease in Accounts Receivable	12,928	23,962
(Increase)	32,140	(8,588)
Decrease		

in Inventory Decrease		
in Prepaid Expenses	13,827	25,812
Increase (Decrease) in Accounts Payable and Accrued Liabilities	209,614	(63,121)
Net Cash Provided by (Used In) Operating Activities	(387,195)	31,136
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(4,947)	-
Net Cash Used in Investing Activities	(4,947)	-
CASH FLOW FROM FINANCING ACTIVITIES		
Sale of Stock for Cash	350,000	-
Contributions to LLC by Holders of Non-Controlling Interest in FDEP	137,528	-
Repayment of Debt	(31,769)	(25,858)
Net Cash Provided by (Used In) Financing Activities	455,759	(25,858)

Net Increase in Cash		63,617		5,278
Cash at Beginning of the Period		38,372		30,465
Cash at the End of the Period	\$	101,989	\$	35,743
Cash Transactions Total				
Amount of Interest Paid in Cash	\$	5,099	\$	6,155
Non Cash financing and Investing Activities				
Notes Payable for Purchase of Assets	\$	70,467	\$	-
ARO Assumed By Purchaser in Exchange for				
O&G Property	\$	14,470	\$	-
Shares Issued for O&G Interest	\$	20,000	\$	-
Expenses Paid Directly by Holders of Non-Controlling Interest in FDEP	\$	134,579	\$	-

The Accompanying Notes Are An Integral Part of These  
Unaudited Consolidated Financial Statements

**Freestone Resources, Inc. and Subsidiaries**

**Notes to Unaudited Consolidated Financial Statements**

**December 31, 2015**

**(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 developing a new and improved formula. Petrozene™ is primarily used to dissolve paraffin buildup, and it is primarily 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.

On June 24, 2015 Freestone purchased 100% of the common stock of C.C. Crawford Retreading Company, Inc. (“CTR”), a Texas corporation. CTR is an Off-The-Road (“OTR”) tire company located in Ennis, Texas, and a wholly owned subsidiary of Freestone. CTR’s primary business is to repair, recycle, dispose of and sell OTR tires, which are used on large, industrial equipment. Freestone made the decision to purchase CTR in order to utilize the CTR facility for the production of Petrozene™.

On June 24, 2015 the Company formed Freestone Dynamis Energy Products, LLC (“FDEP”), a Delaware limited liability company, with Dynamis Energy, LLC (“Dynamis”). FDEP was formed in order to operate and manage the specialized pyrolysis process that is used to create Petrozene™ and other byproducts of value. Freestone chose to work with Dynamis based on their extensive engineering and waste-to-energy expertise. Freestone owns a 70% member interest in FDEP.

The acquisition of CTR and the formation of FDEP have allowed Freestone to vertically integrate the Petrozene™ product line. CTR will remain an auxiliary company that will maintain existing operations that complement the efforts of FDEP and Freestone.

Unaudited Interim Financial Statements:

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission. These financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary to present fairly the balance sheet, statement of operations, statement of stockholders' equity and statement of cash flows for the periods presented in accordance with accounting principles generally accepted in the United States. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to SEC rules and regulations. It is presumed that users of this interim financial information have read or have access to the audited financial statements and footnote disclosure for the preceding fiscal year contained in the Company's Annual Report on Form 10-K. The results of operations for the three and six months ended December 31, 2015 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 the Financial Statements and notes thereto included in the Company's June 30, 2015 Form 10-K.

Predecessor Accounting:

On June 24, 2015 Freestone acquired 100% of the outstanding common stock of CTR. The operations of Freestone were insignificant in comparison to CTR, so the consolidated financial statements included for the three and six months ended December 31, 2014 are presented under predecessor entity reporting wherein the prior historical information consists solely of CTR's results of operations and cash flows. The consolidated balance sheets as of December 31, 2015 and June 30, 2015 and results of operations and cash flows for the quarter ended December 31, 2015 are presented under successor entity reporting.

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.

