

FREESTONE RESOURCES, INC.

Form 10-Q

May 15, 2015

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 March 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

(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 May 15, 2015 there were 75,988,177 shares of Common Stock of the issuer outstanding.

Freestone Resources, Inc.

Consolidated Balance Sheets

As of March 31, 2015 and June 30, 2014

Assets

	(Unaudited) March 31, 2015	June 30, 2014
Current Assets:		
Cash	\$91,850	\$73,106
Accounts receivable	1,520	81
Repaid Expenses and Other Assets	1,875	—
Total Current Assets	95,245	73,187
Fixed assets, net of accumulated depreciation of \$28,163 and \$19,689	64,711	48,480
Total fixed assets, net	64,711	48,480
Investment in Aqueous Services	14,778	31,000
Other assets	8,010	3,625
Total Assets	\$ 182,744	\$ 156,292

Liabilities and Stockholders' Equity

Current Liabilities:		
Accounts payable	\$ 10,796	\$ 9,320
Accrued expenses	466	466
Derivative liability - warrants	59,064	59,819
Total Current Liabilities	70,326	69,605
Long-term Liabilities:		
Asset retirement obligations	14,470	14,470
Total Liabilities	84,796	84,075

Stockholders' Equity (Deficit):

Common stock, \$.001 par value, 100,000,000 shares authorized, 75,988,177 and 75,543,177 shares issued and outstanding, respectively	75,988	73,543
Additional paid in capital	18,711,241	18,471,686
Accumulated deficit	(18,689,281)	(18,473,012)
Stockholders' Equity (Deficit)	97,948	72,217
Total Liabilities and Stockholders' Equity	\$182,744	\$156,292

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

Freestone Resources, Inc.**Consolidated Statements of Operations****For the Three and Nine Months Ended March 31, 2015 and 2014****(unaudited)**

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014	Nine Months Ended March 31, 2015	Nine Months Ended March 31, 2014
Revenue:				
Oil and gas revenues resulting from research activities	\$2,723	\$117	\$2,723	\$1,335
Other oil and gas related revenues			—	11,390
Total revenue	2,723	117	2,723	12,725
Operating expenses:				
Cost of revenue	—	—	—	5,511
Lease operating costs	912	2,919	7,410	25,306
Depreciation	3,233	1,932	10,324	15,987
Stock Based Compensation	—	189,800	—	189,800
Revision to ARO estimate	—	—	—	(26,027)
(Gain) Loss on Equity Method Investment	5,506	8,793	16,222	23,076
General and administrative	72,758	69,167	186,856	229,608
Total operating expenses	82,409	272,611	220,812	463,261
Operating loss	(79,686)	(272,494)	(218,089)	(450,536)
Other income (expense):				
Gain (loss) on change in valuation of derivative liability	67,172	8,323	756	75,046
Gain (Loss) on sale of asset	530	—	1,064	(15,000)
Other income (expense)	—	—	—	836
Total other income (expense)	67,702	8,323	1,820	60,882
Net loss	\$(11,984)	\$(264,171)	\$(216,269)	\$(389,654)

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Basic and diluted loss per share	\$ (0.00	) \$ (0.00	) \$ (0.00	) \$ (0.01	)
Weighted average shares outstanding:					
Basic and diluted	74,543,177	68,943,177	74,738,907	68,943,177	

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

Freestone Resources, Inc.

Consolidated Statement of Stockholders' Equity

And the Nine Months Ended March 31, 2015

(Unaudited)

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid in Capital	Deficit	Total
Balance, June 30, 2014	73,543,177	\$73,543	\$18,471,686	\$(18,473,012)	\$72,217
Common stock issued for cash	2,445,000	2,445	239,555		242,000
Net loss				(216,269)	(216,269)
Balance, March 31, 2015	75,988,177	\$75,988	\$18,711,241	\$(18,689,281)	\$97,948

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

Freestone Resources, Inc.**Consolidated Statements of Cash Flows****Nine Months Ended March 31, 2015 and 2014****(Unaudited)**

