

Freedom Financial Group, Inc.

Accountants' Review Report and Consolidated Financial Statements

March 31, 2003

Freedom Financial Group, Inc.
March 31, 2003

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Independent Accountants' Review Report

Board of Directors
Freedom Financial Group, Inc.
Springfield, Missouri

We have reviewed the accompanying consolidated balance sheet of Freedom Financial Group, Inc. as of March 31, 2003, and the related statements of operations, stockholders' equity (deficit) and cash flows for the three months 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 financial statements is the representation of the management of Freedom Financial Group, Inc.

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 auditing 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.

As explained in *Note 7*, the Company has assigned a value of zero to certain assets receivable under two pending claims.

BKD, LLP

**Solutions
for
Success**

Springfield, Missouri
April 17, 2003

Freedom Financial Group, Inc.
Consolidated Balance Sheet
March 31, 2003

Assets

| | |
|--|---------------------|
| Cash and cash equivalents | \$ 4,621,822 |
| Finance receivables, net of allowance for credit losses of \$133,520 | 1,469,513 |
| Notes receivable | 814,348 |
| Finance receivables held for sale | 187,513 |
| Real estate held for sale | 169,000 |
| Furniture, fixtures and equipment, net | 65,856 |
| Other assets | <u>56,769</u> |
| Total assets | <u>\$ 7,384,821</u> |

Liabilities, Mandatorily Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)

Liabilities

| | |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | \$ 290,905 |
| Accrued reorganization expenses | <u>462,513</u> |

| | |
|-------------------|----------------|
| Total liabilities | <u>753,418</u> |
|-------------------|----------------|

Mandatorily Redeemable Convertible Preferred Stock, \$0.0001 par value; 9,000,000 shares authorized; 8,997,869 shares issued and outstanding

6,810,427

Stockholders' Equity (Deficit)

| | |
|---|----------------|
| Common stock, \$0.0001 par value; 19,000,000 shares authorized; 9,967,953 shares issued and outstanding | 997 |
| Retained earnings | (361,058) |
| Accumulated other comprehensive income | <u>181,037</u> |

| | |
|--------------------------------------|------------------|
| Total stockholders' equity (deficit) | <u>(179,024)</u> |
|--------------------------------------|------------------|

Total liabilities, mandatorily redeemable convertible preferred stock and stockholders' equity (deficit)

\$ 7,384,821

Freedom Financial Group, Inc.
Consolidated Statement of Operations
Three Months Ended March 31, 2003

| | |
|---|----------------------------|
| Revenues | |
| Interest income | \$ 135,421 |
| Recovery of charged-off finance receivables | 100,277 |
| Other income | <u>32,747</u> |
| Total revenues | 268,445 |
| Provision for Credit Losses | <u>1,167</u> |
| Net Revenues After Provision for Credit Losses | 267,278 |
| Operating Expenses | <u>628,336</u> |
| Loss Before Income Tax | (361,058) |
| Provision for Income Taxes | <u>—</u> |
| Net Loss | \$ <u><u>(361,058)</u></u> |
| Basic Loss Per Share | \$ <u><u>(0.04)</u></u> |
| Diluted Loss Per Share | \$ <u><u>(0.04)</u></u> |

Freedom Financial Group, Inc.
Consolidated Statement of Stockholders' Equity (Deficit)
Three Months Ended March 31, 2003

| | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|--|------------------------|------------------------|----------------------|---|---------------------|
| Balance, January 1, 2003 | 9,967,953 | \$ 997 | \$ — | \$ — | \$ <u>997</u> |
| Comprehensive income | | | | | |
| Net loss | — | — | (361,058) | — | (361,058) |
| Foreign currency translation adjustment | <u>—</u> | <u>—</u> | <u>—</u> | <u>181,037</u> | <u>181,037</u> |
| Total comprehensive income (loss) | | | | | <u>(180,021)</u> |
| Balance, March 31, 2003 | <u>9,967,953</u> | <u>\$ 997</u> | <u>\$ (361,058)</u> | <u>\$ 181,037</u> | <u>\$ (179,024)</u> |

Freedom Financial Group, Inc.
Consolidated Statement of Cash Flows
Three Months Ended March 31, 2003

