



Financials Statements  
Twelve Months Ended  
December 31, 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 December 31,	
	2009	2008
	(Unaudited)	
<b>Assets</b>		
<b>Current Assets</b>		
Cash and equivalents	\$ 216	\$ 21
Accounts receivable	21,572	3,680
Inventory	222,179	278,012
Prepaid consulting	-	-
<b>Total current assets</b>	243,967	281,713
Property and equipment, net	5,000	5,000
Patents, net	-	-
Investment in unconsolidated subsidiary	-	-
Note receivable	-	-
Other Assets	-	-
<b>Total assets</b>	\$ 248,967	\$ 286,713
<b>Liabilities and Stockholders' Equity (Deficit)</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 665,895	\$ 616,415
Accrued liabilities	6,379	5,492
Convertible Notes - current portion net of original issue discount	532,946	539,446
<b>Total current liabilities</b>	1,205,220	1,161,353
<b>Total Liabilities</b>	1,205,220	1,161,353
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity (Deficit)</b>		
<b>Common stock issued and outstanding, \$0.01 par value;</b>	350,178	350,178
<b>Common stock issuable, \$0.01 Par Value</b>	6,000	6,000
<b>Additional paid-in capital</b>	14,416,601	14,416,601
<b>Accumulated deficit</b>	(15,729,032)	(15,647,419)
<b>Total stockholders' equity (deficit)</b>	(956,253)	(874,640)
<b>Total liabilities and stockholders' equity (deficit)</b>	\$ 248,967	\$ 286,713

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

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2009	2008	2009	2008
	<u>(Unaudited)</u>		<u>(Unaudited)</u>	
<b>Revenues, net</b>	\$ 20,205	\$ 7,419	\$ 61,745	\$ 23,287
	<u>20,205</u>	<u>7,419</u>	<u>61,745</u>	<u>23,287</u>
<b>Cost of revenues</b>	5,812	1,806	17,308	5,443
	<u>5,812</u>	<u>1,806</u>	<u>17,308</u>	<u>5,443</u>
<b>Gross profit (loss)</b>	14,393	5,613	44,437	17,844
	<u>14,393</u>	<u>5,613</u>	<u>44,437</u>	<u>17,844</u>
<b>Operating expenses</b>				
Selling, general and administrative	27,008	73,737	79,834	415,748
Write down of inventory	3,208	-	41,557	1,132,615
Impairment of patents	3,208	-	-	192,576
	<u>33,424</u>	<u>73,737</u>	<u>121,391</u>	<u>1,740,939</u>
<b>Loss from operations</b>	(19,031)	(68,124)	(76,954)	(1,723,095)
	<u>(19,031)</u>	<u>(68,124)</u>	<u>(76,954)</u>	<u>(1,723,095)</u>
<b>Other income (expense):</b>				
Other expense	-	-	-	492,593
Interest expense	-	(1,401)	(4,659)	(1,441)
<b>Total other income (expense)</b>	-	(1,401)	(4,659)	491,152
	<u>-</u>	<u>(1,401)</u>	<u>(4,659)</u>	<u>491,152</u>
<b>Net (loss)</b>	\$ (19,031)	\$ (69,525)	\$ (81,613)	\$ (1,231,943)
	<u>\$ (19,031)</u>	<u>\$ (69,525)</u>	<u>\$ (81,613)</u>	<u>\$ (1,231,943)</u>
<b>Earnings (loss) per common share</b>				
Basic and Diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.05)
	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.05)</u>
<b>Weighted Average Shares Outstanding</b>	35,017,806	33,778,038	35,017,806	25,856,582
	<u>35,017,806</u>	<u>33,778,038</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	\$			
<b>Balance January 1, 2008</b>	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)
<b>Balance December 31, 2008</b>	600,000	\$ 6,000	35,017,805	\$ 350,178	\$ 14,416,601	\$ (15,647,419)	\$ (874,640)
Net loss for the nine months ended September 30, 2009	-	-	-	-	-	(65,790)	(65,790)
<b>Balance September 30, 2009</b>	600,000	\$ 6,000	35,017,805	\$ 350,178	\$ 14,416,601	\$ (15,713,209)	\$ (940,430)

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

	For the Year Ended December 31,	
	2009	2008
<b>Net Loss</b>	\$ (81,613)	\$ (1,231,943)
Adjustments to reconcile net loss to cash flows from operating activities:		
Impairment of patents	-	195,076
Write-down of inventory	41,557	1,132,615
Write down of accounts payable and accrued expenses	-	(492,593)
Stock issued for Services	-	205,340
Stock for accrued interest	-	15,000
Amortization of prepaid expenses	-	43,500
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	(17,892)	(279,140)
Inventory	14,276	(938,788)
Security deposits	-	29,500
Accounts payable	46,457	908,425
Accrued liabilities	887	403,458
Deferred revenue	-	-
Net cash used in operating activities	3,672	(50,442)
<b>Cash Flows from Investing Activities:</b>		
Disposal of fixed assets	-	39,221
Net cash used in investing activities	-	39,221
<b>Cash Flows from Financing Activities:</b>		
Debt repayments	(14,500)	(42,261)
Proceeds from notes payable	8,000	36,000
Proceeds from sale of stock	-	94,500
Net cash provided by financing activities	(6,500)	88,239
<b>Net increase in cash and cash equivalents</b>	(2,828)	77,018
<b>Cash and cash equivalents, beginning</b>	3,044	3,044
<b>Cash and cash equivalents, ending</b>	\$ 216	\$ 80,062

**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.