

ENTRUST FINANCIAL SERVICES INC  
Form 10KSB/A  
March 14, 2003

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-KSB/A  
AMENDMENT NO. 6**

Annual Report Under Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
Fiscal Year Ended: December 31, 2001  
Commission File No. 0-23965

Entrust Financial Services, Inc.  
formerly known as easyQual.com, Inc.  
(Exact Name of Small Business Issuer as specified in its charter)

|   |  |
|---|--|
| <b>Colorado</b><br>(State or other jurisdiction of<br>incorporation or organization)        | <b>84-1374481</b><br>(IRS Employer Identification No.) |
| Fifth Floor, 6795 E. Tennessee Ave., Denver, CO<br>(Address of principal executive offices) | 80224<br>(Zip Code)                                    |

Registrant's telephone number, including area code: (303) 322-6999

Securities Registered Under Section 12(B) of the Exchange Act: None  
Securities Registered Under Section 12(G) of the Exchange Act:

Common Stock, \$.0000001 per share par value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB. [X]

State issuer's revenues for its most recent year were \$10,238,000. The aggregate market value of the voting stock of the Registrant held by non-affiliates as of December 31, 2001 was approximately \$1,350,000. The number of shares outstanding of the Registrant's common stock, as of the latest practicable date, February 28, 2002, was 2,283,227, after giving effect to a one-for-ten reverse split of the Company's common shares, which became effective on February 4, 2002.

References in this document to us, we, our, or the Company refer to Entrust Financial Services, Inc., formerly known as easyQual.com, Inc., its predecessors and its subsidiaries.

PART I

**Item 1. Description of Business.**

The following are definitions of terms used in this Form 10KSB:

**Closed Loan:**

A mortgage loan which has been funded.

**Conforming Mortgages:**

Mortgages which meet the Federal National Mortgage Association ( FNMA ) or Freddie Mac underwriting guidelines.

**Federal National Mortgage Association (FNMA or Fannie Mae):**

A Congressionally chartered corporation which buys conforming mortgages, combines them and sells them in a pool as mortgage-backed securities to investors in the open market. Monthly principal and interest payments are guaranteed by FNMA but not by the U.S. Government. This organization is sometimes called Fannie Mae.

**Freddie Mac:**

Freddie Mac is a stockholder-owned corporation chartered by Congress in 1970 to create a continuous flow of funds to mortgage lenders in support of homeownership and rental housing. Freddie Mac purchases mortgages from lenders, packages them and pools them into securities that are sold to investors.

**Limited Documentation Loans:**

Loans which do not require verification of certain, defined information on a borrower's loan application.

**Mortgage Bankers:**

Those who close and fund loans with their own funds or credit facilities.

**Mortgage Brokers:**

Those who originate loans directly with consumers but whose loans are funded by others.

**Non-Conforming Mortgage:**

Mortgages which do not conform to FNMA or Freddie Mac underwriting guidelines.

**Prime Market:**

Those who buy FNMA or Freddie Mac quality loans.

**Secondary Markets:**

Those who buy closed loans.

**Service Release Premiums:**

Fees paid for selling closed loans with servicing rights attached.

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Entrust Financial Services, Inc. (the Company) was incorporated on November 8, 1996 under the laws of the State of Colorado as Centennial Banc Share Corp.

The Company began operations in 1997 as a mortgage broker. The Company completed a private placement in February, 1998, which increased the working capital permitting it to expand its mortgage brokerage business operations.

On April 30, 1999, the Company acquired Entrust Mortgage, Inc. (Entrust Mortgage), a private nationwide wholesale mortgage banking company. Entrust Mortgage, a Colorado corporation, is now a wholly-owned subsidiary of the Company. The acquisition of Entrust Mortgage allowed the Company to expand its business operations into the wholesale mortgage banking industry.

In January and February of 2000, the Company completed a private placement of a convertible debenture for the purpose of increasing working capital to expand its mortgage banking operations. Also, in January 2000, the Company initiated a three-for-one forward split of its common shares, which was approved by the Board of Directors and became effective on March 14, 2000. In March 2000, the Company sold common stock, in a private placement to accredited investors. In June, 2000, the Company changed its name to easyQual.com, Inc. On April 6, 2001, the Company changed its name to Entrust Financial Services, Inc.. In April 2001, the Company completed a private placement of a convertible debentures to further fund the expansion of the mortgage banking business. The proceeds from this convertible debenture provided the necessary capital to fund the expansion of the mortgage banking operations so that the Company achieved profitability for the first time.

On January 29, 2002, the Company's shareholders approved a one-for-ten reverse split of the common shares, which became effective on February 4, 2002. This reverse split of the common stock of the Company is part of the Company's restructuring plan to achieve a sufficient price per share for the common stock so that the Company will qualify to have its shares become listed on either a National Securities Exchange or NASDAQ.

The Company has not been subject to any bankruptcy, receivership or similar proceeding.

### (b) Description of the Business

#### General

From the Company's inception until April 30, 1999 when Entrust Mortgage was acquired, the Company acted as a mortgage brokering business. Since the acquisition of Entrust Mortgage, the core business of the Company has been focused on wholesale mortgage banking through Entrust Mortgage. Entrust Mortgage is a nationwide wholesale mortgage banking company, with regional offices in Colorado, Georgia, Nevada, and California. Entrust Mortgage incorporates traditional marketing with a web-based, proprietary automated underwriting system that allows its mortgage broker clientele to process loan applications 24 hours a day, 7 days a week. Entrust Mortgage also facilitates limited documentation loans for good credit quality borrowers.

In 2001, the Company became profitable in its consolidated operations, and management believes that the profitability of the Company can continue through the year ended December 31, 2002.

No independent market surveys have ever been conducted to determine demand for the Company's mortgage loan products and services. However, as explained below in the Operations section, the mortgage loan industry is estimated to be in excess of \$1.5 trillion annually.

#### Organization

The Company operates through its principal subsidiary, Entrust Mortgage, Inc., which is in the wholesale mortgage banking business. The Company has three Colorado subsidiary corporations: (i) Entrust Mortgage, Inc. (Entrust), (ii) Entrust Homes, Inc. (Homes), and (iii) A.I. Dynamics, Inc. (A.I.). Homes and A.I. are essentially dormant at this time.

The Company's goals are to build a highly efficient and profitable mortgage banking business which operates nationwide and uses state-of-the-art technology in its underwriting and activities to achieve a competitive advantage in the mortgage industry.

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Entrust Mortgage, Inc.

Entrust Mortgage is a traditional wholesale mortgage banking operation, with regional offices in Colorado, Georgia, Nevada, and California. Entrust Mortgage is licensed to conduct business in 36 states and has active contractual relationships with over 5,000 broker firms in these states. These 5,000 mortgage brokers have executed brokerage agreements with Entrust permitting them to submit loans for approval without having to go through the broker approval process necessary to become an Entrust approved mortgage broker. Entrust Mortgage agreements with these brokers do not prohibit them from doing business with other lenders. We believe that these brokers will use Entrust Mortgage over our competitors for our niche products and quality of service. Entrust Mortgage accepts non-conforming first and second mortgage loan submissions, for which yields are substantially higher than for conforming mortgage loans. The mortgages are funded using Entrust Mortgage's approved revolving warehouse lines of credit. Presently Entrust Mortgage has approximately \$23 million in revolving warehouse lines of credit.

### (c) Operations

The United States is one of the largest mortgage markets in the world with total outstanding mortgages exceeding \$4.0 trillion. The mortgage market growth has been driven by a loan origination volume that is estimated to have been in excess of \$1.5 trillion this past year. The mortgage banking business in the United States is highly fragmented with over 20,000 mortgage loan originators operating in the 50 states and its territories. In fact, the ten largest mortgage originators in the U.S. constitute less than 40% of the total mortgage loan market and no single mortgage originator holds a market share exceeding 8%. To capitalize on the opportunities available in the vast and potentially lucrative mortgage industry, The Company is utilizing its proprietary state-of-the-art technology and established contracts with 5,000 mortgage brokerage firms in 36 states as sources to gain an increasing share of the mortgage loan market.

Online mortgage loan applications have grown at a significant rate in recent years, and independent sources project this segment of the mortgage loan market to reach \$300 billion within the next five years in the U.S. The Company plans to focus its primary marketing efforts on this online segment of the mortgage loan market.

Entrust Mortgage has entered into seller's agreements with certain financial institutions, which management believes will provide outlets for its mortgage loan products. Entrust Mortgage offers limited documentation, unsecured personal lines of credit, no income verification loans with preferential interest rates, and high loan-to-value mortgages as its primary products. With these niche loan products, the Company is able to sell its non-conforming mortgages in the secondary markets at substantially higher prices than other mortgage lenders who market conforming mortgages.

Non-conforming loans (as a group) are inherently more risky than conforming loans because the underwriting criteria is not as stringent. While secondary markets for these loans are currently very large, there is no guarantee these markets will continue to flourish in adverse economic conditions. Entrust's primary risk on non-conforming loans is the loss of the secondary markets for its products. The market for non-conforming loans involves risks that are not present with conforming loans. Entrust Mortgage underwrites its loans on delegated authority from its lenders. Generally loans are underwritten to established criteria. The lender is bound to purchase loans written according to that criteria. On the other hand, if a loan is not written to the established criteria, the lender is not required to purchase the loan. Entrust Mortgage then sells the loan as non conforming into an alternative market, usually at a discount. However, these non conforming loans provide for limited recourse to Entrust Mortgage. Therefore, if the borrower defaults on a loan within three months of sale into the secondary market, Entrust Mortgage must repurchase the loan. For second mortgages, the repurchase obligation could be as long as twelve months. Entrust Mortgage is responsible for repurchase if a determination is made that fraud was involved in the transaction. Generally, Entrust Mortgage sells most of its loans prior to the due date of the first payment. In the event that a payment becomes due prior to Entrust Mortgage's sale of the loan into the secondary market, and that payment is not made, the lender to whom loan was sold would not be required to buy the loan. Entrust Mortgage would then be required to find an alternative buyer, usually at a discount.

The Company earns revenues from three basic sources: (i) fees charged at closing; (ii) interest earned on a loan while the loan is held by Entrust Mortgage; and, (iii) through service release premiums earned from loan sold into the secondary markets.

During the year 2001, the Company continued to increase revenues from its loan business while controlling and reducing costs relative to staffing and facilities requirements using improved loan processing procedures and state-of-the-art technology. We believe that these increased revenues in the year 2001 were tied directly to significantly more mortgage loan originations than in the previous year.

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A large segment of profitability in the mortgage loan business comes after the mortgage is completed and funded for the borrower. Once funded, the mortgages are sold into secondary markets on an individual loan basis or packaged into several loans on a bulk sale basis. Loan purchasers either hold the loans to earn interest from the coupon rate or securitize the loan portfolio to receive more immediate realization of profit. Entrust locks its loans with secondary markets prior to closing to avoid the risk in interest rate hedging. The loans are typically shipped to the investor within 10 days of funding and purchased by the secondary markets typically within two weeks of shipping. Entrust earns the interest on the loans until the sale of the loan. In most cases, the interest income exceeds the interest charged by the warehouse lender during the holding period.

