

GELSTAT CORPORATION

ANNUAL REPORT

YEAR ENDED DECEMBER 31, 2014

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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 December 31, 2014 and 2013, and the related consolidated statements of operations, cash flows and equity for the years then ended. 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.

April 15, 2015

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

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 96,680	\$ 95,076
Accounts receivable	113,057	-
Inventories	451,437	98,738
Prepaid expense	<u>153,668</u>	<u>39,085</u>
Total current assets	<u>814,842</u>	<u>232,899</u>
Other Assets:		
Website	6,600	6,600
Fixed assets	145,696	2,600
Patents	16,343	17,266
Goodwill and acquired intellectual property	6,047,854	2,856,392
Lease deposits	<u>18,066</u>	<u>2,500</u>
Total other assets	<u>6,234,559</u>	<u>2,885,358</u>
Total assets	<u><u>\$ 7,049,401</u></u>	<u><u>\$ 3,118,257</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable and accrued expenses	\$ 791,647	\$ 209,741
Deferred revenue	16,380	-
Due to stockholder	488,534	-
Deferred rent	59,876	-
Note payable	<u>17,198</u>	<u>-</u>
Total current liabilities	<u>1,373,635</u>	<u>209,741</u>
Stockholders' Equity:		
Common stock \$0.01 par value; 500,000,000 shares authorized; 371,561,707 and 293,718,526 issued and outstanding, respectively	3,715,617	2,937,185
Additional paid in capital	20,837,651	17,574,083
Deferred stock compensation	-	(22,766)
Accumulated deficit	<u>(18,877,502)</u>	<u>(17,579,986)</u>
Total stockholders' equity	<u>5,675,766</u>	<u>2,908,516</u>
Total Liabilities and stockholders' equity	<u><u>\$ 7,049,401</u></u>	<u><u>\$ 3,118,257</u></u>

See accountant's compilation report.

GELSTAT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,	
	<u>2014</u>	<u>2013</u>
Revenues	\$ 1,312,675	\$ 15,893
Cost of Goods Sold	<u>1,090,815</u>	<u>12,398</u>
Gross Profit	<u>221,860</u>	<u>3,495</u>
Operating Expenses:		
Personnel costs	88,410	-
Consulting expense	969,583	218,058
Rent expense	31,274	16,267
Selling, general and administrative expen	<u>434,899</u>	<u>178,976</u>
Total operating expenses	<u>1,524,166</u>	<u>413,301</u>
Loss from operations	<u>(1,302,306)</u>	<u>(409,806)</u>
Other Income and (Expense):		
Other income	8,681	2,415
Interest expense	<u>(3,891)</u>	<u>-</u>
Total other income and (expense)	<u>4,790</u>	<u>2,415</u>
Provision for Income Taxes	<u>-</u>	<u>-</u>
Net loss	<u><u>\$ (1,297,516)</u></u>	<u><u>\$ (407,391)</u></u>
Basic and diluted loss per common share	<u><u>\$ (0.00)</u></u>	<u><u>\$ (0.00)</u></u>
Basic and diluted weighted average common shares outstanding	<u><u>340,340,917</u></u>	<u><u>147,533,357</u></u>

See accountant's compilation report.

