INITIO, INC. AND SUBSIDIARY

FINANCIAL STATEMENTS

APRIL 30, 2006 AND 2005

INITIO, INC. AND SUBSIDIARY

April 30, 2006 and 2005

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

We have reviewed the accompanying consolidated balance sheet of Initio, Inc. and Subsidiary (the "Company") as of April 30, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of the Company.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted accounting standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The 2005 financial statements of the Company were reviewed by other accountants, whose report dated October 14, 2005, stated that they were not aware of any material modifications that should be made to those statements in order for them to be in conformity with generally accepted accounting principles.

August 15, 2006

Marsillo + Associates, LLC

INITIO, INC. AND SUBSIDIARY
Consolidated Balance Sheets
April 30, 2006 and 2005

	2006	2005
ASSETS		
Cash	$ 1,004,448	$ 265,155
Marketable securities	776,366	576,453
Fixed assets, net	1,379,152	1,446,592
Convertible debenture	-	1,000,000
Other assets	12,159	16,024
Total assets	$ 3,172,125	$ 3,304,224
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ -	$ 84,509
Mortgage payable	435,998	509,985
Total liabilities	435,998	594,494
Commitments and contingencies		
Stockholders' Equity:		
Common Stock, $ .01 par value, 10,000,000 shares authorized; 5,876,725 issued and outstanding	58,767	58,767
Additional paid in capital	9,573,412	9,573,412
Accumulated deficit	(6,712,034)	(6,107,179)
Accumulated other comprehensive loss	(184,018)	(815,270)
Total stockholders' equity	2,736,127	2,709,730
Total liabilities and stockholders' equity	$ 3,172,125	$ 3,304,224

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

INITIO, INC. AND SUBSIDIARY
Consolidated Statements of Operations and Comprehensive Income

	Years Ended April 30, 2006	2005
Revenues:		
Interest and dividends	$ 10,318	$ 51,289
Gain (loss) on the sale of marketable securities	(458,829)	103,984
Net (loss) on settlement of AMS litigation	(25,000)	-
Consulting income	43,923	22,106
Other	12,269	6,327
	(417,319)	183,706
Expenses:		
General and administrative	88,631	245,691
Depreciation and amortization	70,287	72,832
Interest	28,618	43,027
	187,536	361,550
Net loss	$ (604,855)	$ (177,844)
Net loss per share - Basic and diluted	$ (0.10)	$ (0.03)
Weighted average common shares	5,876,725	5,873,766
Comprehensive Income (loss):		
Net loss	$ (604,855)	$ (177,844)
Unrealized Gains on marketable securities	631,252	190,506
Comprehensive Income	$ 26,397	$ 12,662

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

INITIO, INC. AND SUBSIDIARY
Consolidated Statement of Stockholders' Equity

	Common Stock		Additional Paid In	Accumulated	Treasury	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Deficit	Stock	Loss	Equity
Balance April 30, 2004, as originally reported	5,664,296	56,643	10,153,273	(5,929,335)	(577,737)	(1,005,776)	2,697,068
Adjustment to correct error (note 11)	92,429	924	(578,661)		577,737		-
Balance April 30, 2004, as restated	5,756,725	57,567	9,574,612	(5,929,335)	-	(1,005,776)	2,697,068
Issuance of shares pursuant to value support rights agreement	120,000	1,200	(1,200)				-
Unrealized gains on marketable securities	-	-	-	-	-	190,506	190,506
Net loss	-	-	-	(177,844)	-	-	(177,844)
Balance April 30, 2005	5,876,725	58,767	9,573,412	(6,107,179)	-	(815,270)	2,709,730
Unrealized gains on marketable securities						631,252	631,252
Net loss				(604,855)			(604,855)
Balance April 30, 2006	$ 5,876,725	$ 58,767	$ 9,573,412	$ (6,712,034)	$ -	$ (184,018)	$ 2,736,127

