GELSTAT CORPORATION

INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 2015

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D. Brooks and Associates CPA's, P.A.
Certified Public Accountants ● Valuation Analyst ● Advisors

Accountant's Compilation Report

Stockholders of
Gelstat Corporation
Palm City, Florida

We have compiled the accompanying consolidated balance sheets of GelStat Corporation and Subsidiaries as of June 30, 2015, and December 31, 2014, and the related consolidated statements of operations for the three and six months ended June 30, 2015 and 2014, and the consolidated statements of cash flows for the six months ended June 30, 2015 and 2014, and the statement of stockholders' equity for the six months ended June 30, 2015. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

We are not independent with respect to GelStat Corporation

/s/ D. Brooks and Associates CPA's, P.A.

August 20, 2015

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GELSTAT CORPORATION
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2015 AND DECEMBER 31, 2014

	2015	2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,760	$ 96,680
Accounts receivable	184,750	113,057
Inventories	402,668	451,437
Prepaid expense	324,913	153,668
Total current assets	920,091	814,842
Other Assets:		
Website	6,600	6,600
Fixed assets	93,445	145,696
Patents	15,699	16,343
Goodwill and acquired intellectual property	6,047,854	6,047,854
Lease deposits	18,066	18,066
Total other assets	6,181,664	6,234,559
Total assets	$ 7,101,755	$ 7,049,401
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 780,016	$ 791,647
Deferred revenue	233,234	16,380
Due to stockholder	488,534	488,534
Deferred rent	34,215	59,876
Note payable, current portion	73,050	17,198
Total current liabilities	1,609,049	1,373,635
Note Payable, net of current portion	75,280	-
Stockholders' Equity:		
Common stock $0.01 par value; 500,000,000 shares authorized; 388,179,354 and 371,561,707 issued and outstanding, respectively	3,894,294	3,715,617
Additional paid in capital	20,985,475	20,837,651
Accumulated deficit	(19,462,342)	(18,877,502)
Total stockholders' equity	5,417,426	5,675,766
Total Liabilities and stockholders' equity	$ 7,101,755	$ 7,049,401

See accountant’s compilation report.

GELSTAT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues	$ 72,574	$ 14,038	$ 387,869	$ 19,980
Cost of Goods Sold	27,523	1,139	108,533	5,993
Gross Profit	45,051	12,899	279,336	13,987
Operating Expenses:				
Personnel costs	276,455	-	514,198	-
Consulting expense	71,164	564,173	82,623	570,912
Rent expense	12,887	5,606	90,043	9,956
Selling, general and administrative expen	42,025	34,567	172,176	93,918
Total operating expenses	402,531	604,346	859,040	674,786
Loss from operations	(357,480)	(591,447)	(579,704)	(660,799)
Other Income and (Expense):				
Interest income (expense)	(3,451)	23	(5,136)	23
Total other income and (expense)	(3,451)	23	(5,136)	23
Provision for Income Taxes	-	-	-	-
Net loss	$ (360,931)	$ (591,447)	$ (584,840)	$ (660,776)
Basic and diluted loss per common share	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Basic and diluted weighted average common shares outstanding	386,009,024	307,818,449	379,184,391	303,194,203

See accountant’s compilation report.

GELSTAT CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
SIX MONTHS ENDED JUNE 30, 2015

	Common Stock Issued		Additional	Accumulated	Stockholders'
	Shares	Amount	Paid In Capital	Deficit	Equity
Balance, December 31, 2014	371,561,707	$ 3,715,617	$ 20,837,651	$ (18,877,502)	$ 5,675,766
Issuance of common stock for cash	6,250,000	62,500	62,500	-	125,000
Issuance of common stock for cashless exercise of warrants	1,617,647	16,176	(16,176)	-	-
Issuance of common stock and warrants for services	10,000,000	100,000	101,500	-	201,500
Net loss for the period	-	-	-	(584,840)	(584,840)
Balance, June 30, 2015	389,429,354	$ 3,894,294	$ 20,985,475	$ (19,462,342)	$ 5,417,426

