

PASTERNAK & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS
377 OAK STREET • SUITE 412
GARDEN CITY, N.Y. 11530

(516) 829-6767 • FAX (516) 829-2828

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Titanium Holdings Group, Inc.
San Antonio, TX

We have compiled the accompanying consolidated balance sheet of Titanium Holdings Group, Inc. and Subsidiary as of June 30, 2018, and the related consolidated statements of operations and cash flows for the six months then ended. We have not audited or reviewed the accompanying June 30, 2018 consolidated financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of consolidated financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the consolidated financial statements.

Management has elected to omit substantially all of the disclosures required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Pasternack & Company LLP
August 3, 2018
Garden City, NY

TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
JUNE 30, 2018

ASSETS

| | |
|--|----------------------------|
| Current assets | |
| Cash | \$ 1,255,900 |
| Accounts receivable, net of allowance for doubtful accounts of \$14,071 | 379,035 |
| Inventory | 493,645 |
| Prepaid expenses and other current assets | <u>93,030</u> |
| Total current assets | 2,221,610 |
| Fixed assets-less accumulated depreciation and amortization of \$580,647 | 1,643,581 |
| Marketable securities-available for sale | 25,744 |
| Other investments | 133,436 |
| Goodwill | <u>100,192</u> |
| TOTAL ASSETS | <u>\$ 4,124,563</u> |

LIABILITIES & STOCKHOLDERS' EQUITY

| | |
|--|----------------------------|
| Current Liabilities | |
| Accounts payable and accrued expenses | \$ 358,358 |
| Notes payable-real estate | 29,326 |
| Income taxes payable | <u>4,990</u> |
| Total current liabilities | <u>392,674</u> |
| Long-term liabilities | |
| Notes payable-real estate | <u>338,684</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 | (735,658) |
| Accumulated deficit | <u>(7,126,898)</u> |
| Total stockholders' equity | <u>3,393,205</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 4,124,563</u> |

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2018**

| | |
|---|---------------------|
| Net Sales | \$ 2,914,740 |
| Cost of sales | <u>2,335,415</u> |
| Gross profit | <u>579,325</u> |
| Operating expenses: | |
| Salaries | 474,312 |
| Rent | 30,654 |
| Marketing | 12,247 |
| Professional fees | 44,062 |
| Utilities | 10,052 |
| Delivery and auto | 15,344 |
| Office expense | 15,087 |
| Payroll and other taxes | 19,295 |
| Repairs and maintenance | 4,997 |
| Insurance | 8,126 |
| Depreciation and amortization | 31,514 |
| Interest expense | 13,166 |
| Other | <u>25,260</u> |
| Total operating expenses | <u>704,116</u> |
| Operating loss | (124,791) |
| Other income | <u>1,802</u> |
| Loss before income tax expense | (122,989) |
| State income tax expense | <u>4,700</u> |
| Net loss attributable to common stockholders | <u>\$ (127,689)</u> |
| Loss per share-basic and diluted | <u>\$ (0.0138)</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 SIX MONTHS ENDED JUNE 30, 2018**

Cash flows from operating activities:

Net loss \$ (127,689)

Adjustments to reconcile net loss to net cash
provided by operating activities:

Depreciation and amortization 31,514

Changes in assets and liabilities net of
effects of dispositions:

Decrease in accounts receivable 7,442

Decrease in prepaid expenses and other assets 41,595

Increase in inventories (16,299)

Increase in accounts payable and accrued expenses 21,083

Total adjustments 85,335

Net cash used in operating activities (42,354)

Cash flows from investing activities:

Increase in investments (127,305)

Proceeds from partnership distributions 3,838

Purchase of property and equipment (5,435)

Net cash used in investing activities (128,902)

Cash flows from financing activities:

Decrease in long-term debt (13,913)

Net decrease in cash (185,169)

Cash - beginning 1,441,069

Cash - ending \$ 1,255,900

Supplemental information:

Cash paid during the period for:

Interest \$ 13,166

Income taxes \$ 9,459

See Notes to Consolidated Financial Statements

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2018**

1. General

The accompanying financial statements, footnotes and discussions should be read in conjunction with the financial statements, related footnotes and discussions contained in the Company's Annual Report for the year ended December 31, 2017. The financial information contained herein is unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial information have been included. All adjustments are of a normal recurring nature.

The results of operations for the six months ended June 30, 2018, are not necessarily indicative of the results to be expected for the full year.

2. 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.

Property and equipment are recorded at cost. Depreciation is provided for by the straight-line method over the estimated useful lives of the property and equipment.

Inventories consisting of raw materials, work in process and finished goods are valued at the lower of cost or market. Cost is determined using the first-in, first-out method.

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.

Earnings (loss) per share ("EPS") is computed by dividing net income or loss by the weighted-average number of common shares outstanding for the period. Both basic and diluted net income (loss) per share are the same, because the effect of the Company's outstanding warrants and options is anti-dilutive.

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 2014, 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.

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2018**

3. Investments

The Company classifies its existing marketable equity securities as available-for-sale in accordance with the provisions of Statement of Financial Accounting Standards, "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 or loss. Gains or losses on securities sold are based on the specific identification method.

4. 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.

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. Real Property

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 wants 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 financed 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.

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2018**

7. Risks Relating to the Company

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.

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.

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2018**

7. Risks Relating to the Company (Continued)

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.

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, 2016, 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.

Holder 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.

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2018**

7. Risks Relating to the Company (Continued)

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 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.

8. Dividend Policy

The Company has never declared or paid any cash dividends on the Common Stock. The Company intends to retain any future earnings to fund growth and does not anticipate paying any cash dividends in the foreseeable future. Any future determination as to the Company’s dividend policy will be made at the discretion of the Company’s Board and will depend on a number of factors, including the Company’s future earnings, capital requirements, financial condition and future prospects, restrictions on dividend payments pursuant to applicable law and such other factors as the Board may deem relevant.