GELSTAT CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014

	<u>Common Stock Issued</u>		<u>Additional</u>	<u>Deferred</u>	<u>Accumulated</u>	<u>Stockholders'</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid In Capital</u>	<u>Stock-Based</u>	<u>Deficit</u>	<u>Equity</u>
Balance, December 31, 2012	126,067,129	\$1,260,671	\$ 15,797,206	\$ -	\$ (17,172,595)	\$ (114,718)
Issuance of common stock subscribed	200,000	2,000	2,000	-	-	-
Issuance of common stock for cash	14,600,000	146,000	103,000	-	-	249,000
Issuance of warrants for services	-	-	113,000	-	-	113,000
Issuance of common stock for services	8,000,000	80,000	80,000	(30,000)	-	130,000
Issuance of common stock and warrants in settlement of accounts payable	2,000,000	20,000	55,000	-	-	75,000
Issuance of common stock for acquisition	142,819,578	1,428,196	1,428,196	-	-	2,856,392
Amortization of deferred stock compensation	-	-	-	7,233		7,233
Net income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(407,391)</u>	<u>(407,391)</u>
Balance, December 31, 2013	293,686,707	2,936,867	17,574,401	(22,767)	(17,579,986)	2,908,513
Issuance of common stock for cash	27,875,000	278,750	210,750	-	-	489,500
Stock-based compensation	9,000,000	90,000	465,000	22,767	-	577,767
Issuance of common stock for acquisitions	41,000,000	410,000	2,233,000	-	-	2,643,000
Issuance of warrants for services	-	-	354,500	-	-	354,500
Net loss for the quarter	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,297,516)</u>	<u>(1,297,516)</u>
Balance, December 31, 2014	<u>371,561,707</u>	<u>\$ 3,715,617</u>	<u>\$ 20,837,651</u>	<u>\$ -</u>	<u>\$ (18,877,502)</u>	<u>\$ 5,675,766</u>

See accountant's compilation report.

GELSTAT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Net loss	\$ (1,297,516)	\$ (407,391)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Issuance of common stock warrants for services	354,500	-
Stock-based compensation	577,767	250,233
Depreciation and amortization	57,880	1,424
Changes in current assets and liabilities:		
Accounts receivable	(83,712)	-
Inventory	27,034	(19,772)
Prepaid expenses	(114,583)	(39,085)
Accounts payable	388,681	69,176
Deferred rent	(21,384)	-
Deferred revenue	(127,825)	-
NET CASH USED IN OPERATING ACTIVITIES	<u>(239,158)</u>	<u>(145,415)</u>
Cash Flows from Investing Activities		
Payment of website development costs	-	(6,600)
Purchase of property and equipment	(4,579)	(2,922)
Cash acquired	32,439	
Cash paid for acquisition	(225,000)	-
NET CASH USED IN INVESTING ACTIVITIES	<u>(197,140)</u>	<u>(9,522)</u>
Cash Flows from Financing Activities		
Proceeds from the sale of common stock	489,500	249,000
Repayment of note payable	(51,596)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>437,904</u>	<u>249,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,606	94,063
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	95,076	1,013
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 96,680</u>	<u>\$ 95,076</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the years for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Taxes	<u>\$ -</u>	<u>\$ -</u>
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock for acquisitions	<u>\$ 2,643,000</u>	<u>\$ -</u>
Issuance of common stock and warrants for settlement of accounts payable	<u>\$ -</u>	<u>\$ 68,038</u>

See accountant's compilation report.

GELSTAT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

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

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.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

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.

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 December 31, 2014, and 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. Goodwill is considered an indefinite lived asset that is not amortized, rather goodwill is assessed for impairment at least annually. There were no impairment charges taken during the years ended December 31, 2014 and 2013.

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 years ended December 31, 2014 and 2013, totaled \$175 and \$5,539, respectively.

Advertising

Advertising costs, including the cost of promotional products, which totaled \$19,145 and \$38,275 for the years ended December 31, 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.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

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.

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 years ended December 31, 2014 and 2013, respectively, warrants to acquire 33,712,500 and 34,462,500 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 December 31, 2014 and 2013, was \$16,343 and \$17,266, respectively. Amortization expense totaled \$966 and \$965 for the years ended December 31, 2014 and 2013, respectively. Future annual amortization will be approximately \$1,300 through 2027.

NOTE 4 – Note Payable

In February 2009, Mastix issued a promissory note in the principal amount of \$515,956, the note required monthly payments of interest only for the first year, and monthly payments of principal and interest of the 60 months following the first year of interest only payments. The note accrues interest at an annual rate equal to LIBOR plus 700 basis points. The balance of the note as of December 31, 2014, was \$17,198.