GELSTAT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities		
Net loss	$ (584,840)	$ (660,776)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Issuance of common stock and warrants for services	201,500	-
Stock-based compensation	-	564,891
Depreciation and amortization	52,895	685
Changes in current assets and liabilities:		
Accounts receivable	(71,693)	-
Inventory	48,769	(71,488)
Prepaid expenses	(171,245)	(39,900)
Accounts payable	(11,629)	14,777
Deferred rent	(25,661)	-
Deferred revenue	216,854	-
NET CASH USED IN OPERATING ACTIVITIES	(345,050)	(191,811)
Cash Flows from Investing Activities		
Deposit for acquisition	-	(225,000)
NET CASH USED IN INVESTING ACTIVITIES	-	(225,000)
Cash Flows from Financing Activities		
Proceeds from the sale of common stock	125,000	406,501
Net proceeds from notes payable	131,132	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	256,132	406,501
NET INCREASE IN CASH AND CASH EQUIVALENTS	(88,918)	(10,310)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	96,680	95,076
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 7,760	$ 84,766
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the years for:		
Interest	$ -	$ -
Taxes	$ -	$ -
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock and warrants for settlement of accounts payable	$ -	$ 68,038

See accountant’s compilation report.

GELSTAT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2015 AND 2014

NOTE 1 - ORGANIZATION AND BUSINESS BACKGROUND

GelStat Corporation ("the Company" or "GelStat") is a consumer health care company dedicated to the cost-effective development and marketing of over-the-counter (OTC) and other non-prescription consumer health care products. While development efforts ceased in 2005 due to lack of capital, its efforts were focused on proprietary, innovative products that addressed multi-billion dollar global markets.

On May 9, 2003, Developed Technology Resource, Inc. (DTR) filed a Current Report on Form 8-K with the Securities and Exchange Commission reporting the merger of GelStat Corp. with NP Acquisition Corp. (NP Acquisition), then a wholly owned subsidiary of DTR. The stock exchange transaction has been accounted for as a reverse acquisition and recapitalization of NP Acquisition, whereby Gelstat is deemed to be the accounting acquirer (legal acquiree) and NP Acquisition to be the accounting acquiree (legal acquirer). Effective July 14, 2003, DTR changed its name to GelStat Corporation. Effective March 17, 2004, GS Corp. was merged into its parent, GelStat Corporation.

On September 29, 2011, the Company acquired 100% of the capital stock of GSC Direct Inc., a Florida corporation, from Equisolve, LLC and High Alpha Partners, Inc. in exchange for the issuance of 25,000,000 shares of the Company’s common stock. Upon the Closing, GSC Direct Inc. became a wholly-owned subsidiary of the Company.

In July 2014, the Company executed a share exchange agreement, pursuant to which the Company acquired 100% of the voting membership of Matix Medica LLC (“Mastix”) for 27,500,000 shares of the Company’s common stock. Mastix was founded in 2009 to develop niche healthcare products in underutilized, emerging dosage forms like tableted chewing gum, chewable tablets and lozenges. Using an in-house product development team, Mastix develops custom tablet formulations that incorporate dietary supplements for companies competing in a variety of markets, including energy, immune support, weight loss, pain relief and dental health.

GelStat Corporation and its wholly owned subsidiaries are hereinafter referred to as the “Company”.

NOTE 2 - Summary of Significant Accounting Policies

Basis of Presentation
The accompanying financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) under the accrual basis of accounting.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary. All inter-company balances and transactions within the Company and subsidiary have been eliminated upon consolidation.

Management's Estimates
In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. The Company’s significant estimates include, the collectability of accounts receivables, valuation of inventories and stock-based compensation, and the realizability of income tax assets Actual results could differ from these estimates.

Cash and Cash Equivalents
The Company considers all short-term investments with a maturity of three months or less when purchased to be cash and equivalents for purposes of the statement of cash flows.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable
Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. As of June 30, 2015, and December 31, 2014, the Company did not record an allowance for uncollectible accounts.

Inventories
Inventories are valued at the lower of cost (using the first-in, first out method) or market. Inventory items replaced by an alternative and rendered unusable or diminished in value are considered to be obsolete. Obsolete inventory items are written down to zero.

