

FREESTONE RESOURCES, INC.
Form 10-Q
November 19, 2018

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, 2018

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)

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 every Interactive File required to be submitted 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 such files), Yes No

As of November 14, 2018 there were 98,238,177 shares of Common Stock of the issuer outstanding.

Freestone Resources Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
As of September 30, 2018 and June 30, 2018

	September 30, 2018 (Unaudited)	June 30, 2018
ASSETS		
Current Assets		
Cash	\$8,029	\$2,966
Accounts receivable, net of allowance for doubtful accounts of \$4,000 and \$4,000	161,416	139,772
Inventory	29,140	30,391
Prepaid expenses and Other Assets	73,749	67,065
Total Current Assets	272,395	240,194
Property, plant and equipment, net of accumulated depreciation of \$378,950 and \$349,373	1,330,395	1,359,972
TOTAL ASSETS	\$1,602,729	\$1,600,166
LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)		
Current Liabilities		
Accounts payable	\$70,108	\$91,286
Accrued liabilities	669,982	580,124
Environmental liability	400,000	400,000
Convertible Notes Payable - Related Party	1,552,669	1,579,919
Current portion of capital lease obligation	12,308	12,484
Current portion of long-term debt	459,184	339,858
Total Current Liabilities	3,164,251	3,003,926
Capital lease obligation, less current portion	10,232	13,124
Long-term debt, less current portion	585,984	715,131
TOTAL LIABILITIES	3,760,467	2,731,926
STOCKHOLDERS' EQUITY/(DEFICIT)		
Preferred Stock, 5,000,000 shares authorized, 0 shares issued and outstanding	—	—
Common stock, \$.001 par value, 100,000,000 shares authorized, 98,238,177 and 91,988,177 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	98,238	91,988

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Additional paid in capital	21,165,128	20,858,878
Accumulated deficit	(24,213,887)	(23,829,238)
Total Freestone Resources, Inc. stockholders' deficit	(2,950,521)	(2,878,372)
Non-Controlling Interest	792,783	746,612
Total equity (deficit)	(2,157,738)	(2,131,760)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)	\$1,602,729	\$1,600,166

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

Freestone Resources Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
Three Months Ended September 30, 2018 and 2017
(Unaudited)

	September 30, 2018	September 30, 2017
REVENUE		
Tipping Fee Revenue	\$ 189,504	\$ 175,658
Tire Repair Revenue	95,420	102,149
Used Tire Sales	16,150	26,025
Other Revenue	13,042	14,173
Total Revenue	314,116	318,005
COSTS OF REVENUE		
Tipping Fee Operations	64,840	66,267
Tire Repair	33,733	37,685
Used Tire Sales	2,237	4,101
Tire Disposal	68,026	89,771
Scrap and Other Costs	—	6,416
Total Cost of Revenue	168,836	204,240
GROSS PROFIT	145,280	113,765
OPERATING EXPENSES		
Start Up Costs	46,771	54,660
Selling	31,343	30,977
General and Administrative	372,813	183,261
Depreciation and Amortization	29,577	31,463
Total Operating Expenses	480,504	300,361
INCOME (LOSS) FROM OPERATIONS	(335,224)	(186,596)
OTHER INCOME (EXPENSES)		
Loss on Sale of Asset	—	—
Interest Expense, net	(64,724)	(54,458)
	(64,724)	(54,458)
NET INCOME (LOSS)	(399,948)	(241,054)
Loss Attributable to Non-Controlling Interest	15,299	17,677
NET INCOME (LOSS) ATTRIBUTABLE TO FREESTONE	\$(384,649)	\$(223,377)

Basic and diluted income (loss) per share		
Net income (loss) per share	(0.00) (0.00
Weighted average shares outstanding		
Basic and diluted	91,868,612	91,614,536

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

Freestone Resources Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flow
Three Months Ended September 30, 2018 and 2017
(Unaudited)

