

Camelot Entertainment Group, Inc.  
Form 10QSB  
August 20, 2007

---

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-QSB**

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 000-30785

**CAMELOT ENTERTAINMENT GROUP, INC.**

---

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or  
organization)

**52-2195605**  
(I.R.S. Employer Identification No.)

**2020 Main Street #990, Irvine, CA**  
(Address of principal executive offices)

**92614**  
(zip code)

**(949) 777-1090**  
(Registrant's telephone number, including area  
code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the last 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

As of August 17, 2007, the Registrant had outstanding 122,558,450 shares of Common Stock, \$0.001 par value.

1

---

**CAMELOT ENTERTAINMENT GROUP, INC.  
INDEX TO FORM 10-QSB**

<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements (Unaudited)	4
Balance Sheets as of June 30, 2007 and December 31, 2006	4
Statements of Operation for the three and six months ended June 30, 2007 and 2006	5
Statements of Changes in Stockholders' Equity (Deficit) from inception through the six months ended June 30, 2007	6 - 7
Statements of Cash Flows for the six months ended, June 30, 2007 and 2006	8 - 9
Notes to Financial Statements	10 - 12
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	18
Item 4. Controls and Procedures	18
<b>PART II. OTHER INFORMATION</b>	<b>19</b>
Item 1. Legal Proceedings	19
Item 2. Changes in Securities and Use of Proceeds	19
Item 3. Defaults Upon Senior Securities	19
Item 4. Submissions of Matters to a Vote of Security Holders	19
Item 5. Other Information	19
Item 6. Exhibits and Reports on Form 8-K	19
Signatures:	20



THIS REPORT ON FORM 10-QSB CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH ARE SUBJECT TO THE "SAFE HARBOR" CREATED BY THOSE SECTIONS. THESE FORWARD-LOOKING STATEMENTS INCLUDE BUT ARE NOT LIMITED TO STATEMENTS CONCERNING OUR BUSINESS OUTLOOK OR FUTURE ECONOMIC PERFORMANCE; ANTICIPATED PROFITABILITY, REVENUES, EXPENSES OR OTHER FINANCIAL ITEMS; AND STATEMENTS CONCERNING ASSUMPTIONS MADE OR EXCEPTIONS AS TO ANY FUTURE EVENTS, CONDITIONS, PERFORMANCE OR OTHER MATTERS WHICH ARE "FORWARD-LOOKING STATEMENTS" AS THAT TERM IS DEFINED UNDER THE FEDERAL SECURITIES LAWS. ALL STATEMENTS, OTHER THAN HISTORICAL FINANCIAL INFORMATION, MAY BE MARKET TO BE FORWARD-LOOKING STATEMENTS. THE WORDS "BELIEVES", "PLANS", "ANTICIPATES", "EXPECTS", AND SIMILAR EXPRESSIONS HEREIN ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS, UNCERTAINTIES, AND OTHER FACTORS, WHICH WOULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE STATED IN SUCH STATEMENTS. FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "FACTORS THAT MAY AFFECT FUTURE RESULTS," AND ELSEWHERE IN THIS REPORT, AND THE RISKS DISCUSSED IN THE COMPANY'S OTHER SEC FILINGS.



**Camelot Entertainment Group, Inc.**

Balance Sheets

Unaudited

**ASSETS****June 30,  
2007****December 31,  
2006****Current Assets**

Cash	\$	23,478	\$	435,533
Prepaid Expenses		6,424		6,424
Total Current Assets		29,902		441,957

Deferred Financing Costs		69,732		74,744
Loan Receivable		17,500		17,500
Scripts Costs		79,700		75,800
Deposit for potential business acquisition and studio project		85,000		10,000
Total long term assets		251,174		178,044

Total Assets	\$	281,834		620,001
--------------	----	---------	--	---------

**LIABILITIES AND STOCKHOLDERS' EQUITY(DEFICIT)****Current Liabilities**

Accounts Payable and accrued liabilities	\$	624,048	\$	140,625
Note Payable - Scorpion Bay, LLC (net of unamortized discount of \$34,948)		65,052		250,000
Stockholder advances		30,720		186,000
Total Current Liabilities		719,820		576,625

**Long Term Liabilities**

Secured Note Payable - NIR Fairhill, net of unamortized discount of \$781,463		189,954		1,521
Derivative Liability - Compound		976,533		538,890
Derivative Liability - Warrant		150,744		698,390
Total Long Term Liabilities		1,317,231		1,238,801

Total Liabilities		2,037,051		1,815,426
-------------------	--	-----------	--	-----------

**Stockholders' Equity (Deficit)**

Common Stock; Par Value \$.001 Per Share; Authorized 300,000,000 Shares; 122,058,450 and 106,655,743 shares issued and outstanding, respectively		122,058		106,656
		5,100		5,100

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Class A Convertible Preferred Stock; Par Value \$.01  
per share 15,000,000 Authorized,  
5,100,000 issued and outstanding shares

Class B Convertible Preferred Stock; Par Value \$.01

per share 15,000,000 Authorized,  
5,100,000 issued and outstanding shares

	5,100	5,100
Subscription Receivable	(758,072)	(258,072)
Capital in Excess of Par Value	14,044,274	13,119,002
Deficit Accumulated During the Development Stage	(15,173,677)	(14,173,211)
<b>Total Stockholders' Equity (Deficit)</b>	<b>(1,755,217)</b>	<b>(1,195,425)</b>
<b>Total Liabilities and Stockholders' Equity (Deficit)</b>	<b>\$ 281,834</b>	<b>\$ 620,001</b>

