

Camelot Entertainment Group, Inc.
Form 10-Q
August 19, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

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.)

130 Vantis, Suite 130
Aliso Viejo, California 92656

(Address of principal executive offices (zip code))

(949) 334 - 2950

(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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller

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

reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| Large Accelerated Filer | <input type="radio"/> | Accelerated Filer | <input type="radio"/> |
| Non-Accelerated Filer | <input type="radio"/> | Smaller Reporting Company | <input checked="" type="radio"/> |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 15, 2008, the Registrant had outstanding 367,506,332 shares of Common Stock, \$0.001 par value.

The registrant had outstanding 29,402,047 shares of Preferred Stock series A and B, par value \$0.001

1

CAMELOT ENTERTAINMENT GROUP, INC.
INDEX TO FORM 10-Q

| | |
|---|--------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements (Unaudited) | 4 |
| Balance Sheets as of June 30, 2008 and December 31, 2007 | 4 |
| Statements of Operations for the three and six months ended June 30, 2008 and 2007 | 5 |
| Statements of Cash Flows for the six months ended June 30, 2008 and 2007 | 6 |
| Notes to Financial Statements | 7 - 10 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 17 |
| Item 4. Controls and Procedures | 19 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 20 |
| Item 2. Changes in Securities and Use of Proceeds | 20 |
| Item 3. Defaults Upon Senior Securities | 20 |
| Item 4. Submissions of Matters to a Vote of Security Holders | 20 |
| Item 5. Other Information | 20 |
| Item 6. Exhibits and Reports on Form 8-K | 20 |
| Signatures: | 21 |

THIS REPORT ON FORM 10-Q 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.
(A Development Stage Company)
Balance Sheets
(Unaudited)

| ASSETS | | |
|---|-------------------|----------------------|
| | June 30, 2008 | December 31, 2007 |
| Current Assets: | | |
| Cash | \$ 87 | \$ 122 |
| Prepaid expenses | | 6,424 |
| Total Current Assets | 87 | 6,546 |
| Deferred financing costs | 40,140 | 54,984 |
| Scripts costs | 79,700 | 79,700 |
| Deposit for studio project | 50,000 | 50,000 |
| Total other assets | 169,840 | 184,684 |
| Total Assets | \$ 169,927 | \$ 191,230 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 166,386 | \$ 176,999 |
| Accrued salaries to related parties | 604,000 | 350,000 |
| Note payable to related party | 309,000 | 300,000 |
| Stockholder advances | 60,986 | 134,757 |
| Total Current Liabilities | 1,140,372 | 961,756 |
| Long Term Liabilities: | | |
| Secured convertible notes payable, net of discount of \$495,219 and \$647,762, respectively | 405,013 | 295,970 |
| Derivative liabilities – Series A and B convertible preferred stock conversion feature | 150,345 | 726,223 |
| Derivative liability – conversion feature | 272,245 | 542,661 |
| Derivative liability – warrants | 10,506 | 50,759 |
| Total Long Term Liabilities | 838,109 | 1,615,613 |
| Total Liabilities | 1,978,481 | 2,577,369 |
| Series A and B Convertible Preferred Stock; par value \$0.001 per share 35,000,000; shares authorized; 29,402,047 and 28,152,047 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively | 29,402 | 28,152 |
| Stockholders' Deficit: | | |
| Common Stock; par value \$0.001; 500,000,000 shares authorized; | 262,506 | 224,506 |

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

262,506,332 and 224,506,322 shares issued and outstanding at June 30, 2008

and December 31, 2007, respectively

| | | |
|--|--------------|--------------|
| Additional paid-in capital | 13,644,627 | 13,637,649 |
| Deficit accumulated during the development stage | (15,745,089) | (16,276,446) |
| Total Stockholders' Deficit | (1,837,956) | (2,414,291) |
| Total Liabilities and Stockholders' Deficit | \$ 169,927 | \$ 191,230 |

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

Camelot Entertainment Group, Inc.
(A Development Stage Company)
Statements of Operations
(Unaudited)

| | For the Three Months Ended, | | For the Six Months Ended, | | From Inception on April 21, 1999 Through June 30, 2008 |
|--|-----------------------------|------------------|---------------------------|------------------|--|
| | June 30, 2008 | June 30, 2007 | June 30, 2008 | June 30, 2007 | |
| Revenue | \$ - | \$ - | \$ - | \$ - | \$ 58,568 |
| Operating expenses: | | | | | |
| Costs of services | - | - | - | - | 95,700 |
| Sales and marketing | - | - | - | - | 53,959 |
| Research and development | - | - | - | - | 252,550 |
| General and administrative | 168,092 | 552,359 | 404,312 | 938,780 | 12,415,963 |
| Impairment of assets | - | - | - | - | 2,402,338 |
| Impairment of investments in other companies | - | - | - | - | 710,868 |
| Total Expenses | 168,092 | 552,359 | 404,312 | 938,780 | 15,931,378 |
| Operating loss | (168,092) | (552,359) | (404,312) | (938,780) | (15,872,810) |
| Other income (expense): | | | | | |
| Gain on sale of interest in CDG | - | - | 200,000 | - | 200,000 |
| Interest expense | (78,160) | (410,806) | (159,390) | (463,956) | (1,709,146) |
| Gain (loss) on derivative liabilities | 474,061 | 617,524 | 895,059 | 402,270 | 1,381,367 |
| Gain on extinguishment of debt | - | - | - | - | 255,500 |
| Total other income (expenses) | 395,901 | 206,718 | 935,669 | (61,686) | 127,721 |
| Net income (loss) | \$ 227,809 | \$ (345,641) | \$ 531,357 | \$ (1,000,466) | \$ (15,745,089) |
| Basic income (loss) per common share | \$ - | \$ - | \$ - | \$ - | (0.01) |
| Diluted income (loss) per common share | \$ - | \$ - | \$ - | \$ - | (0.01) |
| Weighted average number of shares outstanding: | | | | | |
| Basic | 245,995,770 | 114,097,641 | 236,420,496 | 110,793,359 | |
| Diluted | 500,000,000 | 114,097,641 | 500,000,000 | 110,793,359 | |