The Company has implemented an automated underwriting and a computer based mortgage loan application process using state-of-the-art technology. Generally, the mortgage industry conducts its business through many manual steps, in a multi-forms, paper based system prone to errors. The Company's state-of-the-art technology based system is an electronic system set up to permit its mortgage broker customers to process an application very quickly. Typically an application with Entrust Mortgage can be processed in one to three minutes, thus saving two or more days of processing time. Currently, the pre-approval and documentation process for a loan in the mortgage industry requires approximately one to two days to complete before submission for processing. The more loan programs offered by the mortgage company, the more complexity there is for completing the paper based forms, thus substantially increasing the time requirements to process these paper based applications.

In the competitive mortgage loan lending environment, providing a diverse range of mortgage loan programs, for every ten applications that the underwriter pre-approves, a significant number are pre-approved for the wrong program. On average half of the pre-approved loans have to be redone, then resubmitted, thus significantly extending the processing time to lending cycle.

On average, for every ten loan applications submitted, one-half are pre-qualified and generate a list of documentation requirements that need to be completed to complete the mortgage loan process. Of the customers receiving a list of these additional documentation requirements, only one half return a full completed loan application package. The time delays required to get a loan application pre-approval encourage the borrower to shop around for other competitive mortgage loan offerings. Document completion by the customer (assisted by the mortgage loan broker) can take another seven to ten days, on average. Of the customers responding to the additional loan documentation requirements, only one-half actually complete their loans. On average, out of ten initial mortgage loan applications submitted, fewer than one (.833) is funded in an industry completion process that takes an average of eighteen days. Entrust has been able to improve upon this process by closing loans in an average of sixteen days.

With the Company's state-of-the-art technology based system, it has been experiencing closing ratios that are significantly improved over industry averages. Out of ten initial loan applications, the Company presently completes approximately three and one-half loans, which is a major increase in revenues coupled with a reduction in expenses and time resources. The Company has integrated the loan application process with a simplified technology based application processing system to achieve lower costs per loan processed and higher success rates generating more revenue per application received. In the Company's fully implemented state-of-the-art technology based loan processing system, its automated mortgage loan underwriting, incorporated with its proprietary search engine, the system is able to examine multiple loan options, if necessary, to find an exact match for each customer profile without mistakes. Pre-approval and documentation requirements are complete in about sixty seconds, thus saving substantial time. Entrust's underwriting system differs from competitors' systems in its ease of operation and responsiveness. The Company believes that it has the most advanced software program available for this purpose. The mortgage broker is required only to input the most basic information for the program to generate a detailed response. Additionally, in the event of a decline to loan by the lender, the program gives specifics of the decline which may help direct the broker to a program for which his borrower does qualify. The Company believes that it has minimal risk associated with computerized pre-approvals because all loans are underwritten by Entrust delegated underwriters who review the entire file for meeting approval guidelines.

With the Company's technology based system, initial data entry processing and human underwriting time necessary to evaluate a mortgage prospects application under a manual system is eliminated. Back office data entry is also eliminated. There is limited human interface in the initial underwriting process and the Company's loan underwriters' time is reserved to review the authenticity of required documentation. With the Company's technology based system, management believes that the cost of back office personnel will continue to decrease, providing margins for employing higher quality personnel using systems that ensure an efficient document review process. Consequently, the loan approval process can be significantly enhanced to improve the quality of the loans.

The Company's technology based system turns an inexperienced loan officer into a seemingly experienced loan officer, able to provide definite answers to the borrower's questions instantaneously, without the customary mistakes. With every requirement of the loan process scripted, the customer gets accurate information from the broker who no longer has to constantly call the home office for answers.

With the Company's technology based application processing system, a loan officer's time is released to sell rather than study dozens of alternative loan programs offered by the firm. The Company's system also removes the insecurity that currently prevails when an inexperienced sales person attempts to describe complex loan options. Additionally, the current limits on the number of mortgage loans a producer can manage are dramatically expanded. The confidence that the lender has for the integrity of the underwriting and loan process may be enhanced as well.

Automated mortgage loan underwriting can be found currently in limited pockets of the industry. For the prime market, which are loans offering standard, government backed mortgage programs to the creditworthy customer, automated underwriting is now available on a widespread basis. The prime market, however, represents less than half of the total mortgage loan business. For the non-conforming loan market, involving more complexity, including credit issues and the need for individual loan tailoring, the manual mortgage system prevails throughout the industry.

The non-conforming market represents more than half of the total U.S. mortgage origination business, but provides three to four times the profit margins of the conforming loan market. It is in the non-conforming loan market where the Company is seeking to create a new standard and, by this standard, to establish itself as the new industry leader. The Company intends to offer a product which will lend on a construction loan through permanent loan in one continuous program. The credit will be underwritten to the Company's permanent loan criteria, utilizing its automated prequalification process. The Company believes that the interface of its software and underwriting criteria for non-conforming loans for approving the construction loans, creates a new standard in the industry for this type of program, and positions the Company to establish itself as the industry leader.

The Company focuses on niche loan products. The Company's underwriting criteria consists of loans of up to 100% of the property value with programs ranging from fully documented loans to loans which require no income or asset verification. The Company generally writes loans with borrowers with 620 or higher credit scores, which is industry standard for this type of product. Loan to value availability lowers with lesser documentation or lower borrower credit scores.

The Company's system targets both the wholesale and retail mortgage industry. Since small mortgage brokers dominate this industry, the Company has designed its technology based automated system to meet the growing needs of the small to medium mortgage brokerage offices currently operating in every rural and urban region of the United States with the goal of substantially increasing its business.

The Company's plan to expand its loan application submissions for the U.S. wholesale mortgage industry uses relationships with mortgage brokerage firms. This plan allows the local mortgage broker to retain its autonomy, name, while expanding the loan programs it can offer to its customers thus increasing the Company's mortgage loan originations.

During the coming fiscal year, the Company intends to begin providing its technology based loan processing system to the mortgage industry through industry publications and other media outlets, a web site, an industry newsletter and a team of aggressive account executives.

The Company is also in the process of instituting a new construction to permanent loan program for manufactured housing. The borrower approval for the construction portion of this loan program will be underwritten to the Company's present mortgage loan program criteria.

(d) Markets

The Company plans to continue to market residential mortgages through its network of 5,000 mortgage brokerage firms in 36 states, using traditional methods. Currently, the Company has a marketing strategy which uses regional sales representatives, along with an in-house sales team to market its mortgage loan products nationwide. While the Company has an established base of 5,000 mortgage brokerage firms, it plans to add new accounts through full time in-house representatives employing direct solicitation, fax blast marketing, mass e-mail marketing, and participation in mortgage industry trade shows.

(e) Raw Materials

The use of raw materials is not now a material factor in the Company's operations.

(f) Customers and Competition

The mortgage banking business is a highly competitive and fragmented industry with over 20,000 licensed mortgage loan originators. The United States is one of the largest mortgage markets in the world with total outstanding mortgages exceeding \$4.0 trillion. The mortgage market is driven by a loan origination volume in excess of \$1.5 trillion per year and continues to grow as inflation and other factors increase the average price of a house. The ten largest mortgage originators in the U.S. constitute less than 40% of the total mortgage origination market with no single

originator holding a market share greater than 8%.

The Company's operational activities focus primarily on the mortgage loan origination business, in which there is a great deal of competition. The Company anticipates that competition will come from a number of sources, many of which will have greater resources than the Company. All lenders in the United States are potential competitors. There can be no guarantee that the Company will be able to compete successfully over the short term or long term.

(g) Employees

Currently, the Company employs fifty-one full-time people. These employees consist of five management staff and forty-six loan origination staff and clerical support. The Company plans to hire additional employees in the future to facilitate anticipated growth projections. None of the Company's employees are subject to a collective bargaining agreement.

(h) Backlog

At December 31, 2001, the Company had approximately \$25,809,000 of mortgage loans to be processed for which it anticipates approximately a 35% closure rate.

(i) Proprietary Information

The Company owns the tradename "Mortgage 2000" and own proprietary state-of-the-art computer software which it uses as the base of the Company's technology based system in its operations. The Company has a proprietary database of over 5,000 mortgage brokerage firms as potential customers.

(j) Government Regulation

The Company is, and expects to continue to be, subject to material governmental regulation and approvals customarily incident to the operation of a mortgage banking business. The Company is regulated by applicable Federal and state laws and rules. It is the Company's policy to fully comply with all governmental regulations and regulatory authorities.

(k) Research and Development

During the fiscal year, the Company spent approximately \$100,000 in research and development activities for the Company's automated state-of-the-art loan underwriting technology.

(l) Environmental Compliance

The Company does not expect to be subject to any material environmental compliance.

**Item 2. Description of Properties.**

The Company's executive offices are located at 6795 E. Tennessee Ave., Fifth Floor, Denver, Colorado 80224. These are also the offices of Entrust Mortgage. The Company rents this office space on a five year lease at a cost of \$13,089 per month from an unaffiliated third party. The lease terminates in 2005. The Company also has sales representative and production offices in California, Georgia, and Nevada. The Company owns office equipment to furnish all of its offices. The Company also owns the tradename "Mortgage 2000". The Company owns proprietary computer software which it uses in its operations. All of the management activities of the Company are performed in Colorado.

**Item 3. Legal Proceedings**

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The Company was a plaintiff in a lawsuit in the Colorado District Court for the City and County of Denver against Stephen B. Torres, J. Scott Oler, and Vision One Technologies, Inc. seeking damages and injunctive relief in connection with the Company's acquisition of the assets of Vision One Technologies, Inc. Subsequent to the end of the fiscal year, the case was settled.

The Company was a defendant in a lawsuit with PCMD, Dan and Diane King, pertaining to payment of equipment and services purported to be sold to Vision One, FNET, and Steven Torres. This suit was filed in the Colorado District Court for the City and County of Denver. Subsequent to the end of the fiscal year, the case was settled.

Otherwise, no legal proceedings of a material nature to which the Company is a party were pending during the reporting period. The Company knows of no legal proceedings of a material nature pending or threatened or judgments entered against any of the Company's directors or officers in his capacity as such.

### **Item 4. Submission of Matters to a Vote of Security Holders.**

The Company did not submit any matter to a vote of security holders through solicitation of proxies or otherwise during the fourth quarter of the year covered by this report.

On January 29, 2002, the shareholders approved a one-for-ten reverse split of the common shares of the Company's stock, which was approved and became effective on February 4, 2002.