	September 30, 2018	September 30, 2017
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$(399,948) \$(241,054)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	29,577	31,463
Shares Issued for Services	187,500	7,500
Changes in operating assets and liabilities		
(Increase) Decrease in Accounts Receivable	(21,644) (42,012)
(Increase) Decrease in Inventory	1,251	7,454
(Increase) Decrease in Prepaid Expenses	(6,684) (11,567)
Increase (Decrease) in Accounts Payable	(21,178) 20,692
Increase (Decrease) in Accrued Liabilities	89,858	57,741
Net Cash Used in Operating Activities	(141,268) (169,781)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	—	—
Net Cash Provided by (Used in) Investing Activities	—	—
CASH FLOW FROM FINANCING ACTIVITIES		
Sale of Stock for Cash	—	—
Contributions to LLC by Holders of Non-Controlling Interest in FDEP	61,470	67,362
Proceeds from Convertible Notes Payable - Related party	97,750	217,673
Capital Lease Payments	(3,068) (2,935)
Repayment of Long-Term Debt	(9,821) (114,674)
Net Cash Provide by Financing Activities	146,331	167,426
Net Decrease in Cash	5,063	(2,355)
Cash at Beginning of the Period	2,966	4,109
Cash at the End of the Period	\$8,029	\$1,754
Cash Transactions		
Total Amount of Interest Paid in Cash	\$39,105	\$42,854
Non Cash financing and Investing Activities		
Conversion of Convertible Related Party Note to Common Stock	\$125,000	\$—

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

Freestone Resources Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2018

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, 2018 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, 2018 Form 10-K.

Recently Issued Accounting Pronouncements:

Leases

In February 2016, FASB issued ASU 2016-02— Leases (Topic 842). The update is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in this update is permitted. As such, The Company is required to adopt these provisions as of the fiscal year beginning on January 1, 2019. The Company is currently evaluating the impact of FASB ASU 2016-02 and expects the adoption thereof will have a material effect on The Company's presentation of balance sheet assets and liabilities based on the present value of future lease payments, but does not expect a material effect on the presentation of expenses and cash flows.

Revenue:

Revenue from Contracts with Customers: In May 2014, ASC 606 was issued related to revenue from contracts with customers. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. Early adoption is not permitted. The standard will be effective for the Company's fiscal year beginning July 1, 2018, including interim reporting periods within that year. The new guidance is not expected to have an impact on the Company's consolidated financial statements. The Company has analyzed the standard and has implemented any relevant provisions for the interim periods beginning July 1, 2018.

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, 2018 and June 30, 2018 inventory consisted of:

	9/30/18	6/30/18
Used Tires for Resale	\$ 10,397	\$ 11,648
Petrozene and Tire Oil	18,743	18,743
	\$ 29,140	\$ 30,391

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

At September 30, 2018 and June 30, 2018
Property, Plant and Equipment was as
follows:

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	9/30/18	6/30/18
Land	\$360,000	\$360,000
Buildings and Improvements	706,700	706,700
Automotive Equipment	78,100	78,100
Machinery and Equipment	507,807	507,807
Capital Lease Assets	56,738	56,738
	1,709,345	1,709,345
Less Accumulated Depreciation	378,950	349,373
	\$1,330,395	\$1,359,972

For the three months ended September 30, 2018 and September 30, 2017 depreciation expense was \$29,577 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. 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. 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. 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. The liability is considered short-term and the balance at September 30, 2018 and June 30, 2018 was \$400,000.

NOTE 5 – CAPITAL LEASE OBLIGATIONS

Capital lease assets of \$56,738 and \$56,738 and accumulated amortization of \$34,393 and \$31,556 are included in property, plant and equipment on the balance sheet at September 30, 2018 and June 30, 2018, respectively. For the three months ended September 30, 2018 and September 30, 2017 amortization expense was \$2,837 and \$2,837, respectively.

At September 30, 2018 and June 30, 2018 capital lease obligations were as follows:

	9/30/18	6/30/18
Lease payable bearing interest at 4.95% with monthly payments of \$315 maturing August 2019. The lease is secured by equipment.	\$3,384	\$4,281
Lease payable bearing interest at 3.95% with monthly payments of \$309 maturing December, 2020. The lease is secured by equipment.	7,899	8,725
Lease payable bearing interest at 4.78% with monthly payments of \$489 maturing September, 2020. The lease is secured by equipment.	11,257	12,602

	22,540	25,608
Less current maturities	(12,308)	(12,484)
	\$ 10,232	\$ 13,124

At September 30, 2018 future maturities of capital lease obligations were as follows:

Year Ending September 30:

2019	\$ 12,308
2020	\$ 9,312
2021	\$ 920
	\$ 22,540

NOTE 6 – NOTES PAYABLE

At September 30, 2018 and June 30, 2018 notes payable were as follows:

