FREESTONE RESOURCES, INC.
Form 10-Q
November 21, 2017

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

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)

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

101 W. Ave D. Ennis TX, 75119

(Address of principal executive offices)

(972) 875-8427

(Issuer's telephone number)

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

1

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 [X] 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 [X]

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

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 [X] No [ ]

As of November 14, 2017 there were 91,738,177 shares of Common Stock of the issuer outstanding.

Freestone Resources Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
As of September 30, 2017 and June 30, 2017

	September 30, 2017 (Unaudited)	June 30, 2017
ASSETS		
Current Assets		
Cash	$1,754	$4,109
Accounts receivable, net of allowance for doubtful accounts of $4,000 and $4,000	197,857	155,845
Inventory	23,084	30,538
Prepaid and Other Assets	55,923	44,356
Total Current Assets	278,618	234,848
Property, plant and equipment, net of accumulated depreciation of $282,750 and $251,287	1,471,347	1,502,810
TOTAL ASSETS	$1,749,965	$1,737,658
LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)		
Current Liabilities		
Accounts payable	$87,121	$66,429
Accrued liabilities	371,453	313,710
Environmental liability	400,000	400,000
Convertible Notes Payable - Related Party	822,776	605,013
Current portion of capital lease obligation	12,054	11,920
Current portion of long-term debt	512,476	515,527
Total Current Liabilities	2,205,880	1,912,599
Capital lease obligation, less current portion	22,539	25,608
Long-term debt, less current portion	880,180	991,893
TOTAL LIABILITIES	3,108,599	2,930,100
STOCKHOLDERS' EQUITY/(DEFICIT)		
Preferred Stock, 5,000,000 shares authorized, 0 shares issued and outstandiing	0	0
Common stock, $.001 par value, 100,000,000 shares authorized, 91,738,177 and 91,613,177 shares issued and outstanding	91,738	91,613
Additional paid in capital	20,847,878	20,840,503
Accumulated deficit	(22,914,483)	(22,691,106)
Total Freestone Resources, Inc. stockholders' deficit	(1,974,867)	(1,758,990)

Non-Controlling Interest	616,233	566,548
Total equity (deficit)	(1,358,634)	(1,192,442)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)	$1,749,965	$1,737,658

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

Freestone Resources Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
Three Months Ended September 30, 2017 and 2016
(Unaudited)

	September 30, 2017	September 30, 2016
REVENUE		
Tipping Fee Revenue	$175,658	$134,502
Tire Repair Revenue	102,149	95,922
Used Tire Sales	26,025	35,902
Other Revenue	14,173	18,291
Total Revenue	318,005	284,617
COSTS OF REVENUE		
Tipping Fee Operations	66,267	70,479
Tire Repair	37,685	38,583
Used Tire Sales	4,101	21,978
Tire Disposal	89,771	79,404
Scrap and Other Costs	6,416	3,862
Total Cost of Revenue	204,240	214,306
GROSS PROFIT	113,765	70,311
OPERATING EXPENSES		
Start Up Costs	54,660	94,566
Selling	30,977	51,073
General and Administrative	183,261	217,875
Depreciation and Amortization	31,463	31,463
Total Operating Expenses	300,361	394,977
INCOME (LOSS) FROM OPERATIONS	(186,596)	(324,666)
OTHER INCOME (EXPENSES)		
Loss on Sale of Asset	—	(6,200)
Interest Expense, net	(54,458)	(35,719)
	(54,458)	(41,919)
NET INCOME(LOSS)	(241,054)	(366,585)
Loss Attributable to Non-Controlling Interest	17,677	29,794
NET INCOME(LOSS) ATTRIBUTABLE TO FREESTONE	$(223,377)	$(336,791)

Basic and diluted income (loss) per share		
Net income (loss) per share	(0.00)	(0.00)
Weighted average shares outstanding		
Basic and diluted	91,614,536	91,005,840

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

4

Freestone Resources Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flow
Three Months Ended September 30, 2017 and 2016
(Unaudited)