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## PART II

### **Item 5. Market for Common Equity and Related Stockholder Matters.**

#### (a) Principal Market or Markets

The common stock of the Company has traded on the NASD Over-the-Counter Bulletin Board since May, 2000. Currently, the common stock of the Company trades under the symbol ENFN. The following table sets forth the high and low bid quotation for the Company's common stock for each quarterly period ended June, September, and December, 2000 and for four full quarters of 2001. These quotations have been adjusted to reflect the one-for-ten reverse split of the common stock, which became effective on February 4, 2002.

|                | <b>Bid Price</b> |            |
|----------------|------------------|------------|
|                | <b>High</b>      | <b>Low</b> |
|                | <b>2001</b>      |            |
| First Quarter  | \$ 6.60          | \$ 3.00    |
| Second Quarter | \$ 3.20          | \$ 1.30    |
| Third Quarter  | \$ 1.80          | \$ 1.00    |
| Fourth Quarter | \$ 2.60          | \$ 1.20    |
|                | <b>2000</b>      |            |
| Second Quarter | \$27.50          | \$ 2.50    |
| Third Quarter  | \$32.50          | \$10.00    |
| Fourth Quarter | \$13.00          | \$ 7.50    |

#### (b) Approximate Number of Holders of Common Stock

As of the February 28, 2002, the Company had a total of 2,283,227 shares of common stock issued and outstanding, after giving effect to a one-for-ten reverse split of the common shares, which became effective on February 4, 2002. The number of holders of record of the Company's common stock at that date was approximately Six Hundred and Seventy-Five (675).



(c) Dividends

Holders of common stock are entitled to receive such dividends as may be declared by the Company's Board of Directors. No dividends on the common stock were declared or paid by the Company during the periods reported herein nor does the Company anticipate paying dividends in the foreseeable future.

**Item 6. Management's Discussion and Analysis or Plan of Operation.**

Forward-Looking Statements

The following discussion contains forward-looking statements regarding the Company, its business, prospects and results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause the actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that may affect such forward-looking statements include, without limitation: the ability of the Company to successfully develop new products for new markets; the impact of competition on the revenues of the Company, changes in laws or regulatory requirements that may adversely affect or preclude customers from using the Company's products for certain applications; delays in the introduction of new products or services; failure by the Company to keep pace with emerging technologies, potential losses from increasing level of defaulted loans due to adverse national economic conditions, and potential losses from loan fraud.

When used in this discussion, words such as *believes*, *anticipates*, *expects*, *intends*, *may* and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by us in this report and other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect the Company's business.

Overview

The Company experienced a substantial turnaround in its profitability during the fiscal year ended December 31, 2001. This turnaround was largely a result to two significant factors; (i) the performance of its mortgage banking subsidiary, Entrust Mortgage; and (ii) the divestiture by the Company of its non-profitable business operations. The Company is now focused solely on its mortgage banking operations, which continue to be profitable.

The Company almost doubled its revenue in 2001 as compared to 2000. The Company also managed to post record profits, while achieving this revenue growth. Many growth companies incur substantial upfront expenses to capitalize their growth. Consequently, they are not profitable until they stabilize their growth. The Company has been able to manage its growth by utilizing its established infrastructure and efficiencies afforded by its proprietary state-of-the-art software technology thereby minimizing much of the cost associated with rapidly growing companies.

The mortgage banking operations have been the primary revenue and profit generator for the Company since it acquired Entrust Mortgage in 1999. Entrust Mortgage has demonstrated a steady and consistent growth pattern in its mortgage banking operations since it was acquired. Management feels the mortgage banking operations provide the greatest potential for increased revenue growth and profitability in the years to come.

The Company is actively hiring new account executives to expand its loan origination capacity. The use of the Company's state-of-the-art proprietary software to facilitate automated approval of loan applications coupled with its new comprehensive sales training program helps to familiarize new account executives with Entrust Mortgage's loan products much faster than in the past. Entrust Mortgage is also hiring more qualified account executives by using personal profile testing (performed by the Profile Group) of all potential candidates.

The Company anticipates record revenues and profits for fiscal year 2002. The Company projects revenues to increase by more than 50% over the previous year. Given the Company's expanded loan origination operations, coupled with the new investor relationships for

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increased revolving warehouse lines of credit, management has begun implementation of the most aggressive marketing campaign in the history of the Company. The Company has scheduled monthly appearances at mortgage industry trade shows across the country and is expanding its outside sales force to expedite market penetration in selected markets.

The Company's newest proposed business segment, which is an adjunct to its mortgage lending, is a construction loan program for manufactured housing. The Company's research indicates that there is a ready and growing market for such a program. The Company has entered into contracts to be the exclusive mortgage marketing company and lender for this new business venture. Successful implementation of this lending program would provide the Company with new and exclusive programs in the manufactured housing industry with potentially very limited competition.

### Results of Operations

Revenues of the Company increased significantly for the twelve months ended December 31, 2001 as compared to the year 2000. At the same time, operating expenses decreased as a percentage of revenues. As a result, the Company posted the first yearly profit in its history. For the twelve months ended December 31, 2001, total revenues were \$10,238,345 as compared to revenues of \$5,176,760 for the same period ended December 31, 2000. Most significantly, the loan origination fees increased for the twelve months ended December 31, 2001 to \$9,040,504 compared to loan origination fees of \$4,428,185 for the same period ended December 31, 2000. These increases in revenues and loan origination fees were the result of the increased working capital to expand the mortgage banking activities.

In this amendment to Form 10-KSB, we reclassified certain assets and liabilities. The detail regarding these changes is shown in Note 13 to our financial statements.

Total operating expenses for the twelve months ended December 31, 2001 were \$9,587,175 compared to total operating expenses of \$7,910,499 for the same period ended December 31, 2000. The general and administrative expenses for the twelve months ended December 31, 2001 decreased to \$1,304,958 compared to general and administrative expenses of \$1,671,705 for the same period ended December 31, 2000. The decrease in general and administrative expenses was due to the decreased staff levels resulting from efficiencies by discontinuing certain unprofitable operations. The loan origination costs increased for the twelve months ended December 31, 2001 to \$7,136,589 compared to loan origination costs of \$4,025,835 for the same period ended December 31, 2000 which was the result of the increased volume of loan originations. While the amount of expense increased due to the increased volume of business, the actual ratio between loan origination cost and the amount of fees and premium earned decreased because the Company's new loan programs limit the amount of yield spread premium available to be paid to the broker. The interest expense increased for the twelve months ended December 31, 2001 to \$1,145,628 compared to interest expense of \$812,959 for the same period ended December 31, 2000 as a result of the increased warehouse lines of credit to support the increased loan originations. The major components of operating expenses include independent contractor fees, office salaries and associated payroll costs, general and health insurance costs, rent and telephone expenses.

As a result of the operations, the Company had a net profit of \$630,908 for the twelve months ended December 31, 2001 compared to a net loss of \$2,733,739 for the same period ended December 31, 2000. The net profit per share for the twelve months ended December 31, 2001 was \$0.28 per share on a fully diluted basis, compared to a loss of \$1.79 per share on a fully diluted basis for the same period ended December 31, 2000. In this amendment to Form 10-KSB, we expensed warrants of \$126,313, which had not yet been exercised, and increased amortization expense by \$9,765. The effect of these non-cash reclassifications was to decrease our net profit per share for the twelve months ended December 31, 2001 by \$0.06 per share on a fully diluted basis. The impact of these changes is shown in Note 13 to our financial statements. The net profits per share amounts are after taking into effect the one-for-ten reverse split of the common stock, which became effective on February 4, 2002.

In 1999, the Company's initial year of combined operations, Entrust Mortgage funded over \$50 million in mortgage loans. In 2000, despite a difficult mortgage loan market because of rising interest rates, Entrust Mortgage funded over \$78 million of mortgage loans, which represented a significant 60% year-over-year increase. For the year ended December 31, 2001, Entrust Mortgage funded over \$175 million in mortgage loans. The Company's operations were aided by the refinancing boom caused by lower interest rates, but over 70% of the Company's business remains purchase money loans for home buyers.

This increased level of profitability and increasing trend towards greater profits from mortgage operations is the fundamental reason the Company has shifted its principal focus to the mortgage banking business. Management believes that the Company is poised to embark on an extended period of substantial growth in revenues and profits as it continues to expand its presence in the highly fragmented mortgage banking arena. Entrust Mortgage continues to operate ahead of its revenue and profit projections during the first quarter of the year 2002. Entrust Mortgage had a record amount of loans in processing and continues to see significant loan origination results from its recently implemented marketing campaign.

The Company's earnings comes from: fees charged at closing, margins earned by selling loans into secondary markets for a premium, and the interest paid on a loan while the Company holds the loan for sale. The price secondary markets pay for loans is determined by many economic factors, but we lock our loan rates with our secondary markets to maintain a constant margin.

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The Company's overhead cost as a percentage to sales reduces as loan volume increases. Certain fixed costs are the same regardless of the loan volume, so the more business the Company does, the lower percentage of volume these expenses are.

The credit quality of the borrower is only one factor when determining loan approval. Good credit borrowers typically qualify for the highest loan to value mortgage programs, and the most preferential rates. When loaning to persons with more marginal credit, there are limitations on loan to value, and type of loan programs for which the borrower qualifies. The Company also incorporates risk based pricing, which means that the persons with more risk factors must pay a higher rate for the loan. The Company believes that these mitigations help it manage the risk when making loans.

The Company has various representations and warranties it makes to secondary market investors on loans sold into secondary markets. If a mortgage goes into early payment default (usually within 3 months) the Company is obligated to repurchase the loan. If it is determined that fraud has been committed on a loan application, the Company is also obligated to repurchase the loan. The Company usually sells the loan into an available loan market, typically at a discount. In some cases, the Company forecloses on the loan, and sells the property to recover its potential losses.

The repurchase of loans requires capital or credit to repurchase the loan until the resolution. The Company currently uses a repurchase line of credit to facilitate repurchases, but anticipates the need to expand these facilities.

Short term capital has been sufficient to meet its current growth trends, but to continue to grow at its projected pace, the Company will need to increase its warehouse lines of credit and possibly seek equity investments to keep our debt to equity ratios in line with its warehousing lender's requirements. At the present time, the Company is in active discussions to increase its credit line, but no definitive agreements are in place.

The Company has divested or discontinued all of its non-profitable businesses. Management has further streamlined operations to contain costs and facilitate the Company's recently focused niche mortgage loan product line to achieve continued growth. With the introduction of its web-enabled automatic underwriting system, the Company expects to increase loan volume, while continuing to contain operational costs, which could result in added profitability. In addition, the Company is planning to launch a new construction loan program for manufactured housing. Entrust Mortgage will be the exclusive marketer of this manufactured housing lending program, which is anticipated to begin generating revenue in the second quarter of 2002.

The Company had acquired Allegro Software in December 2000 with the intent of selling the proprietary software known as Maestro through its Focvs operations. Total consideration of 150,000 shares of post-split common stock was valued at \$1.4 million based on the market value of the company's stock at the December 2000 acquisition date.

Maestro, the proprietary software owned by Allegro Software, could have been used without modification utilizing an ASP distribution methodology. However, to be competitive for sales in a traditional market, the software would have to be modified for use in another platform. Subsequent to the acquisition, the company determined that it would not be able to go forward with Focvs, since Focvs' management was unable to secure financing for their venture and because of the rapidly declining environment in the ASP markets. As a part of its re-focusing, the company closed its Focvs operations and sold Allegro Software to a third party in exchange for 200,000 shares of stock in the third party. The terms of the transaction involved independent business judgment by both sides and reflected the best efforts of both parties. In light of the significant uncertainty and the indeterminate amounts of additional investment required to achieve technological feasibility with Maestro, the company valued its investment in the third party at zero and recorded a loss of \$1.4 million relating to the closure of its Focvs operations. The loss is presented in a separate caption of the statements of operations.

