

**TITANIUM HOLDINGS GROUP, INC. & SUBSIDIARY**  
**FINANCIAL STATEMENTS**  
**As of and for the year ended December 31, 2022**  
**And Independent Auditor's Report**

# 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.

### **Opinion**

We have audited the accompanying financial statements of Titanium Holdings Group, Inc. and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Titanium Holdings Group, Inc. and Subsidiary as of December 31, 2022 and 2021, 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.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Titanium Holdings Group, Inc. and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Titanium

Holdings Group, Inc. and Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are, free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we:

Exercise professional judgement and maintain professional skepticism throughout the audit.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of Titanium Holdings Group, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Titanium Holdings Group, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audits findings, and certain internal control-related matters that we identified during the audit.

*Parternack & Company LLP*  
Certified Public Accountants

Lake Success, NY  
March 25, 2023

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

	<b>2022</b>	2021
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 2,848,576	\$ 3,115,256
Accounts receivable, net of allowance for doubtful accounts of \$14,071	251,044	239,837
Inventory	457,478	430,158
Prepaid expenses and other current assets	<u>115,093</u>	<u>107,776</u>
<b>Total current assets</b>	<b>3,672,191</b>	<b>3,893,027</b>
Fixed assets-at cost less accumulated depreciation and amortization of \$870,794 and \$775,907	1,677,803	1,644,509
Other investments	233,817	285,817
Goodwill	<u>100,192</u>	<u>100,192</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 5,684,003</u></b>	<b><u>\$ 5,923,545</u></b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 141,407	\$ 183,781
Notes payable-real estate	41,200	37,441
Income taxes payable	<u>6,436</u>	<u>14,918</u>
<b>Total current liabilities</b>	<b><u>189,043</u></b>	<b><u>236,140</u></b>
<b>Long-term liabilities</b>		
Notes payable-real estate	<u>177,116</u>	<u>218,316</u>
<b>Commitments and Contingencies</b>		
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>
Total liabilities	<u>366,159</u>	<u>454,456</u>
<b>Stockholders' equity</b>		
Common stock-\$.001 par value; authorized 20,000,000 shares;		
issued and outstanding 9,170,062	9,229	9,229
Additional paid-in capital	11,246,532	11,246,532
Accumulated deficit	<u>(5,937,328)</u>	<u>(5,786,083)</u>
Subtotal	5,318,433	5,469,678
Less: Treasury stock (58,935 shares of common stock at \$.01 cost)	<u>(589)</u>	<u>(589)</u>
Total stockholders' equity	<u>5,317,844</u>	<u>5,469,089</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 5,684,003</u></b>	<b><u>\$ 5,923,545</u></b>

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

Year ended December 31	2022	2021
Net Sales	\$ 6,561,314	\$ 9,230,861
Cost of sales	<u>5,207,798</u>	<u>6,688,809</u>
Gross profit	<u>1,353,516</u>	<u>2,542,052</u>
Operating expenses:		
Salaries	936,658	996,248
Rent	52,976	50,139
Marketing	20,672	20,575
Professional fees	134,238	168,779
Utilities	19,815	17,178
Delivery and auto	46,414	42,741
Office expense	60,375	62,399
Payroll and other taxes	37,432	36,748
Repairs and maintenance	14,404	17,331
Insurance	24,809	28,009
Travel	23,683	18,156
Directors fees	-	18,000
Dues and subscriptions	15,946	19,284
Depreciation and amortization	94,887	82,721
Interest expense	16,717	19,241
Other	<u>1,944</u>	<u>2,828</u>
Total operating expenses	<u>1,500,970</u>	<u>1,600,377</u>
Operating (loss) income	(147,454)	941,675
Other income	<u>6,209</u>	<u>4,719</u>
(Loss) income before income tax expense	(141,245)	946,394
State income tax expense	<u>10,000</u>	<u>18,800</u>
Net (loss) income attributable to common stockholders	<u>\$ (151,245)</u>	<u>\$ 927,594</u>
(Loss) income per share-basic and diluted	<u>\$ (0.0165)</u>	<u>\$ 0.1011</u>
Weighted average number of shares outstanding	<u>9,170,062</u>	<u>9,170,062</u>

