

FINANCIAL RESOURCES, INC.

BALANCE SHEETS

DECEMBER 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (Notes 1 and 3)	\$ -	\$ 16,794
Current portion of notes receivable, unsecured (Note 4)	475,362	38,507
Current portion of mortgage notes receivable, <u>first mortgage</u> (Note 4)	5,339	8,645
Current portion of mortgage notes receivable, <u>second mortgages</u> (Note 4)	41,561	42,465
Current portion of notes receivable, factoring with recourse (Note 4)	146,200	63,855
Current portion of mortgage notes receivable, commercial secured (Note 4)	-	11,085
Note receivable, related party (Note 6)	<u>108,607</u>	<u>2,500</u>
<i>No Small Loans outstanding!</i>	<u>777,069</u>	<u>183,851</u>
Notes and mortgage receivables, less current portion shown above (Note 4)	<u>45,669</u>	<u>168,901</u>
Property and equipment, at cost (Note 1)	22,588	19,122
Less - Accumulated depreciation	<u>10,518</u>	<u>6,338</u>
	<u>12,070</u>	<u>12,784</u>
Non-performing notes and mortgage receivables (Note 4)	438,783	438,783
Less - Allowance for non-performing loans	<u>389,128</u>	<u>389,128</u>
	<u>49,655</u>	<u>49,655</u>
	<u>\$884,463</u>	<u>\$415,191</u>

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

Exhibit to:

FINANCIAL RESOURCES, INC.

BALANCE SHEETS

DECEMBER 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Demand notes payable (Note 5)	\$547,226	\$179,000
Accounts payable	92,996	49,369
Accrued expenses	<u>1,981</u>	<u>1,949</u>
Total current liabilities	<u>642,203</u>	<u>230,318</u>
NOTES PAYABLE, related parties (Note 6)	<u>57,459</u>	<u>24,309</u>
COMMITMENTS AND CONTINGENCIES (Note 7)		
STOCKHOLDERS' EQUITY:		
Common stock - \$1 par value, 15,000 shares authorized, 15,000 shares issued and outstanding	15,000	15,000
Preferred stock, \$1,000 par value, 93 shares authorized, issued and outstanding (Note 8)	146,000	93,000
Retained earnings	<u>23,801</u>	<u>52,564</u>
	<u>184,801</u>	<u>160,564</u>
	<u>\$884,463</u>	<u>\$415,191</u>

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FINANCIAL RESOURCES, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2000 and 1999
AND
INDEPENDENT AUDITORS' REPORT

Exhibit to:

Appendix A Page A-8
Paragraph 4

FINANCIAL RESOURCES, INC.

DECEMBER 31, 2000 and 1999

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Exhibit to:

Appendix A Page A-8
Paragraph 4



INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Financial Resources, Inc.:

We have audited the accompanying balance sheets of Financial Resources, Inc. (a New Hampshire corporation) as of December 31, 2000 and 1999 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Financial Resources, Inc. as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Manchester, New Hampshire
March 19, 2001

FINANCIAL RESOURCES, INC.

BALANCE SHEETS

DECEMBER 31, 2000 and 1999

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are an integral part of these statements.

Exhibit to:

FINANCIAL RESOURCES, INC.

BALANCE SHEETS

DECEMBER 31, 2000 and 1999

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	<u>184,801</u>	<u>160,564</u>
	<u>\$884,463</u>	<u>\$415,191</u>

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FINANCIAL RESOURCES, INC.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
REVENUE	<u>\$2,379,214</u>	<u>\$3,059,985</u>
OPERATING EXPENSES:		
Mortgage expense	1,042,271	1,609,984
Commissions	465,399	521,384
Interest expense	169,002	174,304
Client fees expense	109,629	126,156
Advertising and promotion	2,891	59,661
Salaries and related payroll taxes	250,195	239,039
Rent (Note 7)	24,000	24,000
Fees	34,007	24,001
Telephone	34,924	32,310
Insurance	29,348	30,864
Postage	17,266	30,294
Supplies	88,392	46,872
Maintenance	13,298	14,771
Professional expenses	28,042	13,886
Client refunds	23,153	7,758
Travel and entertainment	20,746	32,639
Utilities	6,992	11,116
Contributions	29,137	10,911
Office	31,057	9,465
Depreciation	4,180	1,802
Miscellaneous	5,625	6,758
	<u>2,429,554</u>	<u>3,027,975</u>
INCOME (LOSS) FROM OPERATIONS	<u>(50,340)</u>	<u>9,129</u>
OTHER INCOME (EXPENSES):		
Interest income	1,447	-
Rent income	53,391	22,881
	<u>54,838</u>	<u>22,881</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	<u>4,498</u>	<u>32,010</u>
PROVISION FOR TAXES	<u>1,981</u>	<u>1,051</u>
NET INCOME (LOSS)	<u>\$ 2,517</u>	<u>\$ 30,949</u>

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

FINANCIAL RESOURCES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS DECEMBER 31, 2000 and 1999

	<u>Common Stock</u>	<u>Preferred Stock</u>	<u>Retained Earnings</u>
Balance, December 31, 1998	\$15,000	\$ 93,000	\$ 27,870
Net income	-	-	30,949
Dividends	<u>-</u>	<u>-</u>	<u>(6,255)</u>
Balance, December 31, 1999	\$15,000	\$ 93,000	\$ 52,564
Shares issued	-	53,000	-
Net income	-	-	2,517
Dividends	<u>-</u>	<u>-</u>	<u>(31,280)</u>
Balance, December 31, 2000	<u>\$15,000</u>	<u>\$146,000</u>	<u>\$ 23,801</u>

