

INITIO, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
Years Ended April 30, 2011 and 2010

Independent Auditor's Report

The Board of Directors and Stockholders
Initio, Inc. and Subsidiary
Rochelle Park, New Jersey

We have audited the accompanying consolidated balance sheets of Initio, Inc. and Subsidiary (the "Company") as of April 30, 2011 and 2010, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Initio, Inc. and Subsidiary as of April 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

New York, New York
July 21, 2011

Rogoff + Company P.C.

INITIO, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

April 30, 2011 and 2010

	2011	2010
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 1,573,688	\$ 697,802
TOTAL CURRENT ASSETS	1,573,688	697,802
VEHICLES AND EQUIPMENT	13,606	17,239
OTHER ASSETS		
Marketable securities	2,624,381	1,774,360
Loans to stockholder	-	-
Other assets	30,843	36,270
	\$ 4,242,518	\$ 2,525,671
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 7,000	\$ 7,000
STOCKHOLDERS' EQUITY		
Common Stock, \$.01 par value, 10,000,000 shares authorized; 6,346,606 and 6,661,296 issued and outstanding as of April 30, 2011 and 2010, respectively	63,466	66,613
Additional paid in capital	9,654,912	9,636,912
Accumulated deficit	(5,269,298)	(6,722,936)
Accumulated other comprehensive loss	(213,562)	(461,918)
TOTAL STOCKHOLDERS' EQUITY	4,235,518	2,518,671
	\$ 4,242,518	\$ 2,525,671

The accompanying notes are an integral part of these financial statements.

INITIO, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)

Years Ended April 30, 2011 and 2010

	2011	2010
Revenues		
Interest and dividends	\$ 108,312	\$ 126,111
Income (loss) on the sale of marketable securities	1,556,659	(92,034)
Consulting income	129,000	85,000
Other	(5,269)	(27,649)
	<u>1,788,702</u>	<u>91,428</u>
Expenses		
General and administrative	185,019	169,011
Depreciation and amortization	3,633	6,822
Interest	81	25
	<u>188,733</u>	<u>175,858</u>
Net income (loss)	<u>1,599,969</u>	<u>(84,430)</u>
Net loss per share - basic and diluted	<u>\$ 0.24</u>	<u>\$ (0.01)</u>
Weighted average common shares	<u>6,588,012</u>	<u>6,876,694</u>
Comprehensive Income (Loss):		
Net income (loss)	\$ 1,599,969	\$ (84,430)
Unrealized gains (losses) on marketable securities	482,343	(1,006,730)
Comprehensive income (loss)	<u>\$ 2,082,312</u>	<u>\$ (1,091,160)</u>

The accompanying notes are an integral part of these financial statements.

INITIO, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended April 30, 2011 and 2010

	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, April 30, 2009	6,901,725	\$ 69,017	\$ 9,617,746	\$ (6,561,078)	\$ (944,261)	\$ 2,181,424
(Retirement) issuance of shares	(240,429)	(2,404)	19,166	(77,428)	-	(60,666)
Unrealized gains on marketable securities					482,343	482,343
Net (loss)	-	-	-	(84,430)	-	(84,430)
Balance, April 30, 2010	6,661,296	66,613	9,636,912	(6,722,936)	(461,918)	2,518,671
(Re-purchase) issuance of shares	(314,690)	(3,147)	18,000	(146,331)	-	(131,478)
Unrealized gains on marketable securities					248,356	248,356
Net income				1,599,969	-	1,599,969
Balance, April 30, 2011	6,346,606	\$ 63,466	\$ 9,654,912	\$ (5,269,298)	\$ (213,562)	\$ 4,235,518

The accompanying notes are an integral part of these financial statements.

INITIO, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended April 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ 1,599,969	\$ (84,430)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,633	6,822
(Income) loss on sale of marketable securities	(1,556,659)	92,034
Non-cash compensation due to issuance of stock	18,000	19,166
Changes in operating assets and liabilities:		
Other assets	5,427	(13,827)
Accounts payable and accrued expenses	-	500
Net cash provided by operating activities	70,370	20,265
Cash flows from investing activities:		
Net proceeds from sales of marketable securities	4,435,409	2,169,581
Purchases of marketable securities	(3,480,415)	(2,261,011)
Net cash provided by (used in) investing activities	954,994	(91,430)
Cash flows from financing activities:		
Re-purchase of common stock	(149,478)	-
Loan to stockholder	-	75,000
Net cash (used in) provided by financing activities	(149,478)	75,000
Net increase in cash	875,886	3,835
Cash at the beginning of the year	697,802	693,967
Cash at the end of the year	\$ 1,573,688	\$ 697,802
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ -	\$ -
Taxes	\$ -	\$ 1,625
Non-cash investing and financing activities:		
Increase in fair value of available-for-sale securities	\$ 248,357	\$ 482,343
Vesting of additional shares of stock	\$ 18,000	\$ 19,166

The accompanying notes are an integral part of these financial statements.

INITIO, INC. AND SUBSIDIARY

Notes To Consolidated Financial Statements

Years Ended April 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company is primarily engaged in the provision of management and consulting services.