Intangible Assets
Patent cost, including legal fees and other costs associated with obtaining the patent, will be amortized over the life of the patent using the straight-line method after the patent is approved by the authorities.

Revenue Recognition
The Company sells its products to a number of retailers, wholesalers, specialty distributors and catalog merchandisers, both directly and through the services of external sales brokers. The Company recognizes revenue when persuasive evidence of a customer or distributor arrangement exists, shipment has occurred, the price is fixed or determinable, and the sales revenues are considered collectible. Subject to these criteria, the Company recognizes revenue at the time of shipment of the merchandise.

Cost of Revenue
Cost of revenues consists primarily of product costs and shipping and handling, which are directly attributable to the sale of products. Shipping and handling costs included in cost of revenue for the six months ended June 30, 2015 and 2014, totaled $1,932 and $159, respectively.

Advertising
Advertising costs, which totaled $5,831 and $4,087 for the six months ended June 30, 2015 and 2014, respectively, are charged to operations when incurred.

Impairment
Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset.

Income Taxes
The Company accounts for income tax using Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC 740") *"Accounting for Income Taxes"*, which requires the asset and liability approach for financial accounting and reporting for income taxes. Under this approach, deferred income taxes are provided for the estimated future tax effects attributable to temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from loss carry-forwards and provisions, if any. Deferred tax assets and liabilities are measured using the enacted tax rates expected in the years of recovery or reversal and the effect from a change in tax rates is recognized in the statement of operations and comprehensive income in the period of enactment. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation
The Company accounts for stock-based compensation using the fair value method following the guidance set forth in section 718-10 of the FASB Accounting Standards Codification for disclosure about Stock-Based Compensation. This section requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award – the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which the employees do not render the requisite service.

The Company recognizes expenses for the fair value of its outstanding stock warrants and options as they vest, whether held by employees or others. The fair value of each stock warrant and option at the grant date is evaluated by using the Black-Scholes option pricing model based upon certain assumptions, including the expected stock price volatility.

Earnings or Loss per Common Share
Basic earnings or loss per share is calculated as the income or loss attributable to common stockholders divided by the weighted average number of shares outstanding during each period. Diluted earnings or loss per share is calculated by dividing the net income or loss attributable to common shareholders by the diluted weighted average number of shares outstanding during the year. For the six months ended June 30, 2015, warrants to acquire 37,312,500 shares of common stock were excluded from the computation of diluted loss per share, as inclusion would be anti-dilutive.

Recent Accounting Standards
The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and does not believe the future adoption of any such pronouncements may be expected to cause a material impact on its consolidated financial condition or the consolidated results of its operations.

NOTE 3 – Patents

On June 6, 2003, the Company filed a patent application with the United States Patent and Trademark Office for “Compositions and methods of treatment to alleviate or prevent migrainous headaches and their associated symptoms”. The patent #7,192,614 was issued on March 7, 2007. Legal fees and other costs associated with obtaining this patent were $25,780 and are being amortized over the 20 year useful life of the patent, using the straight-line method. The carrying value of the patent as of June 30, 2015, and December 31, 2014, was $15,699 and $16,343, respectively. Amortization expense totaled $644 and $644 for each of the six months ended June 30, 2015 and 2014, respectively. Future annual amortization will be approximately $1,300 through 2027.

NOTE 4 – Note Payable

In April 2015, the Company issued a promissory note in the amount of $146,373, which accrues interest at an annual rate of 8%, and requires monthly payments of principal and interest totaling $6,699 beginning in July 2015, continuing through July 2017. The balance of the note as of June 30, 2015 totaled $147,349, which includes accrued interest of $1,958. Future maturities of the note are as follows:

Twelve Months Ended June 30,	
2016	$71,093
2017	75,280
Thereafter	-
	$146,373

NOTE 5 - Stockholders' Equity

During the six months ended June 30, 2015, management determined that it previously recorded the incorrect number of shares related to a September 2014 sale of common stock. The Company has decreased the number of shares outstanding as of December 31, 2014, by 31,819 shares with no impact on stockholders' deficit or net loss.

