

**TITANIUM HOLDINGS GROUP, INC. & SUBSIDIARY
FINANCIAL STATEMENTS
DECEMBER 31, 2015**

PASTERNAK & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Titanium Holdings Group, Inc.

We have audited the accompanying financial statements of Titanium Holdings Group, Inc. and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2015 and 2014 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error in making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects the position of Titanium Holdings Group Inc and Subsidiary as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Posternak & Company LLP

Great Neck, NY
April 7, 2016

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

	2015	2014
ASSETS		
Current assets		
Cash	\$ 1,563,811	\$ 1,603,382
Accounts receivable, net of allowance for doubtful accounts of \$14,071	391,573	340,302
Inventory	463,597	536,051
Prepaid expenses and other current assets	142,662	81,262
Total current assets	<u>2,561,643</u>	<u>2,560,997</u>
Fixed assets-less accumulated depreciation and amortization of \$1,021,275 and \$967,087	1,050,098	1,054,633
Marketable securities-available for sale	218,924	503,757
Other investments	118,419	30,412
Goodwill	100,192	100,192
TOTAL ASSETS	<u>\$ 4,049,276</u>	<u>\$ 4,249,991</u>
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 468,956	\$ 399,364
Income taxes payable	14,299	15,935
Total current liabilities	<u>483,255</u>	<u>415,299</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>	<u>-</u>
Stockholders' equity		
Common stock-\$.001 par value; authorized 20,000,000 shares;		
issued and outstanding 9,228,997	9,229	9,229
Additional paid-in capital	11,246,532	11,246,532
Accumulated other comprehensive loss	(574,353)	(289,520)
Accumulated deficit	(7,115,387)	(7,131,549)
Total stockholders' equity	<u>3,566,021</u>	<u>3,834,692</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 4,049,276</u>	<u>\$ 4,249,991</u>

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS**

Year ended December 31	2015	2014
Net Sales	\$ 7,070,802	\$ 6,991,660
Cost of sales	<u>5,499,164</u>	<u>5,394,204</u>
Gross profit	<u>1,571,638</u>	<u>1,597,456</u>
Operating expenses:		
Salaries	1,044,044	982,315
Rent	61,950	74,960
Marketing	21,425	28,960
Professional fees	92,532	93,099
Utilities	46,155	47,399
Delivery and auto	50,407	72,229
Office expense	42,844	42,015
Payroll and other taxes	38,150	34,177
Repairs and maintenance	12,860	11,377
Employee benefits	373	10,155
Insurance	15,145	14,480
Depreciation and amortization	69,018	56,923
Bad debts	2,441	-
Other	<u>45,783</u>	<u>42,361</u>
Total operating expenses	<u>1,543,127</u>	<u>1,510,450</u>
Operating income	28,511	87,006
Other income (expense)	<u>622</u>	<u>(4,616)</u>
Income before income tax expense	29,133	82,390
State income tax expense	<u>12,971</u>	<u>16,350</u>
Net income attributable to common stockholders	<u>\$ 16,162</u>	<u>\$ 66,040</u>
Income per share-basic and diluted	<u>\$ 0.002</u>	<u>\$ 0.007</u>
Weighted average number of shares outstanding	<u>9,228,997</u>	<u>9,228,997</u>

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS**

Year ended December 31	2015	2014
Cash flows from operating activities:		
Net income	\$ 16,162	\$ 66,040
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	69,018	56,923
Bad debt expense	2,441	-
Gain on sale of assets	-	(2,141)
Loss on equity investments	3,710	11,587
Changes in assets and liabilities net of effects of dispositions:		
Increase in accounts receivable	(53,712)	(45,208)
(Increase) decrease in prepaid expenses and taxes	(61,400)	7,078
Decrease in inventories	72,454	10,474
Increase in accounts payable and accrued expenses	<u>67,956</u>	<u>161,725</u>
Total adjustments	<u>100,467</u>	<u>200,438</u>
Net cash provided by operating activities	<u>116,629</u>	<u>266,478</u>
Cash flows from investing activities:		
Investment in partnership	(100,000)	-
Proceeds from sale of assets	-	59,000
Proceeds from notes receivable and accrued interest	-	284
Proceeds from partnership distributions	8,283	16,392
Purchase of property and equipment	<u>(64,483)</u>	<u>(951,883)</u>
Net cash used in investing activities	<u>(156,200)</u>	<u>(876,207)</u>
Net decrease in cash	(39,571)	(609,729)
Cash - beginning	<u>1,603,382</u>	<u>2,213,111</u>
Cash - ending	<u>\$ 1,563,811</u>	<u>\$ 1,603,382</u>
Supplemental information:		
Cash paid during the period for:		
Interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes	<u>\$ 16,500</u>	<u>\$ 17,062</u>

See Notes to Consolidated Financial Statements

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Accumulated Other Compre. Loss	Accumulated Deficit	Stockholders' Equity
Balance at January 1, 2015:	9,228,997	\$ 9,229	\$ 11,246,532	\$ (289,520)	\$ (7,131,549)	\$ 3,834,692
Comprehensive income (loss):						
Net income					16,162	16,162
Unrealized holding loss on available-for-sale securities owned				(284,833)		(284,833)
Total comprehensive loss						(268,671)
Balance at December 31, 2015	<u>9,228,997</u>	<u>\$ 9,229</u>	<u>\$ 11,246,532</u>	<u>\$ (574,353)</u>	<u>\$ (7,115,387)</u>	<u>\$ 3,566,021</u>