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

Year ended December 31	2022	2021
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (151,245)	\$ 927,594
Adjustments to reconcile net (loss) income to net cash (used) in provided by in operating activities:		
Depreciation and amortization	94,887	82,721
Changes in assets and liabilities net of effects of dispositions:		
Increase in accounts receivable	(11,207)	(40,814)
(Increase) decrease in prepaid expenses and taxes	(7,317)	7,698
Increase in inventories	(27,320)	(13,386)
(Decrease) increase in accounts payable and accrued expenses	<u>(50,856)</u>	<u>32,289</u>
Total adjustments	<u>(1,813)</u>	<u>68,508</u>
Net cash (used) in provided by operating activities	<u>(153,058)</u>	<u>996,102</u>
<b>Cash flows from investing activities:</b>		
Proceeds from partnership distributions	52,000	-
Purchase of property and equipment	<u>(128,181)</u>	<u>(117,684)</u>
Net cash used in investing activities	<u>(76,181)</u>	<u>(117,684)</u>
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	<u>(37,441)</u>	<u>(34,916)</u>
Net cash used in financing activities	<u>(37,441)</u>	<u>(34,916)</u>
Net (decrease) increase in cash	(266,680)	843,502
Cash - beginning	<u>3,115,256</u>	<u>2,271,754</u>
Cash - ending	<u>\$ 2,848,576</u>	<u>\$ 3,115,256</u>
<b>Supplemental information:</b>		
Cash paid during the period for:		
Interest	<u>\$ 16,717</u>	<u>\$ 21,595</u>
Income taxes	<u>\$ 18,482</u>	<u>\$ 8,999</u>

See Notes to Consolidated Financial Statements

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Stockholders' Equity
Balance at January 1, 2021:	9,170,062	\$9,229	\$ 11,246,532	\$ (6,713,677)	\$ (589)	\$4,541,495
Comprehensive income:						
Net income				927,594		927,594
Balance at December 31, 2021	<u>9,170,062</u>	<u>\$ 9,229</u>	<u>\$ 11,246,532</u>	<u>\$ (5,786,083)</u>	<u>\$ (589)</u>	<u>\$5,469,089</u>

See Notes to Consolidated Financial Statements

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	Common Stock		Additional	Accumulated	Treasury	Stockholders'
	Number of	Amount	Paid-in	Deficit	Stock	Equity
	Shares		Capital			
Balance at January 1, 2022:	9,170,062	\$9,229	\$ 11,246,532	\$ (5,786,083)	\$ (589)	\$5,469,089
Comprehensive income:						
Net loss				(151,245)		(151,245)
Balance at December 31, 2021	<u>9,170,062</u>	<u>\$ 9,229</u>	<u>\$ 11,246,532</u>	<u>\$ (5,937,328)</u>	<u>\$ (589)</u>	<u>\$5,317,844</u>

See Notes to Consolidated Financial Statements



# 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>2022</u>	<u>2021</u>
Raw materials	\$ 72,852	\$ 67,648
Work in process	31,790	29,883
Finished goods	<u>352,836</u>	<u>332,627</u>
	<u>\$ 457,478</u>	<u>\$ 430,158</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 have not been included in the calculation because their effect would have been antidilutive.

## TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Uncertain tax positions - Management has evaluated the Company's tax positions and concluded that the Company has not taken any uncertain tax positions that require adjustment to the financial statements to comply with the provisions of Accounting Standards Codification 740. Generally, the Company is no longer subject to income tax examination by U.S. federal, state or local tax authorities for the years before 2019, which is the standard statute of limitations look-back period.

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:

## TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2022, 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, 2022 through March 25, 2023, 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.

During 2021, one customer represented approximately 40% of the gross revenue of the Company. That customer ceased its operations in March 2022. No other events or transactions were identified during this period that required disclosure or recognition.

New Accounting Pronouncements- The Company has adopted Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. There was no material impact with the adoption of the standard on the Company's 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.

#### 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.

During March 2017, the Chairman of the Board, Steven Etra, instructed the CEO and President, Randall K. Davis, to contract with an independent firm to provide an appraisal of the building at 401 Main Street, in Kerrville, Texas. The Company has leased this building for one of its retail operations since the early 1990’s. The property was owned as a joint venture by Charles H. Davis (father of Randall K. Davis) and Randall K. Davis. Mr. Etra wanted to pursue a purchase of the property and to present the appraisal to the Board of Directors for discussion. On March 20, 2017 the Company engaged Stouffer & Associates to provide the appraisal. The Company received the appraisal on April 10, 2017 which amounted to \$710,000. Subsequently, the Board discussed and unanimously approved the purchase of the property for \$688,700. Mr. Randall K. Davis was not included in the discussions or the Board approval. The property was purchased on September 6, 2017 and financed

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**PROPERTY AND EQUIPMENT (CONTINUED):**

with a \$300,000 cash down payment and two (2) notes issued to the sellers totaling \$388,700, payable over 10 years with interest at 7% per annum.

Property and equipment are comprised of the following:

	<u>2022</u>	<u>2021</u>	<u>Useful Life</u>
Land	\$ 382,152	\$ 382,152	
Buildings	1,146,457	1,146,457	39 years
Furniture, fixtures and equipment	498,016	477,203	5 years
Leasehold improvements	254,395	254,395	39 years
Transportation and delivery equipment	147,072	58,628	5 years
Computer hardware	<u>120,505</u>	<u>101,581</u>	5 years
	2,548,596	2,420,416	
Less: accumulated depreciation and amortization	<u>870,794</u>	<u>775,907</u>	
	<u>\$1,677,803</u>	<u>\$1,644,509</u>	

Depreciation expense amounted to \$82,721 and \$60,458 in 2021 and 2020, respectively.