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

Camelot Entertainment Group, Inc.
(A Development Stage Company)
Statements of Cash Flows
(unaudited)

| | For Six Months Ending, | | From Inception on April 21, 1999 through June 30, 2008 |
|---|------------------------|------------------|---|
| | June 30, 2008 | June 30, 2007 | |
| Cash Flows From Operating Activities: | | | |
| Net income (loss) for the period | \$ 531,357 | \$ (1,000,466) | \$ (15,745,089) |
| Adjustments to reconcile net income (loss) to cash provided (used) by operating activities: | | | |
| Amortization of deferred financing costs and discounts on notes payable | 148,628 | 135,934 | 444,852 |
| Imputed interest on note payable | 9,000 | 2,246 | 30,484 |
| Common stock issued for interest expenses | - | 300,000 | 565,459 |
| 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 | 30,000 | 50,000 | 3,221,429 |
| Loss or (Gain) on derivative liability | (895,059) | (402,270) | (736,258) |
| 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 |
| Impairment of note receivable | - | - | 17,500 |
| Prepaid services expensed | - | - | 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 | 6,424 | - | (17,934) |
| Increase (decrease) in accounts payable and accrued liabilities | (10,614) | 483,603 | 373,526 |
| Increase (decrease) in due to officers | 254,000 | - | 604,000 |
| Net Cash provided by (used) in operating activities | 73,736 | (430,953) | (1,886,361) |
| Cash flows from investing activities: | | | |
| Purchase of fixed assets | - | - | (6,689) |
| Purchase of scripts and deposits | - | (78,900) | (129,700) |
| Cash provided (used) from investing activities | - | (78,900) | (136,389) |

| | | | |
|---|----------|-----------|-----------|
| Cash flows from financing activities: | | | |
| Contributed capital | - | - | 25,500 |
| Proceeds from related party notes payable | - | 132,686 | 1,316,613 |
| Payments on notes payable | - | (250,000) | (254,477) |
| Proceeds from notes payable | - | 487,000 | 1,167,998 |
| Payments on related party notes payable | - | (271,888) | (125,000) |
| Advances from shareholder advances | 17,578 | - | 250,520 |
| Payments on shareholder advances | (91,349) | - | (359,457) |
| Cash provided by (used) in financing activities | (73,771) | 97,798 | 2,021,697 |
| | | | |
| Increase (decrease) in cash | (35) | (412,055) | (1,053) |
| | | | |
| Cash at beginning of period | 122 | 435,533 | 1,140 |
| | | | |
| Cash at the end of the period | \$ 87 | \$ 23,478 | \$ 87 |

Supplemental Cash Flow Information:

Non - cash investing and financing transactions:

| | | | |
|---|--------|---------|---------|
| Stock issued for related party debt | - | 16,078 | 248,581 |
| Creation of additional debt discount | - | 359,315 | 920,315 |
| Accelerated amortization of discount on N/P | - | 25,460 | 23,460 |
| Stock issued for debt conversion | 43,500 | 28,763 | 99,948 |
| Stock issued per financing agreement | - | 500,000 | 500,000 |
| Derivative liability relieved by conversion | 15,238 | 28,048 | 63,637 |

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

Camelot Entertainment Group, Inc.
Notes to Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Camelot Entertainment Group, Inc. (the “Company” or “Camelot”), a Delaware corporation, is a development stage film, television, digital media and entertainment company. The Company classifies its businesses into the following three major divisions:

- Camelot Film Group, consisting principally of feature film, television, home video, and digital media production and distribution;
- Camelot Studio Group, consisting principally of site acquisition, design, development and operation of Camelot Studio locations domestically and internationally;
- Camelot Production Services Group, consisting principally of consulting, education, finance, production support and technology services.

At June 30, 2008, the Company had a total of two (2) employees and approximately four (4) consultants, which provide services to the Company on an as needed basis. The Company also retains independent contractors on a project by project basis.

Basis of Presentation

Camelot is considered to be a development stage enterprise as defined in Statement of Financial Accounting Standards (“SFAS”) 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, 2008. The Company has not presented the statement of stockholders’ deficit as there have been insignificant changes during the six months ended June 30, 2008.

The accompanying unaudited financial statements as of June 30, 2008 and for the three and six months ended June 30, 2008 and 2007, respectively, have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, pursuant to the rules of the regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. The notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent calendar year 2007 as reported in the Company’s Form 10-KSB have been omitted. The results of operations for the six months ended June 30, 2008 and 2007 are not necessarily indicative of the results to be expected for the full year. 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 financial statements and related notes thereto which are part of the Company’s Annual Report on Form 10-KSB for the year ended December 31, 2007.

Earnings (Loss) per Share

Basic earnings (loss) per share is based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share also includes the effect of stock options, other common stock

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

equivalents outstanding during the during the period, and assumes the conversion of the Company's Series A and B preferred stock and conversion of convertible notes payable for the period of time such stock and notes were outstanding, if such preferred stock and convertible notes are dilutive. For the three and six months ended June 30, 2008, dilutive securities on a fully converted basis would cause the Company to be in excess of their authorized shares of 500,000,000. Thus, the dilutive earnings per share for the three and six months ended June 30, 2008 is limited to the amount of common stock authorized by the Company's stockholders.

The following table sets forth the computation of the numerator and of basic and diluted income (loss) per share for the three and six months ended June 30, 2008 and 2007. There were no adjustments to the denominator.

| | Three Months Ended, | | Six Months Ended, | |
|--|---------------------|---------------|-------------------|---------------|
| | June 30, 2008 | June 30, 2007 | June 30, 2008 | June 30, 2007 |
| Weighted average common shares outstanding used in calculating basic earnings (loss) per share | 254,004,230 | 114,097,641 | 236,420,496 | 110,793,359 |
| Effect of dilutive convertible preferred stock and notes | 245,995,770 | - | 263,579,504 | - |
| Weighted average common shares outstanding used in calculating diluted earnings (loss) per share | 500,000,000 | 114,097,641 | 500,000,000 | 111,655,743 |

As of June 30, 2008, the Company has only 500,000,000 shares authorized, thus the effects of convertible preferred stock and notes into common stock are limited to the amount authorized by the Company's stockholders.

Camelot Entertainment Group, Inc.
Notes to Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141(R), “Business Combinations” (“SFAS 141(R)”), which replaces FAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is to be applied prospectively to business combinations.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51” (“SFAS 160”), which addresses the accounting and reporting framework for minority interests by a parent company. SFAS 160 also addresses disclosure requirements to distinguish between interests of the parent and interests of the noncontrolling owners of a subsidiary. SFAS 160 will become effective beginning with our first quarter of 2009. The Company is currently evaluating the impact of this standard on our financial statements.

