

Camelot Entertainment Group, Inc.  
Form 10-Q  
May 20, 2009

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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 March 31, 2009

OR

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

For the transition period from \_\_\_\_\_

Commission file number 000-30785

CAMELOT ENTERTAINMENT GROUP, INC.

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(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.)

8001 Irvine Center Drive, Suite 400  
Irvine, CA 92618

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(Address of principal executive offices (zip code))

(949) 754 - 3030

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(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

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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 March 31, 2009 the Registrant had outstanding 7,215,666,424 shares of Common Stock, \$0.001 par value. The registrant had outstanding 27,295,521 shares of Preferred Stock series A, B, and C par value \$0.001.

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CAMELOT ENTERTAINMENT GROUP, INC.  
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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

ASSETS		
	March 31, 2009 Unaudited	December 31, 2008
<b>Current Assets</b>		
Cash	\$ 40,156	\$ 175
Prepaid expenses	-	1,733
<b>Total Current Assets</b>	<b>40,156</b>	<b>1,908</b>
Other assets	2,500	-
<b>Total Assets</b>	<b>\$ 42,656</b>	<b>\$ 1,908</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 216,640	\$ 206,847
Accrued expenses to related parties	864,500	722,000
Secured convertible notes payable, net of discount of \$303,790 and \$394,506, respectively	158,870	92,070
Derivative liability - conversion feature	181,663	147,838
Note payable to stockholder	-	215,598
Stockholder advances	81,546	22,830
Convertible notes payable	-	15,000
<b>Total Current Liabilities</b>	<b>1,503,219</b>	<b>1,422,183</b>
<b>Long Term Liabilities</b>		
Derivative liability - preferred stock Series A, B, and C	34,751	65,630
Secured convertible note payable, net of discount \$349,873 and \$407,246, respectively	369,583	311,897
Derivative liability - conversion feature	282,371	218,500
Derivative liability - warrant	2,009	3,992
<b>Total Long Term Liabilities</b>	<b>688,714</b>	<b>600,019</b>
<b>Total Liabilities</b>	<b>2,191,933</b>	<b>2,022,202</b>
Series A, B, C Convertible Preferred Stock par value \$.001 per share, 50,000,000 shares authorized: 10,147,511, 9,996,510 and 7,151,500 shares issued and outstanding as of March 31, 2009	56,505	50,905
Series A, B, C Convertible Preferred Stock par value \$.001 per share, 50,000,000 shares authorized: 7,347,510, 7,196,510 and 7,151,500		

shares issued and outstanding as of December 31,  
2008

Stockholders' Deficit

Common Stock; Par Value \$.001 Per Share;  
Authorized

2,950,000,000 Shares; 1,563,977,942 Shares

Issued and 1,563,669,608 Outstanding as of  
December 31, 2008

7,215,666

1,563,670

Authorized 9,950,000,000 shares; 7,215,974,758  
issued and

7,215,666,424 shares outstanding as of March 31,  
2009

Additional paid-in capital

8,202,528

13,070,152

Deficit accumulated during the development stage

(17,623,976)

(16,705,021)

Total Stockholders' Deficit

(2,205,782)

(2,071,199)

Total Liabilities and Stockholders' Deficit

\$

42,656

\$

1,908

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 March 31, 2009	For the Three Months Ended March 31, 2008	From Inception on April 21, 1999 through March 31, 2009
REVENUE	\$ -	\$ -	\$ 58,568
Total Revenue	-	-	58,568
<b>EXPENSES</b>			
Costs of services	-	-	95,700
Sales and marketing	-	-	53,959
Research and development	-	-	252,550
General and administrative	206,132	236,220	13,624,700
Impairment of assets	-	-	2,402,338
Impairment of investments in other companies			710,868
Total Expenses	206,132	236,220	17,140,115
NET OPERATING LOSS	(206,132)	(236,220)	(17,081,547)
<b>OTHER INCOME (EXPENSES)</b>			
Interest expense	(639,030)	(81,230)	(2,814,497)
Gain (loss) on derivative liabilities	(73,793)	420,998	1,816,567
Gain on sale of interest in CDG	-	200,000	200,000
Gain on extinguishment of debt	-	-	255,500
Total Other Income (Expenses)	(712,823)	539,768	(542,430)
NET INCOME (LOSS)	\$ (918,955)	\$ 303,548	\$ (17,623,976)
Basic income (loss) per common share	\$ (0.00)	\$ 0.13	
Dilutive income (loss) per common share	\$ (0.00)	\$ 0.00	
Weighted average number of shares outstanding:			
Basic	3,455,409,278	2,268,452	
Dilutive	9,950,000,000	500,000,000	

