



Financials Statements  
Twelve Months Ended  
December 31, 2008  
Unaudited

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

	As of December 31,	
	2008	2007
	(Unaudited)	
<b>Assets</b>		
<b>Current Assets</b>		
Cash and equivalents	\$ 21	\$ 3,044
Accounts receivable	3,680	270,588
Inventory	278,012	1,373,985
Prepaid consulting	-	43,500
<b>Total current assets</b>	281,713	1,691,117
Property and equipment, net	5,000	44,221
Patents, net	-	195,076
Investment in unconsolidated subsidiary	-	4,032
Other Assets	-	29,500
<b>Total assets</b>	\$ 286,713	\$ 1,963,946
<b>Liabilities, Redeemable Convertible Cumulative Preferred Stock and Stockholders' Equity (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 616,415	\$ 1,080,603
Accrued liabilities	5,492	339,473
Convertible Notes - current portion net of original issue discount	539,446	545,707
<b>Total current liabilities</b>	1,161,353	1,965,783
<b>Total Liabilities</b>	1,161,353	1,965,783
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity (Deficit)</b>		
Common stock issued and outstanding, \$0.01 par value;	350,178	250,680
Common stock issuable, \$0.01 Par Value	6,000	3,500
Additional paid-in capital	14,416,601	14,159,459
Accumulated deficit	(15,647,419)	(14,415,476)
<b>Total stockholders' equity (deficit)</b>	(874,640)	(1,837)
<b>Total liabilities, redeemable convertible cumulative preferred stock, and stockholders' equity (deficit)</b>	\$ 286,713	\$ 1,963,946
<b>Shares outstanding at balance sheet date</b>	35,017,805	25,068,010

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

	<b>For the Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	
<b>Revenues, net</b>	\$ 23,287	\$ 26,173
	<u>-</u>	<u>-</u>
	23,287	26,173
<b>Cost of revenues</b>	<u>5,443</u>	<u>25,482</u>
<b>Gross profit (loss)</b>	<u>17,844</u>	<u>691</u>
<b>Operating expenses</b>		
Selling, general and administrative	415,748	1,211,680
Write-down of inventory	1,132,615	
Impairment of patents	192,576	-
	<u>1,740,939</u>	<u>1,211,680</u>
<b>Loss from operations</b>	(1,723,095)	(1,210,989)
<b>Other income (expense):</b>		
Other income (expense)	492,593	(119)
Interest expense	(1,441)	(1,603)
<b>Total other income (expense)</b>	<u>491,152</u>	<u>(1,722)</u>
<b>Net (loss)</b>	<u>\$ (1,231,943)</u>	<u>\$ (1,212,711)</u>
<b>Earnings (loss) per common share</b>		
Basic and Diluted	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>
Weighted Average Shares Outstanding	<u>28,393,188</u>	<u>23,912,120</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	\$			
<b>Balance January 1, 2007</b>	100,000	\$ 1,000	23,368,010	\$ 233,680	\$ 13,793,171	\$ (13,202,765)	\$ 825,086
Issuance of common stock for cash, net of expense	250,000	2,500	1,050,000	10,500	117,000	-	130,000
Issuance of common stock for services	-	-	650,000	6,500	161,500	-	168,000
Warrants and options issued for services	-	-	-	-	87,788	-	87,788
Net loss for the year	-	-	-	-	-	(1,212,711)	(1,212,711)
<b>Balance December 31, 2007</b>	<u>350,000</u>	<u>\$ 3,500</u>	<u>25,068,010</u>	<u>\$ 250,680</u>	<u>\$ 14,159,459</u>	<u>\$ (14,415,476)</u>	<u>\$ (1,837)</u>
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 nine months	-	-	-	-	-	(1,231,943)	(1,231,943)
<b>Balance December 31, 2008</b>	<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>

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

	<b>For the Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<u>          </u>	<u>          </u>
<b>Net Loss</b>	\$ (1,231,943)	\$ (1,212,711)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation	-	8,001
Impairment of patents	195,076	-
Write-down of inventory	1,132,615	-
Write down of accounts payable and accrued expenses	(492,593)	-
Stock issued for Services	205,340	128,000
Warrants issued for services	-	87,788
Stock for accrued interest	15,000	-
Amortization of prepaid expenses	43,500	428,135
Bad debt write-off	218,760	-
Write-off of investment in subsidiary	4,032	-
Settlement of accounts payable	(263,684)	-
Changes in operating assets and liabilities:		
Accounts receivable	48,148	80,608
Inventory	(36,642)	8,954
Patents	-	(1,499)
Security deposits	29,500	-
Coupon deposits	-	20,000
Accounts payable	(12,592)	378,686
Accrued liabilities	15,000	39,334
Deferred revenue	-	(115,257)
Net cash used in operating activities	<u>(130,483)</u>	<u>(149,961)</u>
<b>Cash Flows from Investing Activities:</b>		
Disposal of fixed assets	39,221	-
Net cash used in investing activities	<u>39,221</u>	<u>-</u>
<b>Cash Flows from Financing Activities:</b>		
Debt repayments	(42,261)	-
Proceeds from notes payable	36,000	23,005
Proceeds from sale of stock	94,500	130,000
Net cash provided by financing activities	<u>88,239</u>	<u>153,005</u>
<b>Net increase in cash and cash equivalents</b>	<u>(3,023)</u>	<u>3,044</u>
<b>Cash and cash equivalents, beginning</b>	<u>3,044</u>	<u>-</u>
<b>Cash and cash equivalents, ending</b>	<u>\$ 21</u>	<u>\$ 3,044</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.