

NORTH AMERICAN LIABILITY GROUP INC
Form 10KSB
April 15, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

Annual report under Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the fiscal year ended December 31, 2003

Commission File Number: 000-25947

NORTH AMERICAN LIABILITY GROUP, INC.

(Formerly Stanfield Educational Alternatives, Inc.)
(Name of Small Business Issuer in its Charter)

Florida	65-0386286
----- (State or Other Jurisdiction of Incorporation or Organization)	----- (IRS Employer Identification No.)
2929 East Commercial Boulevard, Suite 610, Ft. Lauderdale, FL	33308
----- (Address of Principal Executive Offices)	----- (Zip Code)

11891 U.S. Highway One, Suite 100 North Palm Beach, FL 33408

(Former Address of Principal Executive Offices)

(954) 771 5500

(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act:

NONE

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, no par value

Check whether the issuer: (1) filed all reports required to be filed
by Section 13 or 15(d) of the Exchange Act during the past 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 NO

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

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 or any amendment to this Form 10-KSB. [] The issuer is a development stage company, and as such has yet to generate substantial revenues.

As of April 14, 2004, the issuer had 125,124,898 shares of Common Stock outstanding.

Documents incorporated by reference: NONE

PART I

This Annual Report on Form 10-KSB contains forward-looking statements that are not statements of historical fact. Forward-looking statements by their nature involve substantial risks and uncertainties, and actual results may differ materially from such statements. These forward-looking statements are based on the Company's expectations and are subject to a number of risks and uncertainties, including but not limited to, those risks associated with economic conditions generally and the economy in those areas where the Company has or expects to have assets and operations; risks relating to changes in interest rates and in the availability, cost and terms of financing; risks related to the performance of financial markets; risks related to changes in domestic and foreign laws, regulations and taxes; risks associated with future profitability; and other factors discussed elsewhere in this report.

Item 1. Description of Business

North American Liability Group, Inc. (formerly known as Stanfield Educational Alternatives, Inc. ("Stanfield") and formerly known as Innovative Technology Systems, Inc. ("Innovative")) (the "Company") is presently a development stage company.

On December 30, 1999, we entered into an agreement with The National Children's Reading Foundation to purchase intellectual properties and certain fixed assets at fair market value. Lawrence W. Stanfield, who was then our CEO and President, was the sole shareholder of The National Children's Reading Foundation. On January 12, 2000, we changed our name to Stanfield Educational Alternatives, Inc. On April 24, 2000, we opened our first corporate advancement center, and we had planned to open two additional centers in the fall of 2000. However, as of December 31, 2001 these plans were abandoned and the Corporate center was closed. At this time, we were an educational corporation and franchiser of the Stanfield Ed-ancement Centers, a network that provided a comprehensive range of educational and tutorial services to individuals of all ages. We also developed and published a variety of specialized educational programs including a computer global Internet educational campus in various languages. We developed a variety of educational programs for children of all ages for both video and television production.

Change in Business Focus and Change in Control

However, we were never able to commence meaningful business operations or generate sufficient revenues or capital to launch our business in a meaningful sense. As such, we abandoned our plans to operate as an educational corporation. As a result, on June 20, 2003, Larry Stanfield entered into an agreement, subject to some conditions, to transfer his holdings in us to Bradley Wilson and Mr. Wilson became our sole officer and director. Those contingencies have all been met. At that time, due to our lack of business operations, we could be defined as a "shell" company whose sole purpose at the time was to locate and consummate a reverse merger or reverse acquisition with an unidentified private entity.

On October 2, 2003, we completed a triangular merger with Nor-American Liability Corporation ("Nor-American"). Nor-American is a newly formed Florida corporation that was created to support the development of captive insurance programs. Nor-American is a development stage company that has received no revenues to date. At the closing, the Company acquired all of Nor-American's issued and outstanding shares of common stock in exchange for 160,000,000 "unregistered" and "restricted" shares of our common stock. The exchange was on a 16 for 1 basis, with Nor-American having 10,000,000 shares of common stock issued and outstanding. As a result of the Merger, Nor-American became a wholly-owned subsidiary of us.

Through our new subsidiary, we intend to provide services to professional groups seeking to obtain affordable professional liability insurance rates through the creation of captive insurance companies. We anticipate our services to include evaluation, development and management of captive insurance programs. We will seek physicians, attorneys, condominium associations and other business and professional groups in similar industries to assist in the creation and management of captive insurance programs. There is no assurance that we will be able to accomplish any of these goals.

Employees

As of December 31, 2003, we had one employee. This employee is considered full-time and is not represented by a union. We believe our relationship with our employee to be good.

Environmental Laws

We believe we are in compliance with all environmental laws. Future compliance with environmental laws is not expected to have a material adverse effect on the business.

Item 2. Properties

While operating as Stanfield, we defaulted on our previous lease agreement and in fact was evicted from its offices. We have recently signed a one year lease ending December 31, 2004 for approximately 1500 square feet to maintain its Executive offices, located at 2929 East

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

Commercial Boulevard, Suite 610, Ft. Lauderdale, FL 33308. The rent is \$1,415 per month and is currently prepaid for one (1) month. The monthly

3

rent includes heat and utilities. The Company has paid a refundable security deposit of \$2,830. In addition, we lease an apartment for one member of the Subsidiary's Board of Directors. The lease is non-cancelable and expires November 30, 2004. Rent and fees paid at December 31, 2003 amount to \$3,438. The amount of rent remaining to be paid at December 31, 2003 was \$15,695, all of which is due to be paid in 2004.

Item 3. Legal Proceedings

Due to our financial difficulties, we defaulted on a number of debt and lease obligations. We were evicted from our premises and several judgments totaling approximately \$310,000 were entered against us. We are currently trying to resolve these obligations through settlements. However, there is no assurance that we will be able to settle on terms favorable to us and if we are unable to do so, this will have a material adverse affect on our ability to operate properly in the future.

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

No items were submitted to a vote of security holders during the year ended December 31, 2003.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Our common stock is listed for trading on the Over-the-Counter Bulletin Board inter-dealer trading system. The Company's trading symbol is NALG. We declared no dividends on our common stock during the year ended December 31, 2003, and we do not anticipate paying dividends in the future. The high and low closing inter-dealer sales prices for each quarter of the last fiscal year are as follows:

	2003		2002*	
	HIGH	LOW	HIGH	LOW
1st Qtr	13.00	6.00	1.01	0.51
2nd Qtr	10.00	3.00	1.60	0.60
3rd Qtr	8.00	0.25	1.45	0.25
4th Qtr	2.00	0.25	0.15	0.10

*Does not give effect to any stock splits.