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 the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008	From Inception on April 21, 1999 through March 31, 2009
<b>OPERATING ACTIVITIES</b>			
Net (loss) income:	\$ (918,955)	\$ 303,548	\$ (17,623,976)
Adjustments to reconcile net income (loss) to cash provided (used) by operating activities:			
Amortization of deferred financing costs and discounts on notes payable	129,507	75,868	770,718
Imputed interest on related party advances	-	4,500	38,484
(Gain) loss on change of derivative liabilities	73,793	(420,998)	(1,171,458)
Common stock issued for interest expenses	498,432	-	1,202,341
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	12,809	30,000	3,567,376
Common stock issued for related party services	-	-	22,000
Common stock issued for technology	-	-	19,167
Impairment of investments in other companies	-	-	710,868
Impairment of assets	-	-	2,758,060
Prepaid services expensed	-	-	530,000
Expenses paid through notes payable proceeds	-	-	66,439
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	1,733	-	(434)
	9,794	(24,950)	567,977

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Increase (decrease) in accounts payable and accrued liabilities			
Increase (decrease) in due to officers	142,500	127,000	1,125,800
Cash provided by (used in) operating activities			
	(50,387)	94,968	(2,037,852)
Cash flows from investing activities:			
Purchase of fixed assets	-	-	(6,689)
Purchase of scripts and deposits	(2,500)	-	(132,200)
Cash used in investing activities			
	(2,500)	-	(138,889)
Cash flows from financing activities:			
Contributed capital	-	-	25,500
Proceeds from related party note payable	-	-	1,316,613
Payments on related party notes payable	-	-	(145,652)
Proceeds from notes payable	-	-	1,317,998
Payments on notes payable	-	-	(254,477)
Advances from shareholder	139,768	15,395	415,630
Payments on shareholder advances	(46,900)	(91,814)	(459,855)
Cash provided by (used in) financing activities			
	92,868	(76,419)	2,215,757
Increase (decrease) in cash			
	39,981	18,549	39,016
Cash at beginning of period			
	175	122	1,140
Cash at the end of the period			
	\$ 40,156	\$ 18,671	\$ 40,156
Supplemental cash flow information:			
Cash paid for interest	\$ -	\$ -	
Cash paid for income taxes	\$ -	\$ -	
Non-cash investing and financing transactions:			
Stock issued for related party liabilities	\$ -	\$ -	\$ 248,581
Creation of additional debt discount	\$ -	\$ -	\$ 920,315
Stock issued for debt conversion	\$ 254,514	\$ 9,400	\$ 350,272
Derivative liability relieved by conversion	\$ 10,025	\$ 4,924	\$ 78,146
Accrued interest converted into convertible notes payable	\$ -	\$ -	\$ 144,143
Accrued salaries relieved with issuance of common stock	\$ -	\$ -	\$ 261,300
Stock issued per finance agreement	\$ -	\$ -	\$ 500,000

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



Camelot Entertainment Group, Inc.  
(A Development Stage Company)  
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 March 31, 2009 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. The Company has reorganized its operating structure to minimize expenses during the current uncertain economic conditions while maintaining its ongoing and planned activity levels, including planned acquisitions, by outsourcing professional and industry services whenever and wherever possible.

### 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 March 31, 2009. The Company has not presented the statement of stockholders’ deficit for the three months ended March 31, 2009, as the significant transactions relate to the issuance of common stock issued for services and conversions of debt which are described elsewhere in the document.

The accompanying unaudited financial statements as of March 31, 2009 and for the three months ended March 31, 2009 and 2008, 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 2008 as reported in the Company’s Form 10-K have been omitted. The results of operations for the three months ended March 31, 2009 and 2008 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-K for the year ended December 31, 2008.

## Earnings (Loss) per Share

Basic earnings (loss) per share are 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 equivalents outstanding during the during the period, and assumes the conversion of the Company's Series A, B and C 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 months ended March 31, 2009, dilutive securities on a fully converted basis would cause the Company to be in excess of their authorized shares of 9,950,000,000. Thus, the dilutive earnings per share for the three months ended March 31, 2009 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 loss per share for the three months ended March 31, 2009 and 2008. There were no adjustments to the denominator.

Camelot Entertainment Group, Inc.  
(A Development Stage Company)  
Notes to Financial Statements  
(Unaudited)

## 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

	March 31, 2009	March 31, 2008
Weighted average common shares outstanding		
Used in calculating basic earnings (loss) per share	3,455,409,278	226,845,221
Effect of dilutive convertible preferred stock and notes	6,494,590,722	221,845,221
Weighted average common shares outstanding used in calculating diluted earnings (loss) per share	9,950,000,000	500,000,000

As of March 31, 2009, the Company has only 9,950,000,000 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.

## 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. The adoption of SFAS 141(R) did not have a significant impact on our financial statements.

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 our first quarter of 2009. The adoption of SFAS 141(R) did not have a significant impact on our financial statements.

