

Freedom Financial Group, Inc.

Accountants' Report and Consolidated Balance Sheet

January 1, 2003

Freedom Financial Group, Inc.
January 1, 2003

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Independent Accountants' Report

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

We have audited the accompanying consolidated balance sheet of Freedom Financial Group, Inc. as of January 1, 2003. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 audit provides a reasonable basis for our opinion.

As explained more fully in *Note 8*, the Company has two claims pending against other parties. Management has assigned a carrying value of zero to any assets receivable under the pending claims in the consolidated balance sheet. We were unable to examine sufficient evidence to satisfy ourselves as to the carrying value of these assets.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding assets receivable under the pending claims, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of Freedom Financial Group, Inc. as of January 1, 2003, in conformity with accounting principles generally accepted in the United States of America.

Solutions
for
Success

BKD, LLP

Springfield, Missouri
April 14, 2003

Freedom Financial Group, Inc.
Consolidated Balance Sheet
January 1, 2003

Assets

Cash and cash equivalents	\$ 2,572,298
Cash settlements receivable	2,273,295
Finance receivables, net of allowance for credit losses of \$145,448	1,432,282
Notes receivable	100,000
Settlement assets receivable, net	1,106,723
Furniture, fixtures and equipment	73,721
Other assets	<u>46,912</u>
Total assets	<u>\$ 7,605,231</u>

Liabilities, Mandatorily Redeemable Convertible Preferred Stock and Stockholders' Equity

Liabilities

Accounts payable and accrued expenses	\$ 138,728
Accrued reorganization expenses	<u>655,079</u>
Total liabilities	<u>793,807</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

Common stock, \$0.0001 par value; 19,000,000 shares authorized; 9,967,953 shares issued and outstanding 997

Total stockholders' equity 997

Total liabilities, mandatorily redeemable convertible preferred stock and stockholders' equity \$ 7,605,231

Freedom Financial Group, Inc.
Notes to Consolidated Balance Sheet
January 1, 2003

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

Basis of Presentation

The consolidated balance sheet includes 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, Sinclair Credit Group Co. (“SCG”), 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. Subsequent to January 1, 2003, the principal operations of FFG are to consist of purchasing and servicing consumer finance receivables 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. This activity may be carried out through a planned joint venture as discussed in *Note 2, Reorganization Under Chapter 11.*

SCG is a Winnipeg, Manitoba-based consumer finance company. SCG purchases consumer finance receivables, typically at a discount, from a network of dealers in five Canadian provinces. SCG continued operating and purchasing finance receivables throughout the Reorganization Period. SCG accounts for approximately 33% of consolidated total assets as of the balance sheet date.

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

Freedom Financial Group, Inc.
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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, the determination of settlement assets receivable 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 January 1, 2003, cash equivalents consisted of an overnight repurchase agreement with a commercial bank. At January 1, 2003, the Company's cash and cash equivalents not covered by federal deposit insurance totaled approximately \$2,217,000.

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.

SCG 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.

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

Freedom Financial Group, Inc.
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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.

Furniture, Fixtures and Equipment

Depreciable assets are stated at estimated fair value on January 1, 2003. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

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.

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, 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 had three wholly owned subsidiaries: SFC Funding Corporation ("SFC"), SFC Automobile Receivables Trust 2000A ("SFC Trust") and 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

Freedom Financial Group, Inc.
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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. 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.

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 ("Non-Participants"). 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 Non-Participants. The Company is to make payments totaling \$35,646 to these Non-Participants prior to April 30, 2003, in full settlement of their claims against the Debtor. This liability is reflected in the consolidated balance sheet as of January 1, 2003.

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. Settlement assets receivable totaling \$3,380,018, including cash settlements receivable, are recorded on the consolidated balance sheet as of January 1, 2003 (see *Notes 4 and 6*). These assets were transferred to the Company subsequent to January 1, 2003, under the terms of certain agreements (the "Settlement Agreements") with certain of the Potential Defendants. 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.

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

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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 stock and preferred stock are allowed one vote for each shares owned.

The assets received under the Settlement Agreements of \$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. The Company is negotiating with Innovative Financial Resources, Inc. (IFR), the proposed joint venture partner, in an effort to restructure the terms of the agreement.

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 to be reported at their fair values as of the effective date.

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.

Freedom Financial Group, Inc.
Notes to Consolidated Balance Sheet
January 1, 2003

	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	<u>46,912</u>	<u>—</u>	<u>—</u>	<u>46,912</u>
Total assets	<u>\$ 4,218,944</u>	<u>\$ 3,386,287</u>	<u>\$ 0</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	<u>14,262,308</u>	<u>14,262,308</u> (d)	<u>—</u>	<u>—</u>
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	<u>—</u>	<u>—</u>	<u>6,810,427</u> (e)	<u>6,810,427</u>
Stockholders' Equity				
Common stock	5,000,000	5,000,000 (f)	997 (g)	997
Retained deficit	<u>(81,425,238)</u>	<u>—</u>	<u>81,425,238</u> (f)	<u>—</u>
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 Balance Sheet
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- (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: Cash Settlements Receivable

Cash settlements receivable, recorded at fair value, represent cash settlement payments to be made by certain of the Potential Defendants to the Company under the terms of the Settlement Agreements. The Company received the following cash settlement payments subsequent to January 1, 2003:

January 2003	\$ 957,152
February 2003	16,143
March 2003	<u>1,300,000</u>
	<u>\$ 2,273,295</u>

Note 5: Finance Receivables

Finance receivables consist of the following at January 1, 2003:

Bulk food	\$ 758,873
Equipment leases	403,739
Home appliances	231,293
Automobiles	125,307
Other	<u>179,280</u>
Total finance receivables	1,698,492
Less	
Unearned discount	120,762
Allowance for credit losses	<u>145,448</u>
Net finance receivables	<u>\$ 1,432,282</u>

Freedom Financial Group, Inc.
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Approximately 99% of the above net receivables are Canadian in origin.