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

INITIO, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows

	Years Ended April 30, 2006	Years Ended April 30, 2005
Cash flows from operating activities:		
Net loss	$ (604,855)	$ (177,844)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	70,287	72,832
Net (loss) on settlement of AMS litigation	25,000	-
Bad debt expense on notes receivable	-	5,801
(Gain) loss on sale of marketable securities	458,829	(103,984)
Changes in operating assets and liabilities:		
Other assets	3,865	45,051
Accounts payable and accrued expenses	(84,509)	15,169
Net cash used in operating activities	(131,383)	(142,975)
Cash flows from investing activities:		
Net proceeds from sales of marketable securities	923,237	1,310,596
Purchases of marketable securities	(950,727)	(1,064,321)
Purchases of fixed assets	(2,847)	(2,036)
(Increase) decrease in notes and interest receivable	-	780
Net cash provided by (used in) investing activities	(30,337)	245,019
Cash flows from financing activities:		
Proceeds from settlement of AMS litigation	975,000	-
Reduction of mortgage payable	(73,987)	(73,388)
Net cash provided by (used in) financing activities	901,013	(73,388)
Net increase in cash	739,293	28,656
Cash at the beginning of the year	265,155	236,499
Cash at the end of the year	$ 1,004,448	$ 265,155
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ 28,618	$ 43,027
Taxes	$ 682	$ 681
Non-cash investing and financing activities:		
(Increase) decrease in fair value of available-for-sale securities	$ (631,252)	$ (190,506)

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

1. Summary of Significant Accounting Policies

Nature of Business

In past years Initio, Inc., through its wholly owned subsidiary, Initio Consulting Corp. (formerly called Deerskin Trading Post, Inc. “Deerskin”), primarily marketed leather goods by way of the Deerskin catalog and gifts and house wares through its’ Joan Cook catalog.

In May 1999, the Company sold materially all of the assets of its Deerskin operation. Since May 1999, the Company began the process of identifying new business opportunities including, but not limited to, making an appropriate acquisition.

During the fiscal year ended April 30, 2002 the Company began selling management and consulting services.

Basis of Presentation

The consolidated financial statements include the accounts of the Initio Inc. and its wholly owned subsidiary Initio Consulting Corp. All material inter-company 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.

Reclassifications

Certain items in the prior year’s financial statements have been reclassified to conform to the fiscal 2006 presentation.

Marketable Securities

The Company classifies its marketable securities as either available for sale or held to maturity in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115). Available for sale securities are presented at their estimated fair market value, which has been determined based upon security market quotes. 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). Debt securities classified as held to maturity are reported at amortized cost.

Fair Value of Financial Instruments

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. The amounts presented for the convertible debenture and mortgage payable also approximate fair value.

1. Summary of Significant Accounting Policies - (continued)

Fixed Assets

Fixed assets are stated at cost net of accumulated depreciation and amortization. Depreciation and amortization is computed by the straight-line method over the estimated useful life of the assets.

Long-Lived Assets

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.

Stock Based Compensation

The Company continues to account for its' stock based compensation of employees, using the intrinsic value approach, described in APB No. 25. The impact on net income and income per share if the fair value method of accounting for stock based compensation had been adopted would have been negligible. Additional pro forma disclosures as required under SFAS No. 123, Accounting for Stock-Based Compensation, are presented within these Notes to Consolidated Financial Statements.

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 actually outstanding shares of the Company's common stock.

Income Taxes

Income taxes have been provided using the liability method. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured by applying estimated tax rates and laws 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.

Recently Issued Accounting Standards

- In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. This Statement shall be effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of this statement to have a significant impact on the statement of financial position.

1. Summary of Significant Accounting Policies - (continued)

Recently Issued Accounting Standards - (continued)

- In December 2003, the FASB issued FASB Interpretation No. 46(R) ("FIN 46(R)"), "Consolidation of Variable Interest Entities." FIN 46(R) addresses consolidation by business enterprises of variable interest entities. The objective of this interpretation is to improve financial reporting by enterprises involved with variable interest entities. The requirements of FIN 46(R) are effective for financial statements of interim or annual periods ending after December 15, 2003. The Company does not expect the adoption of this statement to have a significant impact on the statement of financial position.