**NOTE 2 – INVENTORY**

Inventory of the predecessor company is carried at lower of cost or market. At acquisition the Company's inventory was revalued at fair market value as part of the purchase price allocation. The Company's inventory consists of processed rubber from disposed tires carried at cost of processing, and used tires for sale carried at the cost of repairs. As of December 31, 2015 and June 30, 2015 inventory consisted of:

	12/31/15	6/30/15
Crum Rubber for Processing	\$ 18,383	\$ 10,246
Used Tire for Resale	71,477	111,754
	\$ 89,860	\$ 122,000

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT**

At December 31, 2015 and June 30, 2015 Property, Plant and Equipment was as follows:

	12/31/15	6/30/15
Land	\$ 360,000	\$ 360,000
Buildings and Improvements	700,000	700,000
Computers and Office Furniture	21,967	21,967
Automotive Equipment	94,829	78,100
Machinery and Equipment	558,545	499,860
Oil and gas properties used for research and development	—	22,067
	1,735,341	1,681,994
Less Accumulated Depreciation	65,375	16,654
	\$ 1,669,966	\$ 1,665,430



Depreciation expense was \$28,751 and \$17,381 for the three months ended December 31, 2015 (Successor) and December 31, 2014 (Predecessor), respectively. Depreciation expense was \$56,408 and \$32,544 for the six months ended December 31, 2015 (Successor) and December 31, 2014 (Predecessor), respectively.

On August 27, 2015 the Company disposed of its remaining oil and gas interest in exchange for the assumption of the plugging liability by the purchaser.

#### **NOTE 4 – ENVIRONMENTAL LIABILITY**

The environmental liability was calculated by estimating the costs associated with the various disposal costs that would be necessary to remove the tires from the CTR permitted facility. Upon acquisition of CTR by Freestone the liability was reduced to \$32,000 (Successor) as part of the purchase price allocation, and the revaluation of assets and liability to fair market value. The reduction was due to the formation of FDEP. CTR will convert the majority of the tires into crum rubber, and sell it to FDEP as a feedstock for its specialized pyrolysis operations. The remaining \$32,000 is an estimate of cost of disposing of the tires that are not acceptable for use as feedstock.

**NOTE 5 – NOTES PAYABLE**

At December 31, 2015 and June 30, 2015 Notes Payable were as follows:

	12/31/15	6/30/15
Note payable to bank bearing interest at 4.5% with monthly payment of \$390 maturing September, 2017. The note is secured by an automobile	\$ 7,857	\$ 9,989
Note payable to bank bearing interest at 6.5% with monthly payment of \$4,892 maturing November, 2017. The note is secured by machinery and equipment	105,554	130,975
Note payable to seller in connection with purchase of CTR bearing interest at 12% maturing June, 2019. Interest only payable for the first year. Monthly payment of \$34,991 beginning July, 2016. Secured by the common stock and assets of CTR	1,020,000	1,020,000
Note payable to bank bearing interest at 4.95%	12,137	—

with monthly payments of \$315 maturing August, 2019. The note is secured by equipment

Notes payable to bank bearing interest 3.95% with monthly payments of \$489 maturing September, 2020. The notes is secured by equipment

24,950 —

Notes payable to bank bearing interest 4.78% with monthly payments of \$309 maturing December, 2020. The notes is secured by equipment

16,225 —

Note payable to bank bearing interest at 5.69% with monthly payments of \$264 maturing August, 2020. The note is secured by an automobile

12,939 —

1,199,662 1,160,964

Less current maturities

(222,881 ) (56,051 )

\$ 976,781 \$ 1,104,913

At December 31, 2015 future maturities of long term debt were as follows:

Year Ending December 31:

2016	\$	221,881
2017		392,727
2018		367,162
2019		206,918
2020		9,974

\$ 1,199,662

**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 December 31, 2015 and June 30, 2015, there were 86,138,177 and 81,088,117 respectively, common shares outstanding. During the six months ended December 31, 2015 the Company sold 3,500,000 shares for cash proceeds of \$350,000.

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 stock was valued at \$.19 a share based on the closing price on the date of award.

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.

**Stock Warrants:**

In connection with the sale of 5,000,000 shares of the company common stock associated with the purchase of CTR during June 2015 the Company issued 5,000,000 warrants to purchase shares of common stock at 80% of the average closing bid and sale cost over the previous ten days at exercise date. The warrants vest immediately and have a one year term.