During the coming year, the Company intends to make application for listing on a recognized U.S. stock exchange, such as the American Stock Exchange or NASDAQ.

### Liquidity and Capital Resources

As of December 31, 2001, the Company had cash or cash equivalents of \$858,848, compared to cash or cash equivalents of \$108,119 as of December 31, 2000.

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Net cash used by operating activities was \$9,675,239 for the twelve months ended December 31, 2001, compared to net cash provided of \$3,142,370 for the twelve months ended December 31, 2000. Our portfolio of loans held for resale accounted for most of this increase. Major items such as notes and accounts receivable increased as a result of increased volume of business. Accounts payable and notes payable decreased as a result of the Company's ability to pay items on a current basis. The Company raised capital through a convertible debenture. However, as a result of the Company's profitability, it was not required to raise as much capital as in the previous year. The Company also booked a write-off of certain intangibles that were considered to be impaired. Cash was used for operations and funding reserve accounts.

Cash flows provided by investing activities were \$-0- for the twelve months ended December 31, 2001, compared to \$406,857 used for the twelve months ended December 31, 2000.

Cash flows provided by financing activities accounted for \$10,425,968 for the twelve months ended December 31, 2001, compared to using \$2,691,961 for the twelve months ended December 31, 2000. This increase in cash flows from financing activities is a result of the Company being able to fund its growing business from increased borrowings on our warehouse lines of credit. Cash from financing was required to meet financial obligations from first quarter losses. Thereafter, the Company has been able to sustain itself without further financing.

The Company funds loans utilizing two warehouse lines of credit totaling \$23,000,000. The primary \$20,000,000 line of credit provides funds at a floating rate of Libor plus 2.5%. The secondary line has a floating rate of LIBOR + 3%. Their primary line is committed through August 2002, and the secondary line is payable on demand. It has been customary for the lines to be renewed annually. The lines may be cancelled or reduced in amount if the Company does not meet certain financial ratio requirements. Loss of the primary line without being replaced would seriously affect the Company's ability to remain profitable.

The current working capital, cash and cash equivalents are sufficient to meet the Company's current level of business operations. However, to increase the Company's anticipated mortgage origination program, it may need additional funding. The Company may raise additional capital through a private placement, may leverage its assets with a loan or may utilize internally generated profits to cover its anticipated cash requirements over the short-term. These funds will be necessary to increase the working capital to support the growth in the funding of the Company's expanding mortgage loan origination program. The Company's mortgage loan business remains profitable. The Company plans to remain focused on its core business of mortgage banking in the next year.

The Company does not intend to pay dividends in the foreseeable future.

### **Item 7. Financial Statements.**

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## INDEPENDENT AUDITOR S REPORT

Board of Directors  
Entrust Financial Services, Inc.  
Denver, CO

We have audited the accompanying consolidated balance sheet of Entrust Financial Services, Inc. and its subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of operations, cash flows, and stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Entrust Financial Services, Inc. and its subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ Michael Johnson & Co., LLC  
Denver, CO  
April 3, 2002

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**ENTRUST FINANCIAL SERVICES, INC.  
CONSOLIDATED BALANCE SHEETS  
FOR THE YEAR ENDED DECEMBER 31,**

|                               | <b>(Restated)<br/>2001</b> | <b>(Restated)<br/>2000</b> |
|-------------------------------|----------------------------|----------------------------|
| <b>ASSETS:</b>                |                            |                            |
| Current assets:               |                            |                            |
| Cash                          | \$ 858,848                 | \$ 108,119                 |
| Notes Receivable - Note 2     | 645,769                    | 265,512                    |
| Accounts Receivable           | 638,339                    | 277,203                    |
| Total current assets          | 2,142,956                  | 650,834                    |
| Fixed assets - Note 1:        |                            |                            |
| Computers & Equipment         | 221,652                    | 208,410                    |
| Furniture & Fixtures          | 183,682                    | 230,070                    |
| Leasehold Improvements        | 0                          | 12,424                     |
| Total fixed assets            | 405,334                    | 450,904                    |
| Less Accumulated Depreciation | (196,808)                  | (119,133)                  |
| Net fixed assets              | 208,526                    | 331,771                    |

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|  | (Restated)<br>2001 | (Restated)<br>2000 |
|--|--------------------|--------------------|
|  | <hr/>              | <hr/>              |
| Other assets:  |                    |                    |
| Deposits   | 21,730             | 13,495             |
| Marketable Securities  | 3,200              | 175,500            |
| Loans Held for Resale  | 17,069,794         | 6,871,880          |
| Prepaid Expenses   | 59,564             | 116,593            |
| Title Co. Advances   | 330,247            | 124,347            |
| Intangible Assets (Net)  | 1,560,000          | 1,650,000          |
| <br>Total other assets   | <br>19,044,535     | <br>8,951,815      |
| <br>TOTAL ASSETS   | <br>\$ 21,396,017  | <br>\$ 9,934,420   |
| <br>LIABILITIES AND STOCKHOLDERS' EQUITY:  |                    |                    |
| Current liabilities:   |                    |                    |
| Accounts Payable   | \$ 141,523         | \$ 381,650         |
| Accrued Expenses   | 354,990            | 17,711             |
| Notes Payable  | 163,688            | 221,670            |
| Loan Reserve   | 41,037             | 0                  |
| Debenture Payable  | 162,100            | 0                  |
| <br>Total current liabilities  | <br>863,338        | <br>621,031        |
| <br>Long-Term debt   | <br>0              | <br>60,000         |
| <br>Other liabilities:   |                    |                    |
| Warehouse Line Payable - Note 9  | 16,894,300         | 6,682,874          |
| <br>Total other liabilities  | <br>16,894,300     | <br>6,682,874      |
| <br>Stockholders' equity:  |                    |                    |
| Preferred stock \$.0000001 Par Value<br>1,000,000 shares authorized, None issued   | 0                  | 0                  |
| Common stock \$.0000001 Par Value<br>50,000,000 shares authorized, 2,273,622 issued<br>and outstanding for 2001 and 1,985,492 issued<br>and outstanding for 2000 | 1                  | 1                  |
| Additional Paid-in Capital   | 7,213,915          | 6,695,909          |
| Retained Earnings (Deficit)  | (3,494,487)        | (4,125,395)        |
| Deferred Compensation  | (81,050)           | 0                  |
| <br>Total stockholders' equity   | <br>3,638,379      | <br>2,570,515      |
| <br>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | <br>\$ 21,396,017  | <br>\$ 9,934,420   |

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

**ENTRUST FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | <b>Entrust<br/>Financial<br/>December 31,<br/>2001</b> | <b>Entrust<br/>Mortgage<br/>December 31,<br/>2001</b> | <b>(Restated)<br/>Year<br/>Ended<br/>December 31,<br/>2001</b> | <b>(Restated)<br/>Year<br/>Ended<br/>December 31,<br/>2000</b> |
|--|--|---|--|--|
| <b>REVENUE:</b>                            |  |   |  |  |
| Loan Origination Fees                      | \$ --  | \$ 9,040,504  | \$ 9,040,504   | \$ 4,428,185   |
| Interest Income                            | --   | 1,175,953   | 1,175,953  | 746,430  |
| Other Income                               | 17,263   | 4,625   | 21,888   | 2,145  |
| <b>Total Revenue</b>                       | <b>17,263</b>  | <b>10,221,082</b>                                     | <b>10,238,345</b>  | <b>5,176,760</b>   |
| <b>OPERATING EXPENSES:</b>                 |  |   |  |  |
| Loan Origination Costs                     | --   | 7,136,589   | 7,136,589  | 4,025,835  |
| Interest Expense                           | 150,883  | 994,745   | 1,145,628  | 812,959  |
| General and Administrative                 | 1,053,777  | 251,181   | 1,304,958  | 1,671,705  |
| Net loss from FocV's Technologies          | --   | --  | --   | 1,400,000  |
| <b>Total Operating Expenses</b>            | <b>1,204,660</b>                                       | <b>8,382,515</b>                                      | <b>9,587,175</b>   | <b>7,910,499</b>   |
| <b>OTHER INCOME AND EXPENSES</b>           |  |   |  |  |
| Loss on Investments                        | --   | (24,300)  | (24,300)   | --   |
| Interest Expense                           | --   | (385)   | (385)  | --   |
| Interest Income                            | 30   | 4,393   | 4,423  | --   |
| <b>Total Other Income and Expenses</b>     | <b>30</b>  | <b>(20,292)</b>                                       | <b>(20,262)</b>  | <b>--</b>  |
| <b>Net Profit (Loss)</b>                   | <b>\$(1,187,367)</b>                                   | <b>\$ 1,818,275</b>                                   | <b>\$ 630,908</b>  | <b>\$(2,733,739)</b>   |
| <br>                                       |  |   |  |  |
| Basic earnings/(loss) per share            |  |   | \$ 0.29  | \$ (1.79)  |
| <br>                                       |  |   |  |  |
| Diluted earnings/(loss) per share          |  |   | \$ 0.28  | \$ (1.79)  |
| <br>                                       |  |   |  |  |
| Basic Weighted Average Shares Outstanding  |  |   | 2,150,201  | 1,531,106  |
| <br>                                       |  |   |  |  |
| Diluted Weighted Average Share Outstanding |  |   | 2,241,701  | 1,531,106  |

