Camelot Entertainment Group, Inc.
Form 10QSB
November 19, 2007

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

(Mark One)
x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 000-30785

CAMELOT ENTERTAINMENT GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2195605**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2020 Main Street #990
Irvine, CA 92614

(Address of principal executive offices (zip code))

(949) 777-1090

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the last 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

As of November 16, 2007, the Registrant had outstanding 140,795,717 shares of Common Stock, $0.001 par value.

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

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Camelot Entertainment Group, Inc.
Balance Sheets
Unaudited

ASSETS

	September 30, 2007	December 31, 2006
Current Assets		
Cash	$ 596	$ 435,533
Prepaid Expenses	6,424	6,424
Total Current Assets	7,010	441,957
School District Deposit	50,000	-
Deferred Financing Costs	62,406	74,744
Loan Receivable	17,500	17,500
Scripts Costs	79,700	75,800
Deposit: Business of Film	60,000	10,000
Total other assets	269,606	178,044
Total Assets	$ 276,626	$ 620,001

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2007	December 31, 2006
Current Liabilities		
Accounts Payable and accrued liabilities	$ 664,317	$ 140,625
Note Payable, net of discount $15,256	284,744	250,000
Stockholder advances	31,436	186,000
Total Current Liabilities	980,497	576,625
Long Term Liabilities		
Secured Note Payable, net of discount $709,177 and $598,497	240,090	1,521
Derivative Liability - Compound	306,632	538,890
Derivative Liability - Warrant	28,307	698,390
Total Long Term Liabilities	575,029	1,238,801
Total Liabilities	1,555,526	1,815,426
Stockholders' Deficit		
Common Stock; Par Value $.001 Per Share; Authorized 300,000,000 Shares; 140,795,717 Shares Issued and 106,655,743 Outstanding.	140,795	106,656
Class A Convertible Preferred Stock; Par Value $.01 per share	5,100	5,100

Authorized, issued and outstanding 5,100,000 shares				
Class B Convertible Preferred Stock; Par Value $.01 per share		5,100		5,100
Authorized, issued and outstanding 5,100,000 shares				
Subscription Receivable		(758,072)		(258,072)
Capital in Excess of Par Value		14,077,048		13,119,002
Deficit Accumulated During the Development Stage		(14,749,231)		(14,173,211)
Total Stockholders' Deficit		(1,278,900)		(1,195,425)
Total Liabilities and Stockholders' Deficit	$	276,626	$	620,001

The accompanying notes are an integal part of theses financial statements.

Camelot Entertainment Group, Inc.
Statements of Operations
Unaudited

	For Three Months ended, September 30, 2007	September 30, 2006	For the Nine months ended September 30, 2007	September 30, 2006	From Inception on April 21, 1999 through September 30, 2007
REVENUE	$ -	$ -	$ -	$ -	$ 58,568
Total Revenue	$ -	$ -	$ -	$ -	$ 58,568
EXPENSES					
Costs of services	-	-	-	-	95,700
Sales and marketing	-	-	-	-	53,959
Research & development	-	-	-	-	252,550
General & administrative	238,758	198,022	1,177,537	591,743	11,324,973
Impairment of assets	-	-	-	-	2,402,338
Impairment of investments in other companies	-	-	-	-	710,868
Total Expenses	238,758	198,022	1,177,537	591,743	14,840,388
NET OPERATING LOSS	(238,758)	(198,022)	(1,177,537)	(591,743)	(14,781,820)
OTHER INCOME (EXPENSES)					
Interest (Expense)	(121,979)	-	(585,935)	-	(773,045)
Loss on derivative liabilities	-	-	(436,645)	-	(1,103,406)
Gain on derivative liabilities	785,182	-	1,624,097	-	1,653,577
Gain on extinguishment of debt	-	-	-	-	255,500
Total Other Income (Expenses)	663,203	-	601,517	-	32,626
NET INCOME (LOSS)	$ 424,445	$ (198,022)	$ (576,020)	$ (591,743)	$ (14,749,231)
BASIC LOSS PER COMMON SHARE	$ 0.0035	$ (0.0021)	$ (0.0047)	$ (0.0016)	$ (0.24)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	122,541,576	93,649,589	122,958,243	93,649,589	60,868,928