Operating Activities

| | |
|--|------------------|
| Net loss | \$ (361,058) |
| Adjustments to reconcile net loss to net cash used in operating activities | |
| Depreciation | 9,359 |
| Provision for credit losses | 1,167 |
| Deferred discount income | (40,516) |
| Changes in | |
| Other assets | (7,722) |
| Accounts payable and accrued expenses | 146,558 |
| Accrued reorganization expenses | <u>(192,567)</u> |
| Net cash used in operating activities | <u>(444,779)</u> |

Investing Activities

| | |
|--|----------------|
| Purchase of finance receivables | (466,765) |
| Principal collected on finance receivables | 574,728 |
| Payments of dealer reserves | (1,450) |
| Principal collected on notes receivable | 10,349 |
| Principal collected on contracts held for sale | <u>25,514</u> |
| Net cash provided by investing activities | <u>142,376</u> |

Financing Activities

| | |
|---|------------------|
| Collection of cash settlements receivable | <u>2,273,296</u> |
| Net cash provided by financing activities | <u>2,273,296</u> |

Effect of Exchange Rate Changes on Cash 78,631

Net Increase in Cash and Cash Equivalents 2,049,524

Cash and Cash Equivalents, Beginning of Period 2,572,298

Cash and Cash Equivalents, End of Period \$ 4,621,822

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2003

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Freedom Financial Group, Inc. (“FFG”), successor by merger to Stevens Financial Group, Inc. (“SFG”) and SFG’s wholly owned subsidiaries SFC Funding Corporation (“SFC”) and SFC Automobile Receivables Trust 2000A (“SFC Trust”), and FFG’s wholly owned Canadian subsidiary, TCG - The Credit Group (“TCG”), formerly Sinclair Credit Group, Co., all of which collectively comprise a single reporting segment, the “Company.” All significant intercompany transactions have been eliminated in consolidation.

On March 19, 2001, Stevens Financial Group, Inc. filed a petition in the United States Bankruptcy Court for the District of Arizona (the “Court”) for relief under Chapter 11 of Title 11 of the United States Code (the “Code”). SFG’s Amended Plan of Reorganization dated October 30, 2001, (the “Plan” or “Plan of Reorganization”) was confirmed by order of the Court on March 14, 2002. See *Note 2*, Reorganization Under Chapter 11.

In accordance with the American Institute of Certified Public Accountants’ Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (“SOP 90-7”), the Company adopted fresh start reporting as of January 1, 2003, the effective date of the Plan of Reorganization. See *Note 3*, Fresh Start Reporting.

Nature of Operations

SFG was a consumer finance company. SFG and its subsidiaries purchased consumer finance receivables, typically at a discount and secured by automobiles or consumer goods, from a network of dealers in approximately 16 states. SFG ceased purchasing finance receivables concurrent with SFG’s bankruptcy filing on March 19, 2001. From March 19, 2001, through December 31, 2002, (the “Reorganization Period”) SFG focused its efforts on servicing its existing portfolio of finance receivables and preparing to commence operating activities after its emergence from bankruptcy.

FFG is a consumer finance company. Since its emergence from Chapter 11 on January 1, 2003, FFG has been positioning itself to re-enter the business of purchasing and servicing consumer finance receivables. These finance receivables will be originated by other entities and secured by automobiles or consumer goods. FFG intends to hold these receivables for a period of time sufficient to establish their payment history and then intends to package and sell groups of these receivables without recourse to third parties and without retaining the servicing rights thereon.

TCG is a Winnipeg, Manitoba, based consumer finance company. TCG purchases consumer finance receivables, typically at a discount, from a network of dealers in five Canadian provinces. TCG continued operating and purchasing finance receivables throughout the Reorganization Period. TCG accounts for approximately 37% of consolidated total assets as of the balance sheet date.

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2003

The makers of the finance receivables purchased by the Company typically have limited or no access to traditional sources of consumer credit due to past negative credit history, limited or unstable employment history, the inability to make sufficient down payments or other negative factors typically evaluated in the credit granting process. As a result, finance receivables acquired by the Company are generally considered to have a higher risk of default and loss than those typically held in the portfolios of community banks, credit unions and similar institutions.

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. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses and the determination of assets receivable under pending claims.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. As of March 31, 2003, cash equivalents consisted of an overnight repurchase agreement. At March 31, 2003, the Company's cash and cash equivalents not covered by federal deposit insurance totaled approximately \$4,381,000.