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



**Camelot Entertainment Group, Inc.**  
Statements of Operations  
Unaudited

	For Three Months ended, June 30, 2007		For the Six months ended June 30, 2007		From Inception on April 21, 1999 through June 30, 2007
REVENUE	\$ -	\$ -	\$ -	\$ -	\$ 58,568
Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ 58,568
<b>EXPENSES</b>					
Costs of services	-	-	-	-	95,700
Sales and Marketing	-	-	-	-	53,959
Research & Development	-	-	-	-	252,550
General & Administrative	552,359	202,956	938,780	393,716	11,086,253
Impairment of assets	-	-	-	-	2,402,338
Impairment of investments in other companies	-	-	-	-	710,868
Total Expenses	552,359	202,956	938,780	393,716	14,601,668
NET OPERATING LOSS	(552,359)	(202,956)	(938,780)	(393,716)	(14,543,100)
<b>OTHER INCOME (EXPENSES)</b>					
Interest (Expense)	(410,806)	-	(463,956)	-	(651,066)
Gain on derivative liability	821,318	-	838,915	-	868,395
Loss on derivative liability	(203,794)	-	(436,645)	-	(1,103,406)
Gain on extinguishment of debt	-	-	-	-	255,500
Total Other Income (Expenses)	206,719	-	(61,686)	-	(630,577)
NET LOSS	(345,641)	(202,956)	(1,000,466)	(393,716)	\$ (15,173,677)
	(0.0030)	(0.0022)	(0.0090)	(0.0042)	\$ (0.29)

BASIC LOSS PER  
COMMON SHARE

WEIGHTED  
AVERAGE NUMBER  
OF  
SHARES

OUTSTANDING	114,097,641	93,649,589	110,793,359	93,649,589	52,395,377
-------------	-------------	------------	-------------	------------	------------

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

## Camelot Entertainment Group, Inc.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

Common Stock		Preferred Stock		Additional Paid-In Capital	(Deficit) Accumulated During Development Stage	Subscription	Deferred	Total	
Shares	Amount	Shares	Amount		Receivable	Compensation			
Balance at January 1, 2004									
433,856	33,857	0	0	5,464,539	(6,059,442)	0	0		(561,046)
Shares issued for services									
100,000	100			2,900					3,000
Shares issued for financing									
791,287	6,791			196,948					203,739
Subscriptions receivable for financing agreement									
0	0					(116,069)			(116,069)
Net (loss) for the three months ended March 31, 2004									
0	0				(103,522)				(103,522)
Balance at March 31, 2004									
440,747	\$ 40,748	\$ 0	\$ 0	\$ 5,664,387	(6,162,964)	\$ (116,069)	\$ 0	\$ 0	\$ (573,898)
Share issued for services									
24,009	24,009			1,085,500					1,109,509

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Share issued for financing	7,604,562	7,605	0	0	221,460		(316,003)		(86,938)
Advances offset sub a/r							174,000		174,000
Shares issued for debt	1,000,000	1,000	0	0	39,000				40,000
Shares issued for amt due	1,589,927	1,590	0	0	47,000				48,590
Value of option exercised					351,000				351,000
Net (loss)							(1,161,756)		(1,161,756)
<b>Balance as of December 31, 2004</b>	<b>74,951,209</b>	<b>74,952</b>	<b>0</b>	<b>0</b>	<b>7,408,347</b>	<b>(7,324,720)</b>	<b>(258,072)</b>	<b>( )</b>	<b>(99,493)</b>
Net (loss) 1st quarter							(117,096)		(117,096)
<b>Balance at March 31, 2005</b>	<b>74,951,209</b>	<b>74,952</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>7,408,347</b>	<b>(7,441,816)</b>	<b>(258,072)</b>	<b>\$ 0</b>	<b>(216,589)</b>
Shares issued for consulting services	4,000,000	4,000	0	0	216,000	0			220,000
Shares issued	2,276,033	2,276	0	0	187,568	0			189,844

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

for officers salaries								
Shares issued to	1,848,723	1,848	0	0	79,078	0		80,926
Eagle for expenses paid								
Net Loss						(486,174)		(486,174)
Subtotals for 2nd quarter	8,124,756	8,125	0	0	482,646	(486,174)		4,597
<b>Balance at June 30, 2005</b>	<b>83,075,965</b>	<b>83,076</b>	<b>0</b>	<b>0</b>	<b>7,890,993</b>	<b>(7,927,990)</b>	<b>(258,072)</b>	<b>(211,993)</b>
Net Loss						\$ (127,024)		\$ (127,024)
<b>Balance at Sept 30, 2005</b>	<b>83,075,965</b>	<b>83,076</b>	<b>0</b>	<b>0</b>	<b>7,890,993</b>	<b>\$ (8,055,014)</b>	<b>\$ (258,072)</b>	<b>(339,017)</b>
Shares issued for consulting services	233,547	233	0	0	9,767			10,000
Shares issued for officers salaries	3,538,263	3,538	0	0	171,462			175,000
Shares issued to	1,452,662	1,453	0	0	118,219			119,672
Eagle for expenses paid								

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Shares issued to Eagle 20% of shares issued	1,762,271	1,762			120,991			122,753
Shares issued for Shareholder loans 2005	3,586,881	3,587			256,354			259,941
Net Loss 4th Quarter						\$ (3,769,845)		(3,769,845)
Class A Preferred Stock issued			5,100,000	5,100	555,900			561,000
Class B Preferred Stock issued			5,100,000	5,100	2,799,900			2,805,000
<b>Balance at Dec 31, 2005</b>	<b>93,649</b>	<b>93,649</b>	<b>10,200,000</b>	<b>10,200</b>	<b>11,923,586</b>	<b>(11,824,859)</b>	<b>(258,072)</b>	<b>(55,496)</b>

