

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 [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, 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 | \$69,570 |

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

At September 30, 2016 and June 30, 2016 Property, Plant and Equipment was as follows:

| | 9/30/16 | 6/30/16 |
|--------------------------------|-------------|-------------|
| Land | \$360,000 | \$360,000 |
| Buildings and Improvements | 700,000 | 700,000 |
| Computers and Office Furniture | 8,967 | 21,967 |
| Automotive Equipment | 120,585 | 120,585 |
| Machinery and Equipment | 507,807 | 507,807 |
| Capital Lease Assets | 56,738 | 56,738 |
| | 1,754,097 | 1,767,097 |
| Less Accumulated Depreciation | 156,899 | 125,436 |
| | \$1,597,198 | \$1,641,661 |

Depreciation expense was \$31,463 and \$27,657 for the three months ended September 30, 2016 and September 30, 2015, 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 (Predecessor) 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 (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 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 its 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 so the liability is considered short-term. The environmental liability has a balance of \$400,000 as of September 30, 2016 and June 30, 2016, respectively.

NOTE 5 – CAPITAL LEASE OBLIGATIONS

Capital lease assets of \$56,738 and \$40,269 and accumulated amortization of \$11,698 and \$643 are included in property, plant and equipment on the balance sheet at September 30, 2016 and June 30, 2016, respectively. For the three months ended September 30, 2016 and 2015 amortization expense was \$2,221 and \$823, respectively.

At September 30, 2016 and June 30, 2016 capital lease obligations were as follows:

| | 9/30/16 | 6/30/16 |
|---|----------|----------|
| Lease payable bearing interest at 4.95% with monthly payments of \$315 maturing August 2019. The lease is secured by equipment. | \$10,256 | \$11,069 |
| Lease payable bearing interest at 3.95% with monthly payments of \$309 maturing December, 2020. The lease is secured by equipment. | 14,217 | 14,969 |
| Lease payable bearing interest at 4.78% with monthly payments of \$489 maturing September, 2020. The lease is secured by equipment. | 21,660 | 22,904 |
| | 46,133 | 48,942 |
| Less current maturities | 11,522 | 11,419 |
| | \$34,611 | \$37,523 |

At September 30, 2016 future maturities of capital lease obligations were as follows:

Year Ending September 30:

| | |
|------|----------|
| 2017 | \$11,522 |
| 2018 | 12,073 |
| 2019 | 12,308 |
| 2020 | 9,310 |
| 2021 | 920 |
| | \$46,133 |

NOTE 6 – NOTES PAYABLE

At September 30, 2016 and June 30, 2016 notes payable were as follows:

| | 9/30/16 | 6/30/16 |
|--|---------|---------|
| Note payable to bank bearing interest at 4.5% with monthly payment of \$390 maturing September, 2017. The note is secured by an automobile | \$4,566 | \$5,676 |

| | | |
|---|-------------|-------------|
| 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 | 65,844 | 130,975 |
| Note payable to bank bearing interest at 6.5% with monthly payment of \$809 maturing April, 2020. The note is secured by a Truck. | 30,971 | 32,853 |
| Note payable to vendor bearing interest at 6.0% with monthly payment of \$800 maturing December, 2016. The note is unsecured. | 2,377 | 4,718 |
| Note payable to officer bearing interest at 6.5% due April, 2017. The note is convertible into common stock at \$.08 a share at maturity. The note is unsecured. | 50,000 | 50,000 |
| Note payable to stockholder bearing interest at 6.5% due July, 2017. The note is convertible into common stock at \$.05 a share at maturity. The note is unsecured. | 99,568 | 50,000 |
| Line of credit with Bank maximum of \$75,000 bearing interest at 6.5% due March, 2017. The line is secured by accounts receivable. | 75,000 | 70,000 |
| Note payable to seller in connection with purchase of CTR bearing interest at 12% maturing March, 2017. Interest only payable for the first year. Interest and principal due March, 2017. Secured by the common stock and assets of CTR | 1,020,000 | 1,020,000 |
| | 1,348,326 | 1,262,540 |
| Less current maturities | (1,315,600) | (1,212,261) |
| | \$32,726 | \$50,279 |

At September 30, 2016 future maturities of long term debt were as follows:

Year Ending September 30:

| | |
|------|-------------|
| 2017 | \$1,315,600 |
| 2018 | \$18,163 |
| 2019 | \$9,025 |
| 2020 | \$5,538 |
| | \$1,348,326 |

NOTE 7 – 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 September 30, 2016 and June 30, 2016, there were 91,238,117 and 90,613,177 respectively, common shares outstanding.

During the three months ended September 30, 2016 the Company sold 500,000 shares for cash proceeds of \$25,000.

On September 30, 2016, the Company issued 125,000 shares of common stock to its Chief Financial Officer for services rendered under his employment contract valued at \$0.08 per share which was the fair market value.

As of June 30, 2016 there were no stock warrants outstanding

NOTE 8 – 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 9 – COMMITMENTS AND CONTINGENCIES

The Company leases office space in Dallas, TX under a non-cancelable operating lease that expires in July 2017, a truck for its tire disposal operations at CTR under a 30-month lease expiring in April, 2019 and warehouse space in Ennis, TX on a month to month basis. Future minimum lease payments are as follows:

| Year End June 30 | Amount |
|---------------------------|--------|
| 2017 | 30,130 |
| 2018 | 22,584 |
| 2019 | 13,800 |
| Total | 66,514 |

Rent expense, included in general and administrative expenses, totaled approximately \$11,562 and \$7,621 for the three months ended September 30, 2016 and 2015, respectively.

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, 2030.

NOTE 10 – RELATED PARTY TRANSACTIONS

One of the consultants who has a royalty and commission agreement as discussed in Note 9 is a related party and the brother of the former Chief Executive Officer of the Company.

NOTE 11 – SUBSEQUENT EVENTS

The Company has evaluated events from September 30, 2016, through the date whereupon the financial statements were issued and has determined that there are no additional items to disclose.

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

Three months ended September 30, 2016 compared to three months ended September 30, 2015

Revenue – Our revenue for the three months ended September 30, 2016 was \$284,617 compared to \$337,621 for the three months ended September 30, 2015. The decrease was primarily due to issues with CTR’s trucking operations in July 2016 which limited revenue to less than 50% of the prior year’s revenue for the same month. The Company resolved those issues by leasing new equipment and implementing a new maintenance program and does not anticipate additional issues going forward. Revenue in August and September, 2016 exceeded prior years as a result of these changes.

Cost of Revenues – Cost of revenue increased from \$191,165 for the three months ended September 30, 2015 to \$214,306 for the three months ended September 30, 2016 despite the decrease in revenue. This was due to increased costs in the Company’s trucking operations to implement the changes discussed above as well as increased costs associated with the expansion of the disposal operations. Going forward management anticipates increased revenue to offset the increased costs.

Operating Expense – Total operating expenses dropped from \$633,568 for the three months ended September 30, 2015 to \$394,977 for the three months ended September 30, 2016. The primary area of decrease was in the parent company Freestone in the form of decreased employee compensation and professional fees. Employee compensation dropped from \$289,509 to \$75,901 due to a drop in employee stock compensation. Professional fees dropped from \$99,593 to \$51,459. The higher professional fees in the prior year were due to audit, legal and consulting cost associated with the acquisition of CTR. Operating expenses of CTR decreased from \$143,010 for the three months ended September 30, 2015 to \$126,120 for the three months ended September 30, 2016 due primarily to a decrease in personnel costs and professional fees. Startup costs for FDEP increased from \$60,618 for the three months ended September 30, 2015 to \$94,566 for the three months ended September 30, 2016. The increase was primarily due to FDEP not beginning operations until late in the quarter ended September 30, 2015.

Other Income and Expenses – Other income and expense for the three months ended September 30, 2016 consisted of \$35,719 of interest expense and a loss of \$6,200 on the sale of fixed assets compared to other income and expense for the three months ended September 30, 2015 consisting of \$33,248 of interest expense. The increase in interest expense was due the Company’s increase in debt.

Net Income (Loss)

Net loss for the three months ended September 30, 2016 was \$336,791 compared \$502,175 for the three months ended September 30, 2015. The decrease in the net loss was primarily due to a decrease in the operating expenses of Freestone detailed above offset by the increase loss of CTR as a result of the decrease in revenue.

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 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 reduce the cost of disposal of OTR tires by CTR. 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 \$225,539 for the three months ended September 30, 2016 compared to net cash used by operations of \$141,438 for the three months ended September 30, 2015. The change was due to the increased cash losses of CTR and FDEP. The decrease in Freestone's loss was primarily due to a reduction in non-cash stock issuance expenses. The cash used in operations was offset by \$91,969 of cash contributions to FDEP by the non-controlling interest, sale of common stock for proceeds of \$25,000 and \$104,568 of proceeds from borrowing.

Employees

As of September 30, 2016 CTR had 17 full-time employees. Freestone has three 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 September 30, 2016. 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 September 30, 2016, our Chief Executive and Chief Financial Officer as of September 30, 2016 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 no Form 8-K during the period.

(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/ Michael McGhan

Michael McGhan, CEO

Date: November 14, 2016