

PASTERNAK & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

10 CUTTER MILL ROAD • SUITE 204

GREAT NECK, N.Y. 11021

(516) 829-6767 • FAX (516) 829-2828

JAN S. PASTERNAK, CPA
BERNARD SPEAR, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Titanium Holdings Group, Inc.

We have audited the accompanying consolidated balance sheet of Titanium Holdings Group, Inc. & Subsidiary as of December 31, 2008 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Titanium Holdings Group, Inc. & Subsidiary as of December 31, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ PASTERNAK & COMPANY LLP
Great Neck, New York
March 23, 2009

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2008

ASSETS

Current assets

Cash	\$ 1,462,912
Accounts receivable, net of allowance for doubtful accounts of \$14,071	521,671
Inventory	625,796
Prepaid expenses and other current assets	<u>111,093</u>
Total current assets	2,721,472

Fixed assets-less accumulated depreciation and amortization of \$793,273	93,476
Marketable securities-available for sale	136,045
Notes receivable-related party	30,319
Other investments	517,797
Goodwill	<u>100,192</u>

TOTAL ASSETS **\$ 3,599,301**

LIABILITIES & STOCKHOLDERS' EQUITY

Current Liabilities

Accounts payable and accrued expenses	\$ 362,829
Income taxes payable	<u>16,771</u>
Total current liabilities	<u>379,600</u>

Commitments and Contingencies

Redeemable preferred stock-\$.001 par value; authorized 5,000,000 shares	
70,000 shares of convertible stock designated as Series E stock-	
\$2.50 stated value; issued and outstanding -0- shares	<u>-</u>

Stockholders' equity

Common stock-\$.001 par value; authorized 20,000,000 shares;	
issued and outstanding 9,228,997	9,229
Additional paid-in capital	11,246,532
Accumulated other comprehensive loss	(1,140,685)
Accumulated deficit	<u>(6,895,375)</u>
Total stockholders' equity	<u>3,219,701</u>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY **\$ 3,599,301**

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

Net Sales	\$ 8,210,175
Cost of sales	<u>6,518,534</u>
Gross profit	<u>1,691,641</u>
Operating expenses:	
Salaries	1,013,867
Professional fees	79,791
Marketing	71,020
Rent	93,560
Office expense	85,342
Payroll and other taxes	35,888
Depreciation and amortization	14,459
Other	<u>220,450</u>
Total operating expenses	<u>1,614,377</u>
Operating income	77,264
Other expense	<u>(543,982)</u>
Loss before income tax expense	(466,718)
State income tax expense	<u>15,500</u>
Net loss attributable to common stockholders	<u>\$ (482,218)</u>
Loss per share-basic and diluted	<u>\$ (0.052)</u>
Weighted average number of shares outstanding	<u>9,228,997</u>

See Notes to Consolidated Financial Statements

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

Cash flows from operating activities:

Net loss	\$ <u>(482,218)</u>
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	14,459
Income on equity investments	(29,183)
Bad debts	597,607
Changes in assets and liabilities net of effects of dispositions:	
Decrease in accounts receivable	35,536
Increase in prepaid expenses and taxes	(28,564)
Increase in inventories	(32,005)
Decrease in accounts payable and accrued expenses	<u>(298,717)</u>
Total adjustments	<u>259,133</u>
Net cash used in operating activities	<u>(223,085)</u>

Cash flows from investing activities:

Proceeds from notes receivable and accrued interest	31,445
Proceeds from sale of marketable securities	175,000
Proceeds from partnership distributions	264,123
Investment in partnerships	(150,000)
Purchase of property and equipment	<u>(19,818)</u>
Net cash provided by investing activities	<u>300,750</u>
Net increase in cash	77,665
Cash - beginning	<u>1,385,247</u>
Cash - ending	<u>\$ 1,462,912</u>

Supplemental information:

Cash paid during the period for:	
Interest	<u>\$ -</u>
Income taxes	<u>\$ 15,529</u>

TITANIUM HOLDINGS GROPU, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Accumulated Other Compre. Income(loss)	Accumulated Deficit	Stockholders' Equity
Balance at January 1, 2008:	9,228,997	\$ 9,229	\$ 11,246,532	\$ (1,148,534)	\$ (6,413,157)	\$ 3,694,070
Comprehensive income (loss):						
Net loss					(482,218)	(482,218)
Unrealized holding gain on available-for-sale securities owned			7,849			7,849
Total comprehensive income (loss)					(474,369)	(474,369)
Balance at December 31, 2008	<u>9,228,997</u>	<u>\$ 9,229</u>	<u>\$ 11,246,532</u>	<u>\$ (1,140,685)</u>	<u>\$ (6,895,375)</u>	<u>\$ 3,219,701</u>

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying consolidated financial statements include the accounts of Titanium Holdings Group, Inc. and its Subsidiary (collectively the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation.

