

VITAMIN BLUE, INC.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

Balance Sheets	2
Statements of Operations	3
Statements of Stockholders' Deficit	4
Statements of Cash Flows	5
Notes to Financial Statements	6

VITAMIN BLUE, INC.
Balance Sheets
(Unaudited)

	December 31,	
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,313	\$ 1,641
Accounts receivable, net	9,980	9,035
Inventory	9,459	9,999
Total current assets	21,752	20,675
PROPERTY AND EQUIPMENT, NET	9,964	4,370
Total assets	\$ 31,716	\$ 25,045
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	\$ 121,971	\$ 102,643
Accrued expenses	66,471	62,671
Accrued interest, related party	6,192	5,472
Accrued interest, other	171,128	158,354
Derivative liability	92,407	122,789
Convertible notes payable	212,254	212,254
Loans payable	110,000	110,000
Loans payable, related party	8,000	8,000
Total current liabilities	788,423	782,183
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	2,004,917	1,983,451
Accumulated deficit	(2,926,965)	(2,905,930)
Total stockholders' deficit	(756,707)	(757,138)
Total liabilities and stockholders' deficit	\$ 31,716	\$ 25,045

See notes to financial statements

VITAMIN BLUE, INC.
Statements of Operations
(Unaudited)

	Years Ended December 31,	
	2017	2016
SALES	\$ 250,027	\$ 217,211
COST OF SALES	<u>152,053</u>	<u>128,503</u>
GROSS PROFIT	<u>97,974</u>	<u>88,708</u>
OPERATING EXPENSES:		
Selling, general and administrative	130,828	119,445
Depreciation	<u>1,467</u>	<u>1,476</u>
Total operating expenses	<u>132,295</u>	<u>120,921</u>
LOSS FROM OPERATIONS	<u>(34,321)</u>	<u>(32,213)</u>
OTHER INCOME (EXPENSE):		
Penalties	(375)	(454)
Gain (loss) on change in derivative liability	30,382	(22,886)
Interest expense	<u>(16,763)</u>	<u>(32,298)</u>
Total other income (expense)	<u>13,244</u>	<u>(55,638)</u>
INCOME (LOSS) BEFORE INCOME TAXES	(21,077)	(87,851)
PROVISION FOR INCOME TAXES	<u>-</u>	<u>-</u>
NET INCOME (LOSS)	<u>\$ (21,077)</u>	<u>\$ (87,851)</u>
NET INCOME (LOSS) PER SHARE, BASIC AND DILUTED	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	<u>1,653,405,000</u>	<u>1,653,405,000</u>

See notes to financial statements

VITAMIN BLUE, INC.
Statements of Stockholders' Deficit
Years Ended December 31, 2017 and 2016
(Unaudited)

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-in Capital	Deficit	Total
Balance, December 31, 2015	1,613,405,000	\$ 161,341	\$ 1,959,090	\$ (2,818,079)	\$ (693,648)
Issuance of shares for services	-	-	-	-	-
Contributed services	-	-	24,361	-	24,361
Net loss	-	-	-	(87,851)	(87,851)
Balance, December 31, 2016	1,653,405,000	165,341	1,983,451	(2,905,930)	(757,138)
Contributed services	-	-	21,466	-	21,466
Net loss	-	-	-	(21,035)	(21,035)
Balance, December 31, 2017	1,653,405,000	\$ 165,341	\$ 2,004,917	\$ (2,926,965)	\$ (756,707)

See notes to financial statements

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

	Years Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (21,077)	\$ (87,851)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation expense	1,467	1,476
Contributed services	21,466	24,361
Common stock issued for services	-	-
(Gain) loss on change in derivative liability	(30,382)	22,886
Changes in assets and liabilities:		
Decrease in:		
Accounts receivable	(945)	4,518
Inventory	539	699
Increase in:		
Accounts payable	19,327	954
Accrued expenses	17,294	33,812
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	7,689	855
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(7,017)	(1,000)
NET CASH USED IN INVESTING ACTIVITIES	(7,017)	(1,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	-
NET INCREASE/DECREASE IN CASH	672	(145)
CASH, BEGINNING OF THE YEAR	1,641	1,786
CASH, END OF THE YEAR	\$ 2,313	\$ 1,641

See notes to financial statements

VITAMIN BLUE, INC.
Notes to Financial Statements
Year Ended December 31, 2017
(Unaudited)

1. ORGANIZATION AND LINE OF BUSINESS

Vitamin Blue, Inc. (the “Company”) was incorporated in the state of Delaware on May 25, 1999. The Company, based in Costa Mesa, California, began operations on June 1, 1999 in designing and selling surfing clothing and accessories.

