GELSTAT CORPORATION

INTERIM REPORT

SIX MONTHS ENDED JUNE 30, 2014

Table of Contents

	Page
Accountant's Report	1
Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013	2
Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2014 and 2013	3
Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2014	4
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013	5
Notes to the Consolidated Financial Statements	6

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, 2014, and December 31, 2013, and the related consolidated statements of operations for the three and six months ended June 30, 2014 and 2013, and the consolidated statements of cash flows for the six months ended June 30, 2014 and 2013, and the statement of stockholders' equity for the six months ended June 30, 2014. 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 14, 2014

GELSTAT CORPORATION
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2014 AND DECEMBER 31, 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 84,764	$ 95,076
Inventories	170,226	98,738
Prepaid expense	78,985	39,085
Total current assets	333,975	232,899
Other Assets:		
Website	6,600	6,600
Fixed assets	2,516	2,600
Patents	16,665	17,266
Goodwill and acquired intellectual property	3,436,892	2,856,392
Deposit for acquisition	225,000	-
Lease deposits	2,500	2,500
Total other assets	3,690,173	2,885,358
Total assets	$ 4,024,148	$ 3,118,257
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 224,518	$ 209,741
Total current liabilities	224,518	209,741
Stockholders' Equity:		
Common stock $0.01 par value; 500,000,000 shares authorized; 341,568,526 and 293,718,526 issued and outstanding, respectively	3,414,685	2,937,185
Additional paid in capital	18,638,583	17,574,083
Deferred stock compensation	(12,876)	(22,766)
Accumulated deficit	(18,240,762)	(17,579,986)
Total stockholders' equity	3,799,630	2,908,516
Total Liabilities and stockholders' equity	$ 4,024,148	$ 3,118,257

See accountant’s report.

GELSTAT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues	$ 14,038	$ 3,880	$ 19,980	$ 7,712
Cost of Goods Sold	1,139	1,603	5,993	4,026
Gross Profit	12,899	2,277	13,987	3,686
Operating Expenses:				
Consulting expense	564,173	-	570,912	153,000
Rent expense	5,606	4,350	9,956	8,700
Selling, general and administrative expenses	34,567	122,362	93,918	124,205
Total operating expenses	604,346	126,712	674,786	285,905
Loss from operations	(591,447)	(124,435)	(660,799)	(282,219)
Other Income:				
Interest income	23	-	23	-
Total other income	23	-	23	-
Provision for Income Taxes	-	-	-	-
Net loss	$ (591,447)	$ (124,435)	$ (660,776)	$ (282,219)
Basic and diluted loss per common share	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Basic and diluted weighted average common shares outstanding	307,818,499	126,098,948	303,194,203	126,098,948

See accountant's report.

GELSTAT CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2014

	Common Stock Issued		Additional	Deffered stock-based	Accumulated	Stockholders'
	Shares	Amount	Paid In Capital	compensation	Deficit	Equity
Balance, December 31, 2013	293,718,526	$ 2,937,185	$ 17,574,083	$ (22,767)	$ (17,579,986)	$ 2,908,513
Issuance of common stock for cash	25,250,000	252,500	154,000	-	-	406,500
Stock-based compensation	9,000,000	90,000	465,000	9,891	-	564,891
Issuance of common stock for acquisiiton	13,500,000	135,000	445,500	-	-	580,500
Net loss for the quarter	-	-	-	-	(660,776)	(660,776)
Balance, June 30, 2014	341,468,526	$ 3,414,685	$ 18,638,583	$ (12,876)	$ (18,240,762)	$ 3,799,630

See accountant's report.

GELSTAT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities		
Net loss	$ (660,776)	$ (282,219)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Issuance of common stock warrants for services	-	113,000
Amortization of patent	601	643
Stock-based compensation	564,891	-
Depreciation expense	84	-
Changes in current assets and liabilities:		
Inventory	(71,488)	2,597
Prepaid expenses	(39,900)	-
Accounts payable	14,777	161,015
NET CASH USED IN OPERATING ACTIVITIES	(191,811)	(4,964)
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	406,501	5,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	406,501	5,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,310)	36
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	95,076	1,013
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 84,764	$ 1,049
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the years for:		
Interest	$ -	$ -
Taxes	$ -	$ -

See accountant's report.