Finance Receivables

Finance receivables are reported at their outstanding principal balances adjusted for unamortized purchase discounts and an allowance for credit losses, which approximates fair value. Discounts on purchased finance receivables are recognized as income over the respective contractual terms using methods that approximate the interest method.

Allowance for Credit Losses

FFG maintains, through a charge to earnings, an allowance for credit losses equal to 20% of the outstanding principal balance of all finance receivables less than 91 days contractually past due plus 100% of the outstanding principal balance of all finance receivables more than 90 and less than 121 days contractually past due. Finance receivables greater than 120 days contractually past due are considered losses and charged against the allowance for credit losses.

TCG maintains, through a charge to earnings, an allowance for credit losses equal to 7.5% of the outstanding principal balance of finance receivables. Loan losses are charged against the allowance for credit losses when management believes the collectibility of a loan is unlikely.

Subsequent recoveries of finance receivables previously charged against the allowance for credit losses are credited to income when received.

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2003

The Company's management evaluates the allowance for credit losses on a regular basis. This evaluation considers the Company's historical experience, the nature and volume of the portfolio, adverse situations that may affect the ability to collect payments when due, the estimated value of underlying collateral, if any, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Because the Company's portfolio of finance receivables is primarily comprised of homogenous accounts with relatively small balances, management does not separately identify finance receivables for impairment. Management evaluates the portfolio in its entirety for impairment.

Finance Receivables Held for Sale

Finance receivables held for sale are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Real Estate Held for Sale

Real estate held for sale is carried at the lower of cost or estimated fair value.

Furniture, Fixtures and Equipment

On January 1, 2003, all of the Company's depreciable assets were restated to their respective estimated fair values. Depreciable assets acquired after January 1, 2003, are recorded at historical cost. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are 3 to 5 years for computers, office equipment and software and 5 to 7 years for furniture and fixtures.

Income Taxes

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

Earnings Per Share

Earnings per share have been computed based upon the weighted average common shares outstanding during the period.

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2003

Note 2: Reorganization Under Chapter 11

The Company's predecessor (the "Debtor") commenced operations as a consumer finance company in August 1993 as First Financial Credit Corp., a Missouri corporation, headquartered in Springfield, Missouri. During 1995 Damian and Susan Sinclair became the sole owners of First Financial Credit Corp. and changed its name to Sinclair Financial Group, Inc. In October 1999 Clarence Stevens became the sole owner and shortly thereafter changed the name to Stevens Financial Group, Inc.

The Debtor's primary source of capital was the issuance of debt obligations known as fixed rate investment certificates (the "FRI Certificates") to individual investors. The FRI Certificates bore interest at rates ranging from 7.5% to 13.95%.

The Debtor invested the capital acquired through the issuance of the FRI Certificates in subprime consumer finance receivables, primarily collateralized by automobiles, vacuums or other consumer goods, and typically acquired at a discount from various third-party dealers.

On March 19, 2001, the management of Stevens Financial Group, Inc., after determining that SFG could no longer satisfy its obligations (primarily the repayment of FRI Certificates) as they became due, filed a petition (the "Filing") in the United States Bankruptcy Court for the District of Arizona for relief under Chapter 11 of Title 11 of the United States Code. At the time of the Filing, SFG controlled three wholly owned subsidiaries: SFC Funding Corporation ("SFC"), SFC Automobile Receivables Trust 2000A ("SFC Trust") and Sinclair Credit Group Co. ("SCG"). The operations of SFG, SFC and SFC Trust were indefinitely suspended concurrent with the Filing. The operations of SCG were not significantly affected.

On May 15, 2001, Mr. Vern Schweigert (the "Trustee") was appointed Trustee of the estate created by the Filing. Shortly after his appointment, Mr. Schweigert removed the Company's then-existing management and employed Mr. Jerry Fenstermaker to act as the Company's President and Chief Executive Officer during the Reorganization Period.

The Trustee filed a Plan of Reorganization with the Court on August 31, 2001, that was subsequently amended on October 30, 2001.

The Plan provided for the formation of a Delaware corporation, Freedom Financial Group, Inc., the subsequent merger of the Debtor into FFG and the assumption of the assets and liabilities of SFC and SFC Trust by FFG.