2. Marketable Securities

The Company has determined that all its equity and debt marketable securities are available for sale. Marketable securities classified as current assets at April 30, 2006 and 2005 are as follows:

	April 30, 2006		
	Amortized Costs	Gross Unrealized Losses	Fair Value
Marketable equity securities	$ 960,384	$ (184,018)	$776,366
Corporate bonds and debt	-	-	-
	$ 960,384	$ (184,018)	$776,366

	April 30, 2005		
	Amortized Costs	Gross Unrealized Losses	Fair Value
Marketable equity securities	$877,578	$ (301,125)	$576,453
Corporate bonds and debt	514,145	(514,145)	-
	$1,391,723	$(815,270)	$576,453

3. Notes and Interest Receivable

a. The Company holds a note receivable from Celesq, Inc. with a face value of $326,667. As of April 30, 2005, this note has been deemed uncollectible and has been written down to $0.

4. Mortgage Payable

In 1995, the Company borrowed $1,000,000, of which approximately $436,000 and $510,000 was outstanding at April 30, 2006 and 2005, respectively. The loan is secured by the Company's Carson City property, is payable in monthly installments, and currently bears interest at the rate of 7.372%, subject to adjustment in the future, and is due in 2010. Principal payments approximate $60,000 per annum with a balloon payment in the final year. Refer to footnote 11 – Subsequent event.

5. Fixed Assets

Fixed assets are recorded at cost and depreciated, using the straight-line method over their estimated useful lives, which generally approximates 3 to 10 years for vehicles and equipment and 40 years for buildings.

	April 30,	
	2006	2005
Building and improvements	$2,075,244	$2,075,244
Vehicles and equipment	153,856	151,009
Less: accumulated depreciation	(849,948)	(779,661)
Net value	$1,379,152	$1,446,592

6. Convertible Debenture

In April 1999, the Company entered into an agreement with America's Shopping Mall, Inc. (formerly Advance Medical Sciences, Inc.) ("ASM") for the sale of materially all of the assets of its Deerskin operations, which at April 30, 1999 were categorized as a discontinued operation. In May 1999, when the transaction closed, the Company received approximately $552,000 in cash, a $3,400,000 convertible debenture of ASM and the discharge of $2,000,000 of the Company's subordinated convertible debentures payable, thereby reducing the principal balance of $3,500,000 to $1,500,000, resulting in a gain before income taxes of approximately $ 2,124,000.

As of April 30, 2005, only $400,000 in principal of the convertible debentures receivable had been collected. The remaining balance of $3,000,000 is in default. In September 2001, the Company was able to gain possession of the customer list, and other intangible assets of The Deerskin and Joan Cook Catalogs, pursuant to its secured interest in these assets. In the year ended April 30, 2001, the Company recorded a $2,000,000 valuation allowance (before income tax benefit) on the remaining $3,000,000 in debentures receivable. Refer to footnote 10 – legal proceedings.

7. Income Taxes

Tax deferred assets are comprised of the following:

	For the Year Ended April 30,	
	2006	2005
Net operating loss carry-forward	$2 ,113,842	$ 2,113,842
Valuation allowance	(2,113,842)	(2,113,842)
	$ -	$ -

At April 30, 2006 the Company had Federal net operating loss carry-forwards of approximately $7,100,000. Such losses can be utilized against future taxable income, and expire between 2016 and 2026. 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.

8. Stockholders' Equity

<u>Stock Option Plans</u>

The Company has a stock option plan, the 1996 Stock Option Plan ("1996 Plan"). Under the Plan options to buy the Company's common stock have been granted to key employees and/or

8. Stockholders' Equity (continued)

Under the 1996 plan the Company may issue options to purchase up to 500,000 shares of the Company's common stock, may be issued pursuant to the 1996 Plan. Under the 1996 Plan the Company may award either Incentive Stock Options or Non Qualified Stock Options. The terms for the plan may not exceed ten years, while vesting is either 20 % annually, or as the Company's Board of Directors provides. Exercise prices approximated the market price at date of awards for the Company's stock, except in the case of award to holders of more than 10 % of the Company's stock for which the Company's Board of Directors sets the exercise price.