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) -continued**

Shares issued for officers salaries	5,191,538	5,192	0	0	464,808			470,000
Shares issued to Consultants	2,009,787	2,010			179,078			181,088
Shares issued to Eagle for expenses paid	1,201,329	1,201	0	0	113,120			114,321
Shares issued to Eagle Shareholder loans	1,270,772	1,271	0	0	116,911			118,182
Shares issued to Eagle per agreement 20%	1,832,728	1,833	0	0	168,611			170,444
Shares issued to Scorpion Bay LLC	1,500,000	1,500	0	0	133,650			135,150
Imputed interest on shareholders loan					19,238			19,238
Net Loss						(2,348,352)		(2,348,352)
<b>Balance at Dec 31, 2006</b>	<b>106,655,743</b>	<b>106,656</b>	<b>10,200,000</b>	<b>10,200</b>	<b>13,119,002</b>	<b>(14,173,211)</b>	<b>(258,072)</b>	<b>(1,195,425)</b>
Shares issued to Nucore	5,000,000	5,000			495,000		(500,000)	-
Shares issued for	7,000,000	7,000			332,000			339,000

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

interest on note payable									
Shares issued for expenses paid	401,957	401	-	-	15,676				16,077
Shares issued for services	1,250,000	1,250	-	-	48,750				50,000
Shares issued for conversions of notes payable:	1,750,750	1,751			27,012				28,763
Accelerated amortization of discount on notes payable					(23,460)				(23,460)
Derivative liability relieved by conversions of notes payable					28,048				28,048
Imputed interest on shareholder loan					2,246				2,246
Net Loss						(1,000,466)			(1,000,466)
<b>Balance at June 30, 2007</b>	<b>122,058,450</b>	<b>122,058</b>	<b>10,200,000</b>	<b>10,200</b>	<b>14,044,274</b>	<b>(15,173,677)</b>	<b>(758,072)</b>	<b>-</b>	<b>(1,755,217)</b>



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

7

---

**Camelot Entertainment Group, Inc.**  
Statement of Cash Flows

	<b>For six months ended June 30, 2007</b>	<b>For six months ended June 30, 2006</b>	<b>From Inception on April 21, 1999  through June 30, 2007</b>
<b>OPERATING ACTIVITIES</b>			
Net loss	\$ (1,000,466)	\$ (393,716)	\$ (15,173,677)
Adjustments to reconcile net (loss) to cash provided (used) by operating activities:			
Amortization of deferred financing cost	18,012	-	18,268
Amortization of discount associated with notes payable	117,922	-	119,443
Imputed interest on shareholder loan	2,246	-	21,484
Loss on derivative liability	436,645	-	1,103,406
Gain on derivative liability	(838,915)	-	(868,395)
Common Stock issued for interest expenses	300,000	-	435,150
Common stock issued per dilution agreement	-	-	368,508
Value of options expensed	-	-	351,000
Gain on extinguishment of debt	-	-	(255,500)
Depreciation	-	-	3,997
Amortization of deferred compensation	-	-	1,538,927
Common Stock issued for services	50,000	-	2,583,935
Common Stock issued for expense reimbursement	-	-	22,000
Common Stock issued for technology	-	-	19,167
Impairment of investments in other companies	-	-	710,868
Impairment of assets	-	-	2,628,360
Prepaid services expensed	-	2,392	530,000
Expenses paid through notes payable proceeds	-	-	66,489
Loss on disposal of property and equipment	-	-	5,854
Preferred Stock issued to shareholder	-	-	3,366,000
Change in assets and liabilities: (increase) decrease in other current assets	-	(20,626)	(24,358)

Edgar Filing: Camelot Entertainment Group, Inc. - Form 10QSB

Increase (decrease) in accounts payable & other a/p	483,603	182,891	831,369
Increase (decrease) in due to officers			
<b>Net Cash used in operating activities</b>	<b>(430,953)</b>	<b>(229,059)</b>	<b>(1,597,705)</b>
Cash flows from investing activities:			
Purchase of fixed assets	-	-	(6,689)
Purchase of assets-Script			
Costs/business deposits	(78,900)	(60,000)	(164,700)
<b>Net Cash used in investing activities</b>	<b>(78,900)</b>	<b>(60,000)</b>	<b>(171,389)</b>
Cash flows from financing activities:			
Contributed capital	-	-	25,500
Borrowings on related party debt	132,686	294,292	1,149,299
Payments on related party debt	(271,888)	-	(396,888)
Borrowings on debt	500,000	-	1,355,998
Deferred financing costs	(13,000)	-	(88,000)
Principal payments on long term debt	(250,000)	(4,477)	(254,477)
<b>Cash provided by financing activities</b>	<b>97,798</b>	<b>229,815</b>	<b>1,791,432</b>

**Statement of Cash Flows-continued**

Increase (decrease) in cash	(412,055)	756	22,338
Cash at beginning of period	435,533	3,023	1,140
Cash at the end of the period	23,478	3,779	23,478

**Supplemental Schedule of Non-cash Information:**

Noncash investing and financing activities:

Creation of debt discount	359,315	-	959,315
Stock issued for related party debt	16,078	-	248,581
Stock issued in advance of financing arrangement	500,000	-	500,000
Stock issued for conversion of debt to equity	28,763	-	28,763
Accelerated amortization of discount on notes payable	23,460	-	23,460
Derivative liability relieved by conversions of notes payable	28,048	-	28,048

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

**CAMELOT ENTERTAINMENT GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED, JUNE 30, 2007**

---

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization:

Camelot Entertainment Group, Inc, a Delaware Corporation, which develops, produces, markets and distributes motion pictures, was originally incorporated with the intention of providing services and resources to entrepreneurs looking to launch novel products and ventures worldwide in exchange for an interest in the startup ventures. Camelot's activities since inception have consisted of raising capital, recruiting a management team and entering into ventures and alliances with affiliates. Camelot has substantially relied on issuing stock to officers, directors, professional service providers and other parties in exchange for services and technology.

