

FREESTONE RESOURCES, INC.
Form 10-Q
November 14, 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 September 30, 2016

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 registrant as specified in its charter)

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Nevada

90-0514308

(State or other jurisdiction of incorporation or organization) (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 November 14, 2016 there were 91,238,177 shares of Common Stock of the issuer outstanding.

Freestone Resources Inc. and Subsidiaries
Consolidated Balance Sheets
As of September 30, 2016 and June 30, 2016

	September 30, 2016 (Unaudited)	June 30, 2016
ASSETS		
Current Assets		
Cash	\$ 10,998	\$ 29,791
Accounts receivable, less allowance for doubtful accounts of \$4,000 and \$4,000	150,133	141,134
Inventory	50,509	69,570
Prepaid and Other Assets	79,582	43,497
Total Current Assets	291,222	283,992
Property, plant and equipment, net of accumulated depreciation of \$156,899 and \$125,436	1,597,198	1,641,661
TOTAL ASSETS	\$ 1,888,420	\$ 1,925,653
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 96,197	\$ 86,661
Accrued liabilities	301,109	205,382
Environmental liability	400,000	400,000
Current portion of capital lease obligations	11,522	11,419
Current portion of long-term debt	1,315,600	1,212,261
Total Current Liabilities	2,124,428	1,915,723
Capital lease obligation, less current portion	34,611	37,523
Long-term debt, less current portion	32,726	50,279
TOTAL LIABILITIES	2,191,765	2,003,525
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, \$.001 par value, 100,000,000 shares authorized, 91,238,177 and 90,613,177 shares issued and outstanding	91,238	90,613
Additional paid in capital	20,820,878	20,786,503
Accumulated deficit	(21,640,950)	(21,304,159)
Total Freestone Resources, Inc. stockholders' deficit	(728,834)	(427,043)
Non-Controlling Interest	425,489	349,171

Total equity (deficit)	(303,345)	(77,872)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$1,888,420	\$1,925,653

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

Freestone Resources Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)
Three Months Ended September 30, 2016 and 2015

	September 30, 2016	September 30, 2015
REVENUE		
Tipping Fee Revenue	\$ 134,502	\$ 153,783
Tire Repair Revenue	95,922	113,291
Used Tire Sales	35,902	58,875
Other Revenue	18,291	11,672
Total Revenue	284,617	337,621
COSTS OF REVENUE		
Tipping Fee Operations	70,479	62,639
Tire Repair	38,583	36,488
Used Tire Sales	21,978	28,464
Tire Disposal	79,404	63,574
Scrap and Other Costs	3,862	—
Total Cost of Revenue	214,306	191,165
GROSS PROFIT	70,311	146,456
OPERATING EXPENSES		
Start Up Costs	94,566	60,618
Selling	51,073	52,228
General and Administrative	217,875	493,065
Depreciation and Amortization	31,463	27,657
Total Operating Expense	394,977	633,568
INCOME (LOSS) FROM OPERATIONS	(324,666)	(487,112)
OTHER INCOME (EXPENSES)		
Loss on Sale of Asset	(6,200)	—
Interest Expense, net	(35,719)	(33,248)
	(41,919)	(33,248)
NET INCOME(LOSS)	(366,585)	(520,360)
Loss Attributable to Non-Controlling Interest	29,794	18,185
NET INCOME(LOSS) ATTRIBUTABLE TO FREESTONE	\$(336,791)	\$(502,175)
Basic and diluted income (loss) per share		

Net income (loss) per share	(0.00)	(0.01)
Weighted average shares outstanding				
Basic and diluted	91,005,840		81,509,916	

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

Freestone Resources Inc. and Subsidiaries
 Consolidated Statements of Cash Flow
 (Unaudited)
 Three Months Ended September 30, 2016 and 2015

	September 30, 2016	September 30, 2015
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$(366,585)	\$(520,360)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	31,463	27,657
Shares Issued for Services	10,000	256,500
Loss on Sale of Fixed Assets	6,200	—
Changes in operating assets and liabilities		
(Increase) in Accounts Receivable	(8,999)	(24,588)
Decrease in Inventory	19,061	21,292
(Increase) Decrease in Prepaid Expenses	(36,085)	(15,681)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	119,406	113,742
Net Cash Used in Operating Activities	(225,539)	(141,438)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds From Sale of Fixed Assets	6,800	0
Purchase of Fixed Assets	—	(4,947)
Net Cash Provided by (Used in) Investing Activities	6,800	(4,947)
CASH FLOW FROM FINANCING ACTIVITIES		
Sale of Stock for Cash	25,000	350,000
Contributions to LLC by Holders of Non-Controlling Interest in FDEP	91,969	14,520
Proceeds from Notes Payable	104,568	—
Repayment of Debt	(21,591)	(14,344)
Net Cash Provide by Financing Activities	199,946	350,176
Net Decrease in Cash	(18,793)	203,791
Cash at Beginning of the Period	29,791	38,372
Cash at the End of the Period	\$10,998	\$242,163
Cash Transactions		
Total Amount of Interest Paid in Cash	\$3,649	\$2,092
Non Cash financing and Investing Activities		
Notes Payable for Purchase of Assets	\$—	\$53,998
ARO Assumed By Purchaser in Exchange for		

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O&G Property	\$—	\$14,470
Shares Issued for O&G Interest	\$—	\$20,000
Expenses Paid Directly by Holders of Non-Controlling In FDEP	\$14,143	\$31,584

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

Freestone Resources, Inc.

Notes to Consolidated Financial Statements

September 30, 2016

(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, and statement of cash flows for the periods presented in accordance with accounting principles generally accepted in the United States. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to SEC rules and regulations. It is presumed that users of this interim financial information have read or have access to the audited financial statements and footnote disclosure for the preceding fiscal year contained in the Company's Annual Report on Form 10-K. The results of operations for the three months ended September 30, 2016 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, 2016 Form 10-K.

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 Company is carried at lower of cost or market. At the acquisition of CTR, 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 September 30, 2016 and June 30, 2016 inventory consisted of:

	9/30/16	6/30/16
Crum Rubber for Processing	\$8,087	\$8,087
Used Tire for Resale	34,746	49,945
Tire Oil	7,676	11,538
	\$50,509	