2. GOING CONCERN

The accompanying financial statements have been prepared assuming that Camelot will continue as a going concern. During the six months ended June 30, 2008, Camelot had no revenue producing operations, at June 30, 2008 a negative working capital of \$1,140,285 and an accumulated deficit from Inception of \$15,745,089. These conditions 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 consists of restructuring its debt, seeking additional financial resources from its existing investors and note holders and it’s CEO Robert Atwell. In addition, the Company is planning a major capital raising effort during the fourth quarter of 2008. However, there can be no assurances that our efforts will be successful. During the six months ended June 30, 2008, the Company sold 2% of its interest in CDG for \$200,000 and this money was used fund Camelot Entertainment Group’s operating expenses and used to reduce related-party payables. Subsequent to June 30, 2008, the Company issued \$160,000 in secured notes payable, of which \$40,000 was received, see Note 8 for additional information. The Company expects the current cash on hand plus additional funds expected to be received in August and September 2008 to fund operations through October 2008.

3. INVESTMENT

On November 5, 2007, Camelot Development Group, LLC (“CDG”), which on that date was owned 100% by Camelot, entered into an Operating Agreement known as Camelot Development Tustin (“CDT”) with Janez Investments XI Tustin, LLC (“Janez”), for the purpose of master developing the Advanced Technology and Education Park (“ATEP”) in Tustin, California and the subsequent acquisition of real property through a ground lease with the South Orange County Community College District (“SOCCCD”) in order to develop and build Camelot’s first major studio complex which is planned to be located at ATEP campus (“Project”). Under the terms of the Operating Agreement, Camelot has been credited with an initial investment of \$1,500,000 into the Project, representing previous expenditures made by Camelot. Janez is obligated under the terms of the CDT Agreement contribute cash to CDT in the sum of \$1,500,000 as and when necessary to pay for predevelopment costs or acquisition expenses as set forth in the Business Plan for

the Project. In addition, Camelot will be responsible for one half of future expenditures once Janez \$1,500,000 contribution has been extinguished. As of June 30, 2008, Camelot was reviewing its involvement in the CDT project following a request by Janez to restructure the Operating Agreement. This request has resulted in the CDT project being placed on hold while the Company reviews its options going forward. Those options include restructuring the Operating Agreement, replacing Janez or terminating the CDT project in its current form.

The Company accounts for the investment under the equity method of accounting. The Company did not record an initial investment in CDG as the intangible asset transferred could not be stepped up in basis because it did not have an ascertainable value nor can it be guaranteed that the asset will be ultimately recovered. In addition, the Company and Janez will be paid for their services from CDG. Total development costs by CDG during the six months ended June 30, 2008, were \$304,277 of which \$146,053 was attributable to the Company. Due to the zero basis in the investment, the Company did not record any of the losses in the accompanying statement of operations in 2008. As of June 30, 2008, Janez has indicated that they will not contribute any more money to the project unless the Operating Agreement is restructured. As of June 30, 2008, CDG did not have any significant assets or liabilities.

In January 2008, we agreed to sell up to 30% of our interest in CDG to Camelot Studio Investors, LLC ("CSI") for up to \$3,000,000 on an as needed basis. In addition, CSI receives 100,000 shares of our \$0.001 par value Series C Convertible Preferred Stock for each one half of one percent (.05%) of CDG purchased by CSI. No shares were issued during the six months ended, June 30, 2008. Under this agreement 400,000 common shares were to be issued resulting in an estimated liability at June 30, 2008. The managing member of CSI is Scorpion Bay, LLC, which is managed by Timothy Wilson, one of our previous directors, who resigned in May 2008. The proceeds from the sale will be utilized to retire debt and to fund operations. During the six months ended June 30, 2008, the Company sold 2% of its interest for \$200,000. At June 30 2008, the Company owns approximately 48% of CDG. No shares were sold during the second quarter of 2008 nor does the Company intend to sell additional shares unless the Operating Agreement with Janez is restructured.

Camelot Entertainment Group, Inc.
Notes to Financial Statements
(Unaudited)

4. CONVERTIBLE NOTES PAYABLE

On December 27, 2006, Camelot issued a callable secured convertible note payable for \$1,000,000 to various holders. Camelot received the proceeds in two tranches: \$600,000 gross proceeds were received in December 2006 and \$400,000 in gross proceeds was received in June 2007 when the required registration statement was deemed effective. The note payable provided for annual interest at 8%, was secured by all of the assets of the Company, and matures 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 and the placement agent were issued seven year warrants to purchase 10,582,609 common shares at an exercise price of \$0.15 per share. The warrants were issued in connection with the first tranche received.

At Camelot's 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 \$0.25 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 \$0.25, we may prepay a portion of the outstanding principal amount of the notes equal to 101% of the principal amount hereof divided by 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.

Camelot evaluated the notes and warrants under SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" and determined that the 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 bi-furcation from the note instrument and required an estimate of its fair market value. 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 the Black Scholes model.

As of June 30, 2008, Camelot estimated the fair value of the derivatives liabilities to be a total of \$282,751 resulting in gain on derivative liability presented in the statement of operations for the six months ended June 30, 2008 of \$295,431. In addition, Camelot amortized \$133,783 of the discount on the convertible note payable to interest expense. As of June 30, 2008, the principal balances of the notes were \$900,232.

At June 30, 2008, the fair market value of the compound embedded derivative was estimated using a lattice model incorporating weighted average probability cash flow. The valuation was calculated using a lattice model with the following assumptions: the stock price would increase in the short term at the cost of equity with a 150% volatility, there was a 95% probability the Company would not be in default of its registration requirements, assuming an event of default occurring 5% of the time increasing .10% per month, reset events projected to occur 5% of the time at an exercise price of \$0.004, the holder would automatically convert at a stock price of \$0.20 if the registration was effective and the Company was not in default, the Company would trigger redemption of the note when available at a stock price of \$0.10 or higher, alternative financing would be initially available to redeem the note and start to increase monthly by 10% of the notes to a maximum of 75% and the trading volume would increase at 1% per month. At June 30, 2008, the fair market value of the warrants was estimated using Black Scholes with the major assumptions of (1) calculated volatility of 200%; (2) expected term of six years; (3) risk free rate of 3.45% and (4) expected dividends of zero.