	September 30, 2017	September 30, 2016
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income (Loss)	$(241,054)	$(366,585)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	31,463	31,463
Shares Issued for Services	7,500	10,000
Loss on Sale of Fixed Assets	—	6,200
Changes in operating assets and liabilities		
(Increase) Decrease in Accounts Receivable	(42,012)	(8,999)
(Increase) Decrease in Inventory	7,454	19,061
(Increase) Decrease in Prepaid Expenses	(11,567)	(36,085)
Increase (Decrease) in Accounts Payable	20,692	23,679
Increase (Decrease) in Accrued Liabilities	57,741	95,727
Net Cash Used in Operating Activities	(169,781)	(225,539)
CASH FLOW FROM INVESTING ACTIVITIES		
Proceeds From Sale of Fixed Assets	—	6,800
Purchase of Fixed Assets	—	—
Net Cash Provided by (Used in) Investing Activities	—	6,800
CASH FLOW FROM FINANCING ACTIVITIES		
Sale of Stock for Cash	—	25,000
Contributions to LLC by Holders of Non-Controlling Interest in FDEP	67,362	91,969
Proceeds from Convertible Notes Payable - Related party	217,673	104,568
Capital Lease Payments	(2,935)	
Repayment of Long-Term Debt	(114,674)	(21,591)
Net Cash Provide by Financing Activities	167,426	199,946
Net Decrease in Cash	(2,355)	(18,793)
Cash at Beginning of the Period	4,109	29,791
Cash at the End of the Period	$1,754	$10,998
Cash Transactions		
Total Amount of Interest Paid in Cash	$42,854	$3,649

Non Cash financing and Investing Activities		
Expenses Paid Directly by Holders of Non-Controlling In FDEP	$—	$14,143

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

5

Freestone Resources Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2017

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities, History and Organization

Freestone Resources, Inc. and subsidiaries ("Freestone" or collectively the "Company") are 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 subsidiaries consist of C.C. Crawford Retreading Company, Inc., Freestone Technologies, LLC and Freestone Dynamis Energy Products, LLC.

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.

C.C. Crawford Retreading Company, Inc. ("CTR") is an Off-The-Road ("OTR") tire company located in Ennis, Texas and incorporated under the laws of the State of Texas. CTR's primary business is to repair, recycle, dispose of and sell OTR tires, which are used on large, industrial equipment.

Freestone Dynamis Energy Products, LLC ("FDEP") is a joint venture between Dynamis Energy, LLC and the Company. FDEP was established to pursue the production and marketing of Petrozene™. FDEP's initial operations will utilize a specialized pyrolysis technology in order to process CTR's feedstock, and begin large scale production of Petrozene™. Freestone owns 70% of FDEP.

Freestone Technology, LLC. is an inactive subsidiary.

Unaudited Interim Financial Statements:

The accompanying unaudited interim condensed 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, 2017 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, 2017 Form 10-K.

Recently Issued Accounting Pronouncements:

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) in May 2014. ASU No. 2014-09 outlines a single, comprehensive revenue recognition model for revenue derived from contracts with customers and it supersedes the most current revenue recognition guidance. This includes current guidance that is industry-specific. Under ASU No. 2014-09, an entity recognizes revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017. Earlier adoption is permitted as of annual reporting periods beginning after December 15, 2016. The Company is still evaluating the impacts it will have on its current revenue recognition policy.

On May 10, 2017, the FASB issued ASU 2017-09, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. ASU No. 2017-09 is effective for annual reporting periods beginning after December 15, 2017. The Company is still evaluating the impacts it will have on its current revenue recognition policy.