The Plan also provided for the continuation of the Debtor's U.S. consumer loan business and the formation of a joint venture, to be called Venture Funding Resources, Inc., between FFG and Innovative Financial Resources, Inc. (a Springfield, Missouri, based consumer finance company) for the purpose of carrying out this business. See *Note 16, Subsequent Events*. The Plan envisioned FFG's initial contribution to the joint venture would be funded in part by approximately \$6.0 million of the approximately \$8.0 million the Debtor anticipated receiving in the settlement of claims it asserted against certain of the parties ("Potential Defendants") to the bankruptcy. The Potential Defendants included former owners and officers of the Debtor, companies related to the Debtor through common ownership, companies owned by a former officer of the Debtor, and other companies and professional firms with which the Debtor conducted business.

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2003

The Plan allowed for the Debtor's creditors to choose one of two options: 1) exchange their debt for shares of preferred and common stock in the reorganized company ("Participating Creditors") or 2) settle their debt for approximately \$0.04588 per dollar ("Nonparticipants"). The Plan further stipulated that all prior ownership interests in the Debtor would be cancelled. The Company's creditors voted overwhelmingly to approve the Plan and on March 14, 2002, the Trustee's Amended Plan of Reorganization dated October 30, 2001, was confirmed by order of the Court.

Approximately 35 of the Debtor's creditors elected to be Nonparticipants. The Company is to make payments totaling \$35,646 to these Nonparticipants prior to April 30, 2003, in full settlement of their claims against the Debtor. See *Note 16, Subsequent Events*.

In anticipation of settling a significant portion of the Debtors' claims against the Potential Defendants, the Trustee, with the concurrence of the Company's management, petitioned the Court for and was granted the Debtors' release from Chapter 11 effective January 1, 2003. Under the terms of certain agreements (the "Settlement Agreements") with certain of the Potential Defendants, assets totaling \$3,380,018 were transferred to the Company during the three months ended March 31, 2003. The Settlement Agreements called for the transfer of these assets to the Company and the concurrent release of the Debtors' claims against those Potential Defendants.

Shortly prior to January 1, 2003, the Debtor was merged into FFG and on January 1, 2003, FFG issued 8,997,869 shares of preferred stock to the Freedom Financial Group I Statutory Trust for the benefit of the Debtor's participating creditors, 8,997,953 shares of common stock to the Debtor's participating creditors and 970,000 shares of common stock to FFG's new management group. A portion of the shares held by management must be returned to the Company without any payment for the returned shares in the event of a manager's voluntary termination of employment prior to September 15, 2005. Concurrent with the issuance of stock FFG assumed the remaining assets and liabilities of SFC and SFC Trust. No dividends can be paid on shares of common stock until such time as all mandatorily redeemable convertible preferred stock is fully paid or converted to common stock. The full amount of repayment is approximately \$54,000,000. Holders of both common and preferred stock are allowed one vote for each shares owned.

The assets received under the Settlement Agreements of \$3,380,018 are substantially less than the \$8.0 million anticipated at the time the Plan of Reorganization was prepared. This shortfall has limited the Company's ability to meet the funding terms of the joint venture agreement. See *Note 16, Subsequent Events*.

Note 3: Fresh Start Reporting

As of January 1, 2003, the Company adopted fresh start reporting in accordance with SOP 90-7. Fresh start reporting assumes that a new reporting entity has been created and requires assets and liabilities be reported at their fair values as of the effective date.

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2003

The reorganization value, as that term is defined in SOP 90-7, of \$7,605,231 was based on many factors, assumptions, significant estimates and valuation methods, including estimating the present value of future cash flows discounted at appropriate risk-adjusted market rates, professional appraisals of real property, analysis performed by an independent Certified Valuation Analyst and other valuation techniques the Company believes are appropriate.

The following table presents the adjustments made to adopt fresh start reporting.