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

Camelot Entertainment Group, Inc.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FROM JANUARY 1, 2004 TO SEPTEMBER 30, 2007

	Common Stock		Preferred Stock		Additional Paid-In Capital	(Deficit) Accumulated During Development Stage	Subscription Receivable	Deferred Compensation	Total
	Shares	Amount	Shares	Amount					
Balance at January 1, 2004	33,856,433	33,857	0	0	5,464,539	(6,059,442)	0	0	(561,046)
Shares issued for services	100,000	100			2,900				3,000
Shares issued for financing	6,791,287	6,791			196,948				203,739
Subscriptions receivable for financing agreement	0	0					(116,069)		(116,069)
Net (loss) for the three months ended March 31, 2004	0	0				(103,552)			(103,552)
Balance at March 31, 2004	40,747,720	$ 40,748	$ 0	$ 0	$ 5,664,387	(6,191,123.00)	$ (116,069)	$ 0	$ (573,928)
Share issued for services	24,009,000	24,009			1,085,500				1,109,509
Share issued for financing	7,604,562	7,605	0	0	221,460		(316,003)		(86,938)
Advances offset sub a/r							174,000		174,000
Shares issued for debt	1,000,000	1,000	0	0	39,000				40,000
Shares issued for amt due	1,589,927	1,590	0	0	47,000				48,590
Value of option exercised					351,000				351,000
Net (loss)						(1,161,756)			(1,161,756)
Balance as of December 31, 2004	74,951,209	74,952	-	-	7,408,347	(7,324,719)	(258,072)		(99,492)

Net (loss) 1st quarter						(117,096)			(117,096)
Balance at March 31, 2005	**74,951,209**	**74,952**	**$ 0**	**$ 0**	**7,408,347**	**(7,441,815)**	**(258,072)**	**$ 0**	**(216,588)**
Shares issued for consulting services	4,000,000	4,000	0	0	216,000	0			220,000
Shares issued for officers salaries	2,276,033	2,276	0	0	187,568	0			189,844
Shares issued to Eagle for expenses paid	1,848,723	1,849	0	0	79,078	0			80,927
Net Loss						(486,174)			(486,174)
Subtotals for 2nd quarter	8,124,756	8,125	0	0	482,646	(486,174)			4,597
Balance at June 30, 2005	**83,075,965**	**83,076**	**0**	**0**	**7,890,993**	**(7,927,989)**	**(258,072)**		**(211,993)**
Net Loss						$ (127,024)			$ (127,024)
Balance at Sept 30, 2005	83,075,965	83,076	0	0	7,890,993	$ (8,055,014)	$ (258,072)		(339,017)
Shares issued for consulting services	233,547	233	0	0	9,767				10,000
Shares issued for officers salaries	3,538,263	3,538	0	0	171,462				175,000
Shares issued to Eagle for expenses paid	1,452,662	1,453	0	0	118,219				119,672

Shares issued to Eagle 20% of shares issued	1,762,271	1,762			120,991		122,753
Shares issued for Shareholder loans 2005	3,586,881	3,587			256,354		259,941
Net Loss 4th Quarter						$ (3,769,845)	(3,769,845)
Class A Preferred Stock issued			5,100,000	5,100	555,900		561,000
Class B Preferred Stock issued			5,100,000	5,100	2,799,900		2,805,000

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

Balance at Dec 31, 2005	**93,649,589**	**93,649**	**10,200,000**	**10,200**	**11,923,586**	**(11,824,859)**	**(258,072)**	(55,
Net Loss at December 31, 2006						(2,348,352)		
Shares issued for officers salaries	5,191,538	5,192	0	0	464,808			470,
Shares issued to Consultants	2,009,787	2,010			179,078			181,
Shares issued to Eagle for expenses paid	1,201,329	1,201	0	0	113,120			114,
Shares issued to Eagle Shareholder loans	1,270,772	1,271	0	0	116,911			118,
Shares issued to Eagle per agreement 20%	1,832,728	1,833	0	0	168,611			170,
Shares issued to Scorpion Bay LLC	1,500,000	1,500	0	0	133,650			135,
					19,238			19,
Balance at Dec 31, 2006	**106,655,743**	**106,656**	**10,200,000**	**10,200**	**13,119,002**	**(14,173,211)**	**(258,072)**	(1,195,
Shares issued to Nucore	5,000,000	5,000			495,000		(500,000)	
Shares issued for interest on Note Payable	11,800,000	11,800			345,600			357,
Shares issued for expenses paid	401,957	401			15,676			16,