On July 30, 2015 the Company reached an agreement with the holders to cancel the 1,000,000 warrants outstanding which would have expired November 15, 2015.

**NOTE 7 – THE ACQUISITION OF C.C. CRAWFORD RETREADING COMPANY, INC.**

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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. The cash down payments was paid direct to a seller by a third party from sale of stock proceeds. The Company estimated the fair value of assets acquired net of liabilities assumed to be \$1,648,750 resulting in a bargain purchase gain of \$128,750. See notes to the Company's June 30, 2015 10K for details of the purchase price allocation and pro forma financial statements.

Unaudited pro forma results of operations data for the three and six months ended December 31, 2014 as if the Companies had been combined as of July 1, 2014, follow. The pro forma results include estimates and assumptions which management believes are reasonable. However pro form results do not include any anticipated cost savings or other effects of the planned integration of these entities, and are not necessarily indicative of the results that would have occurred if the business combination had been in effect on the dates indicated or which may result in the future.

	Three Months Ended 12/31/14	Six Months Ended 12/31/14
Revenue	\$276,642	\$630,660
Net Income (Loss)	\$(101,725 )	\$(115,474 )
E.P.S	\$(0.00 )	\$(0.00 )
Weight Average Shares Outstanding	79,712.525	79,127,851

**NOTE 8 – THE FORMATION OF FREESTONE DYNAMIS ENERGY PRODUCTS, LLC.**

On June 24, 2015 the Company entered into an agreement with Dynamis in order to form Freestone Dynamis Energy Products, LLC. (“FDEP”), a Delaware limited liability company. Freestone determined to form FDEP 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 agreements 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 FDEP, 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 FDEP. 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.

During the six months ended December 31, 2015, Dynamis paid \$134,579 for certain engineering and general administrative costs on behalf of FDEP, which are shown on the Statement of Cash Flows as a non-cash financing activity. These payments were treated as capital contributions to the entity by Dynamis. Dynamis also made cash contributions totaling \$137,528 to the entity during the six months ended December 31, 2015.

At December 31, 2015 and June 30, 2014 the consolidated assets of Freestone included \$27,993 and \$0, respectively of cash which is only available to settle the liabilities of FDEP.



**NOTE 9 – GOING CONCERN**

As of the date of this quarterly report, there is doubt regarding the Company’s ability to continue as a going concern as we have not generated sufficient cash flows to fund our business operations and loan commitments. Our future success and viability, therefore, are dependent upon our ability to generate capital financing. The failure to generate sufficient revenues or raise additional capital may have a material and adverse effect upon the Company and our shareholders.

The Company formed FDEP in order to vertically integrate its Petrozene™ product line, and utilize a specialized pyrolysis process in order to produce other byproducts of value that will generate revenue for FDEP. In turn, the ability of FDEP to process large quantities of OTR tires will allow the Company to increase the amount of OTR tires it can dispose of and process, which will generate additional revenue of the Company. Additionally, the Company intends to raise equity or debt financing that will allow the Company to expand its current operations.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

The Company leases office space in Dallas, TX under a non-cancelable operating lease that expires in July 2017 and warehouse space in Ennis, TX under a one year lease with a purchase option for \$260,000. Future minimum lease payments are as follows:

Year End June 30	Amount
2016	23,123
2017	26,545
2018	1,884
Total	51,552

Rent expense, included in general and administrative expenses, totaled approximately \$18,163 and \$25,784 for the three and six months ended December 31, 2015 (Successor), respectively. The predecessor had no lease expense for the three and six months ended December 31, 2014.

Freestone has 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. No royalties were paid during the three and six months ended December 31, 2015.

**NOTE 11 – RELATED PARTY TRANSACTIONS**

One of the consultants who has a royalty and commission agreement as discussed in Note 10 is related party and the brother of a Director of the Company.

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.

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

**NOTE 12- SUBSEQUENT EVENTS**

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

On January 6, 2016, the Company issued 100,000 shares of the Company's common stock at \$0.18 per share, restricted pursuant to Rule 144, a consultant for the company and a related party to a Director of the Company, for representing Freestone on the Board of Members of FDEP and for consulting services rendered to the Company.

