TASTY BAKING CO
Form 11-K
June 27, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

(Mark one)
(X) ANNUAL REPORT PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the calendar year December 31, 2007

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-5084

TASTY BAKING COMPANY 401(k) AND COMPANY FUNDED RETIREMENT PLAN
2801 Hunting Park Avenue
Philadelphia, Pennsylvania 19129
(Full title of the plan and the address of the plan, if different from that of the issuer named below)

TASTY BAKING COMPANY
2801 Hunting Park Avenue
Philadelphia, Pennsylvania 19129
(Name of issuer of the securities held pursuant to the Plan and the address of its principal executive offices)

TASTY BAKING COMPANY 401(k) AND COMPANY FUNDED RETIREMENT PLAN

Financial Statements and Supplemental Schedules
For the Years Ended December 31, 2007 and 2006
With Report of Independent Registered Public Accounting Firm

TASTY BAKING COMPANY 401(k) AND COMPANY FUNDED RETIREMENT PLAN

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* Refers to item numbers in Form 5500 (Annual Return/Report of Employee Benefit Plan) for the year ended December 31, 2007.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Participants and Administrator of
Tasty Baking Company 401(k) and Company Funded Retirement Plan

We have audited the accompanying statements of net assets available for benefits of Tasty Baking Company 401(k) and Company Funded Retirement Plan (the "Plan") as of December 31, 2007 and 2006, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2007 and 2006, and the changes in its net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2007 and schedule of reportable transactions for the year ended December 31, 2007 are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Mitchell & Titus LLP
Philadelphia, PA
June 25, 2008

TASTY BAKING COMPANY 401(k) and COMPANY FUNDED RETIREMENT PLAN
Statements of Net Assets Available for Benefits
as of December 31, 2007 and 2006

	2007	2006
ASSETS		
Investments, at fair value	$ 39,953,511	$ 37,537,191
Receivables:		
Participant Contribution Receivable	40,741	40,389
Employee Contribution Receivable	44,353	46,290
Total receivables	85,094	86,679
Net assets available for benefits, at fair value	40,038,605	37,623,870
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(64,147)	80,326
Net assets available for benefits	$ 39,974,458	$ 37,704,196

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

TASTY BAKING COMPANY 401(k) and COMPANY FUNDED RETIREMENT PLAN
Statements of Changes in Net Assets Available for Benefits
For the Years Ended December 31, 2007 and 2006

	2007	2006
ADDITIONS		
Additions to Net Assets Attributed to:		
Net appreciation (depreciation) in fair value of investments	$ (659,069)	$ 2,722,855
Cash dividends	1,620,312	783,461
Interest	499,250	472,331
	1,460,493	3,978,647
Contributions		
Participant	2,216,684	2,308,193
Employer	2,481,198	2,484,654
	4,697,882	4,792,847
Total additions	6,158,375	8,771,494
DEDUCTIONS		
Deductions from Net Assets Attributed to:		
Benefits paid to participants	3,881,038	2,968,300
Administrative expense	7,075	3,573
Total deductions	3,888,113	2,971,873
Net increase	2,270,262	5,799,621
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	37,704,196	31,904,575
End of year	$ 39,974,458	$ 37,704,196

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

TASTY BAKING COMPANY 401(k) AND COMPANY FUNDED RETIREMENT PLAN
Notes to Financial Statements
December 31, 2007 and 2006

NOTE 1 DESCRIPTION OF PLAN

General

The Tasty Baking Company 401(k) and Company Funded Retirement Plan (the "Plan") is a defined contribution plan under which all employees of Tasty Baking Company and Tasty Baking Oxford, Inc. (the "Companies") who meet certain service requirements are eligible to participate. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Plan Merger

On March 27, 2005, the Companies merged the Tasty Baking Oxford, Inc. 401(k) Savings Plan (the "Oxford Plan") into the Tasty Baking Company 401(k) Thrift Plan and renamed the merged plans as the Tasty Baking Company 401(k) and Company Funded Retirement Plan. All assets of the Oxford Plan were transferred to the Plan immediately after the effective date of the merger.