Shares issued for services	6,187,267	6,187			63,867				70,
Shares issued for conversion of notes payable	10,750,750	10,751			40,162				50,
Accelerated amortization of discount on notes payable - NIR					(40,011)				(40,
Derivatives liability relieved by conversions on N/P					35,204				35,
Imputed interest on Shareholders loans					2,908				2,
Net (Loss)						(576,020)			(576,
Balance at September 30, 2007	**140,795,717**	**$ 140,795**	**10,200,000**	**$ 10,200**	**$ 14,077,408**	**$ (14,749,231)**	**$ (758,072)**	**-**	**$ (1,278,**

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

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Camelot Entertainment Group, Inc.
Statements of Cash Flows

	For nine month ended September 30, 2007	September 30, 2006	From Inception on April 21, 1999 through September 30, 2007
OPERATING ACTIVITIES			
Net loss for the period	$ (576,020)	$ (591,740)	$ (14,749,231)
Adjustments to reconcile net loss to cash used by operating activities:			
Amortization of deferred financing cost	25,338		25,594
Amortization of discount associated with Note Payable	201,949		203,470
Imputed Interest on Note Payable	2,908		22,146
Gain on Derivative Liability-warrant	(1,624,097)		(1,653,527)
Common stock issued for interest expense	300,000	-	435,150
Common stock issued per dilution agreement	-	-	368,508
Value of options expensed	-	-	351,000
Gain on extinguishment of debt	-	-	(255,500)
Depreciation			3,997
Amortization of deferred compensation	-	-	1,538,927
Common Stock issued for services	70,054	-	2,603,989
Loss on Derivative Liability	436,645	-	1,103,406
Common Stock issued for expense reimbursement	-		22,000
Common Stock issued for technology			19,167
Impairment of investments in other companies	-		710,868
Impairment of assets			2,628,360
Prepaid services expensed	-	2,392	530,000
Expenses paid through notes payable proceeds	-	-	66,489
Loss on disposal of property and equipment			5,854
Preferred Stock issued to shareholder	-	-	3,366,000
Change in assets and liabilities:			
(increase) decrease in other current assets	-	(11,195)	(24,358)
Increase (decrease) in accounts payable & other a/p	523,872	290,914	871,638
Increase (decrease) in due to officers	-		
Net Cash used for operating activities	$ (639,351)	$ (309,629)	$ (1,806,103)
Cash flows from investing activities:			
Purchase of fixed assets			(6,689)
Purchase of assets-Script Costs/business deposits	(103,900)	(94,500)	(189,700)
Cash used for investing activities	$ (103,900)	$ (94,500)	$ (196,389)

Cash flows from financing activities:						
Contributed capital		-		-		25,500
Borrowing from affiliate / shareholder		156,565		401,982		1,173,178
Borrowing on Debt		709,800				1,584,800
Advances to affiliate / shareholders loans		(295,051)		-		560,947
Financing costs		(13,000)				(88,000)
Principal payment short term note		(250,000)		-		(254,477)
Cash provided by financing activities	$	308,314	$	401,982	$	2,001,948
Decrease in cash	$	(434,937)		(2,147)		(544)
Cash at beginning of period	$	435,533	$	3,023	$	1,140
Cash at the end of the period	$	596	$	876	$	596
Supplemental Schedule of						
Non - Cash Transactions						
Stock issued for related party debt		16,077				614,077
Creation of additional debt discount		320,315				552,818
Accelerated amortization of disount on N/P		40,011				40,011
Stock issued for debt conversion		50,912				50,912
Stock issued per financing agreement		500,000				500,000
Derivative liability relieved by conversion		35,204				35,204