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

**ENTRUST FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)**  
**December 31, 2001**

|   | <b>*COMMON<br/>STOCKS</b> |               | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>(Restated)</b>             | <b>Deferred<br/>Compensation</b> | <b>Total<br/>Stockholders'<br/>Equity</b> |
|---|---------------------------|---------------|---|-------------------------------|----------------------------------|---|
|   | <b>Shares</b>             | <b>Amount</b> |   | <b>Earnings<br/>(Deficit)</b> |                                  |   |
| Balance - December 31, 1998x                        | 700,880                   | 1             | 138,008                                   | (70,646)                      | 0                                | 67,363                                    |
| Issuance of stock for acquisition 4/99x             | 510,000                   | 0             | 2,889,412                                 | 0                             | 0                                | 2,889,412                                 |
| Issuance of stock for cash 6/99x                    | 125,320                   | 0             | 891,839                                   | 0                             | 0                                | 891,839                                   |
| Issuance of stock for services 8/99x                | 30,000                    | 0             | 50,000                                    | 0                             | 0                                | 50,000                                    |
| Net loss for the year                               | 0                         | 0             | 0   | (1,321,010)                   | 0                                | (1,321,010)                               |
| Balance - December 31, 1999x                        | 1,366,200                 | 1             | 3,969,259                                 | (1,391,656)                   | 0                                | 2,577,604                                 |
| Issuance of stock for services 6/00x                | 74,500                    | 0             | 126,650                                   | 0                             | 0                                | 126,650                                   |
| Issuance of stock for cash 6/00x                    | 109,166                   | 0             | 700,000                                   | 0                             | 0                                | 700,000                                   |
| Issuance of stock for repayment of Debenture 10/00x | 285,626                   | 0             | 500,000                                   | 0                             | 0                                | 500,000                                   |
| Issuance of stock for acquisition 12/00x            | 150,000                   | 0             | 1,400,000                                 | 0                             | 0                                | 1,400,000                                 |
| Net loss for the year                               | 0                         | 0             | 0   | (2,733,739)                   | 0                                | (2,733,739)                               |
| Balance - December 31, 2000x                        | 1,985,492                 | 1             | 6,695,909                                 | (4,125,395)                   | 0                                | 2,570,515                                 |
| Issuance of stock for cash 3/01x                    | 50,000                    | 0             | 100,000                                   | 0                             | 0                                | 100,000                                   |
| Issuance of stock for services 3/01x                | 30,000                    | 0             | 30,000                                    | 0                             | 0                                | 30,000                                    |
| Issuance of stock for cash 4/01x                    | 64,596                    | 0             | 70,424                                    | 0                             | 0                                | 70,424                                    |
| Issuance of stock for services 5/01x                | 138,534                   | 0             | 107,219                                   | 0                             | 0                                | 107,219                                   |
| Issuance of stock for services 7/01x                | 5,000                     | 0             | 3,000                                     | 0                             | 0                                | 3,000                                     |
| Warrants Granted                                    | 0                         | 0             | 207,363                                   | 0                             | (207,363)                        | 0   |
| Warrants Earned                                     | 0                         | 0             | 0   | 0                             | 126,313                          | 126,313                                   |
| Net profit for the year                             | 0                         | 0             | 0   | 630,908                       | 0                                | 630,908                                   |
| Balance - December 31, 2001x                        | 2,273,622                 | \$ 1          | \$7,213,915                               | \$(3,494,487)                 | \$(81,050)                       | \$ 3,638,379                              |

\*All share and per share amounts have been retroactively adjusted to give effect for the one-for ten split.

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



**ENTRUST FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**FOR THE YEAR ENDED DECEMBER 31,**

|  | <b>(Restated)</b><br><b>2001</b> | <b>(Restated)</b><br><b>2000</b> |
|--|----------------------------------|----------------------------------|
| Cash Flows from Operating Activities:  |                                  |                                  |
| Net Profit (Loss)  | \$ 630,908                       | \$(2,733,739)                    |
| Adjustments to reconcile net income<br>to net cash provided from operating activities: |                                  |                                  |
| Depreciation   | 77,675                           | 69,128                           |
| Amortization of Intangible Assets  | 90,000                           | 90,000                           |
| Stock issued for services  | 140,219                          | 126,650                          |
| Compensation expense related to options  | 126,313                          | --                               |
| (Increase) decrease in notes receivable  | (380,257)                        | 14,425                           |
| (Increase) decrease in accounts receivable   | (361,136)                        | 127,136                          |
| (Increase) decrease in prepaid expenses  | 57,039                           | --                               |
| (Increase) decrease in title co. advances  | (205,900)                        | --                               |
| (Increase) decrease in loans held for Resale   | (10,197,914)                     | 5,294,307                        |
| Increase (decrease) marketable securities  | 172,300                          | --                               |
| (Increase) decrease in deposits  | (8,245)                          | (467)                            |
| Increase (decrease) in accounts payable  | (240,127)                        | 230,342                          |
| Increase (decrease) in accrued expenses  | 382,849                          | (75,412)                         |
| Increase (decrease) in loan reserve  | 41,037                           | --                               |
| <b>Net Cash Provided by Operating Activities</b>                                       | <b>(9,675,239)</b>               | <b>3,142,370</b>                 |
| Cash Flows from Investing Activities:  |                                  |                                  |
| Capital Expenditures   | --                               | (406,857)                        |
| <b>Net Cash Used for Investing Activities</b>  | <b>--</b>                        | <b>(406,857)</b>                 |
| Cash Flows from Financing Activities   |                                  |                                  |
| Increase (decrease) in Warehouse line payable  | 10,211,426                       | (5,291,961)                      |
| Repayment of Debt  | (117,982)                        | --                               |
| Debentures Payable   | 162,100                          | --                               |
| Issuance of Common Stocks  | 170,424                          | 2,600,000                        |
| <b>Net Cash Provided by Financing Activities</b>                                       | <b>10,425,968</b>                | <b>(2,691,961)</b>               |
| Net Increase (Decrease) in Cash & Cash Equivalents                                     | 750,729                          | 43,552                           |
| Cash & Cash Equivalents at Beginning of Year   | 108,119                          | 64,567                           |
| Cash and cash equivalents at end of year   | \$ 858,848                       | \$ 108,119                       |
| Cash paid during year for interest   | \$ 385                           | \$ 22,214                        |

|  | (Restated)<br>2001 | (Restated)<br>2000 |
|--|--------------------|--------------------|
|  | -----              | -----              |
| Income taxes paid during year                | \$ --              | \$ --              |
| NON-CASH TRANSACTIONS:                       |                    |                    |
| Common stock issued in exchange for services | \$ 140,219         | \$ 126,650         |
| Warrants granted for services                | \$ 56,000          | \$ --              |
| Warrants granted for debenture holders       | \$ 151,363         | \$ --              |

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

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**ENTRUST FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 1 Organization and Summary of Significant Accounting Policies:**

**Organization Nature of Operations:**

Entrust Financial Services, Inc. (the Company) was incorporated on November 8, 1996, under the laws of the State of Colorado as Centennial Banc Share Corporation. The name of the Company was changed to Entrust Financial Services, Inc. as of April 6, 2001. The Company was formed for the purpose of developing and maintaining the business associated with mortgage banking and spent several months of preparation and research before beginning formal operations on March 10, 1997. No financial transactions occurred in 1996.

On April 30, 1999 the Company purchased 100% of Entrust Mortgage, Inc. for eight hundred thousand shares of common stock. Entrust Mortgage, Inc. became a wholly owned subsidiary of the Company and is included in these consolidated financial statements utilizing the purchase method of accounting. Entrust Mortgage, Inc. was incorporated under the laws of the State of Colorado on March 4, 1999.

The Company, through its subsidiary, Entrust Mortgage, Inc., is an approved mortgage banker in 40 states, which has a correspondent relationship with several large financial institutions. The Company originates residential real estate loans in over forty states and sells them to financial institutions. The Company receives fees from borrowers and Service Release Premiums on loans sold to financial institutions. Management believes that the Company is not economically dependent on any one financial institution because the Company assigns loans to numerous financial institutions.

The Company acts as a loan correspondent for lenders for certain loans closed and funded by the Company and sold to the lenders. The Company has entered into various loan purchase and sale agreements. The transfers of the mortgage loans that are subject to these agreements are subject to the warranties, representations and provisions in the agreement. Certain lenders have the right to require the Company to repurchase a mortgage loan for any of the following reasons: (a) if a representation and warranty given by the Company as to a particular mortgage loan is breached, (b) if there has been a breach of any other terms and conditions of the agreement, and (c) if final post-closing documentation is improper or incomplete after a reasonable period of time, the determination of which is at the lender's discretion. At the lender's option, the Company shall be required either (1) promptly to cure such a breach in all material respects; (2) to repurchase the mortgage loan at a price equal to the principal balance of the mortgage loan, recapture of the service release premium, and interest at the mortgage loan rate from

the date to which the interest has last been paid to the date of repurchase.

**Capital Stock Transactions:**

The authorized capital stock of the corporation is 50,000,000 shares of common stock at \$.0000001 and 1,000,000 shares of preferred stock at \$.0000001 par value. No preferred stock has been issued. On January 28, 2002, the Company, upon approval by the shareholders of the Company, resolved to do a one-for-ten split of the issued and outstanding common shares of the Company. No change in the par value or in the total number of authorized shares were made.

All share and per share amounts in the accompanying financial statements of the Company have been retroactively adjusted to give effect to the stock split.

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**ENTRUST FINANCIAL SERVICES, INC.  
Notes to Financial Statements  
December 31, 2001**

**Note 1 Organization and Summary of Significant Accounting Policies (Cont):**

**Cash and Cash Equivalents:**

The Company considers all highly liquid debt instruments, purchased with an original maturity of ninety (90) days or less, to be cash equivalents.

**Concentration of Credit Risk:**

Financial instruments, which potentially subject the Company to concentration of credit risk, consist primarily of mortgage notes receivable. The Company grants credit to mortgage borrowers nationwide. Concentrations of credit with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base and the fact that the commissions and fees paid to the Company are remitted to the Company within a short period after the closing. As of December 31, 2001, the Company has no significant concentrations of credit risk with regard to these financial instruments.

**Pervasiveness of Estimates:**

The preparation of a financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

**Geographic Area of Operations and Interest Rates:**

The Company originates residential loans in over thirty states and most geographic areas of the United States. The potential for severe financial impact which can result from negative effects of economic conditions within the market of geographic areas are limited due to the Company's diverse geographic origination's. The interest rates at which borrowers can refinance or obtain new financing for real estate acquired has a direct effect on the demand for the Company's services. Changes in interest rates could result in potential severe impacts on future operations of the Company.

**Property and Equipment:**

Property and equipment is stated at cost. The cost of ordinary maintenance and repairs is charged to operations while renewals and replacements are capitalized. Depreciation is computed on the straight line method over the following estimated useful lives:

|                        |         |
|------------------------|---------|
| Furniture and fixtures | 7 years |
| Computers & Equipment  | 5 years |

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**ENTRUST FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 1 Organization and Summary of Significant Accounting Policies (Cont):****Intangible Assets:**

Intangible assets consist of the following as of December 31, 2001:

|                   | <b>Aquis.<br/>Cost</b> | <b>Accum.<br/>Amort.</b> | <b>Net</b>         | <b>Est. Useful Life</b> |
|-------------------|------------------------|--------------------------|--------------------|-------------------------|
| Client Contracts  | \$1,200,000            | \$ 160,000               | \$1,040,000        | 20 Years                |
| State Approvals   | 400,000                | 28,000                   | 372,000            | 40 Years                |
| Technology Rights | 200,000                | 52,000                   | 148,000            | 10 Years                |
|                   | <b>\$1,800,000</b>     | <b>\$ 240,000</b>        | <b>\$1,560,000</b> |                         |

|                   | <b>Amortization<br/>Expense<br/>For the Year</b> |
|-------------------|--|
| Client Contracts  | \$60,000   |
| State Approvals   | 10,000   |
| Technology Rights | 20,000   |
| Total             | <b>\$90,000</b>                                  |

Intangible assets represents the excess of acquisition costs over the fair market value of the net assets of acquired business which have been allocated to identified intangible assets and are being amortized on a straight-line basis over their estimated useful lives ranging from ten to forty years. In accordance with APB 17, Intangible Assets, the Company continues to evaluate the amortization period to determine whether events or circumstances warrant revised amortization periods. Additionally, the Company considers whether the carrying value of such assets should be reduced based on the future benefits of its intangible assets.