For a description of the contribution, benefits, and vesting provisions of the Plan, as well as other Plan provisions, Plan participants should refer to the Plan document or Summary Plan Description (SPD).

Plan Amendments

The Plan made certain amendments to comply with new IRS regulations in 2007. The Plan amended the vesting schedule of the company-funded contribution. Effective January 1, 2007, a participant is 100% vested after three years of service.

Contributions

Under the 401(k) portion of the Plan, employee elective deferral contributions may be made in an amount up to the annual IRS contribution limit of $15,500 in 2007, or $20,500 for participants age 50 and over. Employees can contribute any whole percentage of their eligible compensation as their elective deferrals subject to the annual IRS limit. The Companies make matching contributions equal to 50% of the employees' elective deferrals that do not exceed 4% of their compensation as defined in the Plan. Elective deferral contributions are made through payroll deductions as authorized by the employees and are immediately vested. For the investment of their own contributions, participants may choose from a variety of Vanguard Group mutual fund options selected by the Plan Committee and a fund that invests primarily in common stock of Tasty Baking Company. The Plan is administered by the

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Freestone Resources, Inc. and Subsidiaries

Consolidated Statement of Cash Flow

For the Six Months Ended December 31, 2015 and 2014

(Unaudited)

	December 31, 2015 Successor	December 31, 2014 Predecessor
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income (Loss)	$ (968,612)	$ 20,527
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	56,408	32,544
Shares Issued for Services	256,500	-
Changes in operating assets and liabilities		
Decrease in Accounts Receivable	12,928	23,962
(Increase) Decrease	32,140	(8,588)

in Inventory		
Decrease in Prepaid Expenses	13,827	25,812
Increase (Decrease) in Accounts Payable and Accrued Liabilities	209,614	(63,121)
Net Cash Provided by (Used In) Operating Activities	(387,195)	31,136
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(4,947)	-
Net Cash Used in Investing Activities	(4,947)	-
CASH FLOW FROM FINANCING ACTIVITIES		
Sale of Stock for Cash	350,000	-
Contributions to LLC by Holders of Non-Controlling Interest in FDEP	137,528	-
Repayment of Debt	(31,769)	(25,858)
Net Cash Provided by (Used In) Financing Activities	455,759	(25,858)

Net Increase in Cash		63,617		5,278
Cash at Beginning of the Period		38,372		30,465
Cash at the End of the Period	$	101,989	$	35,743
Cash Transactions				
Total Amount of Interest Paid in Cash	$	5,099	$	6,155
Non Cash financing and Investing Activities				
Notes Payable for Purchase of Assets	$	70,467	$	-
ARO Assumed By Purchaser in Exchange for O&G Property	$	14,470	$	-
Shares Issued for O&G Interest	$	20,000	$	-
Expenses Paid Directly by Holders of Non-Controlling Interest in FDEP	$	134,579	$	-

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

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Freestone Resources, Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

December 31, 2015

(Unaudited)

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities, History and Organization:

Freestone Resources, Inc. (the "Company" or "Freestone") is an oil and gas technology development company that is actively developing and marketing technologies and solvents designed to benefit various sectors in the oil and gas industry. 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, 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 and six months ended December 31, 2015 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 the Financial Statements and notes thereto included in the Company's June 30, 2015 Form 10-K.

Predecessor Accounting:

On June 24, 2015 Freestone acquired 100% of the outstanding common stock of CTR. The operations of Freestone were insignificant in comparison to CTR, so the consolidated financial statements included for the three and six months ended December 31, 2014 are presented under predecessor entity reporting wherein the prior historical information consists solely of CTR's results of operations and cash flows. The consolidated balance sheets as of December 31, 2015 and June 30, 2015 and results of operations and cash flows for the quarter ended December 31, 2015 are presented under successor entity reporting.