NOTE 5 – Due to Stockholder

The selling member of Mastix advanced funds to Mastix prior to the acquisition in July 2014. These amounts, totaling \$488,534 as of December 31, 2014, remain outstanding, are non-interest bearing and due on demand.

NOTE 6 – 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 years ended December 31, 2014 and 2013, \$22,767 and \$7,723, respectively, was recognized as expense. \$ 22,767 of deferred stock compensation remained as of December 31, 2013.

NOTE 7 - Stockholders' Equity

Common Stock

During the year ended December 31, 2013, the Company received \$249,000 for the issuance of 14,600,000 shares of common stock.

During the year ended December 31, 2013, the Company issued 8,000,000 shares of common stock for services, of which 1,500,000 was recorded as deferred compensation (See Note 6), and 6,500,000 shares were issued for services rendered resulting in compensation expense for the year ended December 31, 2013 equal to their grant date fair value of \$130,000.

During the year ended December 31, 2013, the Company issued 2,000,000 shares of common stock in settlement of accounts payable of \$75,000.

In October 2013, the Company issued 142,819,578 shares of common stock for the purchase of Mastix.

During the years ended December 31, 2014, the Company sold 27,875,000 shares for gross proceeds of \$489,500.

During the years ended December 31, 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.

In July 2014, the Company issued an additional 2,062,500 shares of common stock with a fair value of \$2,062,500 as consideration for the purchase of Mastix.

NOTE 7 - Stockholders' Equity (Continued)

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 years ended December 31, 2014, the Company issued warrants to acquire 8,500,000 shares of common stock for \$.015 per share with a term of 5 years to consultants for services rendered. The Company recorded the grant date fair value of \$354,500 as expense during the year ended December 31, 2014. The Company estimated the fair value of the warrants using the Black Scholes Method and the following assumptions: volatility – 191.4% to 208.0%; term – 5 years; risk free rate – 1.54% to 1.75%; dividend rate – 0%.

The following is a summary of the Company's stock options outstanding as of December 31, 2014:

<u>Exercise Price</u>	<u>Number of Shares</u>	Weighted Average Remaining Term (Years)
\$0.012	5,500,000	0.54
\$0.015	17,500,000	4.20
\$0.018	500,000	1.25
\$0.020	1,400,000	1.93
\$0.025	14,000,000	2.38
\$0.030	2,062,500	2.32
\$0.050	<u>2,000,000</u>	3.38
	<u>42,962,500</u>	2.90

NOTE 8 - Income Taxes

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

	<u>Years Ended</u> <u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Current		
Federal	\$ -	\$ -
State	-	-
Deferred		
Federal	88,909	53,335
State	8,629	5,177
Change in valuation allowance	<u>(97,538)</u>	<u>(58,812)</u>
	<u>\$ -</u>	<u>\$ -</u>

NOTE 8 - Income Taxes (Continued)

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.

	Years Ended December 31,	
	<u>2014</u>	<u>2013</u>
Income tax at statutory rate	34.0%	34.0%
State income taxes, net of federal benefit	3.3	3.3
Permanent differences	(3.9)	(29.4)
Change in valuation allowance	<u>(33.4)</u>	<u>(7.9)</u>
Total	<u>0.00%</u>	<u>0.00%</u>

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 December 31, 2014 and December 31, 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Net operating loss	\$ 4,432,834	\$ 4,335,296
Less: valuation allowance	<u>(4,432,834)</u>	<u>(4,335,296)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2014 the Company had a net operating loss carry-forward of approximately \$11,884,000 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 9 – Subsequent Events

Management has reviewed subsequent events through April 15, 2015, which is the date the consolidated financial statements were available for issuance.

NOTE 10 – Going Concern

As shown in the accompanying audited consolidated financial statements, the Company has incurred recurring losses from operations to date. As of December 31, 2014, the Company had working capital deficit of \$558,793, and an accumulated deficit of \$18,877,502. The Company used \$239,158 of cash in operations for the year ended December 31, 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.