

Camelot Entertainment Group, Inc.
Form 10QSB
May 20, 2005

**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 March 31, 2005

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 000-3078

CAMELOT ENTERTAINMENT GROUP, INC.

(Exact name of registrant as specified in its charter)
Delaware 52-2195605

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2020 Main Street #990
Irvine, CA 92614

(Address of principal executive offices (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 X No

As of March 31, 2005, the Registrant had outstanding 74,951,902 shares of Common Stock, \$0.001 par value.

**CAMELOT ENTERTAINMENT GROUP, INC.
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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.

PART I - FINANCIAL INFORMATION

Item 1. - Financial Statements

**Camelot Entertainment Group, Inc.
BALANCE SHEET**

**31-Mar-05
(Unaudited)**

**31-Dec-04
(Unaudited)**

ASSETS

CURRENT ASSETS:

Cash	1,139.65
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OTHER ASSETS:

Investments

Licensing Agreements and Technologies

Patents

Total assets	\$ 1,139.65
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LIABILITIES

CURRENT

Accounts payable and accrued liabilities	\$ 100,632
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Due to officers	0
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Total current liabilities	100,632
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STOCKHOLDERS' EQUITY

Common stock, \$.001 par value, 150,000,000 shares authorized	74,952
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74,591,209 issued and outstanding	
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Subscription receivable	(258,072)
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Additional paid-in capital	7,408,347
(Deficit) Accumulated during Development stage	(7,324,719)
Net Income (Loss) current period	
Total stockholders' equity	(99,492)
Total liabilities and stockholders' equity	\$ 1,139.65

notes are an integral part of these financial statements.

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Camelot Entertainment Group, Inc.
STATEMENTS OF OPERATIONS
(Unaudited)

	For the 3 months ended		Cumulative from October 12, 1999 (Inception) to March 31,2005
	31-Mar-05	31-Mar-04	
Revenue:			
Professional services	\$ -		\$ 58,567
Expenses:			
Cost of services	-		95,700
Sales and marketing	-		53,959
Research and development	-		252,550
General and administrative	117,121	131,681	4,209,520
Impairment of assets	-		2,402,338
Impairment of investments in other companies	-		710,868
 Total expenses	 117,121	 131,681	 7,724,935
Income (loss) from operations	(117,121)	(131,681)	(7,666,368)
Interest (expense)		-	(9,294)
Other income (expense), net	25		(21,652)
Gain on extinguishment of debt		-	255,500
Net (loss)	\$ (117,096)	\$ (131,681)	\$ (7,441,814)
Net (loss) per share:			
Basic & diluted	\$ (0.0016)	\$ (0.003)	
 WEIGHTED AVERAGE SHARES OUTSTANDING:			
Basic & diluted	74,951,209	38,297,485	

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

Camelot Entertainment Group, Inc.**STATEMENTS OF CASH FLOW**
(Unaudited)

	For the three months		Cummulative
	ended March 31,		from
	2005	2004	12-Oct-99
			(Inception)
			to
			31-Mar-05
OPERATING ACTIVITIES			
Net (loss) income for the period	\$ (117,096)	\$ (131,681)	\$ (7,441,814)
Adjustments to reconcile net (loss) to cash provided (used) by operating activities:			
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 debt			40,000
Common stock issued for services		3,000	1,288,000
Common stock issued for expense reimbursement			22,051
Common stock issued for technology			19,167
Impairment of investments in other companies			710,868
Impairment of assets			2,628,360
Revenue paid in common stock			(1,068)
Prepaid services expensed			530,104
Expenses paid through notes payable proceeds			66,489
Loss on disposal of property and equipment			5,854
Change in assets and liabilities:			
(Increase) decrease in other current assets	(10,000)		(10,000)
Increase (decrease) in accrued liabilities	(7,475)		188,524
Increase in due to officers	87,500	87,500	87,500
Net Cash provided (used) by operating activities	(47,071)	(41,181)	(227,541)

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Cash flows from investing activities:			
Purchase of fixed assets			(6,689)
Cash provided (used) from investing activities	0	0	(6,689)
Cash flows from financing activities:			
Contributed capital			25,500
Advances from affiliate /Shareholder loans	46,546	41,181	174,033
Proceeds from issuance of common stock			30,835
Increase (decrease) in notes payable			4,477
Cash provided (used) in financing activities	(525)	-	615
Increase in cash	0	0	615
Cash at beginning of period	1,140	0	0
Cash at end of period	615	0	615

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CAMELOT ENTERTAINMENT GROUP, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2005

1. ORGANIZATION AND BASIS OF PRESENTATION

Camelot Entertainment Group, Inc. (the *Company*), 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..