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 predecessor company is carried at lower of cost or market. At acquisition 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 December 31, 2015 and June 30, 2015 inventory consisted of:

	12/31/15	6/30/15
Crum Rubber for Processing	$18,383	$10,246
Used Tire for Resale	71,477	111,754
	$89,860	$122,000

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

At December 31, 2015 and June 30, 2015 Property, Plant and Equipment was as follows:

	12/31/15	6/30/15
Land	$360,000	$360,000
Buildings and Improvements	700,000	700,000
Computers and Office Furniture	21,967	21,967
Automotive Equipment	94,829	78,100
Machinery and Equipment	558,545	499,860
Oil and gas properties used for research and development	—	22,067
	1,735,341	1,681,994
Less Accumulated Depreciation	65,375	16,654
	$1,669,966	$1,665,430

Depreciation expense was $28,751 and $17,381 for the three months ended December 31, 2015 (Successor) and December 31, 2014 (Predecessor), respectively. Depreciation expense was $56,408 and $32,544 for the six months ended December 31, 2015 (Successor) and December 31, 2014 (Predecessor), respectively.

On August 27, 2015 the Company disposed of its remaining oil and gas interest in exchange for the assumption of the plugging liability by the purchaser.

NOTE 4 – ENVIRONMENTAL LIABILITY

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 will 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 is an estimate of cost of disposing of the tires that are not acceptable for use as feedstock.

NOTE 5 – NOTES PAYABLE

At December 31, 2015 and June 30, 2015 Notes Payable were as follows:

	12/31/15		6/30/15
Note payable to bank bearing interest at 4.5% with monthly payment of $390 maturing September, 2017. The note is secured by an automobile	$	7,857	$ 9,989
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		105,554	130,975
Note payable to seller in connection with purchase of CTR bearing interest at 12% maturing June, 2019. Interest only payable for the first year. Monthly payment of $34,991 beginning July, 2016. Secured by the common stock and assets of CTR		1,020,000	1,020,000
Note payable to bank bearing interest at 4.95%		12,137	—

with monthly payments of $315 maturing August, 2019. The note is secured by equipment			
Notes payable to bank bearing interest 3.95% with monthly payments of $489 maturing September, 2020. The notes is secured by equipment		24,950	—
Notes payable to bank bearing interest 4.78% with monthly payments of $309 maturing December, 2020. The notes is secured by equipment		16,225	—
Note payable to bank bearing interest at 5.69% with monthly payments of $264 maturing August, 2020. The note is secured by an automobile		12,939	—
		1,199,662	1,160,964
Less current maturities		(222,881)	(56,051)
	$	976,781	$ 1,104,913

At December 31, 2015 future maturities of long term debt were as follows:

Year Ending December 31:	
2016	$ 221,881
2017	392,727
2018	367,162
2019	206,918
2020	9,974

$	1,199,662

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NOTE 6 – 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, 2015 and June 30, 2015, there were 86,138,177 and 81,088,117 respectively, common shares outstanding. During the six months ended December 31, 2015 the Company sold 3,500,000 shares for cash proceeds of $350,000.

On September 23, 2015 the Company issued shares of the Company's common stock to certain directors, officers and consultants for services rendered to the Company. Clayton Carter, the Company's Director and Chief Executive Officer, received 600,000 shares of the Company's common stock, G. Don Edwards, the Company's Director and Chief Investment Officer, received 600,000 shares of the Company's common stock, and James Carroll, the Company's Director and Chief Financial Officer received 50,000 shares of the Company's common stock. The Company also issued 100,000 shares to consultants as consideration for services rendered to the Company. The stock was valued at $.19 a share based on the closing price on the date of award.

On September 14, 2015 the Company repurchased an 8.25% revenue interest in the Company's Rogers Oil and Gas Lease for $20,000. The Company issued 200,000 shares of common stock at $.10 to satisfy the debt.

Stock Warrants:

In connection with the sale of 5,000,000 shares of the company common stock associated with the purchase of CTR during June 2015 the Company issued 5,000,000 warrants to purchase shares of common stock at 80% of the average closing bid and sale cost over the previous ten days at exercise date. The warrants vest immediately and have a one year term.

On July 30, 2015 the Company reached an agreement with the holders to cancel the 1,000,000 warrants outstanding which would have expired November 15, 2015.

NOTE 7 – THE ACQUISITION OF C.C. CRAWFORD RETREADING COMPANY, INC.