There were no options granted in the years ended April 30, 2006 and 2005. The following table illustrates the Company's stock option balances as of, and during the years ended April 30, 2006 and 2005:

	Shares Underlying Options	Weighted Average Exercise Price
Outstanding as of May 1, 2004	10,000	$ 1.94
Granted	-	-
Canceled	-	-
Exercised	-	-
Outstanding as of April 30, 2005	10,000	1.94
Granted	-	-
Canceled	10,000	-
Exercised	-	-
Outstanding as of April 30, 2006	-	

Had compensation costs for the Company's option plan been determined in accordance with SFAS 123, the Company's net loss and loss per share would have been increased to the pro forma amounts indicated below:

		Years Ended April 30,	
		2006	2005
Net Loss:	As reported	$ 604,855	$ 177,844
	Pro forma	$ 604,855	$ 177,844
Net loss per share:			
Basic and diluted	As reported	$ (0.10)	$ (0.03)
Basic and diluted	Pro forma	$ (0.10)	$ (0.03)

The foregoing disclosures have been computed using the Black-Scholes option pricing model with the following weighted average assumptions.

	Years Ended April 30,	
	2006	2005
Risk free interest	5.63%	5.63%
Expected option lives	4 years	4 years
Expected volatility	50%	50%
Expected divided yield	0%	0%

8. Stockholders' Equity (continued)

Compensation Agreement

The Company entered into an agreement with the Co-Chief Executive Officers whereas the Company granted each of the executive officers 50,000 shares of stock in January 2004 as compensation for the period ending December 31, 2003. Commencing January 1, 2004, 250,000 shares of common stock will vest over a 30 month period as additional compensation to the Co-Chief Executive Officers.

9. Commitments and Contingencies

Lease Agreements

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

Legal Proceedings

The Company has filed claims against their former legal counsel who represented the Company in their sale of its Deerskin operations to ASM in May 1999 (see Note 5). The Company alleged that legal counsel was negligent in their representation of the Company, in the aforementioned sale. The Company has estimated the recovery with respect to this litigation arising out of the Convertible Debenture to be $ 1,000,000.

In April 2006 a settlement agreement was reached wherein the Company received an award of $ 1,150,000. After incurring $ 175,000 in legal fees, the Company received a net cash settlement of $ 975,000. For financial statement purposes, the Company recorded a net loss on this transaction of $ 25,000, representing the difference between the net cash settlement and the carrying value of the debenture.

Company Reporting Status

In May 2003, the Company's Board of Directors approved the termination of the Company's status as a reporting company with the United States Securities and Exchange Commission.

10. Subsequent event

On August 15, 2006, the Company sold its real property in Carson City, Nevada for $ 1,825,000, resulting in a net gain of approximately $ 360,000 on the sale. In connection with the sale, the Company received a cash payment of $ 1,000,000 and an $ 825,000 purchase money mortgage from the purchaser. The Company utilized approximately $ 408,000 of the cash proceeds to satisfy the previously existing first mortgage. The purchase money mortgage has a term of 48 months and bears interest at the rate of 7.5% per annum, payable monthly. Under the terms of the mortgage, a principal payment of $ 375,000 is due on the 24th month and the balance of $ 450,000 is due on the 48th month. The principals of the purchaser personally guarantee the mortgage.

11. Correction of error

During the year ended April 30, 2006 it was discovered that there were several errors in the presentation of certain components of stockholders' equity in the 2005 financial statements. First, the total issued and outstanding shares of common stock presented as of April 30, 2005 should have been stated as 5,876,725, as confirmed by the Company's registrar agent. Included in that total are 120,000 shares issued during the year ended April 30, 2005 pursuant to the Company's Value Support Rights Agreement. These 120,000 shares were not originally presented in the 2005 financial statements. Next, it was learned that the 407,571 shares of treasury stock previously reported in the 2005 financial statements had been cancelled at some time prior to May 1, 2004 and therefore should not have been presented. The Consolidated Statements of Stockholders' Equity have been restated to reflect the correct amounts of the Company's common stock, additional paid in capital and treasury stock for each period presented. Finally, basic and diluted earnings per share in the Consolidated Statements of Operations were re-computed using restated weighted average common shares as a result of the aforementioned corrections.