The Company's activities since inception have consisted of raising capital, recruiting a management team and entering into ventures and alliances with Affiliates. The Company has substantially relied on issuing stock to officers, directors, professional service providers and other parties in exchange for services and technology. As of December 31, 2002, the Company had written-off all of its investments due to impairments in the carrying value of the assets. Since inception, impairment of investments in other companies and of long-lived assets accounts for approximately 51% of the Company's net losses.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has had minimal revenues, has experienced material operating losses 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 the Company'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 the Company's debt and seeking additional financial resources from existing investors or others in implementing its new business model. However, instability in the stock price may make it difficult to find parties willing to accept the Company's restricted shares of common stock in exchange for cash and or services required to execute its Plan of Operation. There is no assurance that such resources would be made available to the Company, or that they would be on financially viable terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company considers all investment instruments purchased with maturities of three months or less to be cash equivalents.

Basis Of Presentation

The unaudited financial statements included herein were prepared from the records of the Company in accordance with Generally Accepted Accounting Principles and in accordance with current securities regulations these unaudited financial statements have been reviewed by our independent auditors. These financial statements reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. Such financial statements generally conform to the presentation reflected in the Company's Form 10-KSB filed with the Securities and Exchange Commission for the year ended December 31, 2004. The current interim period reported herein should be read in conjunction with the Company's Form 10-KSB subject to independent audit at the end of the year.

Use of Estimates

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

Income taxes

The Company provides for income taxes based on the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes, which, among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of financial statements.

Financial Instruments

Financial instruments consist primarily of obligations under accounts payable and accrued expenses, notes payable and capital lease obligations. The carrying amounts of accounts payable and accrued expenses approximate fair value because of the short maturity of those instruments. The carrying value of notes payable and capitalized lease obligations approximate fair value because they contain market value interest rates and have specified repayment terms. The Company has applied certain assumptions in estimating these fair values. The use of different assumptions or methodologies may have a material effect on the estimates of fair values.

Impairment of long-lived assets

Impairment of long-lived assets is assessed by the Company whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to the assets' net carrying value. The amount of impairment loss, if any, is measured as the difference between the net book value of the assets and the estimated fair value of the related assets.

Loss Per Common Share

The Company has adopted SFAS No. 128, *Earnings per Share*, which supercedes APB No. 15. Basic EPS differs from primary EPS calculation in that basic EPS does not include any potentially dilutive securities. Diluted EPS must be disclosed regardless of the dilutive impact to basic EPS. There were no potentially dilutive securities outstanding at March 31, 2005.

Revenue Recognition

Revenue consists of professional services. Revenues for services are recognized when the services are rendered. The amounts of such revenues are recorded based on the value of compensation received for the services. In the Company's current operations, compensation to the Company has consisted of stock in start up companies to whom the services were rendered.

Stock Based Compensation

Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure (*SFAS 148*). SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure requirements of SFAS 123 to require more prominent disclosures in annual and interim financial statements with regard to the method of accounting for stock-based employee compensation and the impact of the method used on reported results. The Company has elected to adopt the recognition provisions of SFAS 148 for stock-based compensation recorded for fiscal years beginning after December 15, 2002. The interim disclosure requirements of SFAS 148 are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002.

3. GOING CONCERN UNCERTAINTIES

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has experienced recurring operating losses and negative cash flows from operations, which raise substantial doubt about its ability to continue as a going concern. The Company's continued existence is dependent upon its ability to increase operating revenues and/or obtain additional equity financing. In view of these matters, the Company has undergone a series of negotiations to obtain additional equity financing to enable it to achieve its strategic objectives. The Company has an agreement with Eagle Consulting Group, Inc., a Nevada corporation ("Eagle"), to provide equity financing. While Eagle has advanced the Company \$46,546 during the first three months of 2005, it appears unlikely that such funding will be enough to implement the Company's Plan of Operation during the remaining nine months of 2005 and beyond. As a result, the Company 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.

4. COMMITMENTS AND CONTINGENCIES

The Company is delinquent on obligations to various vendors. Accounts payable and accrued expenses balances over 90 days past due as of March 31, 2005 was \$87,158. The Company believes it has identified and accrued for all valid claims from creditors, consultants, stock option adjustments and vendors. Although there have been no specific disputes over these matters and related amounts, these third parties may assert additional claims as the Company attempts to settle all past due obligations.

The Company also has a non-dilution commitment with an Affiliate to issue 20% of all newly issued common shares to the Affiliate in exchange for funding cash flow deficits over the period specified in the agreement. The Company has not issued any common shares to the Affiliate during 2005 under the agreement.