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Accumulated Other Compre. Loss	Accumulated Deficit	Stockholders' Equity
Balance at January 1, 2014:	9,228,997	\$9,229	\$ 11,246,532	\$ (352,471)	\$ (7,197,589)	\$3,705,701
Comprehensive income:						
Net loss				66,040		66,040
Unrealized holding gain on available-for-sale securities owned				62,951		62,951
Total comprehensive income				128,991		128,991
Balance at December 31, 2014	<u>9,228,997</u>	<u>\$ 9,229</u>	<u>\$ 11,246,532</u>	<u>\$ (289,520)</u>	<u>\$ (7,131,549)</u>	<u>\$ 3,834,692</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:	<u>2015</u>	<u>2014</u>
Raw materials	\$ 63,644	\$ 54,299
Work in process	35,956	41,576
Finished goods	<u>363,997</u>	<u>440,176</u>
	<u>\$ 463,957</u>	<u>\$ 536,051</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

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

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less to be cash equivalent.

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. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 – Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in the markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At December 31, 2015, the fair value of the Company's financial instruments including cash, accounts receivable, accounts payable and accrued expenses, approximated book value due to the short maturity of these instruments.

Management has evaluated subsequent events for inclusion or disclosure in the financial statements from December 31, 2015 through April 7, 2016, which is the date the financial statements were available to be issued. No events or transactions were identified during this period that required disclosure or recognition.

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

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INVESTMENTS (CONTINUED)

comprehensive income (loss). Gains or losses on securities sold are based on the specific identification method.

During April 2015, the Company, with Board approval, purchased an interest in a real estate Limited Liability Company ("LLC"). The "LLC" acquired two HUD Section 8 apartment buildings in Yonkers, NY. The total cost of this investment was \$100,000.

3. PROPERTY AND EQUIPMENT

On January 24, 2014, the Board received an independent appraisal for two (2) buildings the Company had previously been renting for its offices, manufacturing facility and warehouse, indicating a value of \$895,000 for both buildings.

On February 27, 2014, a negotiated price of \$824,391, representing the appraised value less an 8% discount, was presented to the Board. After discussion, which included the annual rent savings of \$107,700, the purchase was unanimously approved, subject to a clean Phase 1 Environmental Study. Mr. Randall K. Davis, President of the Company, abstained from the vote.

On March 19, 2014, a Phase 1 Environmental Study was completed and indicated that the properties were clean with no contamination.

On April 22, 2014, the properties were purchased using available cash. The total purchase price, inclusive of certain additional expenses, was \$833,393. The property is being depreciated on the straight line method over 39 years.

Property and equipment are comprised of the following:

	<u>2015</u>	<u>2014</u>	<u>Useful Life</u>
Land	\$ 208,348	\$ 208,348	
Buildings	625,045	625,045	39 years
Furniture, fixtures and equipment	708,405	663,229	5 years
Leasehold improvements	246,640	246,640	39 years
Transportation and delivery equipment	177,330	175,159	5 years
Computer hardware	<u>105,605</u>	<u>103,299</u>	5 years
	2,071,373	2,021,720	
Less: accumulated depreciation and amortization	<u>1,021,275</u>	<u>967,087</u>	
	<u>\$1,050,098</u>	<u>\$1,054,633</u>	

Depreciation expense amounted to \$69,018 and \$56,923 in 2015 and 2014, respectively.

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2015</u>	<u>2014</u>
Accounts payable	\$ 430,344	\$ 366,958
Other accrued expenses	<u>52,911</u>	<u>48,341</u>
	<u>\$ 483,255</u>	<u>\$ 415,299</u>

5. STOCKHOLDERS' EQUITY

The Chairman of the Board, Steven Etra, directly owns 4,611,293 shares of issued and outstanding common stock of the Company and indirectly controls an additional 842,318 of the shares. This total of 5,453,611 outstanding shares of common stock gives Mr. Etra control of approximately 59% of all outstanding, voting common stock issued. The Board of Directors, as a group, currently owns 6,012,519 shares, representing approximately 65% of all outstanding, voting common stock issued.

6. CONTRACTS

During April 2015, the Compensation Committee and the independent members of the Board, unanimously voted to renew the employment contract of Randall K. Davis, CEO and President of the Company, effective April 8, 2015. The new contract is for 5 years with substantially the same terms as his previous contract.

During April 2015, the Compensation Committee, and the independent members of the Board, unanimously voted to renew a consulting agreement with Mr. Steven Etra, effective April 8, 2015. The new contract is for 5 years with substantially the same terms as his previous contract.

7. COMMITMENTS AND CONTINGENCIES

The Company leases warehouse, retail store space, other facilities and equipment under noncancelable operating leases expiring through December 2020.

Future minimum lease payments under these leases at December 31, 2015 are as follows:

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

COMMITMENTS AND CONTINGENCIES (CONTINUED)

Year ending December 31,

2016	\$ 267,558
2017	204,104
2018	162,804
2019	138,522
2020	82,192

\$ 855,180

Certain leases contain escalation clauses relating to operating expenses and real estate taxes. Rent expense amounted to \$247,801 and \$299,841 in 2015 and 2014, respectively.

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, 2015, the Company had net operating loss carryforwards available to offset future taxable income of approximately \$2,650,000 and a capital loss carryforward of approximately \$460,000.

9. 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.