During the six months ended June 30, 2008, the holders of convertible notes converted \$43,500 resulting in the issuance of 36,290,000 shares of common stock. Upon conversion, the Company reclassified approximately \$15,288 of the compound derivative to additional paid-in capital.

In the event of full conversion of the aggregate principal amount of the notes of \$900,232 as of June 30, 2008, we would have to issue a total of 900,232,000 shares of common stock, which exceeds our authorized shares of 500,000,000. However, due to contractual limitations, the most that could be converted in any singular conversion is approximately 13,348,556 shares, or 4.99% of the outstanding. In addition, there are contractual limitations that could be imposed by Camelot that would result in the inability of the note holders to convert during any given 30 day period. There is no limit to the number of shares that Camelot may be required to issue upon conversion of the notes as it is dependent upon Camelot's share price, which varies from day to day. This could cause significant downward pressure on the price of Camelot's common stock.

In connection with the convertible note, Camelot recorded \$40,140 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. During the six months ended June 30, 2008 and 2007, the Company amortized \$14,844 and \$18,012 of the deferred financing costs to interest expense, respectively.

5. RELATED PARTY TRANSACTIONS

Accrued Salaries

At June 30, 2008 the Company has accrued \$604,000 in compensation to its current officers. The amount due to officers include: Robert Atwell, \$460,000 and George Jackson, \$144,000.

Advances from Affiliates

During the six months ended June 30, 2008, the Company received \$17,578 in advances from an affiliate owned by the CEO, compared to \$107,560 in advances for six months ended June 30, 2007. During the six months ended June 30, 2008, the Company paid \$91,349 of these amounts, leaving a balance due of \$60,986 at June 30, 2008. Imputed interest recorded during the six months ended June 30, 2008, related to the advances by the affiliate were \$1,763.

Camelot Entertainment Group, Inc.
Notes to Financial Statements
(Unaudited)

5. RELATED PARTY TRANSACTIONS - continued

Robert Atwell

In October 2007, the \$300,000 note payable due to the Scorpion Bay, LLC was transferred to property owned by Robert Atwell in which secured the note payable. The note is due on demand and incurs interest at 6%. During the six months ended June 30, 2008, the Company accrued \$9,000 in interest expense.

Scorpion Bay, LLC

Timothy Wilson ("Wilson"), one of our previous directors (resigned in May 2008) and a major stockholder of the Company, is the managing member of Scorpion Bay, LLC ("Scorpion"), which owns 50% of JIT. Wilson is also the managing member of CSI and PSP. See Note 3 and 6 for transactions.

6. PREFERRED STOCK

In January 2008, 1,250,000 shares of Series A convertible preferred stock were issued to Scorpion Bay, LLC for services rendered in connection with the studio project. The shares were valued at \$25,000 based on the estimated fair value of the Series A convertible preferred stock on the date of issuance and expensed. Scorpion Bay, LLC did not have any additional performance commitments related to the shares. At the time of issuance of the Series A convertible preferred stock, the Company did not have enough authorized shares on a fully diluted basis due to the conversion feature of the convertible notes, which caused the Series A convertible preferred stock to be tainted, and more akin to debt. In addition, management determined that the Series A convertible preferred contained compound embedded derivative liabilities under SFAS 133 and EITF 00-19, because of the classification of these securities as liabilities. The Company determined that the compound embedded conversion features required bifurcation from the remaining Series A convertible preferred and required an estimate of its fair market value. The fair market value of the compound embedded derivative was estimated using a lattice model incorporating weighted average probability cash flow.

On the date of the issuance, the fair market value of the compound embedded derivative associated with the Series A convertible preferred stock was estimated to be \$49,124 and resulted in the Series A convertible preferred stock being discounted to its par value. Due to the excess fair value of the compound embedded derivative over the proceeds of \$25,374, the Company recorded an immediate charge to derivative gain (loss).

As of June 30, 2008, there were 8,650,957 shares outstanding of our \$0.001 par value Series B Convertible Preferred Stock. The Series B Preferred converts to 10 shares of common stock for every one share of Series B Preferred Stock. Each share of Series B Preferred Stock is entitled to 1,000 votes. Series B Preferred ranks superior to all other classes of stock.

As of June 30, 2008, there were 20,751,090 shares outstanding of our \$0.001 par value Series A Convertible Preferred Stock. The Series A Preferred converts to four shares of common stock for every one share of Series A Preferred Stock. Each share of Series A Preferred Stock is entitled to 50 votes. Series A Preferred ranks superior to our common stock and ranks junior to our Series B Preferred Stock.

As of June 30, 2008, the Company estimated the fair value of the preferred stock derivative liabilities to be a total of \$150,345 resulting in a gain on derivative liability presented in the statement of operations of \$599,628. At June 30, 2008, the fair market value of the conversion feature derivative related to the Series A and B Convertible Preferred

stock was estimated using a lattice model incorporating weighted average probability cash flow. The valuation was calculated using a lattice model with the following assumptions: the stock price would increase in the short term at the cost of equity with a 190% volatility and there was a 100% probability the Company would not be in default of its registration requirements as there were none.

On January 8, 2008, Camelot established a Series C Convertible Preferred Class of stock of which 10,000,000 shares were authorized. The Series C Convertible Preferred converts to one share of common stock for every one share of Series C Convertible Preferred Stock. Each share of Series C Preferred Stock is entitled to one vote. The Company's Series A and B are superior to the Series C Convertible Preferred. To date no Series C Convertible Preferred shares have been issued. Because the authorized common shares are potentially unavailable, any issuance of the Series C Convertible Preferred shares will be tainted until such time the Company obtains shareholder approval.

On February 18, 2008, the Company's board of directors increased the authorized shares of common stock to 500,000,000.

7. STOCKHOLDERS' DEFICIT

Common Stock Issued for Services

On February 24, 2008, the Company issued 1,000,000 shares of common shares public relations firm for professional services rendered in connection with the Tustin Studio project. The shares were valued at \$0.005 per share, totaling \$5,000. The shares were valued based on the closing market price of the Company's common stock on the date of issuance and expensed immediately as there were no future performance requirements.

8. SUBSEQUENT EVENT

On August 14, 2008, the Company issued a callable secured convertible note payable for \$160,000 to various holders. The Company is to receive the proceeds in three tranches: \$40,000 gross proceeds were received on August 14, 2008 and \$110,000 in gross proceeds to be received from late August through the end of September 2008. The note payable provided for annual interest at 10%, was secured by all of the assets of the Company, and matures on May 10, 2011. The principal and accrued interest of the note is convertible into the Company'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. The Company is currently evaluating the accounting impact on the financial statements.