In June 2008, FASB issued EITF Issue No. 07-5 (EITF 07-5), Determining whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock. EITF No. 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early application is not permitted. Paragraph 11(a) of SFAS No. 133 — specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. EITF 07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the SFAS No. 133 paragraph 11(a) scope exception. The adoption of EITF 07-5 did not have a

significant impact 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 three months ended March 31, 2009, Camelot had no revenue producing operations, at March 31, 2009 a negative working capital of \$1,463,063 and an accumulated deficit from Inception of \$17,623,976. 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 consist of restructuring its debt, seeking additional financial resources from its existing investors, note holders, debt holders, officers, directors (past and present) and its CEO Robert Atwell. In addition, the Company is planning a major capital raising effort during the second or third quarter of 2009. However, especially due to the current worldwide economic conditions, there can be no assurances that our efforts will be successful. If current conditions persist, the Company may have to delay its planned major capital raising efforts.



Camelot Entertainment Group, Inc.  
(A Development Stage Company)  
Notes to Financial Statements  
(Unaudited)

### 3. CONVERTIBLE NOTES PAYABLE

#### Conversions and Valuation of Derivative Liabilities Issued with 2006, 2007 and 2008 Convertible Notes

As of March 31, 2009, Camelot estimated the fair value of the derivatives liabilities to be a total of \$466,042 resulting in a loss on derivative liability presented in the statement of operations for the three months ended March 31, 2009 of \$95,712. In addition, Camelot amortized \$129,507 of the discount on the convertible note payable to interest expense. As of March 31, 2009, the principal balances of the notes were approximately \$1,182,000.

At March 31, 2009, 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 250% 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 \$0.0001, 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 March 31, 2009, 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 three months ended March 31, 2009, the holders of convertible notes converted \$23,916 resulting in the issuance of 398,600,300 shares of common stock. Upon conversion, the Company reclassified approximately \$10,025 of the compound derivative to additional paid-in capital.

In the event of full conversion of the aggregate principal amount of the notes of approximately \$1,182,000 as of March 31, 2009, we would have to issue a total of 19,696,716,667 shares of common stock, which exceeds our authorized shares of 9,950,000,000. However, due to contractual limitations, the most that could be converted in any singular conversion is approximately 10,000,000 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. 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.

### 4. RELATED PARTY TRANSACTIONS

#### Accrued Salaries

At March 31, 2009, the Company has accrued \$864,500 in compensation to its current officers. The amount due to officers includes: Robert Atwell, \$616,000 and George Jackson, \$248,500. Amounts accrued during the three months ended March 31, 2008 were \$355,000 and \$122,000 to Robert Atwell and George Jackson, respectively.

#### Advances from Affiliates

During the three months ended March 31, 2009 and 2008, the Company received \$139,768 and \$15,395 in advances from an affiliate owned by the CEO, respectively. During the three months ended March 31, 2009 and 2008, the Company paid \$81,152 and \$91,814 in advances back to the CEO, respectively.

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%. As of March 31, 2009, the balance due to Robert Atwell was \$0. See Note 6 for discussion of the assignment of the notes under wrap around agreements

Camelot Entertainment Group, Inc.  
(A Development Stage Company)  
Notes to Financial Statements  
(Unaudited)

## 5. PREFERRED STOCK

### Derivative Valuation

At the time of issuance of the Series A, B and C 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, B and C Preferred stock to be tainted, and more akin to debt. In addition, management determined that the Series A, B and C 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, B and C 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.

As of March 31, 2009, there were 9,996,510 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 March 31, 2009, there were 10,147,511 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 March 31, 2009, there were 7,151,500 shares outstanding of our \$0.001 par value Series C Convertible Preferred Stock. The Series C Preferred converts to one share of common stock for every one share of Series C Preferred Stock. Each share of Series C Preferred Stock is entitled to 1 vote. Series C Preferred ranks superior to our common stock and ranks junior to our Series B Preferred Stock and Series A Preferred Stock.

As of March 31, 2009, the Company estimated the fair value of the preferred stock derivative liabilities to be a total of \$34,751 resulting in a gain on derivative liability presented in the statement of operations of \$29,196. At March 31, 2009, the fair market value of the conversion feature derivative related to the Series A, B and C 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 250% volatility and there was a 100% probability the Company would not be in default of its registration requirements as there were none.

### Determination of Fair Value

The fair value of the Company's preferred stock issuances are based upon the closing market price of the Company's common stock on the date of issuance assuming no future performance commitments exist. All shares discussed below are valued using these assumptions.

### Issuances During the Quarter

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On March 23, 2009, the Company issued George Jackson 300,000 shares of its \$0.001 par value Class A Convertible Preferred stock at \$0.0001 per Share for services and other consideration rendered with a value of \$30 to the Company.

On March 23, 2009, the Company issued George Jackson 300,000 shares of its \$0.001 par value Class B Convertible Preferred stock at \$0.0001 per Share for services and other consideration rendered with a value of \$30 to the Company.

On March 23, 2009, the Company issued Robert Atwell 2,500,000 shares of its \$0.001 par value Class A Convertible Preferred stock at \$0.0001 per Share for services and other consideration rendered with a value of \$250 to the Company.