| | Predecessor Company January 1, 2003 | Fresh Start Adjustments | | Reorganized Company January 1, 2003 |
|--|---|-------------------------|----------------------|---|
| | | Debit | Credit | |
| Assets | | | | |
| Cash and cash equivalents | \$ 2,572,298 | \$ — | \$ — | \$ 2,572,298 |
| Cash settlements receivable | — | 2,273,295 (a) | — | 2,273,295 |
| Finance receivables, net | 1,432,282 | — | — | 1,432,282 |
| Notes receivable | 100,000 | — | — | 100,000 |
| Settlement assets receivable, net | — | 1,106,723 (a) | — | 1,106,723 |
| Furniture, fixtures and equipment | 67,452 | 6,269 (b) | — | 73,721 |
| Assets receivable under pending claims | — | — | — | — |
| Reorganization value in excess of amounts allocable to identifiable assets | — | — | — | — |
| Other assets | 46,912 | — | — | 46,912 |
| Total assets | <u>\$ 4,218,944</u> | <u>\$ 3,386,287</u> | <u>\$ —</u> | <u>\$ 7,605,231</u> |
| Liabilities and Stockholders' Equity | | | | |
| Liabilities | | | | |
| Accounts payable and accrued expenses | \$ 622,082 | \$ 519,000 (d) | \$ 35,646 (c) | \$ 138,728 |
| Accrued reorganization expenses | 655,079 | — | — | 655,079 |
| Time certificates payable | 65,104,713 | 65,104,713 (d) | — | — |
| Accrued interest payable on time certificates | 14,262,308 | 14,262,308 (d) | — | — |
| Total liabilities | <u>80,644,182</u> | <u>79,886,021</u> | <u>35,646</u> | <u>793,807</u> |
| Mandatorily redeemable convertible preferred stock | — | — | 6,810,427 (e) | 6,810,427 |
| Stockholders' Equity | | | | |
| Common stock | 5,000,000 | 5,000,000 (f) | 997 (g) | 997 |
| Retained deficit | (81,425,238) | — | 81,425,238 (f) | — |
| Total stockholders' equity | <u>(76,425,238)</u> | <u>5,000,000</u> | <u>81,426,235</u> | <u>997</u> |
| Total liabilities and stockholders' equity | <u>\$ 4,218,944</u> | <u>\$ 84,886,021</u> | <u>\$ 88,272,308</u> | <u>\$ 7,605,231</u> |

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2003

- (a) To reflect settlement agreements reached in Chapter 11.
- (b) To adjust carrying amount to fair value.
- (c) To reflect liability to Non-Participant creditors.
- (d) To reflect cancellation of liabilities satisfied with issuance of preferred and common stock.
- (e) To record issuance of preferred stock at fair value.
- (f) To eliminate stockholders' equity of predecessor company.
- (g) To record issuance of common stock at par value.

Note 4: Finance Receivables and Allowance for Credit Losses

Finance receivables consist of the following at March 31, 2003:

| | |
|-----------------------------|---------------------|
| Bulk food | \$ 778,532 |
| Equipment leases | 453,920 |
| Home appliances | 253,070 |
| Automobiles | 94,076 |
| Other | <u>150,684</u> |
| Total finance receivables | 1,730,282 |
| Less | |
| Unearned discount | 127,249 |
| Allowance for credit losses | <u>133,520</u> |
| Net finance receivables | <u>\$ 1,469,513</u> |

Approximately 99% of the above receivables are Canadian in origin.

Activity in the allowance for credit losses for the period was as follows:

| | |
|--|-------------------|
| Balance, January 1, 2003 | \$ 145,448 |
| Purchase discount allocation | 26,937 |
| Provision charged to expense | 1,167 |
| Losses charged off | (46,647) |
| Effect of foreign currency translation | <u>6,615</u> |
| Balance, March 31, 2003 | <u>\$ 133,520</u> |

Note 5: Notes Receivable

Notes receivable are comprised of the following as of March 31, 2003:

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2003

| | |
|---|-------------------|
| Note receivable from Eagle Financial Solutions, Inc., in default for failure to pay at maturity, bearing interest at 9.0%, secured by certain consumer installment loans (see <i>Note 16</i>). | \$ 45,000 |
| Note receivable, bearing interest at 7.0% per annum, payable at maturity on August 31, 2003, secured by a deed of trust on residential real estate in Dallas County, Missouri. | 469,000 |
| Note receivable, bearing interest at 9.0% interest-only, payable monthly, maturing September 25, 2003, secured by substantially all assets of Eagle Financial Solutions, Inc. (see <i>Note 16</i>). | 50,000 |
| Note receivable, bearing interest at 9.5%, payable in equal monthly installments, including interest, of \$3,600 commencing January 19, 2003, and maturing March 19, 2006, secured by a deed of trust on commercial real estate in Tucson, Arizona. | 112,912 |
| Unsecured noninterest-bearing note receivable, payable in equal annual installments of \$7,000 commencing October 31, 2003, and maturing October 31, 2007, personally guaranteed by the principals of First Financial Consultants, Inc. | 25,311 |
| Noninterest-bearing note receivable, payable in equal annual installments of \$20,000 commencing November 1, 2003, and maturing November 1, 2012, secured by a deed of trust on residential real estate in Greene County, Missouri. | <u>112,125</u> |
| | <u>\$ 814,348</u> |