NOTE 2 – INVENTORY

Inventory of the Company is carried at lower of cost or market. The Company's inventory consists of processed rubber from disposed tires carried at cost of processing, used tires for sale carried at the cost of repairs and tire oil produced from the Company's pyrolysis operations. As of September 30, 2017 and June 30, 2017 inventory consisted of:

	9/30/17	6/30/17
Crum Rubber for Processing	$3,006	$8,087
Used Tire for Resale	12,668	15,041
Tire Oil	7,410	7,410
	$23,084	$30,538

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

At September 30, 2017 and June 30, 2017 Property, Plant and Equipment was as follows:

	9/30/17	6/30/17
Land	$360,000	$360,000
Buildings and Improvements	700,000	700,000
Computers and Office Furniture	8,967	8,967
Automotive Equipment	120,585	120,585
Machinery and Equipment	507,807	507,807
Capital Lease Assets	56,738	56,738
	1,754,097	1,754,097
Less Accumulated Depreciation	282,750	251,287
	$1,471,347	$1,502,810

For the three months ended September 30, 2017 and September 30, 2016 depreciation expense was $31,463 and $31,463, respectively.

NOTE 4 – ENVIRONMENTAL LIABILITY

The Company's tire recycling permit requires the Company to ultimately dispose of all tires accepted for recycling. Tire disposal occurs in the normal course of business however the Company always has tires stored at its facility that have not yet been disposed of. CTR had recorded liabilities totaling $320,000 at June 30, 2014 for estimated costs related to dispose of all tires at its Ennis, Texas facility. 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 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 plans to 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 was an estimate of cost of disposing of the tires that are not acceptable for use as feedstock. At June 30, 2016, CTR increased its liability to $400,000 representing the estimated disposal fees on the revised estimate of tires on hand. Although CTR still plans to convert the majority of the tires in crum rubber for use by FDEP the liability was recorded as part of the plan submitted to the TCEQ to cure potential violations regarding it processing permit. Since the plan requires CTR to significantly reduce the numbers of tires on hand within the next year and to date FDEP has not been able to demonstrate the capacity to use the number of tires on hand. The liability is considered short-term and the balance at September 30, 2017 and June 30, 2017 was $400,000, respectively.

8

NOTE 5 – CAPITAL LEASE OBLIGATIONS

Capital lease assets of $56,738 and $56,738 and accumulated amortization of $23,046 and $20,209 are included in property, plant and equipment on the balance sheet at September 30, 2017 and June 30, 2017, respectively. For the three months ended September 30, 2017 and September 30, 2016 amortization expense was $2,837 and $2,837, respectively.

At September 30, 2017 and June 30, 2017 capital lease obligations were as follows:

	9/30/17	6/30/17
Lease payable bearing interest at 4.95% with monthly payments of $315 maturing August 2019. The lease is secured by equipment.	$6,904	$7,758
Lease payable bearing interest at 3.95% with monthly payments of $309 maturing December, 2020. The lease is secured by equipment.	11,146	11,934
Lease payable bearing interest at 4.78% with monthly payments of $489 maturing September, 2020. The lease is secured by equipment.	16,543	17,836
	34,593	37,528
Less current maturities	(12,054)	(11,920)
	$ 22,539	$ 25,608

At September 30, 2017 future maturities of capital lease obligations were as follows:

Year Ending September 30:

2018	$ 12,054
2019	$ 12,308
2020	$ 9,311
2021	$ 920
	$ 34,593

9

NOTE 6 – NOTES PAYABLE

At September 30, 2017 and June 30, 2017 notes payable were as follows:

	9/30/17	6/30/17
Note payable to bank bearing interest at 4.5% with monthly payment of $390 maturing September, 2017. The note is secured by an automobile	$—	$1,162
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	9,786	24,139
Note payable to bank bearing interest at 6.5% with monthly payment of $809 maturing April, 2020. The note is secured by a truck.	23,023	25,054
Line of Credit with Bank maximum $75,000 bearing interest at 6.5% due March, 2018. Line is secured by accounts receivable.	75,000	75,000
Note payable to seller in connection with purchase of CTR bearing interest at 12% maturing June, 2020. Note amended to add $360,065 of accrued interest and penalties to principal in February, 2017. Interest only payable until July, 2017. Monthly payment of $45,904 thereafter. Secured by the common stock and assets of CTR	1,284,847	1,382,065
	1,392,656	1,507,420
Less current maturities	(512,476)	(515,527)
	$880,180	