On March 23, 2009, the Company issued Robert Atwell 2,500,000 shares of its \$0.001 par value Class B Convertible Preferred stock at \$0.0001 per Share for services and other consideration rendered with a value of \$250 to the Company.

Camelot Entertainment Group, Inc.  
(A Development Stage Company)  
Notes to Financial Statements  
(Unaudited)

## 6. STOCKHOLDERS' DEFICIT

### Authorized Shares

On March 26, 2009, the Company's board of directors authorized an increase in the authorized shares of stock to 6,000,000,000.

On March 29, 2009, the Company's board of directors increased the authorized shares of stock to 10,000,000,000, including 9,950,000,000 shares of common stock.

### Determination of Fair Value

The fair value of the Company's common stock issuances are based upon the closing market price of the Company's common stock on the date of issuance assuming no future performance commitments exist. All shares discussed below are valued using these assumptions.

### Common Stock Held in Treasury

On March 2, 2009, the Company set aside 900,000,000 shares for future funding and other corporate transactions in order to meet current and contemplated terms and conditions of consulting and funding agreements to be held in reserve. As of March 31, 2009, 6,679,246 are still held in reserve.

### Common Stock Issued for Wrap-Around Agreements

At various times during the three months ended, March 31, 2009, the Company's CEO assigned portions of the amounts due to him to third parties ("Wrap-Around Agreement"). Under the terms of the Wrap-Around Agreement the notes incurred interest at 15% per annum and generally had a maturity date of one year from the transaction. In addition, at the holders option, at any time after the issuance of the note, to convert all or any lesser portion of the Outstanding Principal Amount and accrued but unpaid Interest into common voting stock at the price of 50 % discount of the average three deep bid on the day of conversion. Generally, the notes were converted on the date of purchase or shortly thereafter. In connection with these transactions the Company recorded the excess value of the common stock issued over the note relieved as interest expense. The fair value of the common stock was determined based upon the closing market price of the Company's common stock on the date of conversion. The following is a summary of Wrap-Around Agreement conversions:

On January 6, 2009, the Company issued Watson Investment Enterprises 300,000,000 shares at \$0.00005 per share in satisfaction of notes of \$15,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Watson Investment Enterprises and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$60,000 over the note relieved of \$45,000 as interest expense.

On January 6, 2009, the Company issued Hope Capital 100,000,000 shares at \$0.000055 per share in satisfaction of notes of \$5,500 in accordance with the terms and conditions of the Wrap-Around Agreement between Hope and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$20,000 over the note relieved of \$14,500 as interest expense.

In connection with this conversion, the Company recorded the excess of fair value of \$45,455 over the note relieved of \$20,455 as interest expense.

On January 15, 2009, the Company issued Watson Investment Enterprises 110,000,000 shares at \$0.000045 per share in satisfaction of notes of \$5,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Watson Investment Enterprises and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$22,000 over the note relieved of \$17,000 as interest expense.

On January 28, 2009, the Company issued TJ Management Group, LLC 454,545,454 shares at \$0.000055 per share in satisfaction of notes of \$23,300 in accordance with the terms and conditions of the Wrap-Around Agreement between TJ Management Group, LLC and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$45,455 over the note relieved of \$22,155 as interest expense.

On February 11, 2009, the Company issued Acacia Investors, LLC 100,000,000 shares at \$0.00005 per share in satisfaction of notes of \$5,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Acacia Investors, LLC and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$10,000 over the note relieved of \$5,000 as interest expense.

On February 23, 2009, the Company issued TJ Management Group, LLC 454,545,454 shares at \$0.000055 per share in satisfaction of notes of \$23,300 in accordance with the terms and conditions of the Wrap-Around Agreement between TJ Management Group, LLC and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$90,909 over the note relieved of \$67,609 as interest expense.

Camelot Entertainment Group, Inc.  
(A Development Stage Company)  
Notes to Financial Statements  
(Unaudited)

6. STOCKHOLDERS' DEFICIT - continued

On February 23, 2009, the Company issued Hope Capital 255,000,000 shares at \$0.00007 per share in satisfaction of notes of \$18,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Hope and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$51,000 over the note relieved of \$33,000 as interest expense.

On February 24, 2009, the Company issued Primary Finance LLC 100,000,000 shares at \$0.00005 per share in satisfaction of notes of \$5,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Primary and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$20,000 over the note relieved of \$15,000 as interest expense.

On February 26, 2009, the Company issued Watson Investment Enterprises 110,000,000 shares at \$0.000045 per share in satisfaction of notes of \$5,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Watson Investment Enterprises and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$22,000 over the note relieved of \$17,000 as interest expense.

On February 26, 2009, the Company issued TJ Management Group, LLC 454,545,454 shares at \$0.000055 per share in satisfaction of notes of \$23,300 in accordance with the terms and conditions of the Wrap-Around Agreement between TJ Management Group, LLC and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$90,909 over the note relieved of \$67,609 as interest expense.