Basis of Presentation:

Management has determined that Camelot is considered to be a development stage enterprise as defined in Statement of Financial Accounting Standards No. 7, "Accounting and Reporting by Development Stage Enterprises." Consequently, Camelot has presented these financial statements in accordance with that Statement, including losses incurred from April 21, 1999 (Inception) to June 30, 2007.

The accompanying unaudited financial statements as of June 30, 2007 and for the six months ended June 30, 2007 and 2006, respectively, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of Camelot's management, the interim information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. The footnote disclosures related to the interim financial information included herein are also unaudited. Such financial information should be read in conjunction with the consolidated financial statements and related notes thereto as of December 31, 2006 and for the year then ended included in Camelot's annual report on Form 10-KSB/A for the fiscal year ended December 31, 2006, amended as of May 11, 2007.

Certain amounts originally presented at December 31, 2006 have been reclassified to conform with the presentation at June 30, 2007.

Recently Issued Accounting Standards

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - An Amendment of FASB Statements No. 133 and 140." SFAS No. 155 simplifies the accounting for certain hybrid financial instruments, eliminates the interim FASB guidance which provides that beneficial interests in securitized financial assets are not subject to the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and eliminates the restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. Effective January 1, 2007, we adopted the provisions of SFAS No. 155 prospectively for all financial instruments acquired or issued on or after January 1, 2007. Adoption of this statement will not have a significant effect on our results of operations, financial position or cash flows.

**CAMELOT ENTERTAINMENT GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED, JUNE 30, 2007**

---

**2. GOING CONCERN**

The accompanying financial statements have been prepared assuming that Camelot will continue as a going concern. Camelot has had minimal revenues, has experienced losses since inception and has a stockholders' deficit. These conditions, the loss of financial support from affiliates, and the failure to secure a successful source of additional financial resources raise substantial doubt about Camelot's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the classification of liabilities that may result from the outcome of this uncertainty.

Management's plans with respect to the current situation consist of restructuring its debt and seeking additional financial resources from its existing investors or others. However, instability in the stock price may make it difficult to find parties willing to accept restricted shares of common stock in exchange for services required to execute its business plan. There is no assurance that such resources would be made available to Camelot, or that they would be on financially viable terms

**3. COMMITMENTS AND CONTINGENCIES**

On April 24, 2007, Camelot entered into an agreement with a third party to exclusively negotiate the construction of an entertainment media arts center. During the negotiation period of nine months, Camelot will make a series of four \$25,000 deposits upon completion of certain milestones. As of June 30, 2007, Camelot has made its first "good faith" deposit in order to continue negotiations.

On July 19, 2007, Camelot made its second "good faith" deposit in its exclusive contract to negotiate the construction of an entertainment media arts center.

**4. NOTES PAYABLE**

On December 27, 2006, Camelot issued a callable secured convertible note payable for \$600,000 and \$400,000 on June 6, 2007 to various holders. The note payable provided for annual interest at 8%, was secured by all of the assets of Camelot, and matured on April 27, 2009. The principle and accrued interest of the note is convertible into Camelot's common stock at a variable conversion price, which is 50% of the average market price of the common stock of the lowest three trading days prior to the date of conversion. In addition, these notes have registration rights agreements, which call for liquidated damages in the event an effective registration statement is not filed within a timely basis. In addition, the holders of these notes were issued 7-year warrants to purchase 10,582,609 common shares at an exercise price of \$0.15 per share.

Of the proceeds of \$600,000 Camelot recognized \$75,000 in deferred financing costs related to cost of securing the debt. Of the proceeds of \$400,000 Camelot recognized \$13,000 in deferred financing costs related to cost of securing the debt. The deferred financing cost will be amortized over the life of the notes payable. \$18,012 and \$0 of the deferred financing cost was amortized as of June 30, 2007 and June 30, 2006, respectively, and included in interest expense.

Camelot evaluated the convertible notes and warrants under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments" and Emerging Issues Task Force 00-19 and determined that the Convertible notes contained compound embedded derivative liabilities. The warrants were also determined to be liabilities under

SFAS 133 and EITF 00-19. Camelot determined that the compound embedded conversion features required bifurcating from the note instrument and required an estimate of its fair market value. Camelot hired an independent valuation expert to determine the fair market value of both the compound embedded derivative and the warrants. The fair market value of the compound embedded derivative was estimated using a lattice model incorporating weighted average probability cash flow. The fair market value of the warrants was estimated using Black Scholes with the major assumptions of (1) calculated volatility of 150%; (2) expected term of 7 years; (3) risk free rate of 4.64% and (4) expected dividends of zero.

**CAMELOT ENTERTAINMENT GROUP, INC.**

**NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED, JUNE 30, 2007**

---

**4. NOTES PAYABLE** -continued

At June 30, 2007, Camelot estimated the fair value of the derivative liabilities to be a total of \$1,127,277 resulting in a net gain on derivative liability presented in the statement of operations of \$402,270. In addition, Camelot amortized \$113,870 of the discount on the note payable and this amount is included in interest expense. During the period ended, the holder converted \$28,763 of the notes payable into 1,750,750 shares of common stock resulting in an acceleration of the original amortization of the notes in the amount of \$23,460 and a reduction in the derivative liability of \$ 28,048, both accounted for through additional paid in capital.

