

VITAMIN BLUE, INC.
FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2016
(UNAUDITED)

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

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash	\$ 4,838	\$ 1,786
Accounts receivable, net	14,111	13,553
Inventory	10,946	10,698
Total current assets	29,895	26,037
PROPERTY AND EQUIPMENT, NET	4,729	4,846
Total assets	<u>\$ 34,624</u>	<u>\$ 30,883</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 106,101	\$ 101,689
Accrued expenses	60,771	55,406
Accrued interest, related party	5,292	4,752
Accrued interest, other	151,874	132,527
Derivative liability	81,924	99,903
Convertible notes payable	212,254	212,254
Loans payable	110,000	110,000
Loans payable, related party	8,000	8,000
Total current liabilities	736,216	724,531
STOCKHOLDERS' DEFICIT:		
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, 1,653,405,000 shares issued and outstanding	165,341	165,341
Additional paid-in capital	1,977,294	1,959,090
Accumulated deficit	(2,844,227)	(2,818,079)
Total stockholders' deficit	(701,592)	(693,648)
Total liabilities and stockholders' deficit	<u>\$ 34,624</u>	<u>\$ 30,883</u>

See notes to financial statements

VITAMIN BLUE, INC.
Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
SALES	\$ 69,064	\$ 72,142	\$ 176,628	\$ 207,436
COST OF SALES	44,119	50,341	104,362	137,027
GROSS PROFIT	24,945	21,801	72,266	70,409
OPERATING EXPENSES:				
Selling, general and administrative	30,022	29,961	90,677	88,288
Depreciation	358	379	1,116	1,884
Total operating expenses	30,380	30,340	91,793	90,172
LOSS FROM OPERATIONS	(5,435)	(8,539)	(19,527)	(19,763)
OTHER INCOME (EXPENSE):				
Penalties	(100)	(143)	(329)	(375)
Gain (loss) on change in derivative liability	48,910	126,632	17,979	145,233
Interest expense	(8,010)	(7,951)	(24,271)	(23,922)
Total other income (expense)	40,800	118,538	(6,621)	120,936
INCOME (LOSS) BEFORE INCOME TAXES	35,365	109,999	(26,148)	101,173
PROVISION FOR INCOME TAXES	-	-	-	-
NET INCOME (LOSS)	\$ 35,365	\$ 109,999	\$ (26,148)	\$ 101,173
NET INCOME (LOSS) PER SHARE, BASIC AND DILUTED	\$ 0.00	\$ 0.00	\$ (0.00)	\$ 0.00
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	1,653,405,000	1,613,405,000	1,653,405,000	1,613,405,000

See notes to financial statements

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

	Nine Months Ended	
	September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (26,148)	\$ 101,173
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation expense	1,117	1,884
Contributed services	18,204	16,990
(Gain) on change in derivative liability	(17,979)	(145,233)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(558)	(2,490)
Inventory	(248)	(716)
Increase (decrease) in:		
Accounts payable	4,412	499
Accrued expenses	25,252	25,166
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	4,052	(2,727)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,000)	(1,489)
NET CASH USED IN INVESTING ACTIVITIES	(1,000)	(1,489)
CASH FLOWS FROM FINANCING ACTIVITIES:	-	-
NET INCREASE (DECREASE) IN CASH	3,052	(4,216)
CASH, BEGINNING OF THE PERIOD	1,786	5,285
CASH, END OF THE PERIOD	\$ 4,838	\$ 1,069

See notes to financial statements

VITAMIN BLUE, INC.
Notes to Financial Statements
Nine Months Ended September 30, 2016
(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 and management believes the existing shareholders and 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 and nine months ended September 30, 2016 and 2015.

Net Income (Loss) Per Common Share

Basic earnings per share is computed by dividing net 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 income (loss) per share is the same as the basic income (loss) per share for the three months and nine months ended September 30, 2016 and 2015 as the inclusion of any potential shares would have had an anti-dilutive effect.

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 September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015:

	Total	Level 1	Level 2	Level 3
September 30, 2016:				
Derivative liability	\$ 81,924	\$ -	\$ -	\$ 81,924
Convertible notes payable, net of discount	212,254	-	-	212,254
Total liabilities measured at fair value	<u>\$ 294,178</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 294,178</u>
December 31, 2015:				
Derivative liability	\$ 99,903	\$ -	\$ -	\$ 99,903
Convertible notes payable, net of discount	212,254	-	-	212,254
Total liabilities measured at fair value	<u>\$ 312,157</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 312,157</u>

Recently Issued Accounting Pronouncements

Management reviewed new accounting pronouncements issued during the nine months ended September 30, 2016 and through the date of issuing 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 September 30, 2016, 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 and nine months ended September 30, 2016, services of \$5,746 and \$18,204, respectively, were contributed to capital and recorded to additional paid-in capital.

4. LOANS PAYABLE

As of September 30, 2016 and December 31, 2015, 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 and nine months ended September 30, 2016 and 2015.

5. RELATED PARTY TRANSACTIONS

As of September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015, the balance of accrued interest payable to this related party was \$5,292 and \$4,752, respectively. There was no interest paid on the loans during the three months and nine months ended September 30, 2016 and 2015.

Frank Ornelas, the Company's Chief Executive Officer, receives an annual salary of \$50,000. During the three months and nine months ended September 30, 2016, the Company paid for various personal expenses on behalf of the CEO totaling \$6,754 and \$19,296, respectively, which have been recognized as payment against his annual salary. The unpaid portions of the CEO's salary of \$5,746 and \$18,204 for the three months and nine months ended September 30, 2016 and 2015, respectively, have been recorded as contributed capital. 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.

Accounts payable at September 30, 2016 and December 31, 2015 include advances payable to Mr. Ornelas of \$3,240 and \$2,500, respectively.

6. CONVERTIBLE NOTES PAYABLE

At September 30, 2016 and December 31, 2015, the Company had nine convertible notes payable with principal balances totaling \$212,254. The notes are unsecured and bear interest at 8% per annum. The holders of the convertible notes payable have the right to convert the notes at any time into shares of the Company's common stock at defined conversion prices per share.

The Company has recorded a derivative liability of \$81,924 and \$99,903 at September 30, 2016 and December 31, 2015, respectively, for the conversion feature 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 nine months ended September 30, 2016 and 2015, we paid no amounts for income taxes or interest.

We had no non-cash investing and financing activities during the nine months ended September 30, 2016 and 2015.

8. SUBSEQUENT EVENTS

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