On February 26, 2009, the Company issued Hope Capital 300,000,000 shares at \$0.00005 per share in satisfaction of notes of \$15,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Hope and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$60,000 over the note relieved of \$45,000 as interest expense.

On March 11, 2009, the Company issued Primary Finance LLC 100,000,000 shares at \$0.00005 per share in satisfaction of notes of \$5,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Hope and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$10,000 over the note relieved of \$5,000 as interest expense.

On March 16, 2009, the Company issued TJ Management Group, LLC 454,545,454 shares at \$0.000055 per share in satisfaction of notes of \$23,300 in accordance with the terms and conditions of the Wrap-Around Agreement between TJ Management Group, LLC and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$45,455 over the note relieved of \$22,155 as interest expense.

On March 19, 2009, the Company issued Watson Investment Enterprises 200,000,000 shares at \$0.00005 per share in satisfaction of notes of \$10,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Watson Investment Enterprises and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$20,000 over the note relieved of \$10,000 as interest expense.

On March 23, 2009, the Company issued Hope Capital 300,000,000 shares at \$0.00005 per share in satisfaction of notes of \$15,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Hope and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$60,000 over the

note relieved of \$45,000 as interest expense.

On March 24, 2009, the Company issued Watson Investment Enterprises 50,000,000 shares at \$0.00005 per share in satisfaction of notes of \$2,500 in accordance with the terms and conditions of the Wrap-Around Agreement between Watson Investment Enterprises and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$5,000 over the note relieved of \$2,500 as interest expense.

On March 24, 2009, the Company issued TJ Management Group, LLC 454,545,454 shares at \$0.000055 per share in satisfaction of notes of \$23,300 in accordance with the terms and conditions of the Wrap-Around Agreement between TJ Management Group, LLC and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$45,455 over the note relieved of \$22,155 as interest expense.

On March 27, 2009, the Company issued Hope Capital 300,000,000 shares at \$0.00005 per share in satisfaction of notes of \$15,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Hope and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$30,000 over the note relieved of \$15,000 as interest expense.



Camelot Entertainment Group, Inc.  
(A Development Stage Company)  
Notes to Financial Statements  
(Unaudited)

6. STOCKHOLDERS' DEFICIT - continued

On March 27, 2009, the Company issued Watson Investment Enterprises 200,000,000 shares at \$0.00005 per share in satisfaction of notes of \$10,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Watson Investment Enterprises and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$20,000 over the note relieved of \$10,000 as interest expense.

On March 31, 2009, the Company issued Watson Investment Enterprises 150,000,000 shares at \$0.00005 per share in satisfaction of notes of \$7,500 in accordance with the terms and conditions of the Wrap-Around Agreement between Watson Investment Enterprises and the Company. In connection with this conversion, the Company recorded the excess of fair value of \$15,000 over the note relieved of \$7,500 as interest expense.

Shares Issued for Services

On January 23, 2009, the Company authorized the issuance of 25,000,000 Shares at \$0.0002 per share to Phillip Parsons for craft services, transportation and security services rendered to the Company for \$5,000.

On March 27, 2009, the Company authorized the issuance of 50,000,000 Shares at \$0.0001 per share to Phil Scott for accounting services rendered to the Company for \$5,000.

Shares issued NIR

Between January 1 and March 31, 2009, the Company authorized the issuance of shares to various note holders in connection with the NIR agreements entered into between the Company and NIR from December 2006 to December 2008. As a result of conversions, the Company issued the various note holders 398,600,300 in satisfaction of approximately \$23,000 in notes payable at conversion prices ranging from \$ 0.0001 to \$0.0002 per share.

7. SUBSEQUENT EVENTS

Wrap-Around Agreements

On April 1, 2009, the Company issued TJ Management Group, LLC 454,545,454 shares at \$0.000055 per share in satisfaction of notes of \$25,000 in accordance with the terms and conditions of the Wrap-Around Agreement between TJ Management Group, LLC and the Company.

On May 8, 2009, the Company issued TJ Management Group, LLC 454,545,454 shares at \$0.000055 per share in satisfaction of notes of \$25,000 in accordance with the terms and conditions of the Wrap-Around Agreement between TJ Management Group, LLC and the Company.

On May 12, 2009, the Company issued Primary Finance LLC 100,000,000 shares at \$0.00005 per share in satisfaction of notes of \$5,000 in accordance with the terms and conditions of the Wrap-Around Agreement between Primary and the Company.

NIR Conversions

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On April 1, 2009, the Company issued 3,000,000 shares of its \$0.001 par value common stock to the note holders in connection the callable secured convertible notes.

On April 6, 2009, the Company issued 381,834,000 shares of its \$0.001 par value common stock to the note holders in connection the callable secured convertible notes.

Shares Issued for Services

On April 6, 2009, the Company authorized the issuance of 50,000,000 shares at \$0.0001 per share to Phil Scott for accounting services rendered to the Company for \$5,000.