In November 2006, Camelot issued note payable to Scorpion Bay LLC for \$250,000, which matured on March 22, 2007. This note was in default as of March 23, 2007 and was recorded at its full face value at December 31, 2006. Camelot issued 6,000,000 shares of common stock for default provisions of this note. As this note has matured, this total amount was considered to be interest expense. Camelot recorded issuance of these shares at fair market value as interest expense as of June 30, 2007. This note was paid on June 7, 2007.

In June 2007, Camelot issued note payable to Scorpion Bay LLC for \$300,000, which matures on November 30, 2007. The proceeds from this note are to be received in three consecutive payments of \$100,000 beginning on June 15, 2007 and ending August 15, 2007. With each receipt of \$100,000, Camelot owes the lender 1,000,000 shares of common stock. Camelot issued 1,000,000 of common stock with for \$100,000 received on June 15, 2007. Camelot discounted the note for the fair market value of the common stock for \$39,000 and will amortize this amount into interest expense over the life of the note. \$4,052 was considered to be interest expense for the period ended June 30, 2007.

On July 18, 2007, Camelot received \$100,000 in additional funding from Scorpion Bay and issued 1,000,000 additional shares for interest as described in Note 4.

**5. DUE TO OFFICERS**

In the six month period ended June 30, 2007 Camelot had accrued \$235,000 in compensation to its officers. Total due to officers as of June 30, 2007 was \$245,000.

**6. RELATED PARTY TRANSACTIONS**

During the six month periods ending June 30, 2007 and 2006, Camelot entered into related party transactions with Board members, officers and affiliated entities owned by the CEO of Camelot. Camelot plans to issue shares of common stock for services rendered, cash advances, and payment of expenses on Camelot's behalf. During the six month period ended June 30, 2007, Camelot recorded \$132,686 in advances by an affiliate on behalf of Camelot, compared to \$294,292 for six month period ended June 30, 2006. Camelot issued 410,957 shares to the affiliate for \$16,077 in expense reimbursement.

As a result of our agreement with the affiliated company owned by the CEO of Camelot, the affiliate receives 20% of Camelot's common stock on an anti-dilutive basis in return for services and cash advances. The anti-dilutive provisions are in force through March 28, 2008. In addition, the affiliate has the option to receive 2,000,000 cashless options to purchase common shares at \$0.03 per share. For each one dollar (\$1) increase in the price of Camelot's stock, the affiliate shall be entitled to receive an additional two million options throughout the term of the agreement between the affiliate and Camelot, which expires on March 28, 2008. In addition, Camelot shall have the first right of refusal to



purchase the options from the affiliate for the current market value once the affiliate notifies Camelot that it intends to exercise the options. In the event Camelot elects not to exercise this first right of refusal, and subject to applicable laws, the affiliate shall be entitled to exercise the sale of shares or options immediately thereafter. As of June 30, 2007, the affiliate has not exercised its right to receive the options and therefore no options have been granted. The affiliate's right to receive the options and to exercise those options expires on March 28, 2008. No shares were issued during the quarter for this agreement.

## **7. COMMON STOCK**

Camelot issued 5,000,000 to Nucore Industries, Inc. on March 16, 2007, as a good faith non-refundable deposit for a potential financing to be funded by Nucore, and it has been presented as a subscription receivable at June 30, 2007.

Camelot issued 1,250,000 with a fair market value of \$50,000 to an outside consultant.

## **8. SUBSEQUENT EVENTS**

On July 31, 2007, Camelot filed a registration statement on Form 8-K, accepting resignation from two members of board of directors.

## **ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

The matters discussed in this report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. These forward-looking statements include but are not limited to statements concerning our business outlook or future economic performance; anticipated profitability, revenues, expenses or other financial items; and statements concerning assumptions made or exceptions as to any future events, conditions, performance or other matters which are "forward-looking statements" as that term is defined under the Federal Securities Laws. All statements, other than historical financial information, may be deemed to be forward-looking statements. The words "believes", "plans", "anticipates", "expects", and similar expressions herein are intended to identify forward-looking statements. Forward-looking statements are subject to risks, uncertainties, and other factors, which would cause actual results to differ materially from those stated in such statements. Forward-looking statements include, but are not limited to, those discussed in "Factors That May Affect Future Results," and elsewhere in this report, and the risks discussed in Camelot's other SEC filings.

### **Critical Accounting Estimates**

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain 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 revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. A summary of our significant accounting policies is detailed in the notes to the financial statements, which are an integral component of this filing.

### **Critical Accounting Policies**

We have defined a critical accounting policy as one that is both important to the portrayal of our financial condition and results of operations, and requires the management to make difficult, subjective or complex judgments. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Camelot bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as Camelot's operating environment changes.

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations, where such policies affect our reported and expected financial results. In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.



**ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION***-continued*

*Accounting for Motion Picture Costs*

In accordance with accounting principles generally accepted in the United States and industry practice, we amortize the costs of production, including capitalized interest and overhead, as well as participations and talent residuals, for feature films using the individual-film-forecast method under which such costs are amortized for each film in the ratio that revenue earned in the current period for such title bears to management's estimate of the total revenues to be realized from all media and markets for such title. All exploitation costs, including advertising and marketing costs, are expensed as incurred. Theatrical print costs are amortized over the periods of theatrical release of the respective territories.