The principal business activity of the Company is manufacturing and the wholesale distribution of sanitary maintenance supplies and paper products.

The Company recognizes revenue when products are shipped.

The Company maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

Merchandise inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out and average cost methods.

Inventory is comprised of the following:

Raw materials	\$ 41,323
Work in process	54,940
Finished goods	<u>529,533</u>
	<u>\$ 625,796</u>

Property and equipment are recorded at cost. Depreciation and amortization of property and equipment is provided for by the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the economic life of the improvement or the lease term.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management. Actual results could differ from these estimates.

Basic net income per common share is based on the weighted-average number of shares outstanding during the period while diluted net income per common share considers the diluted effect of stock options and warrants reflected under the treasury stock method. Both basic net income per share and diluted net income per share are the same since the Company’s outstanding warrants and common stock to be issued

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

have not been included in the calculation because their effect would have been antidilutive.

The Company complies with Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (“SFAS No. 123”) which requires Companies to include the fair value of stock options and other stock-based compensation issued to employees and non-employees as compensation expense in the income statement or to disclose the pro-forma effect on net income and earnings per share of employee compensation expense in the footnotes to the company’s financial statements. The Company has elected to account for its stock options issued under its stock option plans pursuant to Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. This decision results in recognition of no compensation expense for stock options issued under a Company stock option plan which are granted to employees with an exercise price at or greater than the market price on the grant date.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, “Business Combinations” (SFAS No. 141) and Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (SFAS No. 142.)

SFAS No. 141 addresses financial accounting and reporting for business combinations. This statement requires the purchase method of accounting to be used for all business combinations, and prohibits the pooling-of-interests method of accounting. This statement is effective for all business combinations initiated after June 30, 2001 and supercedes APB Opinion No. 16, “Business Combinations” as well as FASB Statement of Financial Accounting Standards No. 38, “Accounting for Preacquisition Contingencies of Purchased Enterprises”.

SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon their acquisition. This statement requires goodwill to be periodically reviewed for impairment rather than amortized, beginning on January 1, 2002. SFAS No. 142 supercedes APB Opinion No. 17, “Intangible Assets”.

Management does not believe that any recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying financial statements.

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. INVESTMENTS

The Company classifies its existing marketable equity securities as available-for-sale in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS No. 115”), “Accounting for Certain Investments in Debt and Equity Securities.” These securities are carried at fair market value, with unrealized holding gains and losses reported in stockholders’ equity as a component of other comprehensive income (loss). Gains or losses on securities sold are based on the specific identification method.

During 2008, per the instructions of the Chairman of the Board, the Company invested in Bobcat Trading Company, LLC. Bobcat Trading Company, LLC is in the business of investing in the contingent proceeds that plaintiffs anticipate recovering from pending lawsuits or claims. A managing member of Bobcat Trading Company, LLC is also a director of the Company. The total investment in the company aggregates \$150,000.

On November 5, 2002, pursuant to a Redemption Agreement, by and between the Company and IVAX Diagnostics, Inc. (“IVD”), IVD purchased 614,250 shares of its common stock from the Company. The Company received approximately \$1,013,512.50 as the purchase price for the IVD shares and an additional \$153,565.50 as consideration for (i) the Company’s grant of an option to IVD to acquire up to an additional 307,125 shares of IVD’s common stock held by the Company at an exercise price of \$4.00 per share at any time on or before May 5, 2004; (ii) the Company’s agreement that, until May 5, 2004, they would not transfer the IVD shares the Company is holding that are subject to the option to any person or entity other than the Company or its affiliates; (iii) the Company’s agreement that, until May 5, 2004, they would not transfer an additional 307,125 shares of IVD’s common stock owned by them to any person or entity other than the Company; and (iv) the Company’s general release of IVD and its affiliates.