Note 6: Furniture, Fixtures and Equipment

Major classifications of furniture, fixtures and equipment at March 31, 2003, are as follows:

| | |
|---------------------------------------|------------------|
| Computer and office equipment | \$ 71,972 |
| Furniture and fixtures | 26,088 |
| Software | 24,765 |
| Other | <u>12,105</u> |
| | 134,930 |
| Less accumulated depreciation | <u>69,074</u> |
| Net furniture, fixtures and equipment | <u>\$ 65,856</u> |

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2003

Note 7: Assets Receivable Under Pending Claims

The Debtor has two claims pending against other parties that have not been resolved as of March 31, 2003. After consultation with legal counsel, management has determined that significant uncertainty exists with respect to the future timing and amount of proceeds, if any, the Company will receive from these pending claims. Management has assigned a carrying value of zero to these claims in the consolidated balance sheet as of March 31, 2003.

The first of the Debtor's two pending claims is against First Financial Trust Company ("FFTC"), the guarantor of substantially all of the FRI Certificates issued by the Debtor. Under the terms of the guarantees issued by FFTC, FFTC was obligated to pay to holders of the FRI Certificates, the outstanding principal balance of the FRI Certificates in the event the Debtor failed to do so. At the time of the Debtors' bankruptcy filing, FFTC had outstanding guarantees totaling approximately \$68,000,000. Although FFTC has acknowledged its liability to honor the guarantees, FFTC has claimed to not have the capacity to honor the guarantees. Under terms of the settlement agreements between FFTC and the Company, FFTC assigned to the Company FFTC's claim against its insurance carrier BancInsure, under the terms of a directors and officers liability insurance policy.

On February 27, 2003, the Court entered a \$15,000,000 judgment in favor of the Company against the directors and officers of First Financial Trust Company resulting from the negligence and breach of fiduciary duty by FFTC's directors and officers. The Company is now pursuing this judgment and the assigned claim from FFTC against BancInsure.

The second of the Debtor's two pending claims is against Wolf Haldenstein Adler Freeman & Herz LLP, a New York-based law firm. The Debtor is negotiating the return of approximately \$800,000 the Debtor believes was fraudulently transferred to the law firm by a former owner of the Debtor.

On January 13, 2003, Freedom Financial Group Delaware, Inc. ("FFG Delaware") was incorporated in the state of Missouri as a wholly owned subsidiary of Freedom Financial Group, Inc. FFG Delaware was formed for the sole purpose of acquiring from the Debtor's estate those claims described above. These claims were assigned to FFG Delaware on January 31.

Note 8: Income Taxes

The provision for income taxes includes these components:

| | | |
|----------------------------|----|---------|
| Taxes currently payable | \$ | — |
| Deferred income taxes | | — |
| | | _____ |
| Provision for income taxes | \$ | _____ 0 |

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2003

A reconciliation of provision for income taxes at the statutory federal rate to the Company's actual provision for income tax is shown below:

| | |
|---|--------------|
| Computed at the statutory rate (34%) | \$ (122,760) |
| Increase (decrease) resulting from | |
| State income taxes | (14,126) |
| Changes in the deferred tax asset valuation allowance | 137,202 |
| Graduated tax rates and other | <u>(316)</u> |
| Actual provision for income tax | <u>\$ 0</u> |

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

| | |
|---|--------------------|
| Deferred tax assets | |
| Accrued compensated absences | \$ 12,161 |
| Accrued compensation | 9,759 |
| Net operating loss carryforwards | <u>7,196,697</u> |
| Net deferred tax asset before valuation allowance | <u>7,218,617</u> |
| Valuation allowance | |
| Beginning of period | (7,081,415) |
| Increase during the period | <u>(137,202)</u> |
| Ending balance | <u>(7,218,617)</u> |
| Net deferred tax asset | <u>\$ 0</u> |

As of March 31, 2003, the Company had approximately \$18,900,000 of net operating loss carryforwards available to offset future federal income taxes. The carryforwards expire in 2021 through 2024. These carryforwards do not include any provision for pending claims (see *Note 7*). Any amounts realized under those claims could have a material impact on the net operating loss carryforwards.