**4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

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

	<u>2022</u>	<u>2021</u>
Accounts payable	\$ 124,205	\$ 165,242
Other accrued liabilities	<u>23,638</u>	<u>33,457</u>
	<u>\$ 147,823</u>	<u>\$ 198,699</u>

**5. NOTES AND LOANS PAYABLE**

On September 6, 2017, the Company purchased a building in Kerrville, Texas that it had leased for one of its retail operations. The purchase price was \$688,700 and was financed with a \$300,000 down payment and two (2) notes totaling \$388,700. The notes are over 10 years and payable monthly at \$4,513 including interest at 7% per annum.

Interest expense amounted to \$16,717 and \$19,241 for the years ended December 31, 2022 and 2021, respectively.

## TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTES AND LOANS PAYABLE (CONTINUED):

The balance at December 31, 2022 and 2021 was \$218,316 and \$255,757, respectively.

Aggregate annual maturities of the notes payable are as follows:

2023	40,147
2024	43,050
2025	46,162
2026	49,499
2027	<u>39,458</u>
	<u>\$218,316</u>

#### 6. 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.

#### 7. CONTRACTS

During September 2021, 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, and a consulting agreement with Mr. Steven Etra. Both new contracts are for 5-year terms.

#### 8. COMMITMENTS AND CONTINGENCIES

The Company leases warehouse, retail store space, other facilities and equipment under noncancelable operating leases expiring through June 2027.

Future minimum lease payments under these leases at December 31, 2022 are as follows:

Year ending December 31,	
2023	\$ 213,002
2024	181,075
2025	162,949
2026	74,383
2027	26,691
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	<u>\$ 658,100</u>

## TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### COMMITMENTS AND CONTINGENCIES (CONTINUED):

Certain leases contain escalation clauses relating to operating expenses and real estate taxes. Rent expense amounted to \$211,906 and \$200,557 in 2022 and 2021, respectively.

#### 9. 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, 2022, the Company had net operating loss carryforwards available to offset future taxable income of approximately \$850,000 and a capital loss carryforward of approximately \$765,000.

#### 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.

#### 11. RISKS RELATING TO THE COMPANY

##### *Post Pandemic*

Primarily, as a result of the Covid-19 pandemic, not only are lead times extending out due to the high demand for goods, but this high demand is also driving up costs as demand outstrips the supply. There are many general market factors contributing to substantial cost increases, the most significant of which are increases in fuel cost, small parcel delivery carrier price increases, and rapid and significant increases in ocean freight costs. In addition to the general economic conditions, the Company’s manufacturer partners are alerting the Company to industry specific challenges increasing their cost of components and final product. This inflation will impact all of product categories the Company carries and modes of transportation.

The Company has implemented mitigation strategies to offset costs as best they can. Based upon the information the Company has today, however, the Company does not believe they will be able to mitigate all cost increases due to their magnitude and impact across the multiple categories noted above. The Company intends to be

## TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

proactive and transparent in communicating any significant price changes consistent with past practices.

#### RISKS RELATING TO THE COMPANY (CONTINUED):

##### *Competition*

The sanitary and janitorial supplies market is highly competitive and is served by numerous small, owner-operated private companies, public companies and several large regional and national companies. In addition, relatively few barriers prevent entry into the industry. As a result, any organization that has adequate financial resources and access to a minimum of technical cleaning expertise may become a competitor of the Company. Competition in the industry depends on a number of factors, including price. Certain of the Company's competitors may have lower overhead cost structures and may, therefore, be able to provide their products and services at lower rates than the Company can provide such products and services. Many of these competitors have longstanding operations and longstanding relationships with large customers such as hospitals and governmental agencies.

There can be no assurance that the Company's competitors will not be able to use their competitive advantages in competing in price, offering more extensive lines of products or more favorable payment terms or otherwise, resulting in material adverse effects on the business of the Company. In addition, many of the Company's competitors are larger and have greater resources than are available to the Company. The Company cannot be certain that its competitors will not develop the expertise, experience, and resources to provide products and services that are superior in both price and quality to the products and services of the Company. Similarly, the Company cannot be certain that it will be able to attain, maintain or enhance a competitive position in the market.