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

As of December 31, 2003, the number of shareholders of record was approximately 390.

4

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

FORWARD LOOKING STATEMENTS

All statements contained herein that are not historical facts, including but not limited to, statements regarding the anticipated impact of future capital requirements and future development plans are based on current expectations. These statements are forward looking in nature and involve a number of risks and uncertainties. Actual results may differ materially. Among the factors that could cause actual results to differ materially are the following: amount of revenues earned by the Company's operations; the availability of sufficient capital to finance the Company's business plan on terms satisfactory to the Company; general business and economic conditions; and other risk factors described in the Company's reports filed from time to time with the Commission. The Company wishes to caution readers not to place undue reliance on any such forward looking statements, which statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

Results of Operations

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

We had no revenues for the years ended December 31, 2003 and December 31, 2002. Our prior operations failed to generate any revenues and since merging with Nor-American, a newly formed company, we have also had no revenues. There is no assurance that we will have revenues in fiscal 2004.

As we had no sales in either 2003 or 2002, we had no cost of sales for those fiscal years.

Operating expenses for 2003 were \$178,937 as compared to \$122,861 for 2002, an increase of approximately \$56,000 or 45%. This increase was due to the Company ceasing its operations in the education business and its initial costs for reorganizing itself as a management services business.

Other expenses for the year ended December 31, 2003 were \$137,479 as compared to \$303,370 for the year ended December 31, 2002, a decrease of approximately \$166,000 or 55%. Again, this was due to the cessation of operations.

The Company's net loss for the year ended December 31, 2003 was \$316,416 as compared to \$426,231 for the year ended December 31, 2002, a decrease of approximately \$110,000 or 26%. This decrease in net loss was primarily due to the decrease in other expenses as referenced above.

As a result of the foregoing, for the year ended December 31, 2003,

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

the Company had a loss per share of \$0.01 as compared to a loss per share of \$15.35 for the year ended December 31, 2002, on both a basic and fully diluted basis. No conversion of common stock equivalents has been assumed as such conversion would have an antidilutive effect on diluted loss per common share amounts. Once again, the Company attributes the decrease in loss per share to the decrease in the Company's other expenses and to the

5

issuance of shares in fiscal 2003.

Other Events

On October 2, 2003, we completed a triangular merger with Nor-American Liability Corporation. Nor-American is a newly formed Florida corporation that was created to support the development of captive insurance programs. Nor-American is a development stage company that has generated no revenues to date. At the closing, we acquired all of Nor-American's issued and outstanding shares of common stock in exchange for 160,000,000 "unregistered" and "restricted" shares of our common stock. The exchange was on a 16 for 1 basis, with Nor-American having 10,000,000 shares of common stock issued and outstanding. As a result of that merger, Nor-American became our wholly owned subsidiary and we changed our name to our current name, North American Liability Group, Inc.

We intend through our new subsidiary, to provide services to professional groups seeking to obtain affordable professional liability insurance rates through the creation of captive insurance companies. Our services are anticipated to include evaluation, development, and management of captive insurance programs. We will seek physicians, attorneys, condominium associations and other business and professional groups in similar industries to assist in the creation and management of captive insurance programs. There is no assurance that we will be successful in launching our intended business.

The controlling shareholder of Nor-American Liability Corporation was Bradley Wilson, and pursuant to the terms of the Plan and Agreement of Merger, the shareholders of Nor-American Liability Corporation received 160,000,000 shares of common stock of the Registrant. As of December 31, 2003, taking into account a forward split of the 2001A Convertible Preferred Stock, and the issuance of new stock pursuant to the terms of the merger, and assuming conversion of all of the outstanding shares of 2001A Convertible Preferred Stock, the former shareholders of Nor-American Liability Corporation owned 51.4% of the common stock of the Registrant on a fully diluted basis. The transaction involved the retirement and cancellation of 775,000 shares of 2001A Convertible Preferred Stock equivalent to 96,875,000 shares of common stock, which was owned by John W. Bylsma, the former controlling shareholder. As of December 31, 2003, Mr. Wilson owned or controlled 50.8% of the common stock of the Company, assuming full conversion of all outstanding preferred stock.

The source of the consideration used by the Nor-American stockholders to acquire their interest in the Company was the exchange of their respective shares of the outstanding securities of Nor-American. The primary basis of the "control" by the Nor-American stockholders is stock ownership and/or management positions.

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

The principal terms of the Plan and Agreement of Merger were:

1. The issuance of 160,000,000 "unregistered" and "restricted" shares of our common stock in exchange for all of Nor-

6

American's issued and outstanding shares of common stock. The exchange was on a 16 for 1 basis, with Nor-American having 10,000,000 shares of common stock issued and outstanding. As a result of the Merger, Nor-American became our wholly owned subsidiary.

2. The cancellation of 775,000 shares of 2001A Convertible Preferred Stock owned by our former controlling shareholder, as outlined above.
3. The issuance of 56,625,000 shares of "unregistered" and "restricted" common stock to holders of 2001A Convertible Preferred Stock, which does not include any issuance in connection with any of the shares referred to in paragraph 2 above.
4. A forward split of the remaining 2001A Convertible Preferred Stock, such that 94,375,000 shares of 2001A Convertible Preferred Stock were issued and outstanding, which are convertible into common stock of the Company.
5. An agreement to change our name to "North American Liability Group, Inc." within thirty days of the closing of the Merger, which was effective on November 12, 2003.

On February 5, 2004 the Company cancelled 158,000,000 shares of its Common stock. The cancelled shares were held by Bradley Wilson, Chairman of the Company and Regency Financial Group, each canceling 79,000,000 shares. In consideration of canceling their shares, 30,000,000 and 20,000,000 shares of Class B Preferred stock were issued to Mr. Wilson and Regency, respectively. Shares of Class B Preferred stock carry 10 votes per share and cannot be converted to Common stock prior to September 1, 2005.

Liquidity and Capital Resources

On December 31, 2003, the Company had a working capital deficit of approximately \$1,560,000. Since its inception, the Company has continued to sustain losses. The Company's operations since inception have been funded by the sale of common and preferred stock, and proceeds from loans secured by the Company's common stock. These funds have been used for working capital and capital expenditures and other corporate purchases. The Company has had losses of approximately \$4,300,000 since inception. The Company is seeking financing through equity financing. There can be no assurance that the Company will be able to obtain funding at terms acceptable to the Company. These factors indicate that the Company may not be able to continue as a going concern.