On May 6, 2009, the Company authorized the issuance of 50,000,000 shares at .0001 per share to Phil Scott for accounting services related to the valuation of derivatives to the Company for \$5,000.

## 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 is detailed in the notes to the financial statements, which are an integral component of this filing. At March 31, 2009, 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-K 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.

#### 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 would have on Camelot Studio Group and Camelot overall. As a result, Camelot has had to delay several revenue generating projects, which it is now in the process of implementing now that the Camelot Studios at ATEP project has been tabled. Going forward, Camelot will focus on all three divisions so as to maximize revenue generating possibilities while continuing to develop additional studio properties.

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

Going Concern Uncertainties - continued

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 were to 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 in cash and an additional 3% interest through debt conversion. As of March 31, 2009, Camelot has terminated 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 mutually terminated by Camelot and the SOCCCD.

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 100,000 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 expired 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.

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.

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

Capital Structure - continued

On October 25, 2007, the Company entered into a Share Issuance Agreement (“SIA”) with Zuckerman, Kocmur and Scorpion (“JIT”). 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 JIT, JIT received 800,000 shares of our common stock. 200,000 shares were issued to Zuckerman, 200,000 shares were issued to Kocmur, these shares were valued at the market price at the date of issue \$0.60 and recorded as professional services in the amount of \$240,000. The 400,000 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 JIT 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 March 31, 2009, there were 9,996,510 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 March 31, 2009, there were 10,147,511 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.

On March 31, 2009, there were 7,151,500 shares outstanding of our \$0.001 par value Series C Convertible Preferred Stock. The Series C Preferred converts to one shares of common stock for every one share of Series C Preferred Stock. Each share of Series C Preferred Stock is entitled to one vote. Series C Preferred ranks superior to our common stock and ranks junior to our Series B Preferred Stock and Series C 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 lead 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 and Media Group, Camelot Studio Group and Camelot Production Services Group.

During fiscal year 2009, the Company's focus will be on the ongoing development of projects within our Camelot Film and Media Group division, while continuing to pursue opportunities through our Camelot Studio Group division. The emergence of Camelot Film and Media Group as it prepares to unveil its Camelot Production Model ("CPM") in 2009 points to significant activity for us this year. 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.



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

Plan of Operations - continued

There are five steps that comprise the backbone of our operating philosophy. Each step, when implemented, secures the foundation for the next step. These five steps are:

1. Education; which leads to
2. Infrastructure; which leads to
3. Utilization; which leads to
4. Opportunity; which leads to
5. Success

The current focus of our operations is our Camelot Film and Media Group division, where we have acquired several literary properties as we gear up to hopefully begin physical production this year on several projects in our production pipeline. Veteran producer H. Kaye Dyal has been brought in to head up production for us in our Camelot Features division, and he has brought in several projects that are in various stages of development.

Fiscal year 2009 should also see the emergence of our production and distribution division, Camelot Film and Media Group, and the proprietary Camelot Films "CPM". Designed to have mainstream appeal and franchise potential, the CPM provides for the development, production, marketing and distribution of motion pictures by combining the efficiencies realized by studios of the early 1900's with the artistic focus and diversity of today's independent productions. Using this approach, we believe the risk-reward relationship facing the typical film project can be dramatically shifted. For example, whereas a typical film pushes artists and directors to rush development and production in hopes of conserving cash, the CPM extends the pre-production cycle substantially to reduce costs while simultaneously increasing quality. Similarly, whereas many independent films are limited by the types of post production technology used, due in part to budget constraints, we intend to invest directly in top of the line technology, spreading the costs over a targeted minimum number of original motion pictures each year. One benchmark of the CPM 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.

Within our Camelot Film and Media Group division, Camelot Films plans to focus on high quality, suspense, action, thriller, comedy and dramatic commercial content. Camelot Features will continue to develop its limited catalogue of literary properties and preparations to begin pre-production on some of its projects as packaging is completed. Camelot Television Group plan to continue to explore potential pilots and television series to produce. Camelot Urban Entertainment is expected to complete its first feature length documentary during 2009 and continue the development process on several feature film properties currently being developed. Camelot Film and Media Group plans to accelerate the activity in its Latin entertainment division once it completes its search for an executive to lead that division. We also plan to increase activity in our family division, Ferris Wheel Films. We hope to renew our consulting agreement with Capital Arts Entertainment, which is part of a contemplated acquisition plan that could result in the Capital Arts Management team joining forces with the Company and heading up Camelot Film and Media Group. Experts in efficient budget production, the management of Capital Arts has over 250 film credits in production and distribution, and they have an excellent industry reputation. More details concerning this potential

acquisition are expected to be released later this fiscal year. Camelot Gaming and our Digital Media division should begin to see activity in 2009. We continue to develop our distribution division, with three potential acquisitions being discussed. If completed, these acquisitions would strengthen our ability to distribute product both domestically and internationally. Initially delayed by economic uncertainty, further details on these potential acquisitions should be available during the 2nd quarter of 2009. We continued our consulting relationship with Chris Davis International in 2009 on international sales and we are currently exploring expansion of that relationship during 2009.