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as "special purpose entities" (SPEs).

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. At June 30, 2008, significant accounting estimates relate to the fair value of the Company's derivative liabilities.

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 certain policies as critical to our business operations and the understanding of our results of operations, see our annual report on Form 10-KSB for these policies. 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 OF FINANCIAL CONDITION AND RESULTS OF OPERATION - continued

Going Concern Uncertainties

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles accepted in the United States, which contemplate continuation of Camelot as a going concern. However, Camelot has experienced recurring operating losses and negative cash flows from operations. This is due in part to Camelot's focus on developing Camelot Studios at ATEP, also referred to herein as "CDT", which has necessitated considerable monetary and time commitments from Camelot in lieu of Camelot pursuing revenue generating opportunities either through its Camelot Film Group or Camelot Production Services Group divisions. Camelot's Board of Directors made the decision to have Camelot focus on the studio project due to the long term importance of the studio and the impact successful completion of that project will have on Camelot Studio Group and Camelot overall. As a result, Camelot has had to delay several revenue generating projects which it will implement once the basic entitlement phase has been concluded for Camelot Studios at ATEP.

Camelot's continued existence is dependent upon its ability to increase operating revenues and/or obtain additional equity financing. As part of our ongoing efforts to obtain additional financing, in January 2008 Camelot agreed to sell up to 30% of its interest in Camelot Development Group, LLC ("CDG") to Camelot Studio Investors ("CSI") for up to \$3,000,000 on an as needed basis. Proceeds from the sale will be used to retire debt, provide operating expenses for Camelot and establish a reserve for contingency expenditures related to the Camelot Studios at ATEP project and Camelot Studio Group. To date, Camelot has sold a 2% interest for proceeds of \$200,000. No money was raised during the second quarter of 2008. As of June 30, 2008, Camelot was reviewing its involvement in the CDT project following a request by Janez to restructure the Operating Agreement. This request has resulted in the CDT project being placed on hold while the Company reviews its options going forward. Those options include restructuring the Operating Agreement, replacing Janez or terminating the CDT project in its current form.

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"). This transaction is referred to also as the "NIR Funding".

We entered into an agreement with Eagle Consulting Group, Inc. ("Eagle") on March 28, 2003, to provide operational funding for the Company, which expires on March 28, 2008. 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 provided funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. On June 5, 2007, the Company completed its funding transaction with NIR and its note holders, whereby the note holders have invested monies into the Company, thereby ending the agreement with Eagle.

In addition, during 2006 and 2007 we also reached agreement with Scorpion Bay, LLC ("Scorpion"), to provide short term loans to Camelot on an as needed basis. To date, all of these loans have been repaid. Further, The Atwell Group has provided advances for certain Camelot expenses when necessary. It appears likely that such funding and financial arrangements with our current investors, note holders and our officers and directors should continue to be enough to meet all of the Company's cash requirements in 2008. 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.

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141(R), “Business Combinations” (“SFAS 141(R)”), which replaces FAS 141. SFAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any controlling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is to be applied prospectively to business combinations.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51” (“SFAS 160”), which addresses the accounting and reporting framework for minority interests by a parent company. SFAS 160 also addresses disclosure requirements to distinguish between interests of the parent and interests of the noncontrolling owners of a subsidiary. SFAS 160 will become effective beginning with our first quarter of 2009. The Company is currently evaluating the impact of this standard on our financial statements.

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION - continued

Capital Structure

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 issued no shares in 2002 due to conversion, exercises or contingent issuances. In 2003, the Company issued 20,000,000 shares due to the conversion of notes payable retiring principal and accrued interest totaling \$224,296. We reached an agreement with Eagle Consulting Group, Inc. on March 28, 2003 to provide operational funding for Camelot. In exchange for twenty percent (20%) of the Company's outstanding common stock on an anti-dilutive, continuing basis until Camelot could secure additional financing from another source, Eagle agreed to provide funding for Camelot's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. In 2004, Eagle advanced \$127,341 and in 2005 Eagle advanced \$125,288. 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.

On January 5, 2005, the Company designated two classes of preferred stock, Class A Convertible Preferred Stock and Class B Convertible Preferred Stock. Both classes have a par value of \$.001 and 10,000,000 shares authorized. The Series A is reserved for employees, consultants and other professionals retained by the Company and the Series B is reserved for the Board of Directors. On June 30, 2005, the Company issued 5,100,000 shares of each Class A Convertible and Class B Convertible Preferred Stock to Robert Atwell. The Company recorded expense of \$3,366,000 in connection with the Preferred Stock issuances.

On October 25, 2007, the Company entered into a Share Issuance Agreement ("SIA") with Zuckerman, Kocmur and Scorpion ("JTT"). According to the terms and conditions of the SIA, as additional consideration for Janez becoming a joint venture partner with CDG, and in consideration for additional business development and consulting efforts provided by JTT, JTT received 80,000,000 shares of our common stock. 20,000,000 shares were issued to Zuckerman, 20,000,000 shares were issued to Kocmur, these shares were valued at the market price at the date of issue \$0.006 and recorded as professional services in the amount of \$240,000. The 40,000,000 shares were issued to Scorpion in Preferred Series A and B stock were recorded at the market price at the date of issue and recorded as professional services in the amount of \$307,276. In addition, Zuckerman, Wilson and Joseph Petrucelli were nominated to serve on our Board of Directors. The parties also agreed on a common stock structure which provides JTT and Robert P. Atwell, our Chairman ("Atwell") with anti-dilution protection. Further, the SIA directs the Company to seek stockholder approval to increase the authorized shares of the common stock to 400,000,000 and increase the Board of Directors from five to seven members.

In May 2008, Jeff Zuckerman, Joseph Petrucelli and Timothy Wilson resigned from the Board of Directors. The company will search for replacements for the three board of director positions.

On June 30, 2008, there were 8,650,957 shares outstanding of our \$0.001 par value Series B Convertible Preferred Stock. The Series B Preferred converts to 10 shares of common stock for every one share of Series B Preferred Stock. Each share of Series B Preferred Stock is entitled to 1,000 votes. Series B Preferred ranks superior to all other classes of stock.