Note 9: Mandatorily Redeemable Convertible Preferred Stock

On January 1, 2003, pursuant to the Plan of Reorganization, the Company issued 8,997,869 shares of mandatorily redeemable convertible preferred stock. The stock is held by the Freedom Financial Group I Statutory Trust, a Delaware Trust, for the benefit of the Debtor's participating creditors. The Trust Supervision Committee, as elected by the Company's Board of Directors, is comprised of three Directors of the Company, Jerry Fenstermaker, Gary Lipscomb and Vern

Freedom Financial Group, Inc.
Notes to Consolidated Financial Statements
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Schweigert. The Trust shall be dissolved upon the earlier of 1) the redemption of all outstanding preferred stock or 2) the affirmative vote to do so, at any time after January 1, 2004, of at least two-thirds of the common stock of Freedom Financial Group, Inc.

The preferred stock is subject at all times to mandatory redemption by the Company. The Company shall, as Company funds allow, as determined by the Board of Directors, redeem approximately 320,000 shares each and every calendar quarter commencing June 30, 2003, until all such shares have been redeemed, at the redemption price of \$5.9852 per share. In the event sufficient funds are not available to make a scheduled redemption payment, the amount of such redemption payment not made shall be carried over to and is payable on the next scheduled redemption payment date.

In the event of any liquidation or dissolution of the Company, each holder of preferred stock shall be entitled to receive on a pro rata basis, prior and in preference to any distribution of any assets of the Company to the holders of common stock, an amount, as such funds are available, up to but not to exceed the redemption price per share.

Each share of preferred stock is convertible, at the holder's option, into one share of common stock of Freedom Financial Group, Inc. at the conversion price of \$0.01 per share. Furthermore, each share of preferred stock shall be automatically converted into one share of common stock at the conversion price of \$0.01 per share upon the occurrence of any of the following: 1) an affirmative vote to do so by 70% or more of the then outstanding shares of preferred stock, 2) a public offering and sale of the Company's common stock under the Securities Act of 1933 of at least \$54,000,000, 3) the consolidation or merger of the Company into or with any other entity resulting in the exchange of shares representing 50% or more of the outstanding shares of voting capital stock of the Company or 4) the sale or transfer by the Company of substantially all of its assets.

Note 10: Lease Commitments

The Company is obligated under certain noncancelable operating leases for premises and equipment with terms ranging up to three years. Rental expense for these leases was approximately \$14,000 for the three months ended March 31, 2003. Future minimum payments under noncancelable operating leases as of March 31, 2003, are:

| | | |
|------|----|----------------------|
| 2003 | \$ | 35,325 |
| 2004 | | <u>1,896</u> |
| | \$ | <u><u>37,221</u></u> |

Note 11: Loss Per Share

Basic earnings per share are computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed similar to basic earnings per share except the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been

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issued. Since the effect of converting the 8,997,869 shares of mandatorily redeemable preferred stock would be antidilutive, basic and diluted loss per share amounts are based on the weighted average number of common shares outstanding.

Loss per share for the three months ended March 31, 2003, was computed as follows:

| | Income | Weighted Average Shares | Per Share Amount |
|---|---------------|--|-----------------------------|
| Net income (loss) | \$ (361,058) | \$ 9,967,953 | |
| Basic and diluted earnings per share | | | |
| Income available to common stockholders | | | \$ <u>(0.04)</u> |

Note 12: Operating Expenses

The components of operating expenses for the three months ended March 31, 2003, are as follows:

| | |
|-----------------------------------|-------------------|
| Salaries and benefits | \$ 254,059 |
| Professional fees | 112,061 |
| Pending claims related legal fees | 60,066 |
| Servicing and collecting | 59,808 |
| Statutory trust administration | 35,514 |
| Bankruptcy administration | 26,217 |
| Occupancy costs | 18,730 |
| Insurance | 16,721 |
| Depreciation | 9,359 |
| Stockholder relations | 8,409 |
| Communications | 7,361 |
| Travel | 7,265 |
| Licenses and taxes | 4,361 |
| Supplies and postage | 3,767 |
| Other expenses | <u>4,638</u> |
| | <u>\$ 628,336</u> |