Recent Accounting Pronouncements

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies immediately to variable interest entities

7

(VIE's) created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

The Company has not identified any VIE's for which it is the primary beneficiary or has significant involvement.

In December 2003, the FASB issued FIN No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46-R") to address certain FIN 46 implementation issues. The effective dates and impact of FIN 46 and FIN 46-R are as follows:

- a. For special purpose entities (SPE's) created prior to February 1, 2003, the Company must apply either the provisions of FIN 46 or early adopt the provisions of FIN 46-R at the end of the first interim or annual reporting period ending after December 15, 2003.
- b. For non-SPE's created prior to February 1, 2003, the Company is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004.
- c. For all entities, regardless of whether a SPE, that were created subsequent to January 31, 2003, the provisions of FIN 46 were applicable for variable interests in entities obtained after January 31, 2003. The Company is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 31, 2004.

The adoption of the provisions applicable to SPE's and all other variable interests obtained after January 31, 2003 did not have a material impact on the Company's consolidated financial statements. The Company is currently evaluating the impact of adopting FIN 46-R applicable to non-SPE's created prior to February 1, 2003, but does not expect a material impact.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company has no disagreements with the accountants.

ITEM 8A. CONTROLS AND PROCEDURES

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company's management carried out an evaluation with the participation of the Company's Chief Executive Officer and Chief Financial Officer, its principal executive officer and principal financial officer, respectively, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded as of the end of the period covered by this Form 10-KSB

8

that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in periodic reports filed under the Securities Exchange Act of 1934, as amended. There were no changes in the Company's internal controls over financial reporting identified in connection with the evaluation by the Chief Executive Officer and Chief Financial Officer that occurred during the Company's fourth quarter that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART III

Item 9. Directors, Executive Officers Promoters and Control Persons

This table sets forth the name, age and position of each director and executive officer of the Company:

Name of Director	Age	Position
Bradley Wilson	45	Director, Chairman and President

Bradley Wilson - Director, Chairman and President. Mr. Wilson has served in these capacities since October 2003. Mr. Wilson currently is President of Merbank Capital Corporation, a private consulting company in Orlando, Florida and president of Koala International Wireless Inc., a publicly traded company ("KIWI"). Previously, he was Director of Great Wall Food and Beverage Corp., a U.S. public company (symbol: GWFB) and President of Noble Brands, Inc. (symbol: NBBB).

Item 10. Executive Compensation

Our President and sole director did not receive any remuneration from us during the fiscal year. We have accrued compensation for Mr. Fischer (a director of our subsidiary) in the amount of \$73,900 and David Tews (also a director of our subsidiary) has received \$30,00 in compensation. See "Certain Relationships and Related Transactions." The company has no stock option, retirement, pension, or profit-sharing

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

programs for the benefit of directors, officers or other employees, but the Board of Directors may recommend adoption of one or more such programs in the future.

Employment and Consulting Agreements

Our wholly-owned subsidiary North American Liability Corporation ("the Subsidiary"), entered into an Employment Agreement with the Subsidiary's Chairman and CEO, Harold Fischer. Under this agreement, which is for a term of three years, Fischer is to receive a base annual salary of \$200,000 plus an incentive bonus of up to one time his salary based upon his performance. The Subsidiary was also to issue, upon execution of the agreement, to the employee 1,000,000 shares of common stock. Furthermore, the Subsidiary was to grant to the employee, at the date of the agreement, 4,000,000 Rule 144 shares of common stock which are to be held in escrow and released to the employee in three equal

9

installments on the first, second, and third anniversary of employment. No shares have been issued by the Subsidiary under this Employment Agreement.

James Jarboe is engaged by the Company's wholly-owned subsidiary, North American Liability Corporation ("the Subsidiary"), as a Consultant and Member of its Board of Directors, reporting to its Chairman, in an agreement dated September 18, 2003. The term of the agreement is two (2) years and it provides for (i) an annual salary of \$24,000 paid in equal installments on a monthly basis, subject to deductions and withholdings as required by law, (ii) incentive bonuses for investment procurement (5% of proceeds raised in cash plus 5% in common stock at closing and for Group or Policy procurement (a fair commercial market fee to be determined at the time of the Group or Policy completed with the Subsidiary), and (iii) participation in any or all healthcare plans the Subsidiary provides at the consultant's expense. Upon execution of the agreement the Company agreed to immediately grant an option to purchase 2,000,000 shares of common stock under Rule 144 at 85% of the then current stock price on a day to be determined within 30 days of the effective date of the agreement. Upon termination the consultant is entitled to receive salary and bonuses earned and expenses incurred up to the time of termination, subject to reduction for losses to the Company due to theft, embezzlement, fraud or similar loss caused by the consultant.

Item 11. Security Ownership of Certain Beneficial Owners and Management

As of December 31, 2003, there were 247,820,898 shares of our common stock, no par value outstanding. The following tabulates holdings of our shares by each person who, subject to the above, at the date of this registration, holds of record or is known by our management to own beneficially more than 5.0% of the common shares and, in addition, by all of our directors and officers individually and as a group. To the best of our knowledge, each named beneficial owner (1) has sole voting and investment power with respect to the shares set forth opposite his name.

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

Name and Address of Beneficial Owner(1)	Beneficial Ownership	Beneficial Ownership
Bradley Wilson	78,000,000	31.47%
James Rice (2)	78,000,000	31.47%
All Directors and Executive Officers as a Group (1 persons)	78,000,000	31.47%

(1) The addresses for these shareholders is care of the company.

(2) Mr. Rice's shares are owned by Regency Financial Corp., a company which Mr. Rice controls.

10

Item 12. Certain Relations and Related Transactions

The president, current and former principal stockholders, and certain employees from time to time made advances to us. The advances have been made for financing and working capital purposes. At December 31, 2003 and 2002 respectively, the total of such advances and accrued interest was \$261,917 and \$451,168.

We lease an apartment for one the members of our subsidiary's Board of Directors. The lease is non-cancelable and expires November 30, 2004. Rent and fees paid at December 31, 2003 amount to \$3,438. The amount of rent remaining to be paid at December 31, 2003 was \$15,695, all of which is due to be paid in 2004.

We have a one year agreement to reimburse apartment rental costs for one of our subsidiary's Board of Directors. The amount of reimbursement paid during the year ended December 31, 2003 was \$1,500. The amount of rental reimbursement to be paid in 2004 is \$16,500.

One member of of our subsidiary's Board of Directors has been paid fees for raising working capital for the Company. During the year ended December 31, 2003, the total of the fees paid was \$30,000.