On January 6, 2016, the Company issued 150,000 shares of the Company's common stock at \$0.18 per share, restricted pursuant to Rule 144, to an accounting employee of the Company, for services rendered to the Company.

On January 6, 2016, Clayton Carter resigned as Chief Executive Officer of the Company, and Michael J. McGhan was appointed by the Board of Directors as the Chief Executive Officer and Chairman of the Board.

On January 7, 2016 Michael McGhan and the Company entered into a two-year employment agreement ("Employment Agreement"). The terms of the Employment Agreement include an initial salary of \$5,000.00 per month, which will increase to \$10,000.00 per month after six months, as well as stock-based compensation in the amount of 3,000,000 shares of the Company's restricted stock pursuant to Rule 144. Subject to Board approval, Mr. McGhan is eligible to receive warrants for up to 2,000,000 shares of the Company's common stock (the "Warrants"). The Warrants are not issued on the date of the Employment Agreement. The Board is not required to issue the Warrants. If the Warrants are issued to Mr. McGhan during the term of his Employment Agreement, the terms and conditions of the Warrants will be determined by the Board on the date the Warrants are issued. Mr. McGhan will also be eligible to participate in the Company's employee benefit plan that is generally available to all other employees at the Company.

On January 7, 2016, 3,000,000 million shares of the Company's common stock, restricted pursuant to Rule 144, were issued to Michael McGhan at a price of \$0.18 per share per the terms and conditions of Mr. McGhan's Employee Agreement.

On January 26, 2016, the Company sold 250,000 shares of the Company's common stock, restricted pursuant to Rule 144, at a purchase price of \$0.08 per share.

On January 26, 2016, the Company sold 62,500 shares of the Company's common stock, restricted pursuant to Rule 144, at a purchase price of \$0.08 per share.

On January 28, 2016, the Company sold 562,500 shares of the Company's common stock, restricted pursuant to Rule 144, to Gerald M. Johnston, a Director of the Company, at \$0.08 per share.

On January 28, 2016, the Company sold 62,500 shares of the Company's common stock, restricted pursuant to Rule 144, at a purchase price of \$0.08 per share.

## **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. (the “Company” or “Freestone”), a Nevada corporation, 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 developing a new and improved formula. Petrozene™ is primarily used to dissolve paraffin buildup, and it is primarily 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.

On June 24, 2015 Freestone purchased 100% of the common stock of C.C. Crawford Retreading Company, Inc. (“CTR”), a Texas corporation. CTR is an Off-The-Road (“OTR”) tire company located in Ennis, Texas, and a wholly owned subsidiary of Freestone. CTR’s primary business is to repair, recycle, dispose of and sell OTR tires, which are used on large, industrial equipment. Freestone made the decision to purchased CTR in order to utilize the CTR facility for the production of Petrozene™.

On June 24, 2015 the Company formed Freestone Dynamis Energy Products, LLC (“FDEP”) with Dynamis Energy, LLC (“Dynamis”). FDEP was formed in order to operate and manage the specialized pyrolysis process that is used to create Petrozene™ and other byproducts of value. Freestone chose to work with Dynamis based on their extensive engineering and waste-to-energy expertise. Freestone owns a 70% member interest in FDEP.

The acquisition of CTR and the formation of FDEP have allowed Freestone to vertically integrate the Petrozene™ product line. CTR will remain an auxiliary company that will maintain existing operations that complement the efforts of FDEP and Freestone.

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

**The three and six months ended December 31, 2015 (Successor) compared to the three and six months ended December 31, 2014 (Predecessor)**

**Revenue** – Our revenue for the six months ended December 31, 2015 (Successor) was \$571,538, compared to \$671,149 for the six months ended December 31, 2014 (Predecessor) due primarily to a decrease in tire repair revenue. Our revenue for the three months ended December 31, 2015 (Successor) was \$233,917, compared to \$273,131 for the six months ended December 31, 2014 (Predecessor) due primarily to a decrease in tire repair revenue and used tire sales.