On June 24, 2015 the Company acquired 100% of the outstanding common stock of C.C. Crawford Retreading Co., Inc., a privately held company, for an aggregate price of $1,520,000. Terms of the purchase were $500,000 cash at closing and a note payable to the seller for $1,020,000. The cash down payments was paid direct to a seller by a third party from sale of stock proceeds. The Company estimated the fair value of assets acquired net of liabilities assumed to be $1,648,750 resulting in a bargain purchase gain of $128,750. See notes to the Company's June 30, 2015 10K for details of the purchase price allocation and pro forma financial statements.

Unaudited pro forma results of operations data for the three and six months ended December 31, 2014 as if the Companies had been combined as of July 1, 2014, follow. The pro forma results include estimates and assumptions which management believes are reasonable. However pro form results do not include any anticipated cost savings or other effects of the planned integration of these entities, and are not necessarily indicative of the results that would have occurred if the business combination had been in effect on the dates indicated or which may result in the future.

	Three Months Ended 12/31/14	Six Months Ended 12/31/14
Revenue	$276,642	$630,660
Net Income (Loss)	$(101,725)	$(115,474)
E.P.S	$(0.00)	$(0.00)
Weight Average Shares Outstanding	79,712.525	79,127,851

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NOTE 8 – THE FORMATION OF FREESTONE DYNAMIS ENERGY PRODUCTS, LLC.

On June 24, 2015 the Company entered into an agreement with Dynamis in order to form Freestone Dynamis Energy Products, LLC. ("FDEP"), a Delaware limited liability company. Freestone determined to form FDEP with Dynamis based on their track record and experience in the waste-to-energy industry, and their ability to provide the necessary funding to fully integrate the production, marketing and sale of Petrozene™ to current and future customers. The terms of the agreements between the Company and Dynamis are as follows:

- Freestone owns a 70% member interest in FDEP for licensing the rights to use Petrozene™ to FDEP; and
- Dynamis owns a 30% member interest FDEP in exchange providing funding up to $5,000,000 to operate FDEP, and purchase a continuous-feed pyrolysis machine capable of producing a product that can be used to produce Petrozene™; and
- FDEP will be leasing employees from CTR, and said employees will operate the machine. FDEP will reimburse CTR for the leased employees; and
- FDEP has the right, but not the obligation to purchase CTR from Freestone through cash compensation to Freestone, the issuance of additional units in FDEP to Freestone or a combination of both cash and units in FDEP as mutually agreed upon by FDEP and Freestone; and
- FDEP will lease a building from CTR in order to operate the specialized pyrolysis technology for payment of either the ad valorem taxes associated with the rented property or $1,000 per month depending on which amount is the greater of the two; and
- Dynamis will receive 80% of the distributions from FDEP until they have reached a 25% initial rate of return on funds invested into FDEP. Once the 25% initial rate of return threshold is meet all distributions from FDEP will be split according to the 70 / 30 member interest of FDEP owned by the Company and Dynamis.

On June 24, 2015 FDEP simultaneously entered into a lease agreement with a company that has developed a continuous-feed pyrolysis technology that will be operated by FDEP at the Company's facility in Ennis, Texas. FDEP and the company that developed the pyrolysis technology will split the revenues generated from the machine. FDEP will receive 70% of the revenues generated from the machine, and the company providing the continuous-feed pyrolysis technology will receive 30% of the revenues. This revenue split will remain in place so long as the machine is operating at the Company's facility in Ennis, Texas. The agreement between the two companies allows FDEP the opportunity to ensure that the technology continues to operate properly under the strict conditions that are necessary to produce Petrozene™. If the leased pyrolysis machine operates within certain, predefined parameters then FDEP has the right to purchase additional machines.

During the six months ended December 31, 2015, Dynamis paid $134,579 for certain engineering and general administrative costs on behalf of FDEP, which are shown on the Statement of Cash Flows as a non-cash financing activity. These payments were treated as capital contributions to the entity by Dynamis Dynamis also made cash contributions totaling $137,528 to the entity during the six months ended December 31, 2015.

At December 31, 2015 and June 30, 2014 the consolidated assets of Freestone included $27,993 and $0, respectively of cash which is only available to settle the liabilities of FDEP.

