



Financials Statements
Six Months Ended
June 30, 2009
Unaudited

Table of Contents

Consolidated Balance Sheet	3
Consolidated Statement of Operations	4
Consolidated Statement of Shareholders' Deficit	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7

**GelStat Corp. and Subsidiary
Consolidated Balance Sheets**

	As of	
	June 30, 2009	December 31, 2008
	(Unaudited)	
Assets		
Current Assets		
Cash and equivalents	\$ 195	\$ 21
Accounts receivable	29,074	3,680
Inventory	230,288	278,012
Prepaid consulting	-	-
Total current assets	259,557	281,713
Property and equipment, net	5,000	5,000
Patents, net	-	-
Investment in unconsolidated subsidiary	-	-
Note receivable	-	-
Other Assets	-	-
Total assets	\$ 264,557	\$ 286,713
Liabilities, Redeemable Convertible Cumulative Preferred Stock and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts payable	\$ 639,461	\$ 616,415
Accrued liabilities	5,179	5,492
Convertible Notes - current portion net of original issue discount	544,946	539,446
Total current liabilities	1,189,586	1,161,353
Total Liabilities	1,189,586	1,161,353
Commitments and Contingencies		
Stockholders' Equity (Deficit)		
Common stock issued and outstanding, \$0.01 par value;	350,178	350,178
Common stock issuable, \$0.01 Par Value	6,000	6,000
Additional paid-in capital	14,416,601	14,416,601
Accumulated deficit	(15,697,808)	(15,647,419)
Total stockholders' equity (deficit)	(925,029)	(874,640)
Total liabilities, redeemable convertible cumulative preferred stock, and stockholders' equity (deficit)	\$ 264,557	\$ 286,713

**GelStat Corp. and Subsidiary
Consolidated Statements of Operations**

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	<u>(Unaudited)</u>		<u>(Unaudited)</u>	
Revenues, net	\$ 35,136	\$ 5,739	\$ 39,068	\$ 10,904
	<u>35,136</u>	<u>5,739</u>	<u>39,068</u>	<u>10,904</u>
Cost of revenues	<u>6,789</u>	<u>1,404</u>	<u>10,662</u>	<u>2,549</u>
Gross profit (loss)	<u>28,347</u>	<u>4,335</u>	<u>28,406</u>	<u>8,355</u>
Operating expenses				
Selling, general and administrative	25,363	74,279	40,294	206,265
Write down of inventory	38,349	-	38,349	-
Impairment of patents	-	192,576	-	192,576
	<u>63,712</u>	<u>266,855</u>	<u>78,643</u>	<u>398,841</u>
Loss from operations	(35,365)	(262,520)	(50,237)	(390,486)
Other income (expense):				
Other expense	-	-	-	(18,506)
Interest expense	(102)	-	(152)	-
Total other income (expense)	<u>(102)</u>	<u>-</u>	<u>(152)</u>	<u>(18,506)</u>
Net (loss)	<u>\$ (35,467)</u>	<u>\$ (262,520)</u>	<u>\$ (50,389)</u>	<u>\$ (408,992)</u>
Earnings (loss) per common share				
Basic and Diluted	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>
Weighted Average Shares Outstanding	<u>35,017,806</u>	<u>27,045,153</u>	<u>35,017,806</u>	<u>25,856,582</u>

GelStat Corporation and Subsidiary
Consolidated Statement of Changes in Stockholders' Equity (Deficit)
(Unaudited)

	Common Stock				Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Total
	Issuable		Issued				
	Shares	\$	Shares	\$			
Balance January 1, 2008	350,000	\$ 3,500	25,068,010	\$ 250,680	\$ 14,159,459	\$ (14,415,476)	\$ (1,837)
Issuance of common stock for cash, net of expense	350,000	3,500	2,800,000	28,000	63,000		94,500
Issuance of common stock for services	-	-	6,256,795	62,568	142,772		205,340
Issuance of common stock in payment of A/P	(100,000)	(1,000)	593,000	5,930	39,370		44,300
Issuance of common stock in payment of interest	-	-	300,000	3,000	12,000		15,000
Net loss for the year	-	-	-	-	-	(1,231,943)	(1,231,943)
Balance December 31, 2008	<u>600,000</u>	<u>\$ 6,000</u>	<u>35,017,805</u>	<u>\$ 350,178</u>	<u>\$ 14,416,601</u>	<u>\$ (15,647,419)</u>	<u>\$ (874,640)</u>
Net loss for the six months ended June 30, 2009	-	-	-	-	-	(50,389)	(50,389)
Balance June 30, 2009	<u>600,000</u>	<u>\$ 6,000</u>	<u>35,017,805</u>	<u>\$ 350,178</u>	<u>\$ 14,416,601</u>	<u>\$ (15,697,808)</u>	<u>\$ (925,029)</u>

GelStat Corporation and Subsidiary
Consolidated Statements of Cash Flows
(Unaudited)

	For the Six Months Ended	
	June 30,	
	2009	2008
	<u>2009</u>	<u>2008</u>
Net Loss	\$ (50,389)	\$ (408,992)
Adjustments to reconcile net loss to cash flows from operating activities:		
Write down of inventory	38,349	-
Impairment of intangible assets		192,576
Stock for consulting		140,000
Changes in operating assets and liabilities:		
Accounts receivable	(25,394)	(68,527)
Prepaid expenses	-	23,875
Inventory	9,375	2,555
Accounts payable	22,733	80,936
Net cash used in operating activities	<u>(5,326)</u>	<u>(37,577)</u>
Cash Flows from Investing Activities:		
Net cash used in investing activities	<u>-</u>	<u>-</u>
Cash Flows from Financing Activities:		
Proceeds from notes payable	5,500	5,500
Proceeds from issuance of stock	-	40,000
Net cash provided by financing activities	<u>5,500</u>	<u>45,500</u>
Net increase in cash and cash equivalents	174	7,923
Cash and cash equivalents, beginning	<u>21</u>	<u>3,044</u>
Cash and cash equivalents, ending	<u>\$ 195</u>	<u>\$ 10,967</u>

Notes to Consolidated Financial Statements:

The accompanying financial statements were prepared by the Company in accordance with U.S. GAAP. However, we caution readers and investors the statements were not audited and could be subject to revision once audited.