Management plans to regularly review, and revise when necessary, our total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film asset to estimated fair value. These revisions can result in significant quarter-to-quarter and year-to-year fluctuations in film write-downs and amortization. A typical film recognizes a substantial portion of its ultimate revenues within the first two years of release. By then, a film has been exploited in the domestic and international theatrical markets and the domestic and international home video markets, as well as the domestic and international pay television and pay-per-view markets. A similar portion of the film's capitalized costs should be expected to be amortized accordingly, assuming the film or television program is profitable.

The commercial potential of individual motion pictures varies dramatically, and is not directly correlated with production or acquisition costs. Therefore, it is difficult to predict or project a trend of our income or loss. However, the likelihood that we would report losses, particularly in the year of a motion picture's release, is increased by the industry's method of accounting, which requires the immediate recognition of the entire loss (through increased amortization) in instances where it is estimated the ultimate revenues of a motion picture could not recover our capitalized costs. On the other hand, the profit of a profitable motion picture must be deferred and recognized over the entire revenue stream generated by that motion picture. This method of accounting may also result in significant fluctuations in reported income or loss, particularly on a quarterly basis, depending on our release schedule, the timing of advertising campaigns and the relative performance of individual motion pictures.

*Accounting for Films*

In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 00-2 "Accounting by Producers or Distributors of Films" ("SOP 00-2"). SOP 00-2 establishes new accounting standards for producers or distributors of films, including changes in revenue recognition, capitalization and amortization of costs of acquiring films and accounting for exploitation costs, including advertising and marketing expenses. We elected adoption of SoP 00-2 effective as of April 1, 2004.

The principal changes as a result of applying SOP 00-2 are as follows:

Advertising and marketing costs, which were previously capitalized to investment in films on the balance sheet and amortized using the individual film forecast method, are now expensed the first time the advertising takes place.

We capitalize costs of production, including financing costs, to investment in motion pictures. These costs are amortized to direct operating expenses in accordance with SoP 00-2. These costs are stated at the lower of unamortized motion picture costs or fair value (net present value). These costs for an individual motion picture or television program are amortized in the proportion that current period actual revenues bear to management's estimates of the total revenue expected to be received from such motion picture over a period not to exceed ten years from the

date of delivery.

Management plans to regularly review, and revise when necessary, its total revenue estimates, which may result in a change in the rate of amortization and/or write-down of all or a portion of the unamortized costs of the motion picture to its fair value. No assurance can be given that unfavorable changes to revenue estimates will not occur, which may result in significant write-downs affecting our results of operations and financial condition.

#### *Derivative Instruments*

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended by Statement of Financial Accounting Standards No. 137, "*Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of Financial Accounting Standards Board No. 133*," and by Statement of Financial Accounting Standards No. 138, "*Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of Financial Accounting Standards Board Statement No. 133*," which is effective for all quarters of fiscal years beginning after June 15, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. We adopted Statement of Financial Accounting Standards No. 133 beginning January 1, 2004. The adoption of Statement of Financial Accounting Standards No. 133 did materially impact our results of operations with our convertible notes payable entered into in December 2006.

**ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION***-continued*

*Going Concern Uncertainties*

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of Camelot as a going concern. However, Camelot has experienced recurring operating losses and negative cash flows from operations.

Camelot's continued existence is dependent upon its ability to generate operating revenues and/or obtain additional equity financing.

Camelot entered into an agreement with Eagle Consulting Group, Inc., a Nevada corporation ("Eagle"), to provide equity financing. Eagle has advanced Camelot an amount of throughout 2007, and it appears unlikely that such funding should be enough to meet all of Camelot's cash requirements for the remaining quarters in 2007. However, Camelot must find additional sources of financing in order to remain a going concern in the future. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have incurred losses in each operating period since our inception on October 12, 1999. Operating losses may continue, which could adversely affect financial results from operations and stockholder value, and there is a risk that we may never become profitable.

As of June 30, 2007, we have an accumulated deficit of \$15,173,677 all of which related to our previous activities as a business development organization, Dstage.com, and none of which relate to our current activities as a motion picture production, marketing and distribution entity. There can be no assurance that our management will be successful in managing Camelot as a motion picture production, distribution and marketing concern.

**Plan of Operations**

**Overview**

We were incorporated in Delaware on October 12, 1999. During May 2004 we changed our name to Camelot Entertainment Group, Inc. and changed our business model from pursuing a new approach to venture formation (the Dstage.com Model) to the "Camelot Studio Model" (or "CSM"), which provides for the development, production, marketing and distribution of motion pictures. The CSM attempts to combine the efficiencies realized by studios of the early 1900's, with the artistic focus and diversity of today's independent productions. Using this approach, we believe the risk-reward relationship facing the typical film project can be dramatically shifted. For example, whereas a typical film pushes artists and directors to rush development and production in hopes of conserving cash, the CSM extends the pre-production cycle substantially to reduce costs while simultaneously increasing quality. Similarly, whereas a low-budget picture is severely limited by the types of postproduction technology used, due to budget constraints, we intend to invest directly in top of the line technology, spreading the costs over a targeted minimum of 12 original motion pictures each year. The goal of the CSM is to develop the ability to consistently produce films with the look, feel and artistic content of multi-million dollar pictures, for a fraction of the cost.

We have no history of operations as a film production and distribution company. Our historical operations, as Dstage.com, Inc., consisted primarily of attempting to provide support, organization and restructuring services to other development stage companies. We believe that due to the complete and drastic change in our business focus, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you review the audited financial statements, the unaudited interim financial statements and the related notes in addition to thoroughly reading our current plan of

operations.