**Revenue Recognition:**

The Company's earnings come from fees charged at closing, margins earned by selling loans into secondary markets for a premium and interest paid on a loan while the Company holds the loan for sale. Loan origination fees are earned at closing and loan origination costs are expensed when incurred. Margins earned by selling loans is recognized when the purchaser has taken title and assumes the risks and rewards of ownership. Income on all loans is recognized on the interest method. Accrual of interest income is suspended at the time at which collection of an account becomes doubtful.

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**ENTRUST FINANCIAL SERVICES, INC.  
Notes to Financial Statements  
December 31, 2001**

**Note 1 Organization and Summary of Significant Accounting Policies (Cont):**

**Fair value of Financial Instruments:**

The carrying amount of cash, accounts receivable, accounts payable and accrued expenses are considered to be representative of their respective fair values because of the short-term nature of these financial instruments. The carrying amount of the notes payable are reasonable estimates of fair value as the loans bear interest based on market rates currently available for debt with similar terms.

The fair value estimates presented herein are based on relevant information available to management as of December 31, 2001. Management is not aware of any factors that would significantly affect these estimated fair value amounts.

**Loans Held for Sale:**

Mortgages acquired by the Company and intended for sale in the secondary market are carried at lower of cost or estimated market value in the aggregate. The market value of these mortgage loans is determined by obtaining market quotes for loans with similar characteristics.

**Income Taxes:**

The provision for income taxes is computed using the liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

**Net earnings (loss) per share:**

Basic and diluted earnings (loss) per share information is presented under the requirements of SFAS No. 128, *Earnings per Share*. Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period, less shares subject to repurchase. Diluted net loss per share reflects the potential dilution of securities by adding other common stock equivalents, including stock options, shares subject to repurchase, warrants and convertible preferred stock, in the weighted-average number of common shares outstanding for the period if dilutive.

**Stock Based Compensation:**

SFAS No. 123, *Accounting for Stock-Based Compensation*, establishes a fair value method of accounting for employee stock options and similar equity instruments. The fair value method requires compensation cost to be measured at the grant date based on the value of the award and is recognized over the service period. The Company has elected to adopt SFAS 123.

**Loan Loss Reserve:**

The Company's loan loss reserve for 2001 represents managements best estimate of loan losses based on historical data of loans held for sale.

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**ENTRUST FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 2 - Notes Receivable**

Notes receivable as of December 31, 2001 consist of the following:

|   | 2001      | 2000      |
|---|-----------|-----------|
| Note receivable from EMB Mortgage dated April 10, 2001 with an interest rate of 10% Payable by September 30, 2002     | \$500,000 | \$190,512 |
| Note receivable from Scott Sax dated December 31, 2001 with an interest rate of 6%. Payable by January 1, 2004        | 34,470    | -0-       |
| Note receivable from Patricia Saunders dated December 31, 2001 with an interest rate of 6% Payable by January 1, 2004 | 36,299    | -0-       |
| Note receivable from DC Holding dated 12/22/2000 with no interest Payable upon demand                                 | 75,000    | 75,000    |
| Total Notes Receivable  | \$645,769 | \$265,512 |

**Note 3 - Note Payable**

Notes payable as of December 31, 2001 consist of the following:

|   | 2001   | 2000      |
|---|--------|-----------|
| Note payable to Harsh Development dated Aug 24, 1999. With an annual interest rate of 24% with a maturity date of Feb. 23, 2001 | \$ -0- | \$ 50,000 |
| Note payable to Patricia Saunders dated Dec   |        |           |

|  | <u>2001</u> | <u>2000</u> |
|--|-------------|-------------|
| <del>As of 2000</del> , with no interest and payable upon<br>Note payable to Scott Sax dated June, 2000  | -0-         | 27,514      |
| With no interest and payable upon demand<br>Note payable to Jerry Burden dated April 20,<br>2000. With 13 1/2% interest payable April 3,<br>2002 | -0-         | 40,468      |
|  | 163,688     | 163,688     |
| Total notes payable  | 163,688     | 281,670     |
| Less Long Term-Note Payable  | -0-         | 60,000      |
| Net - Notes Payable  | \$163,688   | \$221,670   |

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**ENTRUST FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 4 Convertible Debenture:**

The Company issued a 16% convertible debenture to Bayview Marketing for cash proceeds totaling \$162,100 in fiscal year 2001. This convertible debenture has a maturity date of April 2, 2003 and is convertible into common stock at \$1.00 per share. The Company also issued Class A Warrants equivalent to the amount of the debenture held divided by the warrant price of \$1.20 per share to be exercised over the period of three years. The debt discount was immediately written-off as interest expense as the amounts were immaterial.

**Note 5 Impact of Recently Issued Accounting Standards:**

SFAS No. 131 requires disclosure of certain information regarding operating segments, products, and services, geographic areas of operation and major customers. SFAS No. 134 accounting for mortgage-backed securities retained after the securitization of mortgage loans held for sale by a mortgage banking enterprise. SFAS No. 140 accounts for transfers and servicing of Financial Assets and Extinguishment of Liabilities. The Company operates one business segment.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 Business Combinations (FAS 141) and Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (FAS 142). FAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. The Company is in the transitional period of adopting FAS 142. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of FAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt FAS 142 effective January 1, 2002. Management believes that the adoption of this new accounting pronouncement is not expected to have a material impact on the Company's financial position or results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), which supersedes both Statement of Financial Accounting Standards No. 121,

Accounting for the Impairment of Long-Lived Assets and for Long Lived Assets to Be Disposed Of (FAS 121, and the accounting and reporting provisions of APB Opinion No. 30, Reporting of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, (Opinion 30), for the disposal of a segment of a business. FAS 144 retains the fundamental provisions in FAS 121 for recognizing and measuring impairment loss on long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with FAS 121. For example, FAS 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale.

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**ENTRUST FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 5 Impact of Recently Issued Accounting Standards (Cont):**

The Company is required to adopt FAS 144 no later than its fiscal year beginning after December 15, 2001. Management does not expect the adoption of FAS 144 for long-lived assets held for use to have a material impact on the Company's consolidated financial position or results of operations because the impairment assessment under FAS 144 is largely unchanged from FAS 121. The provisions of this statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities and therefore, will depend on future actions, if any, initiated by management. As a result, management cannot determine the potential effects that adoption of FAS 144 will have on the Company's consolidated financial position or results of operations with respect to future disposal decisions.

**Note 6 Warrants**

The Company has issued warrants to purchase common stock to certain consultants of the Company. These warrants have terms ranging from two to three years. The Company also granted warrants to Bayview Marketing along with its debentures

At December 31, 2001, warrants to purchase 335,084 shares of the Company's common stock at a weighted average exercise price of \$1.06 per share are outstanding. At December 31, 2001 warrants for 185,084 shares are exercisable and the balance is exercisable according to a specific schedule if certain contingencies and commitments are met. None of the warrants have been exercised.

On November 1, 2001 a consulting contract was signed in which the following compensation was set forth:

Consultant shall receive the sum of \$5,000 per month, beginning with the month of November 2001. Consultant shall be granted warrants in November 2001 to purchase a total of 200,000 shares of the Company's common stock. The warrants will be for a period of two years from the date of grant at a price of \$1.00 per share. However, the warrants shall be exercised according to the following schedule:

50,000 warrants are to be exercisable immediately; 50,000 warrants shall be exercisable at such time as the Company has received at least \$1,000,000 in additional equity financing or other acceptable alternative financing and/or credit line; 50,000 warrants shall be exercisable at such time as the bid price of the Company's common stock reaches \$5.00 per share for thirty consecutive trading days; 50,000 warrants shall be exercisable upon the Company's listing on a national stock exchange agreeable to the Company.

In the event of any recapitalization of the Company's common stock, including, but not limited to, a reverse split, the warrants will be adjusted proportionately.

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**ENTRUST FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 6 Warrants (Cont):**

The following table summarizes the stock option activity:

|                               | <b>Number<br/>Of Shares</b> | <b>Exercise<br/>Price<br/>Per Share</b> |
|-------------------------------|-----------------------------|---|
| Outstanding December 31, 2000 | -0-                         | -0-                                     |
| Granted                       | 335,084                     | \$ 1.06                                 |
| Exercised                     | -0-                         | -0-                                     |
| Cancelled                     | -0-                         | -0-                                     |
| Outstanding December 31, 2001 | 335,084                     | \$ 1.06                                 |

| <b>Price Range</b> | <b>Options Outstanding</b> |  |  | <b>Options Exercisable</b> |  |
|--------------------|----------------------------|--|--|----------------------------|--|
|                    | <b>Shares</b>              | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Life</b> | <b>Shares</b>              | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
| \$1.00             | 200,000                    | \$1.00   | 2 Years  | 50,000                     | \$1.00   |
| \$1.20             | 135,084                    | \$1.20   | 3 years  | 135,084                    | \$1.20   |

*The Company elected to account for its stock options under the fair value method prescribed by SFAS 123. The fair value of these options was estimated at the date of grant using the Black-Scholes method for option pricing and the following weighted average assumptions: for the consultant warrant risk-free interest rates of 2.1%; dividend yield of 0%; volatility factors of the expected market price of the Company's common stock of 109%; and an expected life of the option of 700 days. These assumptions resulted in weighted-average fair value of \$.80.*

For Bayview risk free interest rate of 4.4%; dividend yield of 0%; volatility factors of the expected market price of the Company's common stock of 109%; and an expected life of the option of 1021 days. These assumptions resulted in weighted-average fair value of \$1.05.

**Note 7 Marketable Securities:**

The Company also owns 10,000 shares of Sea View Underwater Research, Inc. with a fair market value of \$.32 per share as of December 31, 2001. These are trading securities bought principally for purpose of selling them in the near term. Amounts are reported at fair value, with unrealized gains and losses included in earnings.

**ENTRUST FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 8 Income Taxes:**

Significant components of the Company's deferred tax liabilities and assets are as follows:

|  | <b>2001</b> | <b>2000</b> |
|--|-------------|-------------|
| Deferred Tax Liability                 | \$ 0        | \$ 0        |
| Deferred Tax Assets                    |             |             |
| Net Operating Loss Carryforwards       | \$ 40,128   | \$ 468,030  |
| Future Deduction for Intangible Assets | 305,840     | 30,138      |
| Future Deduction for Reserves & Others | 49,150      | 17,711      |
| Total Deferred Tax Assets              | 395,118     | 515,879     |
| Less Valuation Allowance               | (395,118)   | (515,879)   |
| Net Deferred Tax Liability             | \$ 0        | \$ 0        |

The effective tax rate was 0% due to a net operating loss and the non-recognition of any deferred tax assets. Entrust's federal statutory and effective tax rates were 34% and 0% respectfully for 2001 and 2000.

A reconciliation of income tax expense at the statutory federal income tax rate to net income tax expense included in the accompanying consolidated statements of operations is as follows:

|  | <b>December 31</b> |             |
|--|--------------------|-------------|
|  | <b>2001</b>        | <b>2000</b> |
| U.S. federal taxes (benefit) at statutory rate   | \$ 260,775         | \$(468,283) |
| Unbenefitted net operating losses (Prior yr NOL) | (140,078)          | 452,013     |
| Other  | (120,697)          | 16,270      |
| Effective tax rate                               | --                 | --          |

As of December 31, 2001, the Company had a net operating loss carryforward for federal tax purposes approximately equal to the accumulated deficit recognized for book purposes, which will be available to reduce future taxable income. The full realization of the tax benefit associated with the carryforward depends predominantly upon the Company's ability to generate taxable income during the carryforward period. Because, the current uncertainty of realizing such tax assets in the future, a valuation allowance has been recorded equal to the amount of the net deferred

tax asset, which caused the Company's effective tax rate to differ from the statutory income tax rate. The net operating loss carryforward, if not utilized, will begin to expire in the year 2013.