Our wholly-owned subsidiary has an Employment Agreement with Harold Fischer who is the subsidiary's Chairman and CEO. Under this agreement, which is for a term of three years, Fischer is to receive a base annual salary of \$200,000 plus an incentive bonus of up to one time his salary based upon his performance. The Subsidiary was also to issue, upon execution of the agreement, to the employee 1,000,000 shares of common stock. Furthermore, the Subsidiary was to grant to the employee, at the date of the agreement, 4,000,000 Rule 144 shares of common stock which are to be held in escrow and released to the employee in three equal installments on the first, second, and third anniversary of employment. No shares have been issued by the Subsidiary under this Employment Agreement.

The Subsidiary also has a Consulting Agreement with James Jarboe as

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

Consultant and Director. Under this agreement, which is for a term of two years, Jarboe is to receive base annual compensation of \$24,000, plus a bonus to be paid in cash and stock of 10% of any debt or equity capital raised.

We settled a note payable to the former controlling shareholder. With principal and accumulated interest, the debt amounted to \$444,088. In the settlement, we paid \$200,000, the current president contributed \$185,000, and \$59,088 was forgiven.

11

Item 13. Exhibits and Reports on Form 8-K

ITEMS 1 AND 2. INDEX TO AND DESCRIPTION OF EXHIBITS

(a) EXHIBIT No.	EXHIBIT NAME
31.1	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, promulgated under the Securities Exchange Act of 1934, as amended
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees billed for fiscal 2003 and 2002 for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements and review of financial statements included in the registrant's Form 10-QSB were \$14,864 and \$33,290, respectively.

There were no other fees billed to us by our principal accountant.

12

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Boca Raton, Florida on April 14, 2004.

North American Liability Group, Inc.

By: /s/ Bradley Wilson

Bradley Wilson
President, Chief Executive Officer

In accordance with the requirements of the Securities Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/S/Bradley Wilson ----- Bradley Wilson	D/P	4/14/04

13

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

To the Stockholders and Board of Directors of
North American Liability Group, Inc.:

We have audited the accompanying consolidated balance sheets of North American Liability Group, Inc. and Subsidiary (a development stage company) (the "Company") as of December 31, 2003 and 2002 and the related consolidated statements of operations, stockholders' equity (deficiency), and cash flows for the years then ended, and for the period March 23, 1999 (inception) to December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North American Liability Group, Inc. and Subsidiary as of December 31, 2003 and 2002 and the results of their operations and their cash flows for the years then ended, and for the period March 23, 1999 (inception) to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that North American Liability Group, Inc. (a development stage company) will continue as a going concern. As discussed in Note 12 to the financial statements, the Company's net loss during the development period raises substantial doubt about the entity's ability to continue as a going concern. Management's plans and intentions with regard to these matters are discussed in Notes 1(a) and 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ TEDDER, JAMES, WORDEN & ASSOCIATES, P.A.

Orlando, Florida
March 25, 2004

F-1

NORTH AMERICAN LIABILITY GROUP, INC.

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

AND SUBSIDIARY
(A Development Stage Company)

Consolidated Balance Sheets
December 31, 2003 and 2002

	Dec. 31, 2003	Dec. 31, 2002
	-----	-----
Assets		

Current assets:		
Cash	\$ 27,648	\$-
Prepaid expenses	1,415	-
	-----	-----
Total current assets	29,063	-
Property and equipment, net	2,497	-
Other Assets:		
Deposits	4,400	-
	-----	-----
Total other assets	4,400	-
	-----	-----
Total assets	\$ 35,960	\$ -
	=====	=====
Liabilities and Stockholders' Deficiency		

Current liabilities:		
Accounts payable	\$ 192,155	\$ 176,908
Accrued expenses	585,108	383,728
Due to related parties	261,917	451,168
Notes payable	551,466	226,466
	-----	-----
Total current liabilities	1,590,646	1,238,270
	-----	-----
Stockholders' deficiency:		
Series 2001 convertible preferred stock	42,470	47,847
Series 2001 A convertible preferred stock	-	-
Series 2001 B convertible preferred stock	-	-
Class B preferred stock	-	-
Common stock	2,708,109	2,702,732
Accumulated deficit	(4,305,265)	(3,988,849)
	-----	-----
Total stockholders' deficiency	(1,554,686)	(1,238,270)
	-----	-----
Total liabilities and stockholders' deficiency	\$ 35,960	\$ -
	=====	=====

See accompanying notes to the consolidated financial statements.

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

NORTH AMERICAN LIABILITY GROUP, INC.
AND SUBSIDIARY
(A Development Stage Company)

Consolidated Statements of Operations

	Year ended December 31, 2003	Year ended December 31, 2002	Cumulative for the period from March 23, 1999 (inception) to December 31, 2003
	-----	-----	-----
Gross revenues	\$ -	\$ -	\$ 45,744
Cost of sales	-	-	264
	-----	-----	-----
Net revenue	-	-	45,480
Operating expenses	178,937	122,861	3,552,853
Other income (expenses):			
Other income	59,088	-	59,088
Interest expense	(196,567)	(79,292)	(316,953)
Impairment of assets	-	(224,078)	(315,027)
Provision for loss on non-cancelable leases	-	-	(225,000)
	-----	-----	-----
Total other income (expenses)	(137,479)	(303,370)	(797,892)
	-----	-----	-----
Net (loss)	\$ (316,416)	\$ (426,231)	\$ (4,305,265)
	=====	=====	=====
Loss per common share:			
Basic and diluted	(0.01)	(15.35)	
	=====	=====	
Weighted average common shares outstanding:			
Basic and diluted	53,014,718	27,761	
	=====	=====	

See accompanying notes to the consolidated financial statements.

