

# PASTERNAK & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors  
Titanium Holdings Group, Inc.

We have compiled the accompanying consolidated balance sheet of Titanium Holdings Group, Inc. and Subsidiary as of September 30, 2011, and the related consolidated statements of operations and cash flows for the nine months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying June 30, 2011 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2010, and the related consolidated statements of operations, accumulated deficit, and cash flows for the year then ended (not presented herein); and in our report dated April 1, 2011, we expressed an unqualified opinion on those consolidated financial statements.

*Pasternack & Company LLP*

November 21, 2011  
Great Neck, NY

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEET**  
**SEPTEMBER 30, 2011**

**ASSETS**

<b>Current assets</b>	
Cash	\$ 2,010,896
Accounts receivable, net of allowance for doubtful accounts of \$14,071	397,579
Inventory	583,966
Prepaid expenses and other current assets	<u>123,731</u>
<b>Total current assets</b>	<b>3,116,172</b>
Fixed assets-less accumulated depreciation and amortization of \$788,190	220,606
Marketable securities-available for sale	95,175
Notes receivable-related party	2,227
Other investments	344,123
Goodwill	<u>100,192</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,878,495</u></b>

**LIABILITIES & STOCKHOLDERS' EQUITY**

<b>Current Liabilities</b>	
Accounts payable and accrued expenses	\$ 344,705
Income taxes payable	<u>12,404</u>
<b>Total current liabilities</b>	<b><u>357,109</u></b>
<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>
<b>Stockholders' equity</b>	
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	(666,227)
Accumulated deficit	<u>(7,068,148)</u>
Total stockholders' equity	<u>3,521,386</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$ 3,878,495</u></b>

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

Net Sales	\$ 5,898,730
Cost of sales	<u>4,593,006</u>
Gross profit	<u>1,305,724</u>
Operating expenses:	
Salaries	819,917
Rent	71,258
Marketing	50,841
Professional fees	73,278
Utilities	45,868
Delivery and auto	85,354
Office expense	43,430
Payroll and other taxes	29,373
Repairs and maintenance	11,018
Employee benefits	12,562
Insurance	10,873
Depreciation and amortization	24,529
Other	<u>23,267</u>
Total operating expenses	<u>1,301,568</u>
Operating profit	4,156
Other income (loss)- Note 3	<u>(384,380)</u>
Loss before income tax expense	(380,224)
State income tax expense	<u>12,000</u>
Net loss attributable to common stockholders	<u>\$ (392,224)</u>
Loss per share-basic and diluted	<u>\$ (0.042)</u>
Weighted average number of shares outstanding	<u>9,228,997</u>

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

**Cash flows from operating activities:**

Net loss \$ (392,224)

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

Depreciation and amortization	24,529
Loss on sale of marketable securities	403,508
Changes in assets and liabilities net of effects of dispositions:	
Increase in accounts receivable	(31,476)
Increase in prepaid expenses and taxes	(53,856)
Decrease in inventories	20,819
Increase in accounts payable and accrued expenses	<u>189,341</u>

Total adjustments 552,865

Net cash provided by operating activities 160,641

**Cash flows from investing activities:**

Proceeds from notes receivable and accrued interest	765
Proceeds from partnership distributions	42,929
Proceeds from the sale of marketable securities	112,916
Purchase of property and equipment	<u>(110,016)</u>

Net cash provided by investing activities 46,594

Net increase in cash 207,235

Cash - beginning 1,803,661

Cash - ending \$ 2,010,896

**Supplemental information:**

Cash paid during the period for:

Interest	<u>\$ -</u>
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Income taxes	<u><u>\$ 17,500</u></u>
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See Notes to Consolidated Financial Statements

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

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, 2010. 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 nine months ended September 30, 2011, 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.

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

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 (“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 the first quarter 2011, the Company sold 70,000 shares of its total investment of 261,625 shares in Ivax Diagnostics, Inc. The Company sold the shares for an aggregate of \$89,656. The total basis in the 70,000 shares was \$341,600 which generated a loss of \$251,944.

During the second quarter 2011, the Company sold 35,600 shares of its total investment of 191,625 shares in Ivax Diagnostics, Inc. The Company sold the shares for an aggregate of \$23,260. The total basis in the 35,600 shares was \$173,728 which generated a loss of \$150,468. At September 30, 2011, the Company still owned 156,025 shares.

4. Contracts

During June 2010, 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 June 15, 2010. 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 8% from his original December 2000 contract.

During June 2010, the Compensation Committee, and the independent members of the Board, unanimously voted to renew a consulting agreement with Mr. Steven Etra, effective June 15, 2010. 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 contract is that Mr. Etras’ new compensation calls for an increase of approximately 21%.

5. Recent Accounting Pronouncements

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”.

**TITANIUM HOLDINGS GROUP, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

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.

6. 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.

The Chairman of the Board, Steven Etra, directly owns 3,950,292 shares of issued and outstanding common stock of the Company and indirectly controls an additional 842,318 of the shares. This total of 4,792,610 outstanding shares of common stock gives Mr. Etra control of approximately 52% of all outstanding, voting common stock issued.