**Note 9 Loans Held for Sale and Warehouse Line Payable:**

Loan held for resale represents loans that have been placed for purchase as of December 31, 2001. The Warehouse Line Payable is the amount of money set aside to finance these Loans receivable.

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**ENTRUST FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 10 Subsequent Event:**

On January 28, 2002 the Board of Directors resolved, upon approval by the Shareholders of the Company of the one-for ten reverse split of the issued and outstanding common shares of the Company. Upon surrender of stock certificates, one new common share will be issued to replace each ten outstanding common shares issued and outstanding as of the record date, February 1, 2002. No change in par value or in the total number of authorized common shares will be made. These financial statements have been retroactively adjusted to give effect for the one for ten reverse split.

The Company issued, in April 2002, sixteen debentures for a total of \$175,000. The debentures do not provide for the payment of interest. A total of thirteen debentures each have a face value of \$8,035 and mature on a consecutive monthly basis, beginning June 1, 2002 and ending June 1, 2003. The remaining three debentures have a face value of \$23,515 and mature on a consecutive monthly basis beginning July 1, 2003 and ending September 1, 2003. These debentures may be converted, at the discretion of the holder, into common stock at ninety percent of the average asking price of the common stock for a period of twenty days prior to the date of conversion. These debentures are subordinated to the 16% Subordinated Debenture.

The Company has also issued warrants to purchase up to 330,000 shares of common stock. The warrants are for a period of one year from the date of grant as to 300,000 shares and eighteen months as to 30,000 shares. A total of 180,000 shares are exercisable at \$1.00 per share, and 150,000 shares exercisable at \$1.50 per shares. Rights to exercise a total of 82,500 common shares will be vested and exercisable per fiscal quarter, beginning June 1, 2002. Any remaining right to receive shares will vest at the start of the fiscal quarter, which begins April 1, 2003. Any unexercised rights to receive common shares in a quarter may be exercised in the subsequent quarter up until termination of the underlying consulting contracts. The Company may, at its discretion, authorize the early vesting and/or exercise of warrants.

**Note 11 Loss on Disposition of Focv's Technologies:**

The December 31, 2000 financials were restated to show the discontinuation of FocVs Technologies division. The Company had acquired Allegro Software in December 2000 with the intent of selling the proprietary software known as Maestro through Focvs. The Company purchased Allegro Software at its fair market value as an Asset Purchase. The Allegro acquisition was an asset purchase in December 2000 for 150,000 shares of post-split stock and was valued at \$1,400,000. The Allegro Software could have been used without modification utilizing an ASP distribution methodology, but was required to be modified to be used in another platform to be competitive for sales in a traditional market. In December 2000, the Company determined that it would not be able to go forward with Focvs, since Focvs' management was unable to secure financing for their venture and because of the rapidly declining environment in the ASP market. The total amount of \$1,400,000 was written off in December 2000.

**ENTRUST FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 12 Commitments:**

The Company leases its offices under long-term leases that are accounted for as operating leases. Future minimum rental payments on all non-cancelable operating leases with initial or remaining lease terms in excess of one year are as follows:

| <b>Year Ending</b>       | <b>Amount</b> |
|--------------------------|---------------|
| January - December, 2002 | \$162,720     |
| January - December, 2003 | 168,370       |
| January - December, 2004 | 174,020       |
| January - December, 2005 | 179,670       |
|                          | <hr/>         |
|                          | \$684,780     |
|                          | =====         |

**Note 13 Restated Financials:**

These financial statements have been restated for the following reasons.

|                      | <b>Restated<br/>2001</b> | <b>Original<br/>2001</b> | <b>Impact</b>      |
|----------------------|--------------------------|--------------------------|--------------------|
|                      | <hr/>                    | <hr/>                    | <hr/>              |
| Current Assets       | \$ 2,142,956             | \$ 19,212,750            | (\$17,069,794)(1)  |
| Fixed Assets         | 208,526                  | 208,526                  | -0-                |
| Other Assets         | 19,044,535               | 2,014,741                | (17,029,794)(1)(2) |
| Current Liabilities  | 863,338                  | 17,757,638               | 16,894,300(3)      |
| Other Liabilities    | 16,894,300               | -0-                      | 16,894,300(3)      |
| Stockholders' Equity | 3,638,379                | 3,678,379                | 40,000(2)          |
| Total Revenue        | 10,238,345               | 10,238,345               | -0-                |
| Total Oper. Expense  | 9,587,175                | 9,451,097                | 136,078(4)         |
| Total Other Expense  | 20,262                   | 20,262                   | -0-                |
| Net Profit           | 630,908                  | 766,986                  | (136,078)(4)       |
| Basic earnings       | .29                      | .36                      | .07                |
| Diluted earnings     | .28                      | .34                      | .06                |

- (1) Loans held for resale reclassified to other assets of \$17,069,794.
- (2) This is a reflection of the accumulated amortization expense being increased by \$40,000 in 2000 from \$148,000 to \$188,000 to reflect revised amortization for Client Contracts, State Approvals and Technology Rights.
- (3) Warehouse line payable reclassified to other liabilities in the amount of \$16,894,300.
- (4) Due to expensing warrants of \$126,313. Amortization expense was increased from \$80,235 to \$90,000 a difference of \$9,765 for Technology Rights.

**ENTRUST FINANCIAL SERVICES, INC.**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 13 Restated Financials (Cont):**

These financial statements have been restated for the following reasons.

FOR YEAR 2000

|                      | <u>Restated<br/>2000</u> | <u>Original<br/>2000</u> | <u>Impact</u>     |
|----------------------|--------------------------|--------------------------|-------------------|
| Current Assets       | \$ 650,834               | \$ 7,522,714             | (\$ 6,871,880)(1) |
| Fixed Assets         | 331,771                  | 1,139,920                | 808,149 (5)       |
| Other Assets         | 8,951,815                | 2,110,170                | 6,841,645(1)(2)   |
| Current Liabilities  | 621,031                  | 7,303,905                | (6,682,874)(3)    |
| Long Term Debt       | 60,000                   | 60,000                   | -0-               |
| Other Liabilities    | 6,682,874                | -0-                      | 6,682,874(3)      |
| Stockholders' Equity | 2,570,515                | 3,408,899                | 838,384(2)(5)     |
| Total Revenue        | 5,176,760                | 5,176,760                | -0-               |
| Total Oper. Expense  | 7,910,499                | 6,562,830                | (1,347,669)(4)(6) |
| Net Loss             | (2,733,739)              | (1,386,070)              | 1,347,669(4)(6)   |
| Basic earnings       | (1.79)                   | (.88)                    | .91               |
| Diluted earnings     | (1.79)                   | (.88)                    | .91               |

- (1) Loans held for resale reclassified to other assets by \$6,871,880.
- (2) Due to Corporate Setup being written off in 1999, as explained in comment 4, which was included in intangible assets less applicable amortization expense taken. In accordance with SOP 98-5, all start up costs should be expensed in the year of acquisition. This is a reflection of the amortization expense being reduced in 2000 for the write off of the Corporate Set-up. As a result we reduced opening retained earnings by \$30,685.
- (3) Warehouse line payable reclassified to other liabilities by \$6,682,874.
- (4) Reduction in amortization expense for 2000 in the amount of \$27,717. This was due to the write-off of Corporate Set-up in 1999 in the amount of \$65,641 less amortization \$37,924. The additional amortization for the Intangible Asset Technology Rights being added to Other Assets and its amortization of \$10,297 for 2000 being expensed.
- (5) Reduction in fixed assets due to the write off of FocV s Technologies. We subsequently revised our accounting to correctly value the assets we acquired from Allegro to \$1,400,000 based on market value of our stock on date of acquisition. That amount was later written off, see comment 6.
- (6) Operating Expenses were increased by \$1,400,00 due to loss on the write-off of FocV s Technologies.

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**Item 8. Disagreements With Accountants on Accounting and Financial Disclosure.**

There were no disagreements on accounting and financial disclosures with the present accounting firm during the reporting period.

PART III**Item 9. Directors, Executive Officers, Promoters, and Control Persons; Compliance with Section 16(a) of the Exchange Act.**

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The Directors and Executive Officers of the Company, their ages and positions held in the Company as of December 31, 2000 are as follows:

| <u>NAME</u>          | <u>AGE</u> | <u>POSITION HELD</u>           |
|----------------------|------------|--------------------------------|
| James Saunders       | 52         | Chairman and Director          |
| Scott J. Sax         | 31         | President and Director         |
| Patricia W. Saunders | 52         | Secretary, Treasurer, Director |
| Richard M. Muller    | 48         | Director                       |
| Matthew Connolly     | 47         | Director                       |

The Directors of the Company will serve in such capacity until the next annual meeting of the Company's shareholders and until their successors have been elected and qualified. The officers serve at the discretion of the Company's Directors. Scott Sax is the son-in-law of James Saunders and Patricia W. Saunders. James Saunders and Patricia W. Saunders are husband and wife. Otherwise, there are not any arrangements or understandings between any of the Company's directors or officers or any other person pursuant to which any officer or director was or is to be selected as an officer or director.

### James Saunders

Mr. Saunders has been the Company's Chairman of the Board and a Director since 2000. He has been involved with the mortgage industry since 1981 and has served as managing director of both large retail and wholesale mortgage companies including Southern Network Mortgage, Express Mortgage, Equityline Financial Services, Inc., and EMB Mortgage. He has developed large commercial and residential real estate projects and has served as President of three different Kiwanis International chapters. Mr. Saunders has a University College Degree from the University of Florida.

### Scott J. Sax

Mr. Sax has been the Company's President and a Director since 1999. He has been involved with us through Entrust Mortgage since 1999 and has also been the President of Entrust Mortgage during this period. From 1997 to 1999, he was Operations Manager of EMB Mortgage Corp., a private mortgage company. From 1993 to 1997, he was an officer of Investment Consultants, Inc., which did business as Equityline Financial Services, Inc. Mr. Sax has a B.S. degree in Management from Georgia Institute of Technology.

### Patricia W. Saunders

Ms. Saunders has been the Company's Secretary-Treasurer and a Director since 1999. She has been involved with us through Entrust Mortgage since 1999 and has also been the broker compliance manager of Entrust Mortgage during this period. From 1993 to 1999, she was President of Investment Consultants, Inc., which did business as Equityline Financial Services, Inc. From 1987 to 1992, she was President of Administrative and Management Consulting Services, Inc. Ms. Saunders has a B.S. degree in Marketing from the University of Florida.

