

**VITAMIN BLUE, INC.  
FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2014  
(UNAUDITED)**

Balance Sheets	2
Statements of Operations	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5

**VITAMIN BLUE, INC.****Balance Sheets****(Unaudited)**

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 2,325	\$ 4,870
Accounts receivable, net	15,831	13,534
Inventory	11,543	9,492
Prepaid expenses, current	1,650	5,400
Total current assets	31,349	33,296
 PROPERTY AND EQUIPMENT, NET	 2,684	 3,162
 OTHER ASSETS – Prepaid expenses, long-term	 -	 1,600
 Total assets	 \$ 34,033	 \$ 38,058
 <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 99,970	\$ 96,802
Accrued expenses	42,294	40,839
Accrued interest, related party	3,492	3,312
Accrued interest, other	87,674	80,775
Derivative liability	1,601,399	226,825
Convertible notes payable, net of discount of \$10,278 and \$11,778, respectively	203,476	189,476
Loans payable	110,000	110,000
Loans payable, related party	8,000	8,000
 Total current liabilities	 2,156,305	 756,029
 <b>STOCKHOLDERS' DEFICIT:</b>		
Preferred stock, \$0.0001 par value; 100,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.0001 par value; 4,900,000,000 shares authorized, 1,523,405,000 and 893,405,000 shares issued and outstanding	152,341	89,341
Additional paid-in capital	1,363,747	1,344,722
Accumulated deficit	(3,638,360)	(2,152,034)
 Total stockholders' deficit	 (2,122,272)	 (717,971)
 Total liabilities and stockholders' deficit	 \$ 34,033	 \$ 38,058

See notes to financial statements

**VITAMIN BLUE, INC.**  
**Statements of Operations**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
SALES	\$ 42,494	\$ 27,181
COST OF SALES	27,362	15,543
GROSS PROFIT	15,132	11,638
OPERATING EXPENSES:		
Selling, general and administrative	104,514	35,595
Depreciation	478	478
Total operating expenses	104,992	36,073
LOSS FROM OPERATIONS	(89,860)	(24,435)
OTHER INCOME (EXPENSE):		
Penalties	(109)	(104)
Loss on change in derivative liability	(1,374,574)	(153,082)
Interest expense	(21,783)	(22,843)
Total other income (expense)	(1,396,466)	(176,029)
LOSS BEFORE INCOME TAXES	(1,486,326)	(200,464)
PROVISION FOR INCOME TAXES	-	-
NET LOSS	\$ (1,486,326)	\$ (200,464)
NET LOSS PER SHARE, BASIC AND DILUTED	\$ (0.00)	\$ (0.00)
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	935,405,000	526,525,000

See notes to financial statements

**VITAMIN BLUE, INC.**  
**Statements of Cash Flows**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Unaudited)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,486,326)	\$ (200,464)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	478	478
Bad debt expense	-	(203)
Contributed services	6,525	6,815
Common stock issued for services	63,000	-
Amortization of debt discount to interest expense	14,000	15,000
Loss on change in derivative liability	1,374,574	153,082
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(2,297)	1,414
Inventory	(2,051)	(372)
Prepaid expenses	5,350	5,350
Increase (decrease) in:		
Accounts payable	3,168	(5,571)
Accrued expenses	8,534	6,785
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(15,045)</b>	<b>(17,686)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from convertible notes payable	12,500	15,000
<b>NET DECREASE IN CASH</b>	<b>(2,545)</b>	<b>(2,686)</b>
<b>CASH, BEGINNING OF THE PERIOD</b>	<b>4,870</b>	<b>3,940</b>
<b>CASH, END OF THE PERIOD</b>	<b>\$ 2,325</b>	<b>\$ 1,254</b>

See notes to financial statements

**VITAMIN BLUE, INC.**  
**Notes to Financial Statements**  
**Three Months Ended March 31, 2014**  
**(Unaudited)**

**1. BASIS OF PRESENTATION**

The accompanying financial statements of Vitamin Blue, Inc. (the “Company”) are unaudited and have been prepared in accordance with generally accepted accounting principles. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included.