On June 30, 2008, there were 20,751,090 shares outstanding of our \$0.001 par value Series A Convertible Preferred Stock. The Series A Preferred converts to four shares of common stock for every one share of Series A Preferred Stock. Each share of Series A Preferred Stock is entitled to 50 votes. Series A Preferred ranks superior to our common stock and ranks junior to our Series B Preferred Stock.

Plan of Operations

Overview

Camelot Entertainment Group is working to become a fully integrated, broad based entertainment company whose planned future global operations expect to encompass motion picture production and distribution, television programming, production and syndication, home video acquisition and distribution, digital media production and distribution, development and operation of studio facilities, development of new technologies, and distribution of filmed entertainment worldwide. We are planning to become a global leader in the creation, production, distribution, licensing and marketing of all form of creative content and their related businesses across all current and emerging media and platforms. If we are successful in implementing our business model, we could have a major impact on the industry in every aspect from feature film, television and home entertainment production and distribution to DVD, digital distribution, licensing and entertainment related digital media.

Our Company is divided up into three major divisions, Camelot Film Group, Camelot Studio Group and Camelot Production Services Group.

During the first half of fiscal year 2008, the Company's focus continued to be on two specific areas: the ongoing development of Camelot Studios at ATEP under our Camelot Studio Group division and the emergence of Camelot Film and Media Group as it prepares to unveil its Camelot Production Model ("CPM"). During the second half of 2008, the Company plans to refocus its efforts on shorter term revenue generating activities, including the unveiling of the CPM and providing various services through our Camelot Production Services Group division. In order to implement our plans to become a global media and entertainment company, it is critical that we build a solid foundation to build upon, and that begins with making sure that each division is carefully structured and that their respective business models are implemented in accordance with those designs.

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.

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION - continued

Liquidity and Capital Resources

We have a limited history of operations as a film, television and digital media production and distribution company. We believe that, due to the complex nature of our business model and the ensuing long term sales cycles, 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 current agreements with The Atwell Group, Inc., which are discussed below under Recent Financing. During the six months ended June 30, 2008, Camelot had no revenue producing operations, at June 30, 2008 a negative working capital of \$1,140,284 and an accumulated deficit from Inception of \$15,745,089. 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 consists of restructuring its debt and seeking additional financial resources from its existing investors, note holders and CEO Robert Atwell. During the six months ended June 30, 2008, the Company sold 2% of its interest in CDG for \$200,000 and this money was used fund Camelot Entertainment Group's operating expenses and to reduce related party payables. As of August 2008, NIR has committed to loaning the Company \$150,000 starting in the third quarter of 2008.

Recent Financing

Camelot Studio Investors

In January 2008, we agreed to sell up to 30% of our interest in Camelot Development Group, LLC ("CDG") to Camelot Studio Investors LLC ("CSI") for up to \$3,000,000 on an as needed basis. CDG, which is part of our Camelot Studio Group division, is 50% joint venture partner with Janez Investments Tustin XI ("JIT") in Camelot Development Tustin, LLC ("CDT"). CDT is working with the South Orange County Community College District ("SOCCCD") to become the master developer for the Advanced Technology and Education Park ("ATEP") campus in Tustin, California, which includes Camelot Studios at ATEP.

CSI receives 100,000 shares of our \$0.001 par value Series C Convertible Preferred Stock for each one half of one per cent (.05%) of CDG purchased by CSI. The managing member of CSI is Scorpion Bay, LLC ("Scorpion"), which is managed by Timothy Wilson, one of our at-large directors. The proceeds from the sale will be utilized to retire debt, pay operating expenses and provide a contingency reserve for Camelot Studio Group and the Camelot Studios at ATEP project. As of March 31, 2008, the company received \$200,000 from CSI and no shares were issued. Based on the formula above the Company was to issue 400,000 common shares, which would have resulted in a liability of \$2,200 as of June 30, 2008. During the second quarter, the Company did not receive any funds from CSI and the joint venture partner Janez has indicated that no funds will be raised in the future from CSI unless the CDT Operating Agreement was restructured.

NIR 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").

This transaction is referred to as the “NIR Financing”.

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, on June 5, 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.

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION - continued

NIR Financing - continued

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.

We simultaneously issued to the Investors seven year warrants to purchase 10,000,000 shares of our common stock at an exercise price of \$0.15.

In connection with the recent financing and pursuant to a Structuring Agreement, we also issued to Lionheart Associates, LLC d/b/a Fairhills Capital ("Lionheart") warrants representing the right to purchase up to 582,609 shares of our common under the same terms as the Warrants issued to the Investors.

The Investors have contractually agreed to restrict their ability to convert the Notes and exercise the Warrants and receive shares of our common stock such that the number of shares of our common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of CMEG's common stock.

As a result of our SB-2 Registration, a total of 13,228,492 shares of common stock were registered. They were all converted at various prices during 2007.

The aggregate principal amount of the Notes is \$900,848. The estimated conversion price of the Notes is \$0.001 based on the following: \$0.001 was the average of the lowest three (3) trading prices for our shares of common stock during the twenty (20) trading days prior to June 30, 2008, less a 40% discount. Thus, at a discounted price-per-share of \$0.001, 900,848,000 shares of the Company's common stock would be issuable upon conversion of \$900,848 into common shares of the Company ("Conversion Shares"). However, due to contractual limitations, the most that could be converted in any singular conversion is approximately 11,527,000 shares, or 4.99% of the outstanding. In addition, there are contractual limitations that could be imposed by Camelot that would result in the inability of the note holders to convert during any given 30 day period.

The following table shows the effect on the number of shares issuable upon full conversion, in the event the common stock price declines by 25%, 50% and 75% from its the most recent trading price. The companies shares can not be converted below par value of .001.

| | 6/30/2008 | Price Decreases By | | |
|---|-------------|--------------------|----------|---------|
| | | 25% | 50% | 75% |
| Average Common Stock Price (as defined above) | \$ 0.001 | \$ 0.00 | \$ 0.000 | \$ 0.00 |
| Conversion Price (40% Discount) | \$ 0.001 | \$ 0.001 | \$ 0.000 | \$ 0.00 |
| 100% Conversion Shares | 900,848,000 | | | |

There is no limit to the number of shares that we may be required to issue upon conversion of the Notes as it is dependent upon our share price, which varies from day to day. This could cause significant downward pressure on the price of our common stock.