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

CAMELOT ENTERTAINMENT GROUP, INC.
NOTES TO FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED, SEPTEMBER 30, 2007

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization:

Camelot Entertainment Group, Inc, a Delaware Corporation (the “Company”), is in the business of developing, producing, marketing and distributing motion pictures, television productions and digital media content. It has three main divisions: Camelot Film Group, Camelot Studio Group and Camelot Production Services Group (collectively “Camelot”). From inception until 2004 when the predecessor entity acquired Camelot Films® and changed its name to Camelot Entertainment Group, Inc.,, its activities consisted of raising capital, recruiting a management team and entering into ventures and alliances with affiliates. As of December 31, 2002 the Company had written-off all of its investments due to impairments in the carrying value of the assets. Since 2004, the Company’s activities have consisted of developing and implementing its business plan, raising capital, recruiting a management team and entering into several transactions as part of its long term plans in the motion picture, television and digital media industry.

Basis of Presentation:

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

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

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2. GOING CONCERN

The accompanying financial statements have been prepared assuming that Camelot will continue as a going concern. Camelot has had minimal revenues, has experienced an accumulated deficit of $14,749,231 and has a stockholders' deficit. These conditions, the loss of financial support from affiliates, and the failure to secure a successful source of additional financial resources in the future could raise doubt about the Company's ability to continue as a going concern as the Company's business plan has a long term sales cycle. 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 has secured financial commitments that will allow it to operate through the end of fiscal year 2008 and beyond. Management's plans with respect to any future negative fiscal situation consist of seeking additional financial resources from its existing investors, new investors, private placement and/or secondary offering financing. In fiscal year 2006 and 2007, the Company completed and subscribed several interim financings, including a fully subscribed SB2 registration. However, instability in the stock price may make it difficult to find parties willing to accept restricted shares of common stock in the future in connection with any additional private placements and/or registrations. There is no assurance that such fiscal tools would be made available to Camelot, or that they would be on financially viable terms.

3. COMMITMENTS AND CONTINGENCIES

During the nine month period ended September 30, 2007, the Camelot recorded $31,437 in advances by an affiliate on behalf of Camelot, compared to $401,982 for nine month period ended September 30, 2006. The affiliate has not received any shares of common stock for repayment of expense advances on behalf of Camelot.

4. NOTES PAYABLE

On December 27, 2006, Camelot issued a callable secured convertible note payable for $600,000 and $400,000 on June 6, 2007 to various holders. The note payable provided for annual interest at 8%, was secured by all of the assets of the Company with the exception of Camelot Film Group and Camelot Studio Group, which were excluded from the security agreements issued in connection with the above referenced funding. The notes will mature on April 27, 2009. The principle and accrued interest of the note is convertible into Camelot's common stock at a variable conversion price, which is 50% of the average market price of the common stock of the lowest three trading days prior to the date of conversion. In addition, these notes have registration rights agreements, which call for liquidated damages in the event an effective registration statement is not filed within a timely basis. However, the Company did file its registration statement in a timely manner and has issued stock from time to time in connection therewith. In addition, the holders of these notes were issued 7-year warrants to purchase 10,582,609 common shares at an exercise price of $0.15 per share.

Of the proceeds of $600,000, Camelot recognized $75,000 in deferred financing costs related to cost of securing the debt. Of the proceeds of $400,000, Camelot recognized $13,000 in deferred financing costs related to cost of securing the debt. The deferred financing cost will be amortized over the life of the notes payable. $7,326 and $256 of the deferred financing cost was amortized as of September 30, 2007 and December 31, 2006, respectively, and included in interest expense.

Camelot evaluated the convertible notes and warrants under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments" and Emerging Issues Task Force 00-19 and determined that the Convertible

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

4. NOTES PAYABLE - continued

At September 30, 2007, Camelot estimated the fair value of the derivative liabilities to be a total of $334,939 resulting in a net gain on derivative liability presented in the statement of operations of $1,187,451. In addition, Camelot amortized $169,605 of the discount on the note payable and this amount is included in interest expense.