Note 13: Disclosures about Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments as of March 31, 2003. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a

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current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

| | Carrying Amount | Approximate Fair Value |
|---|----------------------------|---------------------------------------|
| Financial assets | | |
| Cash and cash equivalents | \$ 4,621,822 | \$ 4,621,822 |
| Finance receivables, net of allowance for credit losses | 1,469,513 | 1,469,513 |
| Notes receivables | 814,348 | 814,348 |
| Finance receivables held for sale | 187,513 | 187,513 |
| Interest receivable | 21,718 | 21,718 |
| Financial liabilities | | |
| Trade accounts payable | 113,310 | 113,310 |

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents

The carrying amount approximates fair value.

Finance Receivables

The fair value of finance receivables is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for the purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Notes Receivable

The fair value of notes receivable is estimated by discounting the future cash flows using discount rates reflecting the makers' capacity to make the scheduled payments, the value of the underlying collateral and the scheduled maturity date.

Finance Receivables Held for Sale

For homogeneous categories of finance receivables, such as mortgage loans held for sale, fair value is estimated using prices for recent sales of similar pools of loans, adjusted for differences in loan characteristics.

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Interest Receivable and Trade Accounts Payable

The carrying amount approximates fair value.

Note 14: Significant Estimates

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates. Significant estimates made by management affecting the consolidated financial statements include:

Allowance for Credit Loss

As described in *Note 1*, the Company provides an allowance for credit losses on its finance receivables. Because of limited collection efforts during the Reorganization Period, incomplete records on some accounts and the inherently high credit risk associated with many of the Company's finance receivables, actual credit losses may differ materially from the Company's estimates in the near term.

Assets Receivable Under Pending Claims

Due to uncertainty regarding the outcomes of the Company's pending claims, a zero value for these claims has been reflected in this financial statement. The amount actually collected related to these claims, if any, could vary materially in the near terms.

Net Operating Loss Carryforwards

The net operating loss carryforwards disclosed in *Note 8* do not include any provision for assets receivable under pending claims (see *Note 7*). Any amounts ultimately realized under those claims could result in a material change to the estimated net operating loss carryforwards available.

Note 15: Concentration of Credit Risk

The Company has consumer finance receivables secured by automobiles or consumer goods originally acquired from a network of dealers in approximately sixteen states and five Canadian provinces. The makers of the finance receivables purchased by the Company typically have limited or no access to traditional sources of consumer credit due to past negative credit history, limited or unstable employment history, the inability to make sufficient down payments or other

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negative factors typically evaluated in the credit granting process. As a result, finance receivables acquired by the Company are generally considered to have a higher risk of default and loss than those typically held in the portfolios of community banks, credit unions and similar institutions.

Note 16: Subsequent Events

On April 17, 2003, the Company paid substantially all amounts due to those creditors who elected to be Non-Participants under the terms of the Plan of Reorganization in full settlement of their respective claims against the Debtor.

On April 28, 2003, after consultation with legal counsel, the Company's management determined that the joint venture with Innovative Financial Resources, Inc. ("IFR") contemplated by the Plan of Reorganization had failed to become effective. Shortly thereafter the Company provided legal notice to IFR of the joint venture's termination. Concurrent with this notice, the Company initiated the termination of certain loan servicing agreements with Eagle Financial Solutions, Inc. ("EFS"), under which EFS performed account collection activities for loans owned by the Company. EFS is related to IFR through common ownership.

EFS owes the Company \$95,000 under the terms of two promissory note agreements. The Company believes the notes are adequately collateralized and that the Company would not suffer significant losses should the Company be required to foreclose on the notes.

On April 7, 2003, the Company reached an agreement to sell certain loans held for sale for approximately \$183,000. The Company expects to record a loss on the sale of approximately \$3,000.

Note 17: Future Change in Accounting Principle

The Financial Accounting Standards Board is currently evaluating generally accepted accounting principles with respect to the classification and balance sheet presentation of mandatorily redeemable preferred securities. Management believes it is possible that the Company, as a result of future changes in generally accepted accounting principles, will be required to classify its mandatorily redeemable convertible preferred stock as a liability. If the Company were required to adopt this classification as of March 31, 2003, the Company's liabilities would increase by \$6,810,428.