##### *Government Regulation*

Maintenance and distribution of many of the Company's products are subject to extensive regulation at the federal, state, and local levels. In particular, the Company is subject to regulations involving storage of hazardous materials promulgated by the Federal Environmental Protection Agency and the Occupational Safety and Health Act. As such, the Company's business is dependent upon continued compliance with governmental regulations regarding the operations of the Company's facilities. The Company believes that it is in substantial compliance with all such regulations that are applicable to its business. However, failure to maintain and demonstrate compliance with all such regulations could result in the preclusion of handling certain product lines and in mandated clean up expenditures.



**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**RISKS RELATING TO THE COMPANY (CONTINUED):**

*Potential Exposure to Environmental Liabilities*

The operations of the Company are subject to various environmental laws and regulations, including those dealing with the handling and disposal of waste products. As part of the cleaning and janitorial supplies manufacturing process, the Company may store and use some raw materials that are deemed to be hazardous materials and are closely regulated. As a result of past and future operations, the Company may be required to incur environmental remediation costs and other clean-up expenses.

In addition, the Company cannot be certain that it will be able to identify or be indemnified for all potential liabilities relating to any acquired business.

There can be no assurance that the aggregate amount of any environmental liabilities that might be asserted against the Company in any such proceeding will not be material.

The Company cannot predict the types of environmental laws or regulations that may from time to time be enacted in the future by federal, state, or local governments, how existing or future laws or regulations will be interpreted or enforced, or what types of

environmental conditions may be found to exist at its facilities. The enactment of more stringent laws or regulations or a more strict interpretation of existing laws and regulations may require additional expenditures by the Company, some of which could be material.

*Product Liability and Insurance*

The business of the Company involves substantial product liability risks associated with the handling, storing, and usage of cleaning products. While the Company believes its practices and procedures provide safeguards that comply with industry standards, it is not possible to eliminate all risks in this regard. The Company maintains product liability insurance in amounts it believes are usual and customary for a business of its size in its industry, though there can be no assurance that the Company may not be held liable on a product liability claim for an amount substantially in excess of its insurance policy limits or not covered by insurance. If the Company were to incur product liability in excess of its insurance limits, it would have a material adverse impact on the Company's business and prospects.

## TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### RISKS RELATING TO THE COMPANY (CONTINUED):

##### *Dependence on Key Personnel; Need For Additional Personnel*

The success of the Company is substantially dependent on the performance of its senior management and key employees, as well as its Board. There can be no assurance that the Company will be able to locate and hire, and if hired, retain adequate additional management personnel. The Company has entered into an employment agreement with its Chief Executive Officer Randall K. Davis, upon terms and conditions the Company believes are reasonable and customary for companies its size in its industry. The loss of key personnel or the inability to hire and retain qualified executives and other employees could have a material adverse effect on the business, financial condition, and results of operations of the Company.

##### *Control by Existing Stockholders (Management Control); No Cumulative Voting*

As of December 31, 2020, the Company's executive officers and directors and their affiliates (the "Insiders") beneficially owned approximately 6,012,519 shares of Common Stock, including derivative securities beneficially owned by them,

representing approximately 65% of the aggregate outstanding shares of Common Stock. Further Mr. Steven Etra, Chairman of the Board, directly and indirectly controls 5,453,611 shares of Common Stock representing approximately 59% of the aggregate outstanding shares of Common Stock.

Holders of the Company's Common Stock are not entitled to accumulate their votes for the election of directors or otherwise. Accordingly, the Insiders will have significant influence on the election of the directors of the Company. The Board elects officers and effectively controls the day to day operations through control of the Company management.

##### *Indemnification and Limitation of Liability*

Under the Nevada Revised Statutes (the "Statutes"), the Company shall have the power to eliminate the personal liability of the directors and officers of the Company for monetary damages to the fullest extent possible under the Statutes or other applicable law. These provisions eliminate the liability of directors or officers to the Company and its stockholders for monetary damages arising out of any violation of a director of his fiduciary duty of due care.

Under the Statutes, the Company may, by a majority of its disinterested directors, shareholders, or, in some cases, by independent legal counsel, indemnify any officer or director against expenses actually and reasonably incurred, if such person acted in good faith in a manner reasonably believed to be in the best interests of the Company, and in

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**RISKS RELATING TO THE COMPANY (CONTINUED):**

the case of any criminal action or proceeding, if such person had no reasonable cause to believe his conduct was unlawful. The Company may indemnify any officer or director against expenses and amounts actually paid or incurred in settlement not exceeding, in the judgment of the Board, estimated expenses of litigation. Indemnification and/or advancement of expenses provided by the Statutes are not exclusive and the Company may make any further advancement or payment of expenses. However, no indemnification and/or advancement will be made to any officer or director if such person shall have been adjudged to be liable, unless, upon application and determination of the court that in view of the circumstances in the case, such person is fairly and reasonably entitled to indemnification.

The Commission has taken the position that indemnification of officers and directors for liability under the federal securities laws may be against public policy and, therefore, unenforceable.