F-3

NORTH AMERICAN LIABILITY GROUP, INC.
AND SUBSIDIARY
(A Development Stage Company)
Consolidated Statements of Stockholders' Equity (Deficiency)
Years ended December 31, 2003 and 2002

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

and the period from May 23, 1999 (Inception) to December 31, 2003

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid in Capital
	-----	-----	-----	-----	-----
Balance March 23, 1999 (inception)	-	\$ -	-	\$ -	\$ -
Issuance of stock	-	-	1,510,000	1,510	241,524
Shares issued to reflect re-capitalization of reverse acquisition	-	-	5,435,000	241,524	(241,524)
Net loss	-	-	-	-	-
	-----	-----	-----	-----	-----
Balances at December 31, 1999	-	-	6,855,000	243,034	-
Issuance of common stock	-	-	405,140	403,140	-
Issuance of common stock for services	-	-	2,069,250	2,055,405	-
Net loss	-	-	-	-	-
	-----	-----	-----	-----	-----
Balances at December 31, 2000	-	-	9,329,390	2,701,579	-
Reverse stock split	-	-	(9,211,435)	-	-
Issuance of Series 2001 convertible preferred stock	25,500	49,000	-	-	-
Issuance of Series 2001 A convertible preferred stock	5,603,000	-	-	-	-
Issuance of Series 2001 B convertible preferred stock	5,643,175	-	-	-	-
Net loss	-	-	-	-	-
	-----	-----	-----	-----	-----
Balances at December 31, 2001	11,271,675	49,000	117,955	2,701,579	-
Conversion of Series 2001 convertible preferred stock to common stock	(600)	(1,153)	2,679	1,153	-
Conversion of Series 2001 A convertible preferred stock to common stock	(4,073,000)	-	4,073,000	-	-
Conversion of Series 2001 B convertible preferred stock to common stock	(2,915,731)	-	2,915,731	-	-
Cancellation of common stock	-	-	(54,051)	-	-

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

Net loss	-	-	-	-	-
Balances at December 31, 2002	4,282,344	\$ 47,847	7,055,314	\$2,702,732	\$ -

See accompanying notes to the consolidated financial statements.

F-4

NORTH AMERICAN LIABILITY GROUP, INC.
AND SUBSIDIARY
(A Development Stage Company)
Consolidated Statements of Stockholders' Equity (Deficiency), Continued
Years ended December 31, 2003 and 2002
and the period from May 23, 1999 (Inception) to December 31, 2003

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid in Capital
	-----	-----	-----	-----	-----
Conversion of Series 2001 convertible preferred stock to common stock	(2,800)	(5,377)	6,000	5,377	-
Cancellation of common stock in 100 for 1 reverse stock split	-	-	(6,990,424)	-	-
Cancellation of Series 2001 B convertible preferred stock for voidance of series	(2,727,444)	-	-	-	-
Cancellation of Series 2001 A convertible preferred stock of the prior controlling shareholder	(775,000)	-	-	-	-
Issuance of Series 2001 A convertible preferred stock in 125 for 1 forward stock split	94,375,000	-	-	-	-
Conversion of Series 2001 A convertible preferred stock for common stock in 1 for 75 merger agreement	(755,000)	-	56,625,000	-	-
Conversion of Series 2001 A to common stock	(31,125,000)	-	31,125,000	-	-
Issuance of common stock in merger agreement	-	-	160,000,000	-	-

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

Issuance of common stock for rounding	-	-	8	-	-
Net loss	-	-	-	-	-
Balances at December 31, 2003	63,272,100	\$ 42,470	247,820,898	\$2,708,109	\$ -

See accompanying notes to the consolidated financial statements.

F-5

NORTH AMERICAN LIABILITY GROUP, INC.
AND SUBSIDIARY
(A Development Stage Company)
Consolidated Statements of Cash Flows

	Year ended December 31, 2003	Year ended December 31, 2002	Cumulative for the period from March 23, 1999 (inception) to December 31, 2003
	-----	-----	-----
Cash flows from operating activities			
Net loss	\$ (316,416)	(426,231)	(4,305,265)
Adjustments to reconcile net loss to net cash used in operating activities:			
Forgiveness of related party note payable	(59,088)	-	(59,088)
Depreciation and amortization	49	50,235	293,772
Loss on impairment of assets	-	224,078	315,027
Provision for loss on non-cancelable leases	-	-	225,000
Common stock issued for services	-	-	2,055,405
Increase (decrease) in cash caused by changes in:			
Other current assets	(1,415)	-	(1,415)
Other assets	(4,400)	-	(4,400)
Accounts payable	15,247	(34,779)	192,155
Accrued expenses	201,380	104,109	425,115
Due to related parties	69,837	82,588	521,005
Net cash used in operating activities	(94,806)	-	(342,640)
Cash flows from investing activities:			
Acquisition of property and equipment	(2,546)	-	(276,999)
Cash flows from financing activities:			
Repayment of note payable to related party	(200,000)	-	(200,000)
Proceeds from issuance of preferred stock	-	-	49,000
Proceeds from issuance of capital stock	-	-	646,174
Due to related parties	-	-	(399,353)

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

Proceeds from issuance of notes payable	325,000	-	551,466
	-----	-----	-----
Net cash provided by financing activities	125,000	-	647,287
	-----	-----	-----
Net increase(decrease) in cash	27,648	-	27,648
Cash at beginning of period	-	-	-
	-----	-----	-----
Cash at end of period	\$ 27,648	\$ -	\$ 27,648
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ -	\$ -	\$ 15,310
	=====	=====	=====
Noncash activity:			
Purchase of intangible assets from related party	\$ -	\$ -	\$ 399,353
	=====	=====	=====
Reduction of capital lease obligation upon impairment of assets	\$ -	\$ -	\$ 65,006
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

F-6

NORTH AMERICAN LIABILITY GROUP, INC.
(A Development Stage Company)
Notes to Financial Statements

(1) Summary of Significant Business and Accounting Policies

(a) Organization

In December 1999, Innovative Technology Systems, Inc. ("Innovative") authorized and entered into an agreement effecting a tax-free exchange in a reorganization pursuant to IRS Code 368(a)(1)(A). Pursuant to the agreement, Innovative exchanged one share of its previously authorized but unissued shares of no par common stock in exchange for two shares of Stanfield Educational Alternatives, Inc. ("Stanfield") common stock. In accordance with the agreement, Innovative acquired all of the issued and outstanding shares of Stanfield in exchange for shares of Innovative. For accounting purposes, the acquisition has been treated as an acquisition of Innovative by Stanfield and as a recapitalization ("Reverse Acquisition") of Stanfield. Subsequent to the recapitalization, Innovative changed its name to Stanfield Educational Alternatives, Inc.

On October 2, 2003, Stanfield completed a triangular merger with Nor-American Liability Corporation. Nor-

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

American is a newly formed Florida corporation that was created to support the development of captive insurance programs. Nor-American is a development stage company that has received no revenues to date. At the closing, the Company acquired all of Nor-American's issued and outstanding shares of common stock in exchange for 160,000,000 "unregistered" and "restricted" shares of the Company's common stock. The exchange was on a 16 for 1 basis, with Nor-American having 10,000,000 shares of common stock issued and outstanding. As a result of the merger, Nor-American became a wholly owned subsidiary of Stanfield. Following the merging of the companies, Stanfield changed its name to North American Liability Group, Inc., referred to as "the Company" hereinafter.