**Cost of Revenues** – Cost of revenue increased from \$313,915 for the six months ended December 31, 2014 (Predecessor) to \$354,099 for the six months ended December 31, 2015 (Successor). This was primarily a result of a \$39,271 increase in disposal costs. Used tire cost increased by \$37,648 due primarily to the adjustment of inventory to fair value at acquisition which resulted in a higher per tire cost for the tires sold during the period. Cost of revenue for the three months ended December 31, 2015 (Successor) was \$162,934 compared to \$150,815 for the three months ended December 31, 2014 (Predecessor). The increase was largely due to an increase in cost of used tiers resulting from the adjustment of inventory to fair value and the increase cost of tire disposal operations.

**Operating Expense** – Total operating expenses for the six months ended December 31, 2015 (Successor) were \$1,119,292 compared to the operating cost for the six months ended December 31, 2014 (Predecessor) of \$286,552. The increase was due to the inclusion of Freestone resources and its related costs associated with being public company and the acquisition of CTR as well as startup cost of FDEP. Specific costs included \$236,500 of shares issued for services, \$188,943 of profession fees and \$67,375 of payroll. The increase in depreciation expense was due to the write up of the acquired assets to fair value at acquisition. In addition the Company incurred \$240,967 in startup cost for its FDEP operations. Operating expenses for the three months ended December 31, 2015 (Successor) were \$485,724 compared to \$151,171 for the three months ended December 31, 2014 (Predecessor). The increase was due to \$180,009 of startup cost for FDEP, as well as the inclusion of Freestone Resources and its cost of operating as a public company.

**Other Income and Expenses** – Other income and expense for the six months ended December 31, 2015 (Successor) consisted of \$66,759 of interest expense compared to other income and expense for the six months ended December 31, 2014 (Predecessor) consisting of \$6,155 of interest expense. For the three months ended December 31, 2015 (Successor) other expenses consisted of \$33,511 of interest expense compared to \$3,189 for the three months ended December 31, 2014 (Predecessor). The increase in interest expense was due to the debt taken on to finance the purchase of CTR and additional debt within CTR to fund new equipment purchases.

### **Net Income (Loss)**

Net loss for the six months ended December 31, 2015 (Successor) was \$896,322 compared to net income of \$20,527 for the six months ended December 31, 2014 (Predecessor). The loss was due to the expenses of Freestone as detailed above. CTR's net income for the six months ended December 31, 2015 was \$21,100 compared to \$20,527 for the six months ended December 31, 2014. Net loss for the three months ended December 31, 2015 (Successor) was \$394,147 compared to \$32,044 for the three months ended December 31, 2014 (Predecessor). Increase was due to the addition of Freestone Resources and FDEP as detailed above.

### **Liquidity and Capital Resources**

The Company has little cash reserves and liquidity to the extent we receive it from operations and through the sale of common stock.

The accompanying financial statements are presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of the date of this annual report, there is doubt regarding the Company's ability to continue as a going concern as we have not generated sufficient cash flows to fund our business operations and loan commitments. Our future success and viability, therefore, are dependent upon our ability to generate capital financing. The failure to generate sufficient revenues or raise additional capital may have a material and adverse effect upon the Company and our shareholders.

The Company formed FDEP in order to vertically integrate its Petrozene™ product line, and utilize a specialized pyrolysis process in order to produce other byproducts of value that will generate revenue for FDEP. In turn, the ability of FDEP to process large quantities of OTR tires will allow the Company to increase the amount of OTR tires it can dispose of and process, which will generate additional revenue of the Company. Additionally, the Company intends to raise equity or debt financing that will allow the Company to expand its current operations.

Net cash used in operations was \$387,195 for the six months ended December 31, 2015 (Successor) compared to net cash provided by operations of \$31,136 for the six months ended December 31, 2014 (Predecessor). The change was due to the increase costs from the addition of Freestone's operations to the predecessor financials. The cash used in operations was offset by \$350,000 proceeds from the sale of Freestone common stock.

## **Employees**

As of December 31, 2015 CTR had 15 full time employees. Freestone has four employees.

## **Need for Additional Financing**

The Company is uncertain of its ability to generate sufficient liquidity from its operations so the need for additional funding may be necessary. The Company may sell stock and/or issue additional debt to raise capital to accelerate its growth.

## **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 December 31, 2015. 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 December 31, 2015, our Chief Executive and Chief Financial Officer as of December 31, 2015 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) None

(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, Chief Executive Officer

Date: February 16, 2016