Due to our prior focus and the commitment of resources on the Camelot Studios at ATEP project, we made the decision to slow down the progress of our other divisions and concentrate on completing the development and entitlement process of the ATEP project. When that stopped, we refocused our attention on Camelot Film and Media Group and will be increasing activity in Camelot Production Services Group during 2009. Notwithstanding the foregoing, our priority in 2009 will be as follows: first, Camelot Film and Media Group; second, Camelot Studio Group; and third, Camelot Production Services Group.

In addition, we are in the process of revamping our web site, [www.camelotfilms.com](http://www.camelotfilms.com). Our new web site is expected to allow us to provide more detail on our activities with regular updates. Our site plans to also be fully interactive and hopefully will provide those accessing our site with the latest technical innovations and industry wise links. Our site is expected to provide digital downloading capability, previews, film clips, distance learning, IPTV channels, blogs, user email, retail outlets, screenplay and film submissions, uploading capability and consumer interactive sections, including a consumer film review section where the public can submit their own personalized film, television and digital media reviews in addition to reviews of the commercial products featured in the film, television and digital media productions.

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

Plan of Operations - continued

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.

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 three months ended March 31, 2009, Camelot had no revenue producing operations, at March 31, 2009 a negative working capital of \$1,463,063 and an accumulated deficit from Inception of \$17,623,976. 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 past six months the company was sold some of the debt of its CEO Robert Atwell to finance current operations of the company.

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 was 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 was to include 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 former at-large directors. The proceeds from the sale were to 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 and 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. As a result, the Tustin project was eventually terminated under mutual agreement between Camelot and the SOCCCD.

#### 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 100,000 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 100,000 shares of CMEG common stock;
2. Upon effectiveness of the Registration Statement, on June 5, 2007 the Investors purchased Notes aggregating \$400,000.

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

NIR Financing - continued

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

At our option, we may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below \$25.00 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 \$25.00, 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 100,000 shares of our common stock at an exercise price of \$15.00.

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 5,827 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 132,285 shares of common stock were registered. They were all converted at various prices during 2007.

The aggregate principal amount of the Notes is \$1,181,803. The estimated conversion price of the Notes is \$0.00006 based on the following: \$0.0001 was the average of the lowest three (3) trading prices for our shares of common stock during the twenty (20) trading days prior to March 31, 2009, less a 40% discount. Thus, at a discounted price-per-share of \$0.00006, 19,936,483,333 shares of the Company's common stock would be issuable upon conversion of \$1,196,189 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 496,505,000 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 company's shares cannot be converted below the value of .0001.

Price Decreases By

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	3/31/2009	25%	50%	75%
Average Common Stock Price (as defined above)	\$ 0.0001	\$ 0.0001	\$ 0.0001	\$ 0.0001
Conversion Price (40% Discount)	\$ 0.00006	\$ 0.00006	\$ 0.00006	\$ 0.00006
100% Conversion Shares	19,936,483,333			

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.

#### Additional NIR Financing

On August 28, 2008, we entered into an additional 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) \$160,000 in Callable Secured Convertible Notes (the "Notes") and (ii) warrants to purchase 200,000 shares of our common stock (the "Warrants"). This transaction is referred to as the "Additional NIR Financing".

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

Additional NIR Financing - continued

On September 22, 2008, Camelot issued a callable secured convertible note payable for \$15,000 to New Millennium Capital Partners II, LLC. The proceeds were used to pay for public relations consulting services. The note payable provided for annual interest at 10%, was secured by the assets of the Company (less contractual exclusions), and matures on September 21, 2011. 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.

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

1. At closing on December 27, 2006 ("Closing"), the Investors purchased Notes aggregating \$600,000 and Warrants to purchase 100,000 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 10% per annum and a maturity date of December 27, 2009. The notes are convertible into CMEG common shares at the applicable percentage of the average of the lowest three (3) trading prices for CMEG shares of common stock during the twenty (20) trading day period prior to conversion. The "Applicable Percentage" means 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty (30) days of the closing.

At our option, we may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below \$.001 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 \$.001, 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 20,000,000 shares of our common stock at an exercise price of \$0.001.

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 30,000 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 7,500 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 130,000 Shares (including 50,000 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 15,000 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 15,000 Shares for the first 30-day extension, 20,000 Shares for the second 30-day extension, 25,000 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 80,000 Shares in connection with the loan and events related thereto.

#### 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 47,000 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

The Atwell Group

During the three months ended, March 31, 2009, 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. Our Chairman, Robert Atwell, owns the Atwell Group, Inc.