The Company, through its new subsidiary, will provide services to professional groups seeking to obtain affordable professional liability insurance rates through the creation of captive insurance companies. The company's services are anticipated to include evaluation, development, and management of captive insurance programs. The company will seek physicians, attorneys, condominium associations and other business and professional groups in similar industries to assist in the creation and management of captive insurance programs.

The controlling shareholder of Nor-American Liability Corporation was Bradley Wilson, and pursuant to the terms of the Plan and Agreement of Merger, the shareholders of Nor-American Liability Corporation received 160,000,000 shares of common stock of the Registrant. As of December 31, 2003, taking into account a forward split of the 2001A Convertible Preferred Stock, and the issuance of new stock pursuant to the terms of the merger, and assuming conversion of all of the outstanding shares of 2001A Convertible Preferred Stock, the former shareholders of Nor-American Liability Corporation owned 51.4% of the common stock of the Registrant on a fully diluted basis. The transaction involved the retirement and cancellation

F-7

- (1) Summary of Significant Business and Accounting Policies, Continued

of 775,000 shares of 2001A Convertible Preferred Stock equivalent to 96,875,000 shares of common stock, which was owned by John W. Bylsma, the former controlling shareholder. As of December 31, 2003, Mr. Wilson owned or controlled 50.8% of the common stock of the Company, assuming full conversion of all outstanding preferred stock.

The source of the consideration used by the Nor-American stockholders to acquire their interest in the Company was the exchange of their respective shares of the outstanding securities of Nor-American. The primary basis of the

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

"control" by the Nor-American stockholders is stock ownership and/or management positions.

The principal terms of the Plan and Agreement of Merger were:

1. The issuance of 160,000,000 "unregistered" and "restricted" shares of the Company's common stock in exchange for all of Nor-American's issued and outstanding shares of common stock. The exchange was on a 16 for 1 basis, with Nor-American having 10,000,000 shares of common stock issued and outstanding. As a result of the Merger, Nor-American became a wholly owned subsidiary of the Company.
2. The cancellation of 775,000 shares of 2001A Convertible Preferred Stock owned by the Company's former controlling shareholder, as outlined above.
3. The issuance of 56,625,000 shares of "unregistered" and "restricted" common stock to holders of 2001A Convertible Preferred Stock, which does not include any issuance in connection with any of the shares referred to in paragraph 2 above.
4. A forward split of the remaining 2001A Convertible Preferred Stock, such that 94,375,000 shares of 2001A Convertible Preferred Stock were issued and outstanding, which are convertible one-for-one for common stock of the Company.
5. An agreement to change the name of the Company to "North American Liability Group, Inc." within thirty days of the closing of the Merger, which was effective on November 12, 2003.

The Company is in its development stage and needs substantial additional capital to complete its development and to reach an operating stage. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, and therefore, will recover the reported amount of its assets and satisfy its liabilities on a timely basis in the normal course of its operations. See note 12 for a discussion of management's plans and intentions.

(b) Principles of Consolidation

The financial statements include the accounts of North American Liability Group, Inc. and its wholly owned subsidiary, Nor-American Liability Corporation, collectively referred to as the "Company". All significant accounts and transactions have been

F-8

- (1) Summary of Significant Business and Accounting Policies, Continued

eliminated in the consolidation.

(c) Revenue Recognition

The Company records revenue as earned when goods or services are provided.

(d) Cash and Cash Equivalents

Cash includes cash on hand; cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase.

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation for financial statement purposes is computed using the straight-line method over the estimated useful lives of the individual assets, which range from 3 to 5 years.

The Company reviewed its long-lived assets and intangibles for impairment and recorded an impairment charge to write off all long-lived assets and intangibles during 2002.

(f) Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts payable, and amounts due to related parties. Due to the short-term nature of these instruments, the fair value of these instruments approximate their recorded value. The Company has other liabilities which it believes are stated at estimated fair market value.

(g) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(h) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

income in the period that includes the enactment date.

F-9

(1) Summary of Significant Business and Accounting Policies,
Continued

(i) Loss Per Share

Basic loss per common share amounts are based on the weighted average shares outstanding of 53,014,718 and 27,761 for the years ended December 31, 2003 and 2002, respectively. Diluted loss per common share amounts reflect the potential dilution that could occur if convertible preferred shares are converted into common stock. No conversion is assumed if such conversion would have an anti-dilutive effect on diluted loss per common share amounts.

(2) Recent Financial Accounting Standards

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," ("FIN 46"). FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies immediately to variable interest entities (VIE's) created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

The Company has not identified any VIE's for which it is the primary beneficiary or has significant involvement.

In December 2003, the FASB issued FIN No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46-R") to address certain FIN 46 implementation issues. The effective dates and impact of FIN 46 and FIN 46-R are as follows:

- (i) For special purpose entities (SPE's) created prior to February 1, 2003, the Company must apply either the provisions of FIN 46 or early adopt the provisions of FIN 46-R at the end of the first interim or annual reporting period ending after December 15, 2003.
- (ii) For non-SPE's created prior to February 1, 2003, the Company is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004.
- (iii) For all entities, regardless of whether a SPE, that

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

were created subsequent to January 31, 2003, the provisions of FIN 46 were applicable for variable interests in entities obtained after January 31, 2003. The Company is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 31, 2004.

The adoption of the provisions applicable to SPE's and all other variable interests obtained after January 31, 2003 did not have a material impact on the Company's consolidated financial statements. The Company is currently evaluating the impact of

F-10

(2) Recent Financial Accounting Standards, Continued

adopting FIN 46-R applicable to non-SPE's created prior to February 1, 2003, but does not expect a material impact.

(3) Property and Equipment

During 2002, the book value of the assets of the Company related to its former line of business, with an undepreciated cost of \$24,621, were determined to have no future value to the Company and were written off to expense.

Subsequent to the merger in 2003, the Company purchased new computer and telephone equipment.

At December 31, 2003 and 2002, property and equipment consisted of the following:

	2003	2002
	-----	-----
Furniture and equipment	\$ 2,546	\$ -
Less accumulated depreciation	(49)	-
	-----	-----
Property and equipment, net	\$ 2,497	\$ -
	=====	=====

Depreciation expense for the years ended December 31, 2003 and 2002 was \$49 and \$10,299, respectively.