Scorpion Bay Loans

On June 15, 2007, we entered into a loan agreement with Scorpion Bay, LLC (“Scorpion”), whereby Scorpion loaned Camelot \$300,000 in three tranches of \$100,000 each on June 15, July 15 and August 15 2007. Interest on the loan was in the form of 3,000,000 shares of our \$0.001 par value common stock (“Shares”). The loan was due and payable on November 15, 2007. The loan was secured with a blanket note and second deed of trust on real property owned by Robert and Tamara Atwell. Robert Atwell is the Chairman, President and CEO of Camelot (“Atwell”). In the event the loan was not paid by the due date, the note could be extended by Scorpion at a cost of 750,000 Shares for each 30 day extension. On or about October 25, 2007, Scorpion agreed to release and/or transfer the security interest provided by Atwell in reference to the \$300,000 loan to the Company by Scorpion on June 15, 2007 and the amount due to Scorpion was transferred to real property owned by Atwell. As a result, Camelot will not incur any additional interest charges and/or fees connected with the loan. Scorpion received a total of 13,000,000 Shares (including 5,000,000 shares issued to Dolphin Communities) in connection with the loan and events related thereto.

On November 21, 2006, we entered into a loan agreement with Scorpion, whereby Scorpion loaned Camelot \$250,000. Interest was paid in the form of 500,000 Shares. As additional consideration, Scorpion received a total of 1,500,000 Shares. The loan was due and payable on March 22, 2007. The loan was secured with a blanket note and second deed of trust on real property owned by Robert and Tamara Atwell. In the event the loan was not paid by the due date, the note could be extended by Scorpion at a cost of 1,500,000 Shares for the first 30 day extension, 2,000,000 Shares for the second 30 day extension, 2,500,000 Shares for the third 30 day extension and so forth. The note was paid in full on June 5, 2007. As a result, Scorpion received a total of 8,000,000 Shares in connection with the loan and events related thereto.

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION - continued

Additional Scorpion Bay Loan

On November 23, 2007, Scorpion entered into a loan agreement with Love Bug Management Corp. ("Love Bug"), an entity owned by Atwell, whereby Scorpion loaned Love Bug \$100,000. The proceeds were used for Atwell and Camelot expenses. As a result of this loan, Atwell paid approximately \$36,000 in direct Camelot expenses. The loan was secured with a blanket note and second deed of trust on real property owned by Robert and Tamara Atwell. Scorpion received 4,700,000 Shares in connection with the loan and events related thereto.

The Atwell Group

During the six months ended, June 30, 2008, The Atwell Group, Inc. has paid for expenses on behalf of Camelot as needed. With the occurrence of other financial resources becoming available, the amount of resources committed by The Atwell Group has diminished when compared to prior years. The Atwell Group, Inc. is owned by our Chairman, Robert Atwell.

RESULTS OF OPERATIONS

General

Available Information and Website

The Company's annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and any amendments to such reports filed with or furnished to the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are available free of charge on the Company's website at www.camelotfilms.com as soon as reasonably practicable after such reports are electronically filed with the SEC.

Business Development

Camelot Films®, Inc., now a subsidiary of the Company, was originally founded in 1978 by our current Chairman, Robert P. Atwell, as a feature film production and film finance management company. Camelot Films was originally incorporated in Delaware and had offices in London, England, Los Angeles, California and New York, New York. Between 1978 and 1988, Camelot Films was actively involved in the development, finance and production of independent feature films. Between 1988 and 2003, Camelot Films was primarily active in the development and financial structuring of independent feature films and the ongoing development of its Camelot Production Model ("CPM"). Beginning in 2003, Camelot became active once again in the production and distribution of independent feature films, along with its development and finance activities.

On October 1, 1999, the Company's predecessor corporate entity was incorporated in Delaware as Dstage.com, Inc.

On March 31, 2003, the operations of Camelot Films were absorbed into the Company as part of a corporate restructuring. As a result of this restructuring, the Company's new management team, headed by Mr. Atwell, adopted a new business model to pursue the development, production, marketing and distribution of motion pictures.

On April 16th, 2004, the Company officially changed its name to Camelot Entertainment Group, Inc.

Our initial business development plan was to become a vertically integrated media enterprise that creatively conceptualizes, finances, produces, and distributes original entertainment content across various media, including motion pictures, television, interactive gaming, radio and a multitude of digital media channels. Through the absorption of Camelot Films and the establishment of key operating divisions, including Camelot Distribution Group Inc., a Nevada corporation, we began to implement our new business model of acquiring, developing, producing, marketing and distributing motion pictures, television and digital media on a limited basis.

During 2004 and 2005, we formally acquired our three Camelot Films subsidiaries, Camelot Films, Inc., a Nevada corporation, Camelot Films, Inc., a California corporation, and Camelot Films, Inc., a Delaware corporation. We established a family film subsidiary, Ferris Wheel Films, Inc., a Nevada corporation. In September 2005, we established Camelot Studio Group with the responsibility of acquiring, designing, developing and operating our planned major studio complexes. Also in September 2005, we began the process of assessing the feasibility of an educational studio complex in Tustin, California. Designed to be a state-of-the-art education and technology campus with an emphasis on film, television and digital media, the project known as the “Advanced Technology and Education Park”, which will be the home for “Camelot Studios at ATEP”, is now in the entitlement process.

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION - continued

Business Development - continued

During fiscal year 2006, with the emergence of our studio group operations, we decided to implement a corporate structure that would feature the parent company, Camelot Entertainment Group, Inc., and three subsidiaries, Camelot Film Group, Camelot Studio Group and Camelot Production Services Group. By establishing three top-level divisions, we expect to be able to streamline our management efforts in the future, concentrate cost centers and expand revenue potential.

During fiscal year 2008, our efforts are focused on our first major studio complex through our Camelot Studio Group division and on the continuing development of projects through our Camelot Film Group division. We also continued to make progress toward the planned launch of our various divisions described herein.

SIX MONTH PERIOD ENDED JUNE 30, 2008, COMPARED TO THE SIX MONTH PERIOD ENDED JUNE 30, 2007:

The Company did not generate any revenue during the six months ended, June 30, 2008 or 2007.

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

The Company has incurred \$12,415,963 of general and administrative expenses since its inception. General and administrative expenses were \$404,312 for the six months ended June 30, 2008, respectively, compared to \$938,780 for the six months ended June 30, 2007. Decrease in expenses primarily due to a reduction in professional fees and services primarily related to the studio project. The majority of these expenditures were paid by Camelot Development, LLC during the six months ended June 30, 2008.