5. ADVANCES FROM AFFILIATE

During the first quarter of 2005, the Company did not issue any common shares to Affiliate for \$46,546 under an agreement in which the Affiliate must fund the Company's cash flow deficits over the period specified in the agreement. The agreement requires the Company to issue 20% of all newly issued common shares to the Affiliate until the Company obtains financing sufficient to implement its plan of operation.

6. DUE TO OFFICERS

As of March 31, 2005, the Company owed its officers \$87,500 of accrued compensation for services provided during the quarter ended March 31, 2005.

7. COMMON STOCK

No common stock has been issued in 2005.

8. STOCK OPTIONS

The Company has an agreement with Corporate Awareness Professionals, Inc. ("CAP"), which in part provides for the initial purchase of 1,675,000 shares of its \$.001 par value common stock, through options priced at \$0.15 per share, for \$251,250. CAP also has the option to purchase an additional 1,000,000 shares at \$.50 per share for \$500,000. Upon purchasing those shares, CAP will have the right to purchase up to a maximum of 10% more shares, or 100,000 shares, at \$.50 per share. If CAP exercises all its options, it will have purchased 2,775,000 total shares for \$801,250. All of the options are exercisable until the expiration of the term of the CAP agreement. All options have expired as of March 30, 2005.

9. RELATED PARTY TRANSACTIONS

On March 30, 2003, the Company entered into an agreement with an Affiliate whereby the Company will issue 20% of its outstanding common shares in exchange for services and advances. No shares were issued during the first quarter of 2005 for principal advances of \$46,546. The Affiliate paid \$46,546 in expenses on behalf of the Company during the first quarter of 2005.

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 the Company'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 are detailed in the notes to the financial statements which are an integral component of this filing.

Management evaluates the probability of the utilization of the deferred income tax asset related to the net operating loss carry forwards. The Company has estimated a \$2,450,000 deferred income tax asset related to net operating loss carry forwards and other book/tax differences at March 31, 2005. Management determined that because the Company has yet to generate taxable income, and that the generation of taxable income in the short term is uncertain, it was appropriate to provide a valuation allowance for the total deferred income tax asset.

The Company has acquired certain technology and licenses. Prior to January 1, 2004, the Company determined that the value of these acquired assets was impaired and has provided an impairment allowance for the full purchase price of these assets. The impairment amount charged to operations in prior years was \$3,113,206.

Critical Accounting Policies

The Company has defined a critical accounting policy as one that is both important to the portrayal of the Company's financial condition and results of operations; and requires the management of the Company to make difficult, subjective or complex judgments. Estimates and assumptions about future events and their effects cannot be perceived with certainty. The Company 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 the Company'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.

Significant Accounting Practices

Beginning January 1, 2004 we adopted new accounting rules which were effective January 1, 2001, which require, among other changes, that exploitation costs, including advertising and marketing costs, be expensed as incurred. Theatrical print costs are amortized over the periods of theatrical release of the respective territories. Under accounting rules in effect for periods prior to January 1, 2001, such costs were capitalized as a part of film costs and amortized over the life of the film using the individual-film-forecast method. The current practice dramatically increases the likelihood of reporting losses upon a film's theatrical release, but should provide for increased returns when a film is released in the ancillary markets of home video and television, when we incur a much lower proportion of advertising costs. Additional provisions under the new accounting rules include changes in revenue recognition and accounting for development costs and overhead, and reduced amortization periods for film costs.

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.

Revenue Recognition

Revenue from the sale or licensing of motion pictures is recognized upon meeting all recognition requirements of SoP 00-2. Revenue from the theatrical release of motion pictures is recognized at the time of exhibition based on the company's participation in box office receipts. Revenue from the sale of DVDs in the retail market, net of an allowance for estimated returns, is recognized on the latter of shipment to the customer or "street date" (when it is available for sale by the customer). Under revenue sharing arrangements, rental revenue is recognized when we are entitled to receipts and such receipts are determinable.

Revenues from television licensing are recognized when the motion picture is available to the licensee for telecast. For television licenses that include separate availability "windows" during the license period, revenue is allocated over the "windows." Revenue from sales of international territories are recognized when the feature film is available to the distributor for exploitation and no conditions for delivery exist, which under most sales contracts requires that full payment has been received from the distributor.

For contracts that provide for rights to exploit a program on multiple media (i.e. theatrical, video, television) with a fee for a single motion picture where the contract specifies the permissible timing of release to various media, the fee is allocated to the various media based on management's assessment of the relative fair value of the rights to exploit each media and is recognized as the program is released to each media. For multiple-title contracts with a fee, the fee is allocated on a title-by-title basis, based on management's assessment of the relative fair value of each title. Cash payments received are recorded as deferred revenue until all the conditions of revenue recognition have been met.