(4) Leases

Operating

During 2000 the Company entered into a lease for office and storage space under a non-cancelable operating lease with an

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

original lease term of five years. Lease payments totaled \$6,840 per month and increased on a yearly basis. During 2001, the lease was amended to reflect the Company's relocation to a smaller suite within the building. The Company has defaulted on this lease obligation. The lessor has expressed an intention to enforce the terms of the lease, and in December 2001, the Circuit Court of Duval County entered a Final Summary Judgment against the former President, individually, for \$33,892 for unpaid rent and against the Company for \$223,733 for non-cancelable obligations under the lease. The amounts accrued interest at the rate of 11.0% for the remainder of 2001, 9.0% for the year ended 2002, and 6.0% for the year ended 2003. As a result, the Company has included non-cancelable obligations and accrued interest under this lease of \$259,921 and \$244,894 in accrued expenses as of December 31, 2003 and 2002, respectively. Interest accrued on this lease obligation during the years ended December 31, 2003 and 2002 was \$15,027 and \$21,161, respectively. No lease payments were made during the years ended December 31, 2003 and 2002.

After the merger in 2003, the Company leased office space for its Executive offices. The Company is obligated under a non-cancelable operating lease for this space through December 2004. No rent expense was incurred for the year ended December 31, 2003. At December 31, 2003 the Company had prepaid one (1) month of rent amounting to \$1,415, and had made a refundable security deposit of \$2,830.

Future minimum rental payments in 2004 under this lease amount to \$15,562.

F-11

(4) Leases, Continued

Capital -----

During 2001, the Company defaulted on a number of leases classified as capital leases. Certain of the assets under these leases have been abandoned or returned to the lessor; others have been maintained by the Company because the lessor has elected to enforce the terms of the lease. For those leases for which assets were abandoned or returned to the lessor, the Company reduced its capital lease obligations in 2001 by \$65,006. In October 2002, the Circuit Court of Duval County entered a default final judgment against the Company and other individuals in the amount of \$85,985 for one lease. This amount accrued interest at the rate of 9% for the remainder of 2002 and at 6% for 2003. As a result, the Company has included non-cancelable obligations and accrued interest under this lease of \$93,315 and \$87,920 in accrued expenses as of December 31, 2003 and 2002, respectively. Interest accrued on this lease obligation during the years ended December 31, 2003 and 2002 was \$5,395 and \$1,935, respectively. No payments were made on this lease obligation during the year ended December 31, 2003.

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

(5) Intangible Assets

At December 31, 2003 and 2002, the Company had no intangible assets.

During 2002, the intangible assets of the Company related to its operations in the educational business, with an unamortized cost of \$199,457 were determined to have no future value to the Company and were written off to expense.

Amortization expense for the years ended December 31, 2003 and 2002 was \$0 and \$39,936, respectively.

(6) Capitalization

(A) COMMON STOCK

In the first half of 2003, the Company issued 6,000 shares of its common stock in voluntary conversions of 2,800 shares of its Series 2001 Convertible Preferred stock.

On July 30, 2003, the Majority Shareholders and the Board of Directors approved amendments to the Articles of Incorporation which were designed to reorganize the capital structure of the Company. The Articles increased the total number of authorized common shares to 500,000,000. The stock has no par value.

On September 1, 2003, the Company effected a one hundred-for-one reverse split of its outstanding common stock.

In accordance with the Plan and Agreement of Merger, as described in Note 1, the Company issued 56,625,000 shares of common stock as a result of a 75-to-1 conversion of its Series 2001A Convertible Preferred stock outstanding at the time of the merger. In addition, the Company issued 160,000,000 shares of common stock in a 16-to-1 exchange for the 10,000,000 issued and outstanding shares of North American Liability Corporation.

Following the merger, 31,125,000 shares of common stock were issued in a voluntary 1-to-1 conversion of outstanding shares of Series 2001A convertible preferred stock.

F-12

(6) Capitalization, Continued

At December 31, 2003 and 2002, the Company had outstanding 247,820,898 and 7,055,314 shares of common stock, respectively.

(B) PREFERRED STOCK

In 2001, Series 2001 Convertible Preferred stock was approved to be issued in a private offering as follows:

- (i) Holders of Series 2001 Convertible Preferred Stock shall receive preference in the event of liquidation,

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

dissolution or winding up of the corporation. Specifically, in the event of liquidation, dissolution or winding up holders of Series 2001 Preferred Stock shall be paid Five Dollars (\$5.00) per share for each Preferred Share, plus all declared and unpaid dividends.

- (ii) Shares of Series 2001 Convertible Preferred Stock shall have no voting rights.
- (iii) Each share of Series 2001 Convertible Preferred Stock may, at the option of the holder, be converted into common stock of the corporation at any time after twelve months after the issuance of such shares. The conversion ratio per share of the Series 2001 Convertible Preferred Stock shall be the lesser of \$5.00 per share or 30% below the trading price of the common stock as priced the prior trading day to conversion. This conversion ratio is subject to change in the event of subdivision of common stock or issuance of a stock dividend.

During the year ended December 31, 2003, the Company cancelled 2,800 shares of its Series 2001 Convertible Preferred stock in voluntary conversions to 6,000 shares of its common stock. As of December 31, 2003 and 2002, the number of shares outstanding of Series 2001 Convertible Preferred stock was 22,100 and 24,900, respectively.

On July 30, 2003, the Majority Shareholders and the Board of Directors approved amendments to the Articles of Incorporation which were designed to reorganize the capital structure of the Company. The Articles increased the total number of authorized preferred shares to 150,000,000, of which 100,000,000 are Series 2001A Convertible Preferred stock with the following characteristics:

- (i) Each share of 2001A Convertible Preferred Stock entitles the holder thereof to one vote, either in person or by proxy, at meetings of shareholders, and such vote shall be equal to the voting rights of the common stock and shall be counted with the common stock toward election of directors or such other action as the class of common stock shall be entitled.
- (ii) Each share of Series 2001A Convertible Preferred Stock may, at the option of the holder, be converted into shares of common stock on a one for one basis at any time after February 1, 2002.

F-13

(6) Capitalization, Continued

Prior to the Plan and Agreement of Merger taking effect, the Company cancelled 775,000 shares of Series 2001A Convertible Preferred shares held by the former President of the Company.

In accordance with the Plan and Agreement of Merger, the Company issued 94,375,000 shares of Series 2001A Convertible

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

Preferred in a 125-to-1 forward stock split.

Following the merger, 31,125,000 outstanding shares of Series 2001A convertible preferred stock were cancelled in a voluntary 1-to-1 conversion to shares of common stock.