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 had diminished when compared to prior years. Due to the lack of funding being realized by the CSI investment agreement and other transactions, we have renewed our agreement with The Atwell Group to provide funding as needed during 2009. 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-K, quarterly reports on Form 10-Q, 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](http://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 was planned to be the home base for Camelot Studio Group operations, has been tabled. Camelot Studio Group is currently assessing the feasibility of additional complexes in Anaheim, San Diego and New Orleans.

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.

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

Business Development - continued

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.

THREE MONTH PERIOD MARCH 31, 2009, COMPARED TO THE THREE MONTH PERIOD ENDED MARCH 31, 2008:

The Company did not generate any revenue during the three months ended, March 31, 2009 or March 31, 2008.

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

The Company has incurred \$13,624,700 of general and administrative expenses since its inception. General and administrative expenses were \$206,132 for the three months ended March 31, 2009, respectively, compared to \$263,220 for the three months ended March 31, 2008. Decrease in expenses primarily due to a reduction in professional fees for the quarter.

The general and administrative expenses for the three month period were comprised of \$142,500 of officers salaries and \$3,629 of professional services, rent \$6,853, administrative costs and other fees \$27,001, audit costs \$12,000, legal fees \$6,896 and \$7,253 in valuation costs.

Other income (expense) for the three months ended March 31, 2009, was \$712,823, which consisted of a loss of \$73,793 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, March 31, 2009 was \$639,030 which consisted mostly of expense related to the excess of fair value of the Company's common stock of debt satisfied.. During the three months ended March 31, 2008, other income (expense) of \$539,768 consisted of a gain on derivative liabilities of \$420,998, other income \$200,000 and interest expense of \$81,230.

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 March 31, 2009, we have did not have a 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 2009, 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.

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 March 31, 2009. While current company assets and financial commitments are suitable for the projected financial needs forecast during 2009, we do not know at this time the outlook for 2010 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.

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

Risk Factors - continued

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, 2009, were not sufficient to satisfy our current liabilities

As of March 31, 2009, we had a working capital deficit of \$1,463,063 which means that our current liabilities of \$1,503,219 exceeded our current assets of \$40,156 by that amount on March 31, 2009. 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 March 31, 2009, 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.

**Our Contemplated Acquisitions and Related Letters of Intent May Be Delayed Due to Current Worldwide Economic Conditions**

With the financial uncertainty in the worldwide markets, our ability to successfully complete our planned acquisitions during the first quarter of 2009 this may be adversely affected, resulting in delays which could push completion into 2010. As a result, the related letters of intent and other transactional documents could be adversely affected with

changes in terms and conditions, pricing and other factors which eventually could cause us or the companies being acquired to reconsider the acquisition transactions.

#### ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

#### ITEM 4. CONTROLS AND PROCEDURES - continued

##### Evaluation of Disclosure Controls and Procedures - continued

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in reports filed or submitted by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by the Company is accumulated and communicated to the Company's management to allow timely decisions regarding the required disclosure.

##### 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, March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reports.

##### Management's Report on Internal Control Over Financial Reporting

Our management, including the Certifying Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipt and expenditures are being made only in accordance with authorizations of management and our Board of Directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. A system of internal control may become inadequate over time because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2009 using the criteria set forth by the Commission of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, our management concluded that, as of December 31, 2008, our internal control over financial reporting disclosure controls and procedures were not effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and is accumulated and communicated to our management, including the Certifying Officer, as appropriate to allow timely decisions regarding required disclosure, due to the material weaknesses described below.

In light of the material weaknesses described below, our management, including the Certifying Officer, performed additional analysis and other post-closing procedures to ensure our financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (“PCAOB”) Auditing Standard No. 2) or combination of control deficiencies, which result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The management has identified the following four material weaknesses which have caused the management to conclude that our disclosure controls and procedures were not effective at the reasonable assurance level:

1. We do not have sufficient segregation of duties within accounting functions due to the limited personnel, which is a basic internal control. This will change with the addition of more staff members.
2. Procedures are not in place to properly cut-off accounts payable and accrue un-invoiced liabilities.
3. The accounting department lacks adequate skills to account for stock based compensation for employees and non-employees related to stock issued for liabilities or services, and derivative accounting for convertible debt with a conversion rate with no floor (causing derivative accounting).



ITEM 4. CONTROLS AND PROCEDURES - continued

Management's Report on Internal Control Over Financial Reporting - continued

Our management, including the Certifying Officer, has discussed this matter with our current independent registered public accounting firm. To remediate the material weaknesses in our disclosure controls and procedures identified above, in addition to working with our independent auditors, we have continued to refine our internal procedures to address these weaknesses. These procedures include using an external consultant to assist in the identification and calculation of difficult accounting transactions which generally are associated with debt and equity.

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](http://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.

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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 March 23, 2009

Authorized common shares were increased from 3,000,000,000 to 6,000,000,000 shares.

On March 29, 2009

Authorized common shares were increased from 6,000,000,000 to 10,000,000,000 shares.

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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: May 20, 2009

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

Date: May 20, 2009

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