Our Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and liabilities and commitments in the normal course of business. In the near term, we expect operating costs to continue to exceed funds generated from operations. As a result, we expect to continue to incur operating losses and we may not have sufficient funds to grow our business in the future. We can give no assurance that we will achieve profitability or be capable of sustaining profitable operations. As a result, operations in the near future are expected to continue to use working capital.

Our current cash requirements are provided principally through our financing agreement with Eagle Consulting Group, Inc. ("Eagle"), a related party owned by Robert Atwell. We entered into an agreement with Eagle on March 28, 2003, to provide operational funding for Camelot. In exchange for twenty percent (20%) of the Company's outstanding common stock on a non-dilutive, continuing basis until the Company can secure additional financing from another source, Eagle has agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. For the period ending June 30, 2007, Eagle has advanced the Company a total, including interest, of \$132,686. In addition, we borrowed an additional \$500,000 from two outside parties, which together with the advances from Eagle covered all of our operating expenses for 2007.

To successfully grow the individual segments of our business, we must decrease our cash burn rate, improve our cash position and create revenue base of each segment, and succeed in our ability to raise additional capital through a combination of primarily public or private equity offering or strategic alliances.

**ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION***-continued*

As more fully discussed below, we recently secured additional financing from 4 investors for the purpose of funding our initial slate of pictures. It is our goal to use this funding to have between 10 and 12 motion pictures in various stages of development or production within the next 12 months. In the event we are unable to receive the entire funding, we may have to delay our slate until such time as the necessary funding is acquired.

Like all motion picture production companies, our revenues and results of operations could be significantly dependent upon the timing of releases and the commercial success of the motion pictures we distribute, none of which can be predicted with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods. Similarly, the efficiencies we aim to realize through our model may not materialize. Failure of the efficiencies to materialize, along with other risks germane to the picture production, may cause us to produce fewer films than our plan calls for.

**Recent Financing**

On December 27, 2006, we entered into a Securities Purchase Agreement with AJW Capital Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millennium Capital Partners II, LLC. Under the terms of the Securities Purchase Agreement, the Investors purchased an aggregate of (i) \$1,000,000 in Callable Secured Convertible Notes (the "Notes") and (ii) warrants to purchase 10,000,000 shares of our common stock (the "Warrants").

Pursuant to the Securities Purchase Agreement, the Investors will purchase the Notes and Warrants in two tranches as set forth below:

1. At closing on December 27, 2006 ("Closing"), the Investors purchased Notes aggregating \$600,000 and Warrants to purchase 10,000,000 shares of CMEG common stock;
2. Upon effectiveness of the Registration Statement, June 6, 2007, the Investors purchased Notes aggregating \$400,000.

The Notes carry an interest rate of 8% per annum and a maturity date of December 27, 2009. The notes are convertible into CMEG common shares at the applicable percentage of the average of the lowest three (3) trading prices for CMEG shares of common stock during the twenty (20) trading day period prior to conversion. The "Applicable Percentage" means 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty (30) days of the closing.

At our option, we may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below \$.25 per share. In addition, in the event that the average daily price of the common stock, as reported by the reporting service, for each day of the month ending on any determination date is below \$.25, we may prepay a portion of the outstanding principal amount of the Notes equal to 101% of the principal amount hereof divided by thirty-six (36) plus one month's interest. Exercise of this option will stay all conversions for the following month. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, we have granted the Investors a security interest in substantially all of our assets and intellectual property as well as registration rights.

In November 2006, Camelot issued note payable to Scorpion Bay LLC for \$250,000, which matured on March 22, 2007. This note was in default as of March 23, 2007 and was recorded at its full face value at December 31, 2006. Camelot issued 6,000,000 shares of common stock for default provisions of this note. As this note has matured, this total amount was considered to be interest expense. The company recorded issuance of these shares at fair market



value as interest expense as of June 30, 2007. This note was paid on June 7, 2007.

In June 2007, Camelot issued note payable to Scorpion Bay LLC for \$300,000, which matures on November 30, 2007. The proceeds from this note are to be received in three consecutive payments of \$100,000 beginning on June 15, 2007 and ending August 15, 2007. Camelot issued 1,000,000 of common stock with for \$100,000 received on June 15, 2007. Camelot discounted the note for the fair market value of the common stock for \$39,000 and will amortize this amount into interest expense over the life of the note.. \$4,052 was considered to be interest expense for the period ended June 30, 2007.

## **RESULTS OF OPERATIONS**

### *General*

Our historical operations consisted primarily of attempting to provide support, organization and restructuring services to other development stage companies. Due to the complete and drastic change in our business focus, from seeking to aid development stage companies to our current focus of producing, distributing and marketing original motion pictures, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you read the discussion in connection with the audited financial statements, the unaudited interim financial and the related notes included elsewhere in this quarterly report.

**ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION***-continued*

**PERIOD ENDED JUNE 30, 2007, COMPARED TO PERIOD ENDED JUNE 30, 2006:**

The Company did not generate any revenue during the six months ended, June 30, 2007.

All expenses incurred during the comparative periods were general and administrative in nature.

The Company has incurred \$ 11,086,253 of general and administrative expenses since its inception. General and administrative expenses were \$ 938,780 for the six months ended June 30, 2007, compared to \$ 393,716 for the six months ended June 30, 2006. Increase in expenses primarily due to increase professional fees, rent, insurance and payroll expenses.

The general and general administrative expenses for the six-month period were comprised of \$ 235,000 of officers salaries and \$ 225,596 of professional services and \$221,005 professional (consulting, legal & accounting) fees. Other costs, \$85,853 for trade show travel, marketing, seminars, telephone costs \$7,392, rent \$43,988, payroll expenses \$22,500, insurance costs \$29,687 and \$90,000 other administrative costs These expenses were related to the pursuit of the Company's plan of operation to produce and distribute motion pictures.