NOTE 9 – 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 10 – COMMITMENTS AND CONTINGENCIES

The Company leases office space in Dallas, TX under a non-cancelable operating lease that expires in July 2017 and warehouse space in Ennis, TX under a one year lease with a purchase option for $260,000. Future minimum lease payments are as follows:

Year End June 30	Amount
2016	23,123
2017	26,545
2018	1,884
Total	51,552

Rent expense, included in general and administrative expenses, totaled approximately $18,163 and $25,784 for the three and six months ended December 31, 2015 (Successor), respectively. The predecessor had no lease expense for the three and six months ended December 31, 2014.

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, 2016. No royalties were paid during the three and six months ended December 31, 2015.

NOTE 11 – RELATED PARTY TRANSACTIONS

One of the consultants who has a royalty and commission agreement as discussed in Note 10 is related party and the brother of a Director of the Company.

On July 25, 2015 Company sold 3,500,000 shares at $0.10 per share to provide funding of subsequent costs associated with the acquisition of CTR, as well as general working capital for the Company. This transaction made Gerald M. Johnson a controlling shareholder of the Company.

On September 14, 2015 the Company repurchased an 8.25% revenue interest in the Company’s Rogers Oil and Gas Lease for $20,000 from Mr. Johnson. The Company issued 200,000 shares of common stock at $.10 to satisfy the debt.

NOTE 12- SUBSEQUENT EVENTS

On September 14, 2015 the Company repurchased an 8.25% revenue interest in the Company’s Rogers Oil and Gas Lease for $20,000 from Mr. Johnson. The Company issued 200,000 shares of common stock at $.10 to satisfy the debt.

On January 6, 2016, the Company issued 100,000 shares of the Company's common stock at $0.18 per share, restricted pursuant to Rule 144, a consultant for the company and a related party to a Director of the Company, for representing Freestone on the Board of Members of FDEP and for consulting services rendered to the Company.

On January 6, 2016, the Company issued 150,000 shares of the Company's common stock at $0.18 per share, restricted pursuant to Rule 144, to an accounting employee of the Company, for services rendered to the Company.

On January 6, 2016, Clayton Carter resigned as Chief Executive Officer of the Company, and Michael J. McGhan was appointed by the Board of Directors as the Chief Executive Officer and Chairman of the Board.

On January 7, 2016 Michael McGhan and the Company entered into a two-year employment agreement ("Employment Agreement"). The terms of the Employment Agreement include an initial salary of $5,000.00 per month, which will increase to $10,000.00 per month after six months, as well as stock-based compensation in the amount of 3,000,000 shares of the Company's restricted stock pursuant to Rule 144. Subject to Board approval, Mr. McGhan is eligible to receive warrants for up to 2,000,000 shares of the Company's common stock (the "Warrants"). The Warrants are not issued on the date of the Employment Agreement. The Board is not required to issue the Warrants. If the Warrants are issued to Mr. McGhan during the term of his Employment Agreement, the terms and conditions of the Warrants will be determined by the Board on the date the Warrants are issued. Mr. McGhan will also be eligible to participate in the Company's employee benefit plan that is generally available to all other employees at the Company.

On January 7, 2016, 3,000,000 million shares of the Company's common stock, restricted pursuant to Rule 144, were issued to Michael McGhan at a price of $0.18 per share per the terms and conditions of Mr. McGhan's Employee Agreement.

On January 26, 2016, the Company sold 250,000 shares of the Company's common stock, restricted pursuant to Rule 144, at a purchase price of $0.08 per share.

On January 26, 2016, the Company sold 62,500 shares of the Company's common stock, restricted pursuant to Rule 144, at a purchase price of $0.08 per share.

On January 28, 2016, the Company sold 562,500 shares of the Company's common stock, restricted pursuant to Rule 144, to Gerald M. Johnston, a Director of the Company, at $0.08 per share.

On January 28, 2016, the Company sold 62,500 shares of the Company's common stock, restricted pursuant to Rule 144, at a purchase price of $0.08 per share.

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.