During the six months ended June 30, 2015, the Company sold 6,250,000 shares of common stock for cash proceeds of $125,000.

During the six months ended June 30, 2015, holders of warrants to purchase 5,250,000 shares of common stock elected to exercise these warrants on a cashless basis for which the Company will issued 1,854,258 shares of common stock. 236,611 of these shares have yet to be issued as of June 30, 2015.

During the six months ended June 30, 2015, the Company issued 10,000,000 shares of common stock pursuant to a 12 month consulting agreement valued at $200,000, of which $150,000 is reflected as prepaid expense as of June 30, 2015, and $50,000 has been recognized as stock based compensation for the six months ended June 30, 2015.

Stock Warrants
The Company has issued warrants to acquire commons stock in connection with equity offerings, for services rendered, and with short term notes payable. During the six months ended June 30, 2015 holders of warrants to purchase 3,395,742 shares of common stock elected to exercise the warrants on a cashless basis in exchange for 1,854,258 shares of common stock. In April 2015, warrants to In January 2015, the Company granted warrants to purchase 100,000 shares for $0.02 per share over a three-year term, to a consultant for services rendered. The Company estimated the fair value of the warrants of $1,500 using a Black Scholes model and the following assumptions: volatility - 88.6%, risk free rate – 0.86%, expected term – 3 years. Dividend rate – 0.0%.

Warrant activity for the six months ended June 30, 2015 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Term (yrs)
Outstanding as of December 31, 2013	42,962,500	$0.02	
Granted	100,000	$0.02	
Expired	(500,000)		
Exercised	(5,250,000)	$0.01	
Outstanding as of June 30, 2015	37,312,500	$0.02	2.52

Exercise Price	Number of Shares	Weighted Average Remaining Term (Years)
$0.015	17,500,000	3.46
$0.018	500,000	0.51
$0.020	1,250,000	1.22
$0.025	14,000,000	1.63
$0.030	2,062,500	1.57
$0.050	2,000,000	2.63
	37,312,500	2.52

NOTE 6 - Income Taxes

The provision (benefit) for income taxes consists of the following:

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Current		
Federal	$ -	$ -
State	-	-
Deferred		
Federal	39,452	32,243
State	3,829	3,129
Change in valuation allowance	(43,281)	(35,372)
	$ -	$ -

The Company's income tax rate computed at the statutory federal rate of 34% differs from its effective tax rate primarily due to permanent items, state taxes and the change in the deferred tax asset valuation allowance.

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Income tax at statutory rate	34.0%	34.0%
State income taxes, net of federal benefit	3.3	3.3
Permanent differences	(1.6)	(3.9)
Change in valuation allowance	(35.7)	(33.4)
Total	0.00%	0.00%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. In assessing the realizability of deferred tax assets, Management evaluates whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on Management's evaluation, the net deferred tax asset was offset by a full valuation allowance in all periods presented. The Company's deferred tax asset valuation allowance will be reversed if and when the Company generates sufficient taxable income in the future to utilize the tax benefits of the related deferred tax assets.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets as of June 30, 2015 and December 31, 2014 are as follows:

	2015	2014
Net operating loss	$ 4,597,773	$ 4,335,296
Less: valuation allowance	(4,597,773)	(4,335,296)
Net deferred tax asset	$ -	$ -

NOTE 6 - Income Taxes (Continued)

As of June 30, 2015 the Company had a net operating loss carry-forward of approximately $12,325,000 which may be used to offset future taxable income and begins to expire in 20 years from the year of incurrence. The availability of the net operating loss carry-forward to offset future taxable income may be limited in the event of a change in control.

NOTE 7 – Going Concern

As shown in the accompanying audited consolidated financial statements, the Company has incurred recurring losses from operations to date. As of June 30, 2015, the Company had a working capital deficit of $688,958, and an accumulated deficit of $19,462,342. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might arise as a result of this uncertainty. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management's plan includes obtaining additional funds by equity financing and/or related party advances; however there is no assurance of additional funding being available.