Income Taxes

The Company recognizes future income tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the financial statements or income tax returns. Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities.

Capital Structure

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The Company has adopted Statement of Financial Accounting Standards No. 129, "Disclosure of Information about Capital Structure" ("SFAS 129"), which requires companies to disclose all relevant information regarding their capital structure. The Company reached an agreement with Eagle Consulting Group, Inc. 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 an anti-dilutive, continuing basis until the Company could secure additional financing from another source, Eagle 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. Eagle advances from January 1, 2005 to March 31, 2005 total \$46,546 including interest. In accordance with the anti-dilutive provision, the amount of stock due Eagle is calculated on a quarterly basis. This anti-dilution provision to the agreement could have a material adverse effect on our shareholders as it might continue for a substantial period of time and as a result the dilutive effect to the shareholders cannot be fully determined until the funding from Eagle ceases.

Going Concern Uncertainties

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

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

The Company entered into an agreement with Eagle Consulting Group, Inc., a Nevada corporation ("Eagle"), to provide equity financing. Eagle has advanced the Company a limited amount of funds in the first quarter of 2005, and it appears unlikely that such funding should be enough to meet all of the Company's cash requirements for the remaining quarters in 2005. However, the Company 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.

PLAN OF OPERATION

OVERVIEW

The Company was 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 1900s, with the artistic focus and diversity of today's independent productions. Using this approach, the Company believes 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.

Our historical operations, as Dstage.com, Inc., 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 financials and the related notes included elsewhere in this quarterly report in addition to thoroughly reading our current plan of operations.

Our View of the Steps Required for Motion Picture Commercialization

We view the motion picture commercialization process as involving three major steps, each of which bears a symbiotic relationship to the costs, creative value and profitability of any planned film to be released by us. These three steps are development, production and distribution. Under our planned model, development should include not only screenplay acquisition and development, but also a carefully constructed and unusually elongated pre-production phase. This process was developed as a result of the direct experience and observations of our management.

By viewing the development phase as a distinct and major component of the motion picture creation process, we hope that we can create a culture that encourages producers, writers and directors associated with our projects to focus their efforts and expertise on creating world-class pictures before the first day of shooting begins. We believe that creating such a culture could potentially result in a substantial reduction of the cost of our film projects, as compared to the film projects of our competitors. When combined with what we believe is a unique method of attracting, compensating and retaining talent that would otherwise not be involved in an active motion picture project, it is expected that the opportunity for a cost advantage could emerge.

Two members of our management team, President and Chief Executive Officer Robert P. Atwell, and H. Kaye Dyal, of our film production division, have worked extensively in financing, producing and directing original motion pictures and television programs with a combined 50 years experience in the motion picture and related businesses. This combined experience led our management to a number of beliefs upon which our planned business model should be founded. These key views are:

- The manner in which development and pre-production activities are managed can have the largest impact on both the quality, or creative content, and the cost of creating a motion picture.
- There are a number of factors that make it difficult for most motion pictures to invest large amounts of time and a proportionally large share of a motion picture's overall budget into development and pre-production activities.
- The factors that make it difficult for many motion picture projects to invest a major share of a film's time and financial resources into development and pre-production activities may have created a pervasive business culture that emphasizes moving projects towards principal photography too quickly.
- A very small percentage of all writers that want to have their screenplays become completed motion picture projects will ever realize this ambition.
 - A very small percentage of all directors will participate in principal photography in any given year.
- The percentage of qualified actors that never have the opportunity to participate in a completed original motion picture that is released commercially is substantial.
 - There are large periods of unemployment for many individuals involved in motion picture production.

We believe that these observations suggest that the capacity to create motions pictures, in terms of employable professionals, is far higher than the current demand of existing film production companies for these services. However, we also believe that growth in motion picture consumption worldwide has created increased demand for original motion pictures in general. As a result, we anticipate that the underemployed, or unemployed, directors, writers and other film professionals could help fill a void for low cost, quality original motion picture production, given the right mix of incentives and business structure. There can be no assurance that such benefits, advantages or capacity will ever materialize.

Successfully creating such low cost, but relatively high quality pictures should result in a higher per picture financial return and a lower breakeven point for each film produced. Also, by distributing these pictures primarily through in-house distribution professionals, the per picture return might be increased even further, enabling more motion pictures to be produced by us annually and thereby diversifying the risk associated with any single film project. These beliefs form the foundation for our planned business model and expected strategy.

Our Strategy of Emphasizing t