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

The accompanying consolidated financial statements include the accounts of Titanium Holdings Group, Inc. and it's 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.
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Inventory is comprised of the following:

Raw materials	$ 41,656
Work in process	46,890
Finished goods	404,558
	$ 493,104

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.

The estimated fair values of the notes payable approximate their carrying amounts based on terms of the instruments and rates currently available to the Company for similar loans.

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.

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".

On December 16, 2002, at their year-end meeting, the Board of Directors unanimously consented to change the Company's independent auditors. A principal in the new audit firm is the former Chief Financial Officer of the Company, who resigned prior to accepting the engagement.

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.

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. Gains or losses on securities sold are based on the specific identification method.

During October and December 2004, with authorization by the Board of Directors, the Company invested in several real estate partnerships. The total invested in these partnerships aggregates $231,500.

During October 2004, with authorization by the Board of Directors, the Company invested in Jaguar Trading Limited Partnership. Jaguar Trading Limited Partnership is in the business of investing in the contingent proceeds that plaintiffs anticipate recovering from pending lawsuits or claims. A managing member of Jaguar Trading Limited Partnership is also a director of the Company.

During October 2004, with authorization from the Board of Directors, the Company acquired several municipal bonds representing various states. The total acquired aggregates $600,000 and yield between 1.80% and 2.42% per annum.

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 2004, the Company sold an additional 17,300 shares of "IVD" for an aggregate of $125,165.

3. FIXED ASSETS

Fixed assets are comprised of the following:

		Estimated Useful Life
Furniture, fixtures and equipment	$ 490,062	5 years
Leasehold improvements	174,992	39 years
Transportation and delivery equipment	104,549	5 years
Computer hardware	57,740	5 years
	827,343	
Less: accumulated depreciation and amortization	730,494	
	$ 96,849	

During the years December 31, 2004 and 2003, depreciation expense amounted to $21,900 and $20,926 respectively.

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following are included in accounts payable and accrued expenses at December 31, 2004:

Accounts payable	$ 428,986
Other accrued expenses	15,958
	$ 444,944

5. COMMITMENTS AND CONTINGENCIES

The Company leases office, warehouse, store space, other facilities and equipment under noncancelable operating leases expiring through May 2010.

Future minimum lease payments under these leases at December 31, 2004 are as follows:

Year ending December 31,

2005	341,000
2006	310,500
2007	203,200

2008	69,200
2009	62,800
2010	9,200
	$995,900

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

6. INCOME TAXES

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

As of December 31, 2004, the Company had net operating loss carryforwards available to offset future taxable income of approximately $600,000.

7. NOTES PAYABLE

Notes payable consists of the following:

In April 2003, the Company began a new private placement of a maximum of $500,000 of promissory notes. The notes are due one year from the original date of issuance. The notes bear interest at 10.75% per annum and are secured by all of the assets of the Company. The Company intends to use the net proceeds of the offering to repay certain 9.75% secured promissory notes which were previously issued by the Company, as well as for general working capital purposes. As of May 31, 2003, the proceeds received through the placement aggregated $500,000 and the placement was closed. During April, May and June 2004, the balance of the 10.75% and 9.75% notes were redeemed. Of the total redeemed, $379,000 was converted into common stock of the Company.

During early 2004, with Board approval, the Company communicated an offer to the holders of the 9.75% and 10.75% promissory notes, giving them the opportunity to convert their notes into common stock of the Company. As a result, a total of $379,000 of the promissory notes were converted effective April 30, 2004 at a conversion price of $0.29 per share.

During the year ended December 31, 2004 and 2003, interest expense amounted to $52,000 and $56,428 respectively.

8. STOCKHOLDERS' EQUITY

On April 30, 2004, certain holders of the 9.75% and 10.75% promissory notes were issued an aggregate of 1,306,895 shares of common stock of the Company upon conversion of $379,000 of notes.

During April, May and June 2004, the Company, through three private placements, issued 2,199,292 shares of common stock for an aggregate price of $1,016,794.

During August 2004, the Company, through a private placement, issued 150,000 shares of common stock for an aggregate price of $43,500.

9. PREFERRED STOCK

On June 30, 2004, the Company redeemed all of its outstanding shares of Series E Preferred Stock for a total of $175,000.

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.