The general and administrative expenses for the six-month period were comprised of \$260,000 of officers salaries and \$56,778 of professional services, rent \$36,075, administrative costs and fees \$26,250, insurance costs \$8,550 and \$13,658 in other administrative costs.

Other income (expense) for the six months ended June 30, 2008, was \$935,669, which consisted of a \$200,000 gain on sale of a 2% interest in CSI and a gain of \$895,059 from the change in the fair value of the Company's derivative liabilities on its convertible note and preferred stock. Interest expense during the six months ended, June 30, 2008 was \$159,390. During the six months ended June 30, 2007, other income (expense) of (\$61,686) consisted of a gain on derivative liabilities of \$402,270 and interest expense of \$463,956.

THREE MONTH PERIOD ENDED JUNE 30, 2008, COMPARED TO THREE MONTH PERIOD ENDED JUNE 30, 2007:

General and administrative expenses were \$168,092 for the three-month period ended, June 30, 2008, respectively, compared to \$552,359 for the three month period ended, June 30, 2007. Decrease in expenses is primarily due to a large reduction in professional fees and services related to the studio project. The majority of these expenditures were paid by Camelot Development, LLC during the six months ended June 30, 2008.

The general and administrative expenses for the three-month period were comprised of \$127,000 of officers salaries, \$18,000 for office rent, \$10,000 professional fees and \$10,092 in other administrative costs.

Other income (expenses) for the three month period ended, June 30, 2008 was \$395,901, which consisted of a gain of \$474,061 from the change in the fair value of the Company's derivative liabilities on its convertible note and preferred stock. Interest expense during the three months ended, June 30, 2008 was \$78,160. During the three months ended June 30, 2007, other income (expense) of \$206,718 consisted of a gain on derivative liabilities of \$617,524 and interest expense of \$410,806.

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.

Risk Factors

Ability to Achieve Profitable Operations

Our operations to date have been limited. Our focus has been on our Camelot Studio Group division, which has limited our ability to fully implement our other major divisions. The development and implementation of our business model is a long term process. The normal fiscal cycle of a feature film does not typically generate revenues for 18 to 24 months. Subsequent to that, the fiscal life cycle of a feature film is close to 7 years initially, with affiliate, residual and syndication revenues continuing for years. As of December 31, 2007, we have only one project in production. As a result of our long sales cycles, it is difficult to determine with any certainty how our short term financial picture will evolve. 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 while we have resources available to grow our business in 2008, 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 future could require a significant increase in the use of working capital.

To successfully grow the individual divisions of the business, we must begin to devote the time necessary to fully implement their respective business models, decrease our cash burn rate over time, begin to generate revenues in order to improve our cash position and establish ongoing revenues in each division, and succeed in our ability to raise additional capital through a combination of primarily public or private equity offering or strategic alliances. We also depend on certain consultants and our executives, and the loss of any of those consultants or executives, may harm our business.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - continued

Risk Factors - continued

We have a limited operating history as a motion picture, television and digital media company in which to evaluate our business

As Camelot Entertainment Group, we have a limited operating history as a motion picture, television and digital media company. To date, we have generated no revenues and a limited operating history as a motion picture company upon which an evaluation of our future success or failure can be made. Our primary focus has been the development of Camelot Studios at ATEP and to a lesser scale project development within Camelot Film Group. As a result, many of our planned divisions are not operational or have very limited operations as of June 30, 2008. While current company assets and financial commitments are suitable for the projected financial needs forecast during 2008, we do not know at this time the outlook for 2009 and beyond. No assurances of any nature can be made to investors that the company will be profitable. There can be no assurances that our management will be successful in managing the Company as a motion picture, television and digital media company.

We will require additional funds to achieve our current business strategy and our inability to obtain additional financing could cause us to cease our business operations in the future if suitable funding is not secured

Even with the proceeds from offerings and other resources in 2008, we will need to raise additional funds through public or private debt or sale of equity to fully achieve our business strategy. Such financing may not be available when needed. Even if such financing is available, it may be on terms that are materially adverse to your interests with respect to dilution of book value, dividend preferences, liquidation preferences, or other terms.

Our ability to grow our company through acquisitions, business combinations and joint ventures, to maintain and expand our development, production and distribution of motion pictures, television programming and digital media and to fund our operating expenses will depend upon our ability to obtain funds through equity financing, debt financing (including credit facilities) or the sale or syndication of some or all of our interests in certain projects or other assets. Our business plan 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.

If we are unable to obtain financing in the future on reasonable terms, we could be forced to delay, scale back or eliminate certain elements of our business model. In addition, such inability to obtain financing in the future on reasonable terms could have a material negative effect on our business, operating results, or financial condition to such extent that could be forced to restructure, file for bankruptcy, sell assets or cease operations, any of which could put our Company and any investments into our Company at significant risk.

We are subject to a working capital deficit, which means that our current assets at March 31, 2008, were not sufficient to satisfy our current liabilities

As of June 30, 2008, we had a working capital deficit of \$1,140,285, which means that our current liabilities of \$1,140,372 exceeded our current assets of \$87 by that amount on June 30, 2008. Current assets are assets that are expected to be converted to cash within one year and, therefore, may be used to pay current liabilities as they become due. Our working capital deficit means that our current assets on June 30, 2008, were not sufficient to satisfy all of our current liabilities on that date. We will have to raise additional capital or debt to fund the deficit.

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-Q, 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 March 31, 2008, 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.

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.

Changes in Internal Control Over Financial Reporting

To the best of our knowledge and belief, there has been no change in our internal controls over financial reporting during the three months ended, June 30, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reports.

Code of Ethics

We have adopted a Code of Business Conduct that applies to all our directors, officers (including our principal executive officer and principal financial officer) and employees. The Code of Business Conduct can be found on our website at www.camelotfilms.com. We plan to also post on this section of our website any amendment to the Code of Business Conduct, as well as any waivers that are required to be disclosed in accordance with Securities and Exchange Commission or market regulations.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGE IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITIES HOLDERS

None

ITEM 5. OTHER INFORMATION

On February 18, 2008

Authorized common shares were increased from 300,000,000 to 500,000,000 shares.

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

SIGNATURES

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

CAMELOT ENTERTAINMENT GROUP, INC.
(Registrant)

Date: August 19, 2008

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

Date: August 19, 2008

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