On December 15, 2003, the Company entered into a Sales Restriction Agreement with certain holders of Series 2001A Preferred stock to prohibit the holders from selling or otherwise transferring their interest in the stock between June 20, 2003 and June 19, 2004. Subject to the Agreement are 4,062,900 Common shares and 6,771,500 Series 2001A Preferred shares.

At December 31, 2003 and 2002, respectively, 63,250,000 and 1,530,000 shares of Series 2001 A Convertible Preferred stock were issued and outstanding.

In the above action of July 30, 2003, the Company voided the Series 2001 B Convertible Preferred stock and cancelled its 2,727,444 outstanding shares. It also created a new Class B Preferred stock, the main feature of which is the existence of ten votes per share for each share of this series. At December 31, 2003 and 2002, there were 0 and 2,727,444 outstanding shares of Series 2001B Convertible Preferred stock, respectively. At December 31, 2003 no Class B Preferred shares had been issued.

(7) Income Tax

The Company has no provision for taxes as they have a net operating loss of approximately \$4,300,000 that expires in varying times through the year 2023. The total deferred tax asset associated with the net operating loss has been reduced by a valuation allowance to \$0 at December 31, 2003 and 2002, and no net deferred asset has been recorded, as the possibility of utilizing the net operating loss is dependent on the Company achieving profitable operations. U.S. tax rules impose limitations on the use of net operating losses and tax credits following certain defined changes in stock ownership. The Company has not completed the complex analysis required by the Internal Revenue Code to determine if an ownership change has occurred. If such a change were deemed to have occurred, the limitation could reduce or eliminate the amount of these benefits that would be available to offset future taxable income each year, starting with the year of ownership change.

(8) Related Party Transactions

The president, current and former principal stockholders, and certain employees from time to time made advances to the Company. The advances have been made for financing and working capital purposes. At December 31, 2003 and 2002 respectively, the total of such advances and accrued interest was \$261,917 and \$451,168.

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

(8) Related Party Transactions, Continued

The Company leases an apartment for one member of the Subsidiary's Board of Directors. The lease is non-cancelable and expires November 30, 2004. Rent and fees paid at December 31, 2003 amount to \$3,438. The amount of rent remaining to be paid at December 31, 2003 was \$15,695, all of which is due to be paid in 2004.

The Company has a one year agreement to reimburse apartment rental costs for one of the Subsidiary's Directors. The amount of reimbursement paid during the year ended December 31, 2003 was \$1,500. The amount of rental reimbursement to be paid in 2004 is \$16,500.

One member of the Subsidiary's Board of Directors has been paid fees for raising working capital for the Company. During the year ended December 31, 2003, the total of the fees paid was \$30,000.

The Company, through its wholly-owned subsidiary North American Liability Corporation ("the Subsidiary"), has an Employment Agreement with the Subsidiary's Chairman and CEO Harold Fischer. Under this agreement, which is for a term of three years, Fischer is to receive a base annual salary of \$200,000 plus an incentive bonus of up to one time his salary based upon his performance. The Subsidiary was also to issue, upon execution of the agreement, to the employee 1,000,000 shares of common stock. Furthermore, the Subsidiary was to grant to the employee, at the date of the agreement, 4,000,000 Rule 144 shares of common stock which are to be held in escrow and released to the employee in three equal installments on the first, second, and third anniversary of employment. No shares have been issued by the Subsidiary under this Employment Agreement.

The Subsidiary also has a Consulting Agreement with James Jarboe as Consultant and Director. Under this agreement, which is for a term of two years, Jarboe is to receive base annual compensation of \$24,000 plus a bonus to be paid in cash and stock of 10% of any debt or equity capital raised.

The Company settled its note payable to the former controlling shareholder. With principal and accumulated interest, the debt amounted to \$444,088. In the settlement, the Company paid \$200,000, the current president contributed \$185,000, and \$59,088 was forgiven.

(9) Accrued Expenses

Accrued expenses at December 31, 2003 and 2002, consisted of the following:

	2003	2002
	-----	-----
Accrued lease obligations	309,718	309,718
Accrued interest	201,490	74,010

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

Accrued salaries	73,900	-
	-----	-----
	585,108	383,728
	=====	=====

F-15

(10) Notes Payable

Notes payable at December 31, 2002 consisted of note agreements with various individuals bearing interest at rates varying from 9% to 12%. Because these notes were in default, the total outstanding balance of \$226,466 at December 31, 2002 was classified as current liabilities. Except for the accrual of additional interest, no changes were noted in these obligations in the year ended December 31, 2003.

To finance its current operations in 2003 after the merger, the Company arranged two secured loans with individual lenders amounting to \$325,000. The loans have a term of 180 days and, at maturity the total repayment amount including interest is \$487,500. Interest for the year ended December 31, 2003 has been accrued in the amount of \$75,903. These loans are secured by 650,000 free-trading shares of the Company's common stock, held in trust. In the event the Company does not pay the repayment amount when due, the collateral shares, upon demand of the respective lender, will be forfeited and delivered to that lender as payment in full, releasing the Company of all liability to that lender. No lender has made a demand and no shares have been delivered.

(11) Subsequent Transactions

On February 2, 2004, the Company cancelled 158,000,000 shares of its Common stock. The cancelled shares were held by Bradley Wilson, Chairman of the Company and a non-related party, each canceling 79,000,000 shares. In consideration of canceling their shares, 30,000,000 and 20,000,000 shares of Class B Preferred stock were issued to Mr. Wilson and the non-related party, respectively. Shares of Class B Preferred stock carry 10 votes per share and cannot be converted into common stock prior to September 1, 2005.

(12) Going Concern Matters

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Due to its past financial difficulties, the Company has accumulated debts, including judgments, and accrued interest of approximately \$1,100,000 relating to its former line of business and maintains these on its balance

Edgar Filing: NORTH AMERICAN LIABILITY GROUP INC - Form 10KSB

sheet as current liabilities. Interest on these balances is accruing at a rate of approximately \$13,000 per quarter as of December 31, 2003. The Company is continuing in its efforts to resolve these obligations and others through settlements. However, there is no assurance that the Company will be able to settle in terms agreeable to the Company and if it does not do so, this will have a material adverse affect on the ability of the Company to operate properly in the future. As shown in the financial statements, the Company has incurred cumulative losses of \$4,305,265 during its development stage and has classified all of its debt as current for the years ended December 31, 2003 and 2002. These factors among others may dictate that the Company will be unable to continue as a going concern for a reasonable period of time.

F-16