Note 6: Settlement Assets Receivable

Under the terms of the Settlement Agreements certain of the Potential Defendants have agreed to transfer the following assets to the Company, all of which the Company has recorded at estimated fair value:

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	112,125
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 9.5%, 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	118,260
Finance receivables secured by mobile homes and second deeds of trust on residential real estate in Missouri with a total outstanding principal balance of \$832,379, net of allowance for credit losses of \$619,352	213,027
Finance receivables secured by automobiles with a total outstanding principal balance of \$1,147,598, net of allowance for credit losses of \$1,147,598	—
Finance receivables secured by consumer goods with a total outstanding principal balance of \$216,684, net of allowance for credit losses of \$216,684	—
Approximately 66 acres of undeveloped real estate in Fair Grove, Missouri	99,000
Commercial real estate in Tucson, Arizona	<u>70,000</u>
Total	<u>\$ 1,106,723</u>

As of March 1, 2003, the Company has secured legal title to all of these assets.

Freedom Financial Group, Inc.
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Note 7: Furniture Fixtures and Equipment

Major classifications of furniture, fixtures and equipment at January 1, 2003, are as follows:

Computer and office equipment	\$ 27,544
Furniture and fixtures	16,417
Software	22,705
Other	<u>7,055</u>
	<u>\$ 73,721</u>

Note 8: Assets Receivable Under Pending Claims

The Debtor has two claims pending against other parties that have not been resolved as of January 1, 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 January 1, 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.

These claims were assigned to Freedom Financial Group Delaware, Inc., a wholly owned subsidiary of Freedom Financial Group, Inc., on January 31, 2003 (see *Note 15*).

Freedom Financial Group, Inc.
Notes to Consolidated Balance Sheet
January 1, 2003

Note 9: Income Taxes

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

Deferred tax assets	
Accrued compensated absences	\$ 10,787
Accrued compensation	3,879
Net operating loss carryforwards	<u>7,066,749</u>
Net deferred tax asset before valuation allowance	7,081,415
Valuation allowance	<u>(7,081,415)</u>
Net deferred tax asset	\$ <u>0</u>

As of January 1, 2003, the Company had approximately \$18,600,000 of net operating loss carryforwards available to offset future federal income taxes. The carryforwards expire in 2021 through 2023. These carryforwards do not include any provision for pending claims (see *Note 8*). Any amounts realized under those claims could have a material impact on the net operating loss carryforwards.

Note 10: 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 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

Freedom Financial Group, Inc.
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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 11: Lease Commitments

The Company is obligated under certain noncancellable operating leases for premises and equipment with terms expiring through 2004. Future minimum payments under noncancellable operating leases as of January 1, 2003, are:

	Operating Leases
2003	\$ 46,847
2004	<u>1,325</u>
	<u>\$ 48,172</u>

Note 12: Disclosures about Fair Value of Financial Instruments

In accordance with fresh start reporting (see *Note 3*), the Company's assets and liabilities are reported at fair value on the consolidated balance sheet. 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 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 reported represent values at which the respective financial instruments could be sold individually or in the aggregate.

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

Freedom Financial Group, Inc.
Notes to Consolidated Balance Sheet
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Cash and Cash Equivalents and Cash Settlements Receivable

The carrying amount approximates fair value.

Finance Receivables, Notes Receivable and Settlement Assets Receivable

Fair value is estimated for these assets based on appraisals, considering the amount of the instruments, interest rate, expected probability of payment and other factors.

Note 13: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Current vulnerabilities due to certain concentrations of credit risk are discussed in *Note 14*. Other significant estimates and concentrations include:

Allowance for Credit Losses

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 outcome of the Company's pending claims (see *Note 8*), 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 term.

Settlement Assets Receivable

Settlement assets receivable are stated at estimated fair value. While these estimates are based on a valuation by an independent appraiser, the amount that the Company realizes from the sale of property and collection of payments could differ materially in the near term from the carrying value reflected in this financial statement.

Net Operating Loss Carryforwards

The net operating loss carryforwards disclosed in *Note 9* do not include any provision for assets receivable under pending claims (see *Note 9*). Any amounts ultimately realized under those claims could result in a material change to the estimated net operating loss carryforwards available.

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Notes to Consolidated Balance Sheet
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Note 14: 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 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 15: Subsequent Events

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 certain claims as described in *Note 8*. On January 31, 2003, FFG assigned all of its rights and interest in these claims to FFG Delaware.

On January 24, 2003, the Company’s subsidiary, Sinclair Credit Group Co. changed its name to TCG – The Credit Group and reincorporated as a wholly owned stock corporation under the Canada Corporations Act.

Note 16: 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 January 1, 2003, the Company’s liabilities would increase by \$6,810,427.