**Going Concern**

The accompanying financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate significant revenue, and has negative cash flows from operations, which raise substantial doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has obtained funds from its shareholders through the three months ended March 31, 2014. Management believes this funding will continue, and has also obtained funding from new investors. Management believes the existing shareholders and the prospective new investors will provide the additional cash needed to meet the Company’s obligations as they become due, and will allow the development of its core business. However, there can be no assurance that the Company will be successful in these endeavors.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Company is presented to assist in understanding the Company’s financial statements. The financial statements and notes are representations of the Company’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

**Accounts Receivable**

The Company extends credit to its customers, who are located primarily in California. Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers’ financial condition. Management reviews accounts receivable on a regular basis, based on contracted terms and how recently payments have been received to determine if any such amounts will potentially be uncollected. The Company includes any balances that are determined to be uncollectible in its allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off.

### Revenue Recognition

The Company recognizes revenue upon delivery, provided that evidence of an arrangement exists, title, and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured. We record revenue net of estimated product returns, which is based upon our return policy, sales agreements, management estimates of potential future products returns related to current period revenue, current economic trends, changes in customer composition and historical experience. Generally, we extend credit to our customers and do not require collateral. We perform ongoing credit evaluation of our customers and historic credit losses have been within our expectations.

### Advertising

The Company expenses the cost of advertising and promotional materials when incurred. Total advertising costs were not material for the three months ended March 31, 2014 and 2013.

### Loss Per Common Share

Basic earnings per share is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares from stock options, warrants and convertible debt had been issued and if the additional common shares were dilutive. The Company's diluted loss per share is the same as the basic loss per share for the three months ended March 31, 2014 and 2013, as the inclusion of any potential shares would have had an anti-dilutive effect due to the net loss of the Company.

### Concentrations of Business and Credit Risk

The Company operates in a single industry segment. The Company markets its services to companies and individuals in many industries and geographic locations. The Company's operations are subject to intense competition in designing and selling surfing clothing and accessories.

Accounts receivable represent financial instruments with potential credit risk. The Company typically offers its customers credit terms. The Company makes periodic evaluations of the credit worthiness of its enterprise customers and other than obtaining deposits pursuant to its policies, it generally does not require collateral. In the event of nonpayment, the Company has the ability to terminate services.

At times, a limited number of customers may account for a significant percentage of the Company's revenues and accounts receivable.

### Income Taxes

The Company uses the liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. The measurement of deferred tax assets and liabilities is based on provisions of applicable tax law. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance based on the amount of tax benefits that, based on available evidence, is not expected to be realized. At March 31, 2014 and December 31, 2013, our net deferred tax assets have been reduced entirely by a valuation allowance since we were unable to conclude that it is more likely than not that they will be realized.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### Inventory

Inventory consists primarily of raw materials and finished goods and is stated at the lower of cost (first-in, first-out basis) or market.

### Property and Equipment

Property and equipment are stated at cost, and are depreciated using the straight line and accelerated methods over estimated useful lives ranging from three to ten years.

### Fair Value of Financial Instruments

Fair Value of Financial Instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of March 31, 2014 and December 31, 2013, the balances reported for cash, accounts receivable, inventory, prepaid expenses, accounts payable, accrued expenses, and loans payable approximate the fair value because of their short maturities.

We have adopted ASC Topic 820 (originally issued as SFAS 157, “Fair Value Measurements”) for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at March 31, 2014 and December 31, 2013:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>March 31, 2014:</b>				
Derivative liability	\$ 1,601,399	\$ -	\$ -	\$ 1,601,399
Convertible notes payable, net of discount	203,476	-	-	203,476
Total liabilities measured at fair value	<u>\$ 1,804,875</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,804,875</u>
<b>December 31, 2013:</b>				
Derivative liability	\$ 226,825	\$ -	\$ -	\$ 226,825
Convertible notes payable, net of discount	189,476	-	-	189,476
Total liabilities measured at fair value	<u>\$ 416,301</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,301</u>

#### Recently Issued Accounting Pronouncements

Management reviewed new accounting pronouncements issued during the three months ended March 31, 2014 and through the date of filing this report, and believes no pronouncements are applicable to or would have a material impact on the financial statements of the Company.