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 October 2013, the Company entered into an Agreement and Plan of Merger with CBD Life Sciences, Inc. ("CBD"), pursuant to which the Company acquired 100% of the issued and outstanding equity of CBD in exchange for 142,819,578 shares of the Company's common stock ("Merger Consideration"), which are subject to vesting periods. 50.0% of the Merger Consideration vested immediately, and 12.5 % of the Merger Consideration vests each quarter thereafter. Pursuant to the Agreement and Plan of Merger, certain directors of the Company are entitled to receive up to 10% of the first year's gross profits of the surviving entity, not to exceed $580,000

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.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

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.

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, 2014, and December 31, 2013, 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 leading regional and national 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, 2014 and 2013, totaled $159 and $528, respectively.

Advertising
Advertising costs, which totaled $4,087 and $0 for the six months ended June 30, 2014 and 2013, 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, 2014 and 2013, warrants to acquire 25,212,500 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, 2014, and December 31, 2013, was $16,665 and $17,266, respectively. Amortization expense totaled $601 and $643 for the six months ended June 30, 2014 and 2013, respectively. Future annual amortization will be approximately $1,300 through 2027.

NOTE 4 – Deferred Stock-Based Compensation

The Company's deferred compensation includes common stock issued to consultants for services to be rendered over the one-year term of a consulting agreement. In October 2013, the Company issued 1,500,000 shares of common stock to a consultant pursuant to a one-year consulting agreement. The grant date fair value of the shares was $30,000, which was recorded in deferred stock compensation and is being amortized into expense over the one-year term of the agreement. During the six months ended June 30, 2014 $9,891 was recognized as expense. $12,877and $22,767 of deferred stock compensation remained as of June 30, 2014 and December 31, 2013, respectively.

NOTE 5 - Stockholders' Equity

Common Stock
During the six months ended June 30, 2014, the Company sold 25,250,000 shares for gross proceeds of $406,500.

During the six months ended June 30, 2014, the Company issued 9,000,000 shares of common stock with an aggregate grant-date fair value of $555,000 for services rendered.

In April 2014, the Company issued an additional 13,500,000 shares pursuant to the terms of the October 2013 acquisition. The shares had a grant-date fair of $580,500, which was added to the purchase price and goodwill.

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. There were no warrants issued, exercised or expired during the six months ended June 30, 2014, as of which there were warrants to purchase 32,762,500 shares of common stock for a weighted average exercise price of $0.02, with a weighted average remaining term of 2.33 years.

NOTE 6 - Income Taxes

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Current		
Federal	$ -	$ -
State	-	-
Deferred		
Federal	54,910	57,517
State	5,329	5,583
Change in valuation allowance	(60,239)	(63,100)
	$ -	$ -

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, 2014	Six Months Ended June 30, 2013
Income tax at statutory rate	34.0%	34.0%
State income taxes, net of federal benefit	3.3	3.3
Permanent differences	(3.9)	(14.9)
Change in valuation allowance	(33.4)	(22.4)
Total	0.00%	0.00%

NOTE 6 - Income Taxes (Continued)

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, 2014 and December 31, 2013 are as follows:

	2014	2013
Net operating loss	$ 4,395,535	$ 4,335,296
Less: valuation allowance	(4,395,535)	(4,335,296)
Net deferred tax asset	$ -	$ -

As of June 30, 2014 the Company had a net operating loss carry-forward of approximately $11,784,000 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 – Subsequent Events

Management has reviewed subsequent events through August 14, 2014, which is the date the consolidated financial statements were available for issuance.

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.

NOTE 8 – 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, 2014, the Company had working capital deficit of $109,457, and an accumulated deficit of $17,685,594. The Company used $191,811 of cash in operation for the six months ended June 30, 2014. 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.