

FREESTONE RESOURCES, INC.  
Form 10-Q  
February 23, 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 December 31, 2014

**OR**

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

Commission File Number 000-28753

**FREESTONE RESOURCES, INC.**

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

Nevada

(State or other jurisdiction of incorporation)

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 February 18, 2015 there were 75,988,177 shares of Common Stock of the issuer outstanding.

**Freestone Resources, Inc.****Consolidated Balance Sheets****As of December 31, 2014 and June 30, 2014**

## Assets

	<b>(Unaudited) December 31, 2014</b>	<b>June 30, 2014</b>
Current Assets:		
Cash	\$ 163,518	\$ 73,106
Accounts receivable	81	81
Prepaid Expenses and Other Assets	5,625	—
Total Current Assets	169,224	73,187
Fixed assets, net of accumulated depreciation of \$26,781 and \$19,689	69,593	48,480
Total fixed assets, net	69,593	48,480
Investment in Aqueous Services	67,707	78,423
Other assets	4,375	3,625
Total Assets	\$ 310,899	\$ 203,715

**Liabilities and Stockholders' Equity**

Current Liabilities:		
Accounts payable	\$ 10,505	\$ 9,320
Accrued expenses	466	466
Derivative liability – warrants	126,235	59,819
Total Current Liabilities	137,206	69,605
Long-term Liabilities:		
Asset retirement obligations	14,470	14,470
Total Liabilities	151,676	84,075

## Stockholders' Equity (Deficit):

Common stock, \$.001 par value, 100,000,000 shares  
authorized, 75,988,177 and 73,543,177 shares issued

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and outstanding, respectively	75,988	73,543
Additional paid in capital	18,711,241	18,471,686
Accumulated deficit	(18,628,006 )	(18,425,589)
Stockholders' Equity (Deficit)	159,223	119,640
Total Liabilities and Stockholders' Equity	\$ 310,899	\$ 203,715

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

**Freestone Resources, Inc.****Consolidated Statements of Operations****For the Three and Six Months Ended December 31, 2014 and 2013****(unaudited)**

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013	Six Months Ended December 31, 2014	Six Months Ended December 31, 2013
Revenue:				
Oil and gas revenues resulting from research activities	\$—	\$6,148	\$—	\$—
Other oil and gas related revenues	3,511	—	3,511	12,608
Total revenue	3,511	6,148	3,511	12,608
Operating expenses:				
Cost of revenue	—	2,591	—	5,516
Lease operating costs	5,032	22,331	7,607	22,387
Depreciation	3,571	7,181	7,091	14,055
Stock Based Compensation	—	—	—	—
Revision to ARO estimate	—	(26,027)	—	(26,027)
(Gain) Loss on Equity Method Investment	5,408	5,926	10,716	14,283
General and administrative	55,868	85,077	114,098	160,436
Total operating expenses	69,879	97,079	139,512	190,650
Operating loss	(66,368)	(90,931)	(136,001)	(178,042)
Other income (expense):				
Gain (loss) on change in valuation of derivative liability	(2,963)	38,011	(66,416)	66,723
Gain (Loss) on sale of asset	—	(15,000)	—	(15,000)
Other income (expense)	—	—	—	836
Total other income (expense)	(2,963)	23,011	(66,416)	52,559
Net loss	\$(69,331)	\$(67,920)	\$(202,417)	\$(125,483)
Basic and diluted loss per share	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)

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Weighted average shares outstanding:

Basic and diluted	74,712,525	68,943,177	74,127,851	68,882,039
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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**Freestone Resources, Inc.**

**Consolidated Statement of Stockholders' Equity**

**For the Six Months Ended December 31, 2014**

**(Unaudited)**

	Common Stock Shares	Paid in Amount	Additional Accumulated Capital	Deficit	Total
Balance, June 30, 2014	73,543,177	\$73,543	\$18,471,686	\$(18,425,589)	\$119,640
Common stock issued for cash	2,445,000	2,445	239,555		242,000
Net loss				(202,417 )	(202,417)
Balance, December 31, 2014	75,988,177	\$75,988	\$18,711,241	\$(18,628,006)	\$159,223

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



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

	Six Months Ended December 31, 2014	Six Months Ended December 31, 2013	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$(202,417	) \$(125,483	)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	7,091	14,055	
Gain (loss) on change in valuation of derivative liability	66,416	(66,723	)
Loss on equity method investment	10,716	14,283	
Loss on sale of investment asset	—	15,000	
Decrease in revision of ARO estimate	—	(26,027	)
Changes in operating assets and liabilities:			
Change in other assets	(6,375	) (545	)
Change in accounts payable	1,185	(1,353	)
Change in accrued expenses	—	455	
Net cash used in operating activities	(123,384	) (176,338	)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Sale of investment asset	—	5,000	
Purchases of fixed assets	(28,204	) (6,211	)
Net cash used in investing activities	(28,204	) (1,211	)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from sale of stock	242,000	50,000	
Net cash provided by financing activities	242,000	50,000	
NET CHANGE IN CASH	90,412	(127,549	)
CASH AT BEGINNING OF PERIOD	73,106	205,767	
CASH AT END OF PERIOD	\$ 163,518	\$ 78,218	
Supplemental cash flow information:			

Cash paid for interest	\$—	\$—
Stock Based Compensation	\$—	\$—

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

**Freestone Resources, Inc.**

**Notes to Unaudited Consolidated Financial Statements**

**December 31, 2014**

**(Unaudited)**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities, History and Organization:

Freestone Resources, Inc. (the “Company” or “Freestone”) is an oil and gas technology development company that is actively developing and marketing technologies and solvents designed to benefit various sectors in the oil and gas industry. The Company has re-launched its Petrozene™ solvent after months of working with manufactures to develop a new and improved formula. Petrozene™ is predominantly used for paraffin buildup. Petrozene™ can be used for pipelines, oil storage tanks, oil sludge build up, de-emulsification, well treatment, as a corrosion inhibitor and as a catalyst in opening up formations thereby aiding in oil production. More information about Petrozene™ can be found at <http://www.petrozene.com>.

On November 16, 2012, the Company entered into a Company Agreement of Aqueous Services, LLC (“Aqueous”), a Texas limited liability company, with International Aqueous Investments, LLC and Pajarito W&M, LP. Aqueous is a joint venture between the Company and the two aforementioned parties, whereas the Company owns a 33.33% interest in Aqueous. Aqueous is a full water management company with access to a fresh water well that has been permitted to up to one thousand five hundred acre-feet of water per annum. A facility has been constructed that is owned and operated by Aqueous for the purpose of providing water for oil and gas activities in the Eagle Ford. This site includes a designated location for the recycling 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.

### Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications also impact Note 7 below.

### Recently Issued Accounting Pronouncements:

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 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 – 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 \$13,257 and \$14,971 for the six months ended December 31, 2014 and 2013 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 December 31, 2014 and June 30, 2014, there were 75,988,177 and 73,543,177 respectively, common shares outstanding. During the six months ended December 31, 2014 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:

	December 31, 2014	June 30, 2014
Beginning Balance	\$78,423	\$109,763
Capital Contributions	—	—
Equity in Loss of JV	(10,716)	(31,340)

Period End Balance    \$67,707    \$78,423

**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 December 31, 2014. 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 December 31, 2014 and June 30, 2014 were \$151,676 and \$84,075 and respectively.

**NOTE 7- 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 \$66,723 for the six months ended December 31, 2013 and \$38,011 for the quarter ended December 31, 2013. In addition, the derivative liability was overstated by \$219,806 at June 30, 2014. 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 December 31, 2013:

	<b>As reported</b>		<b>Adjustment</b>		<b>As adjusted</b>
Net Operating Income (Loss)	\$(90,931	)	\$—		\$(90,931 )
Total other expense	(15,000	)	38,011		23,011
Net loss	\$(105,931	)	\$38,011		\$(67,920 )
Basic and diluted loss per common share	\$0.00		\$0.00		\$0.00



Statement of Operations for the six months ended December 31, 2013:

	<b>As reported</b>		<b>Adjustment</b>		<b>As adjusted</b>
Net Operating Income (Loss)	\$(178,042	)	\$—		\$(178,042 )
Total other expense	(14,164	)	66,723		52,559
Net loss	\$(192,206	)	\$66,723		\$(125,483 )
Basic and diluted loss per common share	\$0.00		\$0.00		\$0.00

Balance Sheet for the year ended June 30, 2014:

	<b>As reported</b>		<b>Adjustment</b>		<b>As adjusted</b>
Total Assets	\$203,715		\$—		\$203,715
Derivative liability	\$279,625		\$(219,806	)	\$59,819
Total liabilities	303,881		(219,806	)	84,075
Stockholders' equity	(100,166	)	219,806		119,640
Total Liabilities and Stockholders' Equity	\$203,715		\$—		\$203,715

## **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 six months Ended December 31, 2014 compared to three and six months Ended December 31, 2013**

**Revenue** - Our revenue for the three months ended December 31, 2013 was \$3,511, compared to \$6,148 for the same period in 2013, and for the six months ended December 31, 2014 was \$3,511 and \$12,608 for the same period in 2013. Revenue decreased in the six months ended December 31, 2014, due to the drop in the sale of Petrozene™.

**Cost of Revenues** – Cost of sales (Petrozene™) for the three months ended December 31, 2014 and 2013 were \$0 and \$2,591, respectively. Cost of sales for the six months ended December 31, 2014 and 2013 were \$0 and \$5,516, respectively. The cost is related to purchasing and transporting the product.

**Lease Operating Expense** - Lease operating expense for the three months ended December 31, 2014 was \$5,032 compared to \$22,331 for the same period in 2013, and \$7,607 for the six months ended December 31, 2013 compared to \$22,387 for the same period in 2012.

**Other Operating Expense** - Other operating expenses for the three months ended December 31, 2014 were \$3,571 of depreciation expense, \$5,408 loss on equity investment and \$55,868 of general and administrative expenses respectively, compared to \$7,181 depreciation expense, a \$5,926 loss on equity invest, and \$85,077 of general and administrative expenses offset by a \$26,027 reduction in ARO liability for the same period in 2013. The decrease costs of \$29,209 in the three months ended December 31, 2014 were largely due to a decrease in consulting and payroll expenses. The decrease in ARO liability in 2013 was a result of the sale of a property.

Other operating expenses for the six months ended December 31, 2014 were \$7,091 of depreciation expense, a \$10,716 loss on equity investment and \$114,098 of general and administrative expenses respectively, compared to \$14,055 depreciation expense, a \$14,283 loss on equity investment and \$160,436 of general and administrative expenses offset by the \$26,027 reduction in ARO liability for the same period in 2013. The decrease general and administrative costs of \$46,338 in the six months ended December 31, 2013 were primarily the result of decreases in consulting and payroll expenses.

**Net Income (Loss)** - Net loss for the three months ended December 31, 2014 was \$69,331 compared to net loss of \$67,920 for the same period in 2013. Net loss for the six months ended December 31, 2014 was \$202,417 compared to \$125,483 for the same period in 2013. The increase in the net loss was due primarily to changes in valuation of derivative liability associated with outstanding stock warrants from a \$66,723 gain in 2013 to a \$66,416 expense in 2014 offset by a reduction in operating expenses detailed above

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 \$66,723 for the six months ended December 31, 2013 and \$38,011 for the quarter ended December 31, 2013. In addition, the derivative liability was overstated by \$219,806 at June 30, 2014. 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.

### **Liquidity and Capital Resources**

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

Net cash used from operating activities of the Company was \$123,384 for the six months ended December 31, 2014 compared to cash used of \$176,338 for the same period in 2013. We continue to explore working capital options and in the short-term rely on our line-of-credit and advances/loans from shareholders. During the six months ended December 31, 2014, our cash and cash equivalent Increased from \$73,106 to \$163,518 primarily due to the sale of stock offset by the funding of the company's operating loss.

### **Employees**

As of December 31, 2014, Freestone had two employees.

### **Need for Additional Financing**

No commitments to provide additional funds have been made by management or other stockholders. Our independent auditors included a going concern explanatory paragraph in their report included in our annual report on Form 10-K for the year ended June 30, 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 December 31, 2014. This evaluation was accomplished under the supervision and with the participation of our chief executive officer /principal executive officer, and chief financial officer/principal financial officer who concluded that our disclosure controls and procedures are not effective.

Based upon an evaluation conducted for the period ended December 31, 2014, our Chief Executive and Chief Financial Officer as of December 31, 2014 and as of the date of this Report, has concluded that as of the end of the periods covered by this report, we have identified the following material weakness of our internal controls:

Lack of sufficient accounting staff which results in a lack of segregation of duties necessary for a good system of internal control and financial statement presentation.

### **Changes in Internal Controls over Financial Reporting**

We have not yet made any changes in our internal controls over financial reporting that occurred during the period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II**

Items No. 1, 3, 4, 5 - Not Applicable.

### Item 6 - Exhibits and Reports on Form 8-K

(a) During the six months ended December 31, 2014 the Company filed no Form 8-Ks.

(b) Exhibits

Exhibit Number

- 31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

## SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FREESTONE RESOURCES, INC.

By /s/ Clayton Carter

Clayton Carter, CEO

Date: February 20, 2015