During early 2004, IVAX Diagnostics, Inc, “IVD” communicated to the Company, its intent to exercise its option to acquire an additional 307,125 shares of IVD common stock held by the Company at an exercise price of \$4.00 per share. On June 25, 2004, the Company sold the 307,125 shares to “IVD” and received an aggregate of \$1,228,500.

During 2006, the Company sold an additional 28,200 shares of “IVD” for an aggregate of \$60,092.

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. FIXED ASSETS

Fixed assets are comprised of the following:

		<u>Estimated Useful Life</u>
Furniture, fixtures and equipment	\$ 520,926	5 years
Leasehold improvements	180,450	39 years
Transportation and delivery equipment	112,499	5 years
Computer hardware	<u>72,874</u>	5 years
	886,749	
Less: accumulated depreciation and amortization	<u>793,273</u>	
	<u>\$ 93,476</u>	

During 2008 depreciation expense amounted to \$14,459.

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following are included in accounts payable and accrued expenses at December 31, 2008:

Accounts payable	\$ 351,329
Other accrued expenses	<u>11,500</u>
	<u>\$ 362,829</u>

5. BAD DEBT EXPENSE

During 2001 and 2002, the Company invested \$1,750,000 in promissory notes with Excalibur I, LLC. The LLC is in the business of investing in credit card debt at a discount and then servicing the debt. As per the original promissory notes and subscription agreement the notes would pay the sum of \$1,750,000 plus an amount which shall not exceed but may be less than \$848,750. Payments were to be paid in quarterly installments until the total of the advanced sum plus the additional amounts were received or the time collections derived from the defaulted accounts receivable have been exhausted, whichever event occurs first. The Company has been repaid substantially all of the original \$1,750,000 investment. Since 2001 the Company has been accruing the interest receivable as per the terms of the agreement with the assumption of a 135% to 150% return. As of December 31, 2007, the managing member of the LLC informed the Company that a return on investment as originally projected would be impossible to achieve. As a result, and has been confirmed by the managing member of the LLC, the Company has charged a \$597,607 and \$170,000 non-cash bad debt expense to other expense for 2008 and 2007 respectively which represents substantially all of the balance of the total accrued to date.

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. CONTRACTS

During August 2005, the Compensation Committee, and subsequently the independent members of the Board, unanimously voted to renew the employment contract of Mr. Randall K. Davis, CEO and President of the Company, effective September 1, 2005. The new contract is for 5 years with substantially the same terms as his previous contract. The only significant change in the new 5-year agreement is that Mr. Davis' new salary calls for a reduction of 20% effective January 1, 2006.

During August 2005, the Compensation Committee, and subsequently the independent members of the Board, unanimously voted to renew a consulting agreement with Mr. Steven Etra, effective September 1, 2005. The new contract is for 5 years and calls for the same compensation as his previous contract.

7. COMMITMENTS AND CONTINGENCIES

The Company leases office, warehouse, store space, other facilities and equipment under noncancelable operating leases expiring through December 2012.

Future minimum lease payments under these leases at December 31, 2008 are as follows:

Year ending December 31,	
2009	308,200
2010	248,400
2011	206,900
2012	112,000

	<u>\$ 875,500</u>

Certain leases contain escalation clauses relating to operating expenses and real estate taxes.

8. INCOME TAXES

The provision for income taxes includes state and local taxes of the Subsidiary which files separate state and local taxes.

As of December 31, 2008, the Company had net operating loss carryforwards available to offset future taxable income of approximately \$1,709,000.

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. STOCKHOLDERS' EQUITY

Effective June 8, 2006, and with unanimous approval of disinterested Board members, stock options were granted to two Directors in consideration for their service on the Board for 2005 and 2006. Each of the two Directors were granted the option to purchase all or any part of an aggregate of twenty thousand (20,000) shares of common stock of the Company, pursuant to the Company's 2000 Stock Incentive Plan. The exercise price of the Option shall be twenty-nine cents (\$0.29) per share and will be exercisable during the period from June 8, 2006 through June 8, 2011.

10. STOCK OPTIONS

In January 2000, the Board of Directors adopted the 2000 Stock Incentive Plan ("the Plan") to provide for grants of options to purchase shares of Common Stock to employees, non-employee directors and independent contractors of the Company who are eligible to participate in the Plan. Options granted under the Plan are fully vested at issuance. Generally, options granted have a term of three years. The Company has reserved 1,500,000 shares of Common Stock for issuance pursuant to options granted under the Plan.