Total General and Administrative expenses of \$938,781 are for the six months ended June 30, 2006.

On April 24, 2007, Camelot entered into an agreement with a third party to exclusively negotiate the construction of an entertainment media arts center . During the negotiation period of nine months, Camelot will make a series of four \$25,000 deposits upon completion of certain milestones. As of June 30, 2007, Camelot has made it's first "good faith" deposit in order to continue negotiations.

On July 19, 2007, Camelot made it's second "good faith" deposit in its exclusive contract to negotiate the construction of an entertainment media arts center.

Like all motion picture production companies, our revenues and results of operations could be significantly dependent upon the timing of releases and the commercial success of the motion pictures we distribute, none of which can be predicted with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods. Similarly, the efficiencies we aim to realize through our model may not materialize. Failure of the efficiencies to materialize, along with other risks germane to the picture production, may cause us to produce fewer films than our plan calls for.

**LIQUIDITY AND CAPITAL RESOURCES**

We have no history of operations as a film production and distribution company. We believe that, due to the complete and drastic change in our business focus, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance.

Our current liquidity and capital resources are provided principally through our financing agreement with Eagle Consulting Group, Inc. ("Eagle"). We entered into an agreement with Eagle on March 28, 2003, to provide operational funding for the Company. In exchange for twenty percent (20%) of the Company's outstanding common stock on a non-dilutive, continuing basis until the Company can secure additional financing from another source, Eagle has agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. This six months ended, June 30, 2007, Eagle has advanced the Company a total of \$30,720. The funding commitment from Eagle may not be able

cover all of our operating expenses for the remaining six months of 2007.

Further, we have prepared an SB-2 registration statement for the purpose of funding our initial slate of pictures. If the anticipated funding is successful, it is our goal to have between 10 and 12 motion pictures in various stages of development or production within 12 months. In the event we are unable to complete the funding, we could have to delay our slate until such time as the necessary funding is acquired.

**ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION***-continued*

*We expect to have a need for Additional Financing*

As of June 30, 2007, we had a working capital deficit of \$689,918. Our history of recurring losses from operations raises a substantial doubt about our ability to continue as a going concern. There can be no assurance that we will have adequate capital resources to fund planned operations or that any additional funds will be available to us when needed, or if available, will be available on favorable terms or in amounts required by us. If we are unable to obtain adequate capital resources to fund our motion picture operations, it may be required to delay, scale back or eliminate some or all of our operations, which may have a material adverse effect on our business, results of operations and ability to operate as a going concern.

Our business requires a substantial investment of capital. The production, acquisition and distribution of motion pictures require a significant amount of capital. A significant amount of time may elapse between our expenditure of funds and the receipt of commercial revenues from our motion pictures, if any. This time lapse requires us to fund a significant portion of our capital requirements from private parties, institutions, and other sources. Although we intend to reduce the risks of our production exposure through strict financial guidelines and financial contributions from broadcasters, sub-distributors, tax shelters, government and industry programs and studios, we cannot assure you that we will be able to implement successfully these arrangements or that we will not be subject to substantial financial risks relating to the production, acquisition, completion and release of future motion pictures. If we increase our production slate or our production budgets, we may be required to increase overhead, make larger up-front payments to talent and consequently bear greater financial risks. Any of the foregoing could have a material adverse effect on our business, results of operations or financial condition.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**FACTORS THAT MAY AFFECT FUTURE RESULTS**

*We have an Accumulated Deficit and we have no History of Operations as a Motion Picture Company*

We have incurred losses in each operating period since our inception on October 12, 1999. Operating losses may continue, which could adversely affect financial results from operations and stockholder value, and there is a risk that we may never become profitable.

**ITEM 4. CONTROLS AND PROCEDURES**

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-QSB, Camelot's management evaluated, with the participation of Camelot's principal executive officer and principal financial officer, the effectiveness of the design and operation of Camelot's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act). Based on their evaluation of these disclosure controls and procedures, Camelot's chief executive officer and Camelot's chief financial officer have concluded that the disclosure controls and procedures were not effective as of the end of the period covered by this report. While conducting the review of the interim financial statements as of and for the period ended June 30, 2007, our independent auditors found numerous adjustments that indicated a material weakness in our controls over financial reporting. It is our plan with additional funding to devote more resources to this very critical function.

There has been no change in Camelot's internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, Camelot's internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless how remote.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

### **ITEM 2. CHANGE IN SECURITIES**

On March 16, 2007, 5,000,000 common shares were issued to Nucore Industries, Inc. as a deposit for a funding deal for Camelot Entertainment Group, Inc, and it has been presented as a subscription receivable at March 31, 2007. As of August 14, 2007, funding has not been received by the company.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

### **ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITIES HOLDERS**

NONE

### **ITEM 5. OTHER INFORMATION**

On April 30, 2007, the board of directors approved the increasing the number of authorized common and preferred shares of stock.

Authorized common shares were increased from 150,000,000 to 300,000,000 shares and number of authorized preferred shares were increased from 15,000,000 to 30,000,000.

### **ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

#### **a. Exhibits**

31.1 Certificate of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certificate of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer 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**

NONE

19

---

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report on Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized.

CAMELOT ENTERTAINMENT GROUP, INC.  
(Registrant)

Date: August 17, 2007

By: /s/ ROBERT P. ATWELL  
Title: Chief Executive Officer

Date: August 17, 2007

By: /s/ GEORGE JACKSON  
Title: Chief Financial Officer