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### Richard M. Muller

Mr. Muller has been a Director since 1999. From 1999 to the present, he has been the Chief Financial Officer of Isotec, Incorporated, a Colorado security systems company. From 1986 to the present, he has involved in various capacities with Denora Corporation, a private multi-national investment company. Mr. Muller has a B.S. degree in Business Administration from the University of Colorado.

### Matthew Connolly

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Mr. Connolly has been a Director since 2000. He is a Certified Public Accountant. In the 1970 s, he became involved with the accounting firm of Kaufman, Rossin, and Company. For more than the past five years, he has had his own accounting firm. He has extensive experience with public companies and profession qualifications in strategic planning, finance, budgeting, as well as public company operations and valuations. Mr. Connolly has a BS degree in Accounting from Northern Arizona University.

### Advisory Board

In 2001, the Company established an Advisory Board which has no management or corporate governance authority but shares their experiences with the Company s Board of Directors. The Advisory Board includes the following members:

#### Ed Alfke

Mr. Alfke is the founder of Rent a Wreck and Practical Auto Rentals, and co founded The Canadian Dispute Resolution Corporation. He has been the subject of in numerous newspapers, magazines and hardback books and a case study for University Commerce Graduate and M.B.A. Programs in Canada. He has spoken at numerous business and Franchise symposiums on marketing and Franchise relations, and was honored to speak at the International Conference for the Environment in 1997, in Antwerp, Belgium. Ed received his Diploma for The Management Course for Presidents from the Presidents Association of New York, while building his companies.

#### Jan Sather

Mr. Sather is a former aerospace engineer at Ford Aerospace and Martin Marietta. He has a MBA from the University of Denver and Bachelor of Science from the University of Minnesota. Mr. Sather joined Career Marketing Associates (CMA) on February 3, 1973 as an executive recruiter under Paul M. Riggins, the company founder. Mr. Sather became General Manager in 1974 and owner of the company in 1985.

Mr. Sather has developed search markets for CMA in a number of disciplines: sales/marketing, engineering, software/information technology, manufacturing, and general management. The market segments have cut across a broad range of industries: biomedical equipment, mechanical equipment, mass storage, software, consumer products and lower technology product and service companies.

#### Will Rogers

Mr. Rogers is a mortgage banking veteran who has served with National Mortgage Corporation, Prudential Bank & Trust, Lomas & Nettleton and Shearson Lehman Mortgage. Currently, Mr. Rogers is Executive Vice President for Megastar Financial in charge of business development. His extensive mortgage banking experience brings related industry expertise to Entrust.

#### David Hite

Mr. Hite has over 30 years experience in the public company arena. He is a CPA, a licensed real estate broker, and has served as the CFO for several Fortune 500 companies. David s knowledge, experience, and contacts have been very helpful in assisting the company with its financial objectives and working towards getting listed on a national securities exchange.

The Board of Directors has established no committees.

Members of the Board of Directors receive 1,250 shares of common stock per quarter as compensation for their service on the Board of Directors.

### Compliance with Section 16(a) of the Securities Exchange Act of 1934.

Section 16(a) of the Securities Exchange Act of 1934 (the 34 Act ) requires the Company s officers and directors and persons owning more than ten percent of the Common Stock, to file initial reports of ownership and changes in ownership with the Securities and Exchange Commission ( SEC ). Additionally, Item 405 of Regulation S-B under the 34 Act requires the Company to identify in its Form 10-KSB and proxy statement those individuals for whom one of the above referenced reports was not filed on a timely basis during the most recent year or prior years. The Company is not aware of any reports which were not made on a timely basis in the last year.

**Item 10. Executive Compensation.****SUMMARY COMPENSATION TABLE**

| Name<br>and<br>Principal (1) (2) (3)<br>Position | Year | <u>Annual Compensation</u>       |                         |   | <u>Long Term Compensation</u>                    |                          |
|--|------|----------------------------------|-------------------------|---|--|--------------------------|
|  |      | Salary<br>Compen-<br>sation (\$) | Annual<br>Bonus<br>(\$) | <u>Awards</u><br>Other<br>Stock (1) (3)<br>Compen-<br>sation (\$) | <u>Payouts</u><br>Restricted<br>LTIP<br>Award(s) | All<br>Other<br>Options/ |
| James<br>Saunders<br>Chairman (1)                | 2001 | \$189,437                        | --                      | --  | --   | --                       |
|  | 2000 | 154,038                          | --                      | --  | --   | --                       |
| Scott J.<br>Sax<br>President (2)                 | 2001 | \$190,412                        | --                      | --  | --   | --                       |
|  | 2000 | 154,823                          | --                      | --  | --   | --                       |
|  | 1999 | 52,500                           | --                      | --  | --   | --                       |
| Patricia W.<br>Saunders<br>Treasurer (2)         | 2001 | \$ 37,249                        | --                      | --  | --   | --                       |
|  | 2000 | 34,097                           | --                      | --  | --   | --                       |
|  | 1999 | 20,769                           | --                      | --  | --   | --                       |

(1) Mr. Saunders became an officer in 2000.

(2) Mr. Sax and Ms. Saunders became officers in 1999.

None of the Company's Officers or Directors have stock options to acquire common shares.

**2002 STOCK COMPENSATION PLAN**

The Company has a current registration statement on Form S-8 for its 2002 Stock Compensation Plan I. A total of 150,000 shares have been registered under the plan. The Company has not issued any shares or options under this plan as of December 31, 2001.

**EQUITY INCENTIVE PLAN**

A total of 250,000 shares of common stock, post split, are reserved under the Company's Equity Incentive Plan. The Company has issued options to acquire 100,000 shares under this plan.

**Item 10. Security Ownership of Certain Beneficial Owners and Management.**

The following sets forth the number of shares of the Company's \$0.000001 par value common stock beneficially owned by (i) each person who, as of February 28, 2002, was known by us to own beneficially more than five percent (5%) of its common stock; (ii) the individual Directors; and (iii) the Officers and Directors as a group. As of February 28, 2002, there were 2,283,277 common shares issued and outstanding, after giving effect to a one-for-ten reverse split of the common shares, which became effective on February 4, 2002.



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| <u>Name and Address<br/>of Beneficial Owner</u>   |            | <u>Amount and Nature of<br/>Beneficial Ownership (1)(2)</u> | <u>Percent of<br/>Class</u> |
|---|------------|---|-----------------------------|
| James Saunders<br>6795 E. Tennessee Ave.<br>Fifth Floor<br>Denver, Colorado 80224       | -0-        | -0-   |                             |
| Scott J. Sax<br>6795 E. Tennessee Ave.<br>Fifth Floor<br>Denver, Colorado 80224         | 315,000(3) | 13.80%  |                             |
| Patricia W. Saunders<br>6795 E. Tennessee Ave.<br>Fifth Floor<br>Denver, Colorado 80224 | 315,000(4) | 13.80%  |                             |
| Richard M. Muller<br>6795 E. Tennessee Ave.<br>Fifth Floor<br>Denver, Colorado 80224    | 7,667      | .34%  |                             |
| Matthew Connolly<br>6795 E. Tennessee Ave.<br>Fifth Floor<br>Denver, Colorado 80224     | 17,534     | .77%  |                             |
| Officers and Directors<br>as a Group (6 Persons)  | 655,201    | 28.70%  |                             |

- (1) All ownership is beneficial and of record, unless indicated otherwise.
- (2) Beneficial owner listed above has sole voting and investment power with respect to the shares shown, unless otherwise indicated
- (3) Includes 300,000 shares owned of record. In addition, 15,000 shares are owned in the name of the S&J Trust.
- (4) Includes 147,000 shares owned of record. In addition, 168,000 shares owned in the name of the Investors Trust, for which Ms. Saunders is a beneficial owner. Mr. Saunders disclaims any beneficial ownership of all of these shares.

**Item 12. Certain Relationships and Related Transactions.**

The Company has a note receivable from Mr. Scott Sax of \$34,470.39 with an interest rate of 6% payable in 8 quarterly installments beginning on April 1, 2002.

The Company has a note receivable from Ms. Patricia Saunders of \$36,298.60 with an interest rate of 6% payable in 8 quarterly installments beginning on April 1, 2002.

PART IV

**Item 13. Exhibits and Reports on Form 8-K.**

(a) The following financial information is filed as part of this report:

Financial Statements

(1)

Schedules

(2)

Exhibits. The following exhibits required by Item 601 to be filed herewith are incorporated by reference to previously filed documents:

(3)

| Exhibit No.<br>----- | Description<br>-----   |
|----------------------|--|
| + 3A                 | Articles of Incorporation  |
| + 3B                 | Bylaws   |
| + 3C                 | Articles of Amendment to change name to easy Qual.com, Inc.              |
| + 3D                 | Articles of Amendment to change name to Entrust Financial Services, Inc. |
| + 10A                | Asset Purchase Agreement with Allegro Software, Inc.                     |
| + 10B                | Employment Agreement with Mr. Edward Nichols                             |
| + 10C                | Debenture Agreement with Bayview Marketing                               |
| + 10D                | Consultant Agreement with David Hite                                     |
| 99.1                 | Certification by Chief Executive Officer                                 |
| 99.2                 | Certification by Chief Financial Officer                                 |

+ Previously Filed.

(b) Reports on Form 8-K. The Company filed no reports on Form 8-K during the fourth quarter of the fiscal year ended December 31, 2001.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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Entrust Financial Services, Inc.

Dated: MARCH 13, 2003

By: /s/ Scott J. Sax  
Scott J. Sax  
President and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: MARCH 13, 2003

By: /s/ David A. Hite  
David A. Hite  
Chief Financial and Accounting Officer,  
Secretary-Treasurer and Director

Dated: MARCH 13, 2003

By: /s/ Thomas Randall  
Thomas Randall  
Director

Dated: MARCH 13, 2003

By: /s/ Bryson Farrill  
Bryson Farrill  
Director

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**CERTIFICATIONS**

I, Scott J. Sax, certify that:

1. I have reviewed this annual report on Form 10-KSB of Entrust Financial Services, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: MARCH 13, 2003

By: /s/ Scott J. Sax  
Scott J. Sax,  
Chief Executive Officer

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**CERTIFICATIONS**

I, David A. Hite, certify that:

1. I have reviewed this annual report on Form 10-KSB of Entrust Financial Services, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: MARCH 13, 2003

By: /s/ David A. Hite  
David A. Hite,  
Chief Financial Officer

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB/A

EXHIBITS  
TO  
Entrust Financial Services, Inc.

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**INDEX TO EXHIBITS**

| Exhibit No. | Description               |
|-------------|---------------------------|
| -----       | -----                     |
| + 3A        | Articles of Incorporation |

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- + 3B Bylaws
- + 3C Articles of Amendment to change name to easy Qual.com, Inc.
- + 3D Articles of Amendment to change name to Entrust Financial Services, Inc.
- + 10A Asset Purchase Agreement with Allegro Software, Inc.
- + 10B Employment Agreement with Mr. Edward Nichols
- + 10C Debenture Agreement with Bayview Marketing
- + 10D Consultant Agreement with David Hite
- 99.1 Certification by Chief Executive Officer
- 99.2 Certification by Chief Financial Officer

+ Previously Filed.