### **3. CAPITAL STOCK**

As of March 31, 2014, the Company had 4,900,000,000 shares of common stock authorized at par value of \$0.0001 and 100,000,000 shares of preferred stock authorized at par value of \$0.0001 and has no conversion feature into the company's common stock.

During the three months ended March 31, 2014, the Company issued 630,000,000 shares of its common stock to 5 individuals for employment services valued at \$63,000. During the three months ended March 31, 2013, the Company did not issue any shares of its common stock.

During the three months ended March 31, 2014 and 2013, services of \$6,525 and \$6,815 were contributed to capital and recorded to additional paid-in capital.

### **4. LOANS PAYABLE**

As of March 31, 2014 and December 31, 2013, the principal balance of the Company's outstanding loans payable was \$110,000. The loans payable bear interest at the rate of 8% per annum, and are due upon demand. The loans do not contain any type of conversion feature. The Company intends to retire these loans at a future date through the issuance of shares of common stock at a rate to be agreed upon by both the lenders and the Company at the time the retirement is to be completed. There was no interest paid on the loans during the three months ended March 31, 2014 and 2013.



## **5. RELATED PARTY TRANSACTIONS**

As of March 31, 2014 and December 31, 2013, the Company had loans outstanding from Veronica Ornelas, Vice President and Secretary of the Company, totaling \$8,000. The Company has imputed interest on these loans at the rate of 9% per annum. As of March 31, 2014 and December 31, 2013, the balance of accrued interest payable to this related party was \$3,492 and \$3,312, respectively. There was no interest paid on the loans during the three months ended March 31, 2014 and 2013.

Frank Ornelas, the Company's Chief Executive Officer, receives an annual salary of \$50,000. During the three months ended March 31, 2014 and 2013, the Company paid for various personal expenses on behalf of the CEO totaling \$5,975 and \$5,685, respectively, which have been recognized as payment against his annual salary. The unpaid portions of the CEO's salary of \$6,525 and \$6,815 for the three months ended March 31, 2014 and 2013, respectively, have been reflected as contributed capital in accordance with SAB Topic 5T. The CEO has agreed to waive the unpaid portions of his salary and no shares have been or will be issued to the CEO in exchange for this unpaid salary.

In March 2014, Mr. Ornelas was issued 500,000,000 restricted shares of the Company's common stock for services valued at \$50,000.

## **6. CONVERTIBLE NOTES PAYABLE**

At March 31, 2014, the Company had nine convertible notes payable with principal balances totaling \$213,754. The convertible notes payable are recorded net of debt discount of \$10,278, or \$203,476 in the accompanying balance sheet. The notes are unsecured and bear interest at 8% per annum. The holders of the convertible notes payable have the right to convert at any time into shares of the Company's common stock at defined conversion prices per share.

At December 31, 2013, the Company had six convertible notes payable with principal balances totaling \$201,254. The convertible notes payable are recorded net of debt discount of \$11,778, or \$189,476.

The Company has recorded a derivative liability of \$1,601,399 and \$226,825 at March 31, 2014 and December 31, 2013, respectively, for the embedded conversion option of certain of the convertible notes payable with variable conversion prices. The derivative liability is estimated using the Black-Scholes pricing model at the inception of the note, with a debt discount not to exceed the principal balance of the note recorded. The derivative liability is subsequently estimated at each report date, with changes in the liability recorded as other income or expense.

For those convertible notes payable with fixed conversion prices, the Company assesses whether or not the portion of the note that is convertible into common stock represents a beneficial conversion feature, by calculating the effective conversion price and comparing it to the market price of the Company's common stock at the inception of the note. The beneficial conversion feature, which does not exceed the principal balance of the note, is recorded as a debit to debt discount and credited to additional-paid-in capital.

## **7. SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION**

During the three months ended March 31, 2014 and 2013, we had no amounts paid for income taxes or interest.

We had no non-cash financing and investing activities during the three months ended March 31, 2014 and 2013.

## **8. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of the financial statements according to the requirements of ASC TOPIC 855 and did not identify any material subsequent event to be reported.