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

FINANCIAL RESOURCES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS DECEMBER 31, 2000 and 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 2,517	\$30,949
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	4,180	1,802
(Increase) decrease in the following assets:		
Note receivable related party	(106,107)	(2,500)
Increase (decrease) in the following liabilities:		
Accounts payable	43,627	39,251
Accrued expenses	<u>32</u>	<u>346</u>
Net cash provided by (used in) operating activities	<u>(55,751)</u>	<u>69,848</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of capital assets	(3,466)	(9,008)
Advances on long term notes receivable	(489,159)	(70,377)
Payments received from long-term notes receivable	<u>108,486</u>	<u>42,541</u>
Net cash used in investing activities	<u>(384,139)</u>	<u>(36,844)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances from short-term financing	368,226	-
Payments on related party notes payable	-	(691)
Advances from (repayment on) related party notes	33,150	-
Preferred stock issued	53,000	-
Dividend paid	<u>(31,280)</u>	<u>(6,255)</u>
Net cash provided by (used in) financing activities	<u>423,096</u>	<u>(6,946)</u>
NET INCREASE (DECREASE) IN CASH	(16,794)	26,058
CASH AND CASH EQUIVALENTS, beginning of year	<u>16,794</u>	<u>(9,254)</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ -</u>	<u>\$16,794</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2000	1999
CASH PAID DURING THE YEAR FOR:		
Interest	\$169,002	\$174,304

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

FINANCIAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000 and 1999

1. Summary of significant accounting policies:

Organization - Financial Resources, Inc. ("the Company") is a New Hampshire corporation that provides various financial funding on a short term to long term financing basis to individuals and businesses. The primary geographic funding area is the Northeast with secondary revenue sources throughout the continental United States. Additionally, the company derives a significant portion of its income from commissions on the brokerage of mortgages with various unrelated third party finance companies.

Cash and cash equivalents - For the purposes of the statement of cash flows, the Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Revenue recognition - Brokerage fees are recorded as revenue when due using the accrual method.

Depreciation - The Company for financial statement purposes provides for depreciation of its property and equipment based on the straight line method. The estimated useful lives used are as follows:

	<u>Years</u>
Furniture and fixtures	5
Equipment	5

Expenditures for repairs and maintenance are expensed when incurred and betterments are capitalized. Assets sold or otherwise disposed of are removed from the accounts, along with the related depreciation allowances, and any gain or loss is recognized.

Estimates - Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising costs - The Corporation expenses all advertising costs as incurred in accordance with AICPA Statement of Position 93-7 "Reporting on Advertising Costs". Advertising and marketing expenses for the years ended December 31, 2000 and 1999 were \$2,891 and \$59,661, respectively.

2. Federal income taxes:

The Company provides for income taxes based on current financial income at the current tax rates. The Company for tax purposes reports its income under the cash method of accounting. Due to significant tax loss carryforwards, a deferred tax liability is not warranted in the accompanying financial statements. The Company at December 31, 2000 had net operating loss carryforwards that amounted to approximately \$22,000 that expire in the year 2012.

FINANCIAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000 and 1999

3. Bank accounts:

The Company's bank balance at December 31, 2000 was \$33,304 and the amount was fully covered by federal depository insurance. At December 31, 1999, the carrying amount of the Company's cash balance was \$16,794 and the bank balance was \$100,632. Of this amount, \$100,000 was covered by federal depository insurance.

4. Notes and mortgage receivables:

Notes and mortgage receivables at December 31, 2000 represent amounts due from individual and business loans that have been advanced or purchased from unrelated third parties. The majority of the loans are collateralized with either first or second mortgages and have interest rates and terms that vary by loan type.

Non-performing notes and mortgage receivables represent various loans that are in default. The Company received no payments on the majority of these notes and mortgage receivables during the years ended December 31, 2000 and 1999. All mortgages were secured and are in various stages of litigation to determine the amount of repayment if any. These mortgages for financial statement purposes, are no longer accruing interest. The face amount of these notes and mortgage receivables amounted to \$438,783 and the allowance for non-performing loans amounted to and \$389,128 as of December 31, 2000 and 1999, respectively.

5. Demand notes payable:

Various individuals have advanced funds on an unsecured demand basis. The notes bear interest ranging between 8% and 14%. Interest is paid or accrued monthly at the discretion of the noteholder.

6. Related party notes:

The Company has advanced funds on an unsecured, non interest bearing basis to a related corporation that is owned by the Company's majority shareholder. The note receivables related party balance at December 31, 2000 and 1999 amounted to \$108,607 and \$2,500, respectively.

Additionally, the Company's primary stockholder has advanced funds to the Company on a non interest bearing, unsecured basis. The Company's notes payable to this stockholder at December 31, 2000 and 1999 amounted to \$258,758 and \$124,309, respectively.

Exhibit to:

FINANCIAL RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000 and 1999

7. Commitments and contingencies:

Rent - The Company is a tenant at will and leases its office facilities at a monthly rent of approximately \$2,000. Additionally, the Company is obligated to pay utilities and upkeep of the property. The lease is between the Company and a related party and allows the tenant to terminate the tenancy by providing the lessor with a 30 day written notice.

Office machine rental - The Company leases various office equipment requiring payments of \$501 through July 2000 and \$321 thereafter through October 2003.

Recourse notes receivable - The Company has brokered approximately \$150,000 of installment notes receivable that have been assigned under recourse agreements to unrelated third parties.

8. Preferred stock:

The Company has authorized and issued 93 shares of \$1,000 par value, preferred stock. The preferred securities accrue and pay cash distributions at a rate of 8% per annum. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the preferred securities. Dividends on these shares for the years ended December 31, 2000 and 1999 amounted to \$31,280 and \$6,255, respectively.