Basis of Presentation

The consolidated financial statements include the accounts of Initio, Inc. and its wholly owned subsidiary Initio Consulting Corp. All material intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Marketable Securities

The Company classifies its marketable securities as available for sale, as they are not acquired with the intent of selling within hours or days, and reports them at fair value. Fair value is 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. See Note 5 for a discussion of fair value measurements,

Purchases and sales of securities are recorded on a trade-date basis. Realized gains and losses, calculated based upon specific identification of shares sold, are included in the determination of net income (loss). Unrealized gains and losses are included as a component of other comprehensive income (loss) unless there is a loss that is other than temporary in which case it is recorded in net income (loss). Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Long-lived Assets

Vehicles and equipment are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

The Company's policy is to record long-lived assets at cost, amortizing these costs over the expected useful lives of the related assets. Long-lived assets are reviewed on a quarterly and annual basis for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be reasonable. Assets are evaluated for continuing value and proper useful lives by comparison to expected future cash flows. Impairments if any, are recognized in the consolidated statements of operations and comprehensive income (loss) in the period identified. There were no impairments recognized during the years ended April 30, 2010 and 2009.

Stock Based Compensation

The Company measures the compensation cost from stock-based payment transactions with employees at the grant-date fair value of the equity instruments issued and recognizes it over the requisite service period.

Earnings Per Common Share

Basic earnings per common share, as well as diluted earnings per common share have been computed based upon the weighted average number of outstanding shares of the Company's common stock.

INITIO, INC. AND SUBSIDIARY

Notes To Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Deferred income taxes are provided for the temporary differences, primarily net operating loss carry-forwards, between the financial reporting basis and the tax basis of the Company's assets and liabilities and are measured by applying estimated tax rates to taxable years in which such differences are expected to reverse. A valuation allowance has been provided to reduce the net carrying value to an amount that is more likely than not to be realized.

The Company adopted the provisions of FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes" (FASB ASC 740-10), on January 1, 2009. As such, the Company records a liability for uncertain tax positions when it is probable that a loss has occurred and the amount can be reasonably estimated. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, new authoritative rulings, and its operating characteristics to comply with its status as a corporation. Management has determined that it is more likely than not that any of the Company's tax positions will be sustained upon examination and therefore has not recognized any taxes for uncertain tax positions.

NOTE 2 - VEHICLES AND EQUIPMENT

Vehicles and equipment as of April 30, 2011 and 2010 follow:

	<u>2011</u>	<u>2010</u>
Vehicles and equipment	\$ 137,943	\$ 137,943
Accumulated depreciation	(124,337)	(120,704)
	<u>\$ 13,606</u>	<u>\$ 17,239</u>

NOTE 3 - MARKETABLE SECURITIES

The Company's available-for-sale, marketable securities as of April 30, 2011 and 2010 are as follows:

	<u>April 30, 2011</u>		
	<u>Amortized</u>	<u>Gross</u>	<u>Fair</u>
	<u>Cost</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Losses</u>	
Marketable equity securities	<u>\$ 2,837,943</u>	<u>\$ (213,562)</u>	<u>\$ 2,624,381</u>
	<u>April 30, 2010</u>		
	<u>Amortized</u>	<u>Gross</u>	<u>Fair</u>
	<u>Cost</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Losses</u>	
Marketable equity securities	<u>\$ 2,236,278</u>	<u>\$ (461,918)</u>	<u>\$ 1,774,360</u>

INITIO, INC. AND SUBSIDIARY

Notes To Financial Statements

NOTE 5 - FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board (FASB) Accounting Standards Codification provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

Level 2

Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

All of the Company's marketable securities use Level 1 inputs in the valuation technique to establish fair value. There have been no changes in the methodologies used at April 30, 2010 and 2009.

The carrying amounts reported in the consolidated balance sheets for cash, accounts payable and accrued expenses approximate their fair value due to their short-term maturities.

INITIO, INC. AND SUBSIDIARY

Notes To Financial Statements

NOTE 6 - INCOME TAXES

Deferred tax assets as of April 30, 2011 and 2010 are comprised primarily of the following:

	<u>2011</u>	<u>2010</u>
Tax benefit from net operating loss carry-forward	\$ 1,734,000	\$ 2,176,000
Valuation allowance	<u>(1,734,000)</u>	<u>(2,176,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

As of April 30, 2011 the Company had federal net operating loss carry-forwards of approximately \$5,100,000. Such losses can be utilized against future taxable income, and expire between 2012 and 2030. Under section 382 of the Internal Revenue Code, these losses may be limited due to ownership changes. The Company has recorded a valuation allowance to reduce its net deferred tax asset to an amount that is more likely than not to be realized in future years.

NOTE 7 - STOCKHOLDERS' EQUITY

The Company entered into an agreement with one of its directors to issue 25,000 shares of stock, effective January 1, 2008. Commencing on that date, the shares of stock will vest over a two year period, resulting in a compensation cost of \$1,750 per year. The fair value of the grant was estimated to be \$0.15 per share

The Company entered into an agreement with the Co-Chief Executive Officers whereas the Company issued each of the executive officers 500,000 shares of stock, effective January 1, 2007. Commencing on that date the 1,000,000 shares of common stock will vest over a five-year period, resulting in a compensation cost of \$18,000 per year. The fair value of the grant was estimated to be \$0.10 per share.

NOTE 8 - RELATED PARTY TRANSACTIONS

During the year ended April 30, 2009, the Company loaned \$75,000 to a stockholder. Interest was being charged at 5% per annum and was payable on demand. In March of 2010, the Company purchased 240,429 shares of stock back from the stockholder in consideration of the cancellation of the indebtedness plus interest.

NOTE 9 - COMMITMENTS

The Company leases its administrative office on a month to month basis at an annual rental expense of \$35,000.

NOTE 10 - RISKS AND UNCERTAINTIES

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.