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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

The three and six months ended December 31, 2015 (Successor) compared to the three and six months ended December 31, 2014 (Predecessor)

Revenue – Our revenue for the six months ended December 31, 2015 (Successor) was $571,538, compared to $671,149 for the six months ended December 31, 2014 (Predecessor) due primarily to a decrease in tire repair revenue. Our revenue for the three months ended December 31, 2015 (Successor) was $233,917, compared to $273,131 for the six months ended December 31, 2014 (Predecessor) due primarily to a decrease in tire repair revenue and used tire sales.

Cost of Revenues – Cost of revenue increased from $313,915 for the six months ended December 31, 2014 (Predecessor) to $354,099 for the six months ended December 31, 2015 (Successor). This was primarily a result of a $39,271 increase in disposal costs. Used tire cost increased by $37,648 due primarily to the adjustment of inventory to fair value at acquisition which resulted in a higher per tire cost for the tires sold during the period. Cost of revenue for the three months ended December 31, 2015 (Successor) was $162,934 compared to $150,815 for the three months ended December 31, 2014 (Predecessor). The increase was largely due to an increase in cost of used tiers resulting from the adjustment of inventory to fair value and the increase cost of tire disposal operations.

Operating Expense – Total operating expenses for the six months ended December 31, 2015 (Successor) were $1,119,292 compared to the operating cost for the six months ended December 31, 2014 (Predecessor) of $286,552 The increase was due to the inclusion of Freestone resources and its related costs associated with being public company and the acquisition of CTR as well as startup cost of FDEP. Specific costs included $236,500 of shares issued for services, $188,943 of profession fees and $67,375 of payroll. The increase in depreciation expense was due to the write up of the acquired assets to fair value at acquisition. In addition the Company incurred $240,967 in startup cost for its FDEP operations. Operating expenses for the three months ended December 31, 2015 (Successor) were $485,724 compared to $151,171 for the three months ended December 31, 2014 (Predecessor). The increase was due to $180,009 of startup cost for FDEP, as well as the inclusion of Freestone Resources and its cost of operating as a public company.

Other Income and Expenses – Other income and expense for the six months ended December 31, 2015 (Successor) consisted of $66,759 of interest expense compared to other income and expense for the six months ended December 31, 2014 (Predecessor) consisting of $6,155 of interest expense. For the three months ended December 31, 2015 (Successor) other expenses consisted of $33,511 of interest expense compared to $3,189 for the three months ended December 31, 2014 (Predecessor). The increase in interest expense was due to the debt taken on to finance the purchase of CTR and additional debt within CTR to fund new equipment purchases.

Net Income (Loss)

Net loss for the six months ended December 31, 2015 (Successor) was $896,322 compared to net income of $20,527 for the six months ended December 31, 2014 (Predecessor). The loss was due to the expenses of Freestone as detailed above. CTR's net income for the six months ended December 31, 2015 was $21,100 compared to $20,527 for the six months ended December 31, 2014. Net loss for the three months ended December 31, 2015 (Successor) was $394,147 compared to $32,044 for the three months ended December 31, 2014 (Predecessor). Increase was due to the addition of Freestone Resources and FDEP as detailed above.

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 annual 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.

Net cash used in operations was $387,195 for the six months ended December 31, 2015 (Successor) compared to net cash provided by operations of $31,136 for the six months ended December 31, 2014 (Predecessor). The change was due to the increase costs from the addition of Freestone's operations to the predecessor financials. The cash used in operations was offset by $350,000 proceeds from the sale of Freestone common stock.

Employees

As of December 31, 2015 CTR had 15 full time employees. Freestone has four 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 December 31, 2015. This evaluation was accomplished under the supervision and with the participation of our chief executive officer/principal executive officer, and chief financial officer/principal financial officer who concluded that our disclosure controls and procedures are not effective.

Based upon an evaluation conducted for the period ended December 31, 2015, our Chief Executive and Chief Financial Officer as of December 31, 2015 and as of the date of this Report, has concluded that as of the end of the periods covered by this report, we have identified the following material weakness of our internal controls:

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

Changes in Internal Controls over Financial Reporting

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

PART II

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

<u>Item 6 - Exhibits and Reports on Form 8-K</u>

(a) None

(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, Chief Executive Officer

Date: February 16, 2016