In November 2006, Camelot issued note payable to Scorpion Bay LLC for $250,000, which matured on March 22, 2007. This note was recorded at its full face value at December 31, 2006. In connection with this note, Camelot issued 1,500,000 shares of common stock. As this note has matured, this total amount was considered to be interest expense. Camelot issued 2,000,000 shares of common stock and 2,500,000 shares of common stock for default provisions of this note. The company recorded issuance of these shares at fair market value as interest expense as of June 30, 2007. This note was paid on June 7, 2007. The note had been guaranteed by Robert Atwell, the Company's President and CEO. In addition, Mr. Atwell provided additional collateral.

In June 2007, Camelot issued a note payable to Scorpion Bay LLC for $300,000, which matured on November 15, 2007. The proceeds from this note were received in three consecutive payments of $100,000 beginning on June 15, 2007 and ending August 15, 2007. Camelot issued 1,000,000 of common stock for each $100,000 received between June 15, 2007 and August 15, 2007. From June 2007 to September 30, 2007, Camelot issued an additional 8,800,000 shares for interest. The total fair market value of the shares issued to Scorpion Bay totaled $357,400. As this note matures, this total amount was considered to be interest expense and the shares were recorded at fair market value. This note has been guaranteed by Robert Atwell, the Company's President and CEO. In addition, Mr. Atwell has provided additional collateral.

5. DUE TO OFFICERS

In the nine month period ended September 30, 2007 Camelot had accrued $342,500 in compensation to its officers.

6. RELATED PARTY TRANSACTIONS

During the nine month periods ending September 30, 2007 and 2006, Camelot entered into related party transactions with Board members, officers and affiliated entities owned by the CEO of the Company. Camelot plans to issue shares of common stock for services rendered, cash advances, and payment of expenses on Camelot's behalf. Camelot also plans to reach a settlement with one or more board members, officers and affiliated entities owned by the CEO of the Company during the fourth quarter for services rendered, cash advances, licenses, contractual obligations and payment of expenses on Camelot's behalf.

As a result of our agreement with the affiliated company owned by the CEO of Camelot, the affiliate receives 20% of the Company's common stock on an anti-dilutive basis in return for services and cash advances. The anti-dilutive provisions are in force through March 28, 2008. In addition, the affiliate has the option to receive 2,000,000 cashless options to purchase common shares at $0.03 per share. For each one dollar ($1) increase in the price of the Company's stock, the affiliate shall be entitled to receive an additional two million options throughout the term of the agreement between the affiliate and the Company, which expires on March 28, 2008. In addition, the Company shall have the first right of refusal to purchase the options from the affiliate for the current market value once the affiliate notifies the Company that it intends to exercise the options. In the event the Company elects not to exercise this first right of refusal, and subject to applicable laws, the affiliate shall be entitled to exercise the sale of shares or options immediately thereafter. As of September 30, 2007, the affiliate has not exercised its right to receive the options and therefore no options have been granted. The affiliate's right to receive the options and to exercise those options expires on March 28, 2008. No shares were issued during the quarter for this agreement.

7. COMMON STOCK

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

During the nine months ended September 30, 2007, Camelot issued 10,750,750 shares for conversion of the notes payable totalling $50,913.

During the nine months ended September 30, 2007, Camelot issued 6,187,267 shares for services. These shares were valued on the date of issuance at the closing market price.

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

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

Critical Accounting Estimates

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

Management evaluates the probability of the utilization of the deferred income tax asset related to the net operating loss carry forwards. The Company has estimated a $2,450,000 deferred income tax asset related to net operating loss carry forwards and other book/tax differences at September 30, 2007 to $5,510,000. Management determined that because the Company has yet to generate taxable income, and that the generation of taxable income in the short term is uncertain, it was appropriate to provide a valuation allowance for the total deferred income tax asset.

We had acquired certain technology and licenses. Prior to January 1, 2004, the Company determined that the value of these acquired assets was impaired and has provided an impairment allowance for the full purchase price of these assets. The impairment amount charged to operations in prior years was $2,402,338.

Critical Accounting Policies

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

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations, where such

policies affect our reported and expected financial results. In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

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

Accounting for Motion Picture Costs

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

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

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

Accounting for Films

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

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

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

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

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

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