	9/30/18	6/30/18
Note payable to bank bearing interest at 7.0% with monthly payment of \$3,718 maturing June, 2020. The note is secured by accounts receivable.	\$ 70,005	\$ 79,810
Note payable to seller in connection with purchase of CTR bearing interest at 12% maturing October, 2020. Note amended to add \$360,065 of accrued interest and penalties to principal in February, 2017. Interest only payable until November, 2018. Monthly payment of \$45,904 thereafter. Secured by the common stock and assets of CTR	975,163	975,163
	1,045,168	1,054,973)
Less current maturities	(459,184)	(339,842)
Long Term Debt, Less Current Maturities	\$ 585,984	\$ 715,131

At September 30, 2018 future maturities of long term debt were as follows:

Year Ending September 30:

2019	\$ 459,184
2020	\$ 540,534
2021	\$ 45,450
	\$ 1,045,168

NOTE 7. CONVERTIBLE NOTES PAYABLE – RELATED PARTIES

At September 30, 2018 and June 30, 2018 notes payable to officers and shareholders were as follows:

	9/30/18	6/30/18
Note payable to officer bearing interest at 6.5% due December, 2018. The note is convertible into common stock at \$.05 a share at maturity. The note is unsecured.	50,000	50,000
Note payable to stockholder bearing interest at 6.5% due December, 2018. The note is convertible into common stock at \$.05 a share at maturity. The note is unsecured.	20,000	20,000
Note payable to stockholder bearing interest at 6.5% due December, 2018. The note is convertible into common stock at \$.05 a share at maturity. The note is unsecured. (1)	1,482,669	1,509,919
Less current maturities	1,552,669 (1,552,669)	1,579,919 (1,679,919)
	\$—	\$—

At September 30, 2018 future maturities of Notes Payable – Related Parties were as follows:

Year Ending September 30:

2019	\$1,552,669
	\$1,552,669

(1) On August 15, 2018 the noteholder converted \$125,000 of debt into common stock at \$.05 a share in accordance with the note agreement. See Note 8 below.

NOTE 8 – EQUITY

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, 2018 and June 30, 2018 there were 98,238,177 and 91,988,177 common shares outstanding, respectively.

On September 30, 2017, the Company issued 125,000 shares of common stock to its Chief Financial Officer for services rendered under his employment contract valued at \$0.06 per share which was the fair market value.

On August 15, 2018 the Company issued at total of 2,500,000 shares of common stock to a note holder for conversion of \$125,000 of convertible debt at \$.05 a share in accordance with the note agreement.

On August 21, 2018 the Company issued 3,750,000 shares of common stock valued at \$.05 a share to its Officers as compensation.

The Company is authorized to issue 5,000,000 shares of preferred stock. As of September 30, 2018 and June 30, 2018 there were no shares issued and outstanding.

NOTE 9 – MERGER AGREEMENT

On November 2, 2017 the Company formed Freestone Dynamis Acquisition, LLC an Idaho limited liability Company.

On November 2, 2017, Freestone entered into an Agreement and Plan of Merger (the “Plan”) with Freestone Dynamis Acquisition, LLC, an Idaho limited liability company and wholly owned subsidiary of the Company (“Merger Sub”), and Dynamis Energy, LLC, an Idaho limited liability company (“Dynamis”). Pursuant to the terms of the Plan, at the Effective Time (as defined in the Plan) thereof: (i) Merger Sub will be merged with and into Dynamis, with the separate existence of Merger Sub to cease and with Dynamis to continue as the surviving entity and as a wholly owned subsidiary of the Company; and (ii) all Units of Dynamis will be exchanged for shares of the Company’s common stock to be paid in accordance with Article II of the Plan (the “Merger”). At the closing of the Merger, it is expected that the members and warrant holders of Dynamis will collectively own or have the right to purchase (through exercising a warrant to purchase Dynamis Units, which the Company will have the right to exchange shares of its common stock in exchange for such Dynamis Units) shares of the Company’s common stock, representing approximately seventy five percent (75%) of the Company’s issued and outstanding shares. The Merger contemplated by the Plan, together with the Rights Offering (as defined below), is intended to qualify as a nontaxable exchange pursuant to Section 351 of the Internal Revenue Code of 1986, as amended.