The accompanying financial statements of the Company are unaudited and have been prepared in accordance with generally accepted accounting principles.

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 years ended December 31, 2017 and 2016.

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 income (loss) per share is the same as the basic loss per share for the years ended December 31, 2017 and 2016.

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 December 31, 2017 and 2016, 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 is not material to our financial statements, is stated at cost, and is 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 December 31, 2017 and 2016, 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:

	Total	Level 1	Level 2	Level 3
December 31, 2017:				
Derivative liability	\$ 92,407	\$ -	\$ -	\$ 92,407
December 31, 2016:				
Derivative liability	\$ 122,789	\$ -	\$ -	\$ 122,789

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-4, “Intangibles – Goodwill and Other (Topic 350): “Simplifying the Test for Goodwill Impairment.” This update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. An entity should apply the amendments in this update on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. That disclosure should be provided in the first annual period and in the interim period within the first annual period when the entity initially adopts the amendments in this update. A public business entity that is an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is currently unable to determine the impact on its financial statements of the adoption of this new accounting pronouncement.

In January 2017, the FASB issued ASU No. 2017-1, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” The amendments in this update clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments of this ASU are effective for public business entities for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update are to be applied prospectively on or after the effective date. The Company is currently unable to determine the impact on its financial statements of the adoption of this new accounting pronouncement.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently unable to determine the impact on its financial statements of the adoption of this new accounting pronouncement.

Although there are several other new accounting pronouncements issued or proposed by the FASB, which the Company has adopted or will adopt, as applicable, the Company does not believe any of these

accounting pronouncements has had or will have a material impact on its financial position or results of operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include the estimated useful lives of property and equipment, assumptions used in valuing derivative liabilities, stock options, etc.

3. CAPITAL STOCK

As of December 31, 2017, 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. The Company has no shares of preferred stock issued and outstanding.

During the year ended December 31, 2017, the Company did not issue any shares of its common stock. During the year ended December 31, 2016, the Company did not issue any shares of its common stock.

During the years ended December 31, 2017 and 2016, services of \$21,466 and \$24,361 were contributed to capital and recorded to additional paid-in capital.

4. LOANS PAYABLE

As of December 31, 2017 and 2016, 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 years ended December 31, 2017 and 2016.

5. RELATED PARTY TRANSACTIONS

As of December 31, 2017 and 2016, 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 December 31, 2017 and 2016, the balance of accrued interest payable to this related party was \$6,192 and \$5,472, respectively. There was no interest paid on the loans during the years ended December 31, 2017 and 2016.

Frank Ornelas, the Company's Chief Executive Officer, receives an annual salary of \$50,000. During the years ended December 31, 2017 and 2016, the Company paid for various personal expenses on behalf of the CEO totaling \$28,534 and \$25,639, respectively, which have been recognized as payment against his annual salary. The unpaid portions of the CEO's salary of \$21,466 and \$24,361 for the years ended December 31, 2017 and 2016, respectively, have been reflected 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 December 31, 2017 and 2016 include advances payable to Mr. Ornelas of \$4,340 and \$3,240, respectively.

6. CONVERTIBLE NOTES PAYABLE

At December 31, 2017 and 2016, 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 principal and accrued interest 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 \$92,407 and \$122,789 at December 31, 2017 and 2016, 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. The derivative liability decreased by \$30,382 during the year ended December 31, 2017 and increased by \$22,866 during the year ended December 31, 2016, with such increases or decreases recorded as losses or gains in other income (expense.) The debt discount was fully amortized to interest expense as of December 31, 2017 and 2016.

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. The debt discount was fully amortized to interest expense as of December 31, 2017 and 2016.

7. SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

During the years ended December 31, 2017 and 2016, we paid no amounts for income taxes or interest.

We had no non-cash financing and investing activities for the years ended December 31, 2017 and 2016.

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.