	Nine Months Ended	Nine Months Ended
	March 31, 2015	March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$(216,269)	\$(389,654)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,324	15,987
(Gain) loss on change in valuation of derivative liability	(756)	(75,046)
(Gain) loss on equity method investment	16,222	23,076
(Gain) loss on sale of asset	(1,064)	15,000
(Decrease) increase of ARO estimate	—	(26,027)
Shares issued for services	—	189,800
Changes in operating assets and liabilities:		
Change in account receivable	(1,439)	(81)
Change in other assets	(6,260)	5,285
Change in accounts payable	1,477	(22)
Change in accrued expenses	—	(5,318)
Net cash provided used in operating activities	(197,765)	(247,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of asset	3,840	5,000
Purchases of fixed assets	(29,331)	(6,211)
Net cash used in investing activities	(25,491)	(1,211)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock	242,000	50,000
Stock returned upon settlement of litigation	—	—

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Net cash provided by financing activities	242,000	50,000
NET CHANGE IN CASH	18,744	(198,211)
CASH AT BEGINNING OF PERIOD	73,106	205,767
CASH AT END OF PERIOD	\$91,850	\$7,556
Supplemental cash flow information:		
Cash paid for interest	\$—	\$22
Stock Based Compensation	\$—	\$189,800

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

Freestone Resources, Inc.

Notes to Unaudited Consolidated Financial Statements

March 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. During the quarter ended December 31, 2014, the Company has elected to early adopt Accounting Standards Update No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements. The adoption of this ASU allows the Company to remove the inception to date information and all references to development stage. 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 frack 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 months ended September 30, 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, 2014 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 – FIXED ASSETS

Fixed assets at March 31, 2015 and June 30, 2014 are as follows:

	3/31/15	6/30/14
Computers & office furniture	\$8,968	\$8,968
Collectable Art Work (not depreciated)	13,000	13,000
Oil and gas properties used for research and development	70,906	46,201
Total fixed assets	92,874	68,169
Less: Accumulated depreciation	(28,163)	(19,689)
Total fixed assets, net of accumulated depreciation	\$64,711	\$48,480

Depreciation expense was \$10,324 and \$15,987 for the nine months ended March 31, 2015 and 2014, respectively.

NOTE 3 – 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, 2015 and June 30, 2014, there were 75,988,177 and 73,543,177 respectively, common shares outstanding. During the nine months ended March 31, 2015 the Company sold 2,445,000 shares for cash proceeds of \$242,000.

NOTE 4 – 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 frack and production water.

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

	March 31, June 30,	
	2015	2014
Beginning Balance	\$31,000	\$70,000
Capital Contributions	—	—
Equity in Loss of JV	(16,222)	(31,340)
Impairment of Investment	—	(7,660)
Period End Balance	\$14,778	\$31,000

NOTE 5 – GOING CONCERN

As reflected in the accompanying consolidated financial statements, Freestone incurred operating losses, and has a negative working capital position as of March 31, 2015. 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 6 – FAIR VALUE MEASUREMENTS

Cash, accounts receivable, accounts payable and other accrued expenses and other current assets and liabilities are carried at amounts which reasonably approximate their fair values because of the relatively short maturity of those instruments.

Accounting Standards Codification (“ASC”) Topic 820, “*Fair Value Measurements and Disclosures*”, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 - Inputs to the valuation methodology include:

-quoted prices for similar assets or liabilities in active markets;

- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Asset retirement obligations are recorded based on the present value of the estimated cost to retire the oil and gas properties and are depleted over the useful life of the asset. The settlement date fair value is discounted at the Company's credit adjusted risk-free rate in determining the abandonment liability.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The Company's liabilities all valued at Level 3, at fair value as of March 31, 2015 and June 30, 2014 were \$84,796 and \$84,075, respectively.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Company leases office space under a non-cancelable operating lease that expires in July 2018. The lease requires fixed escalations and payment of electricity costs. Rent expense, included in general and administrative expenses, totaled approximately \$19,709 and \$19,476 for the Nine months ended March 31, 2015 and 2014 respectively.

NOTE 8- CORRECTION OF AN ERROR

During the preparation of our quarterly report, we identified an error related to the overstatement of our derivative liability, which is required to be marked-to-market each reporting period. The error reported in our income statement amounted to \$75,046 for the nine months ended March 31, 2014 and \$8,323 for the quarter ended March 31, 2014. In addition, the derivative liability was overstated by \$219,806 at June 30, 2014.

During the years ended June 30, 2014 and 2013, we evaluated the investment in Aqueous and recorded an impairment of \$7,660 and \$39,763, respectively. The impairment was due to recurring losses incurred by Aqueous from inception. The error reported had no effect on net income for the nine months ended March 31, 2014. At June 30, 2014 the investment in Aqueous Services was overstated by \$47,423.

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 prior period numbers have been corrected in this filing.

The following table reflects the impact of the error:

Statement of Operations for the three months ended March 31, 2014:

	As reported	Adjustment	As adjusted
Net Operating Income (Loss)	\$(272,494)		\$(272,494)
Total other expense		8,323	8,323

Net loss	\$(272,494	)	\$8,323	\$(264,171)
Basic and diluted loss per common share	\$0.00		\$0.00	\$0.00

**Statement of Operations for the nine months ended
March 31, 2014:**

	As reported		Adjustment	As adjusted
Net Operating Income (Loss)	\$(450,536	)	\$—	\$(450,536)
Total other expense	(14,164	)	75,046	60,882
Net loss	\$(464,700	)	\$75,046	\$(389,654)
Basic and diluted loss per common share	\$0.00		\$0.00	\$0.00

Balance Sheet for the year ended June 30, 2014:

	As reported	Adjustment	As adjusted
Total Assets	\$203,715	\$(47,423)	\$156,292
	\$279,625	\$(219,806)	\$59,819
Derivative liability			
Total liabilities	303,881	(219,806)	84,075
Stockholders' equity	(100,166)	172,383	72,217
Total Liabilities and Stockholders' Equity	\$203,715	\$(47,423)	\$156,292

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, 2015 was \$2,723 compared to \$117 for the same period in 2014 due to the reversal of a second quarter sale Revenue for the nine months ended March 31, 2015 was \$2,723 compared to \$12,725 for the same period in 2014. The decrease was due to a decline in Petrozene™ sales.

Cost of Revenues – Cost of sales (Petrozene™) for the three months ended March 31, 2015 and 2014 were \$0 and \$0, respectively. Cost of sales for the nine months ended March 31, 2015 and 2014 were 0 and \$5,511, respectively. The drop in cost is reflective of the drop in sales. 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 \$912 compared to \$2,919 for the same period in 2015 and \$7,410 for the nine months ended March 31, 2014 compared to \$25,306 for the same period in 2014. The decrease is due to the drop in production activity.

Operating Expense - Total operating expenses for the three months ended March 31, 2015 were \$3,233 of depreciation expense, loss on equity investment of \$5,506 and \$72,758 of general and administrative expenses, respectively, compared to \$1,932 of depreciation, loss on equity investment of \$8,793, stock compensation of \$189,800 and \$69,167 of general and administrative expenses for the same period in 2014.

Total operating expenses for the nine months ended March 31, 2015 were \$10,324 of depreciation expense, loss on equity investment of \$16,222 and \$186,856 of general and administrative expenses, respectively, compared to \$15,987 of depreciation expense, loss on equity investment of \$23,076, a gain on the revision of the ARO liability of \$26,027, stock based compensation of \$189,800 and \$229,608 of general and administrative expenses for the same period in 2014. The decrease in general and administrative cost was due primarily to a decrease in consulting and payroll expenses.

Net Income (Loss) - Net loss for the three months ended March 31, 2015 was \$11,984 compared to net loss of \$264,171 for the same period in 2014. Net loss for the nine months ended March 31, 2015 was \$216,269 compared to \$389,654 for the same period in 2014. The decrease in loss was primarily due to the no stock compensation in 2015.

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 provided by the Company was \$18,744 for the nine months ended March 31, 2015 compared to cash used of \$198,211 for the same period in 2014. The change was due largely to the increase in funds from sales of stock. We continue to explore working capital. Our cash balance at March 31, 2015 was \$91,850.

Employees

As of March 31, 2015, 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, 2014, 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, 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 March 31, 2014, our Chief Executive and Chief Financial Officer as of March 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) The Company filed a Form 8-K on February 11, 2015 related the Company's decision to change certifying accountants.

(b) Exhibits

Exhibit Number

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- 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: May 15, 2015