The closing of the Merger is subject to numerous conditions including, but not limited to, the following:

- At or one week prior to the Effective Time, the Company shall have commenced a rights offering to its stockholders on the terms set forth in the Plan (the “Rights Offering”), which Rights Offering shall remain open for a period of 90 days;

- The approval by the Company's stockholders and the filing with the Nevada Secretary of State of an amendment to the Company's Articles of Incorporation to increase the number of the Company's authorized shares of common stock in an amount sufficient to consummate the Merger, the Rights Offering, the Company's new equity incentive plan and the other transactions contemplated by the Plan;
- The effectiveness of the Company's to-be-filed: (i) Registration Statement on Form S-3 relating to the registration under the Securities Act, of the shares of Company common stock to be issued in its Rights Offering; and (ii) Registration Statement on Form S-4 relating to the authorization and the registration under the Securities Act of the shares of Company common stock to be issued in the Merger;
- Dynamis members, together with Company stockholders participating in the Rights Offering, shall collectively hold at least 80 percent of the total issued and outstanding shares of the Company's stock (other than stock subject to vesting restrictions); and
- The Company's stockholders shall have approved the Company's new equity incentive plan that is contemplated by the Plan.

In addition, either party may terminate the Plan at any time prior to closing on certain terms and conditions

As of September 30, 2018, the two Companies continue to work toward completing the merger. Dynamis Energy has encountered delays in completing the required audited financial statements to comply with SEC requirements. Freestone remains committed to completing the merger once these issues are resolved. However, the Company is reviewing all options and seeking additional capital investment.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

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. One of the contracts is with the brother of the former CEO of the Company. In case of change of control of the Company the agreement is voided.

NOTE 11 – GOING CONCERN

There is substantial 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 12 – SUBSEQUENT EVNETS

On October 9, 2018 the Company filed a Pre 14C Form with the SEC notifying stockholders regarding a resolution to file with the Nevada Secretary of State a Certificate of Change: (i) increasing our authorized shares of common stock from one hundred million (100,000,000) shares having a par value of one mill (\$0.001) per share to six hundred million (600,000,000) shares and retaining the par value of \$0.001 per share (the "Common Stock Resolution"); and (ii)

increasing our authorized shares of preferred stock from five million (5,000,000) shares having a par value of one mill (\$0.001) per share to ten million (10,000,000) shares and retaining the par value of \$0.001 per share (the “Preferred Stock Resolution”). Under Nevada law the increase can be implemented by a joint resolution passed by the board of directors approved by a simple majority of the outstanding shares. The joint resolution included in the Form 14C filing included the approval of ten shareholders representing 51.36% of the outstanding common shares.

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 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") 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.

Results of Operations

Three months ended September 30, 2018 compared to three months ended September 30, 2017

Revenue – Our revenue for the three months ended September 30, 2018 decreased by approximately 1% to \$314,116 compared to \$318,005 for the three months ended September 30, 2017.

Cost of Revenues – Cost of revenue decreased from \$204,240 for the three months ended September 30, 2017 to \$168,836 for the three months ended September 30, 2018. This was primarily due to a decrease in disposal and scrap cost of \$28,161

Operating Expense – Total operating expenses increased from \$300,361 for the three months ended September 30, 2017 to \$480,504 for the three months ended September 30, 2018. The primary due to an increase in stock compensation to officers from \$7,500 to \$187,500. The stock was issue to compensate the officers for the deferral of salaries. Operating expenses of CTR decreased by about 2% from \$98,141 for the three months ended September 30, 2017 to \$96,324 for the three months ended September 30, 2018. Startup costs for FDEP decreased from \$54,660 for the three months ended September 30, 2017 to \$46,771 for the three months ended September 30, 2018. The decrease was primarily due to FDEP reduction in activity as a result of the TCEQ permitting issues.

Other Income and Expenses – Other income and expense for the three months ended September 30, 2018 consisted of \$64,724 of interest expense compared to other income and expense for the three months ended September 30, 2017 consisting of \$54,458 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, 2018 was \$399,948 compared \$241,054 for the three months ended September 30, 2017. The increase was primarily a result of the increase stock compensation to officers.

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 substantial 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 \$141,268 for the three months ended September 30, 2018 compared to net cash used by operations of \$169,781 for the three months ended September 30, 2017. The decrease was a result in the decrease in the Company's net loss detailed above. The cash used in operations was offset by \$61,470 of cash contributions to FDEP by the non-controlling interest and a net proceeds from debt including related party debt of \$97,750.

Employees

As of September 30, 2018 CTR had 14 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, 2018. 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, 2018, our Chief Executive and Chief Financial Officer as of September 30, 2018 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, 2, 3, 4, 5 - Not Applicable.

Item 6 - Exhibits and Reports on Form 8-K

(a) The Company filed one Form 8-K on August 6, 2018.

(b) Exhibits

Exhibit Number

3.1 Amended Bylaws (incorporated by reference to exhibit 3.1 to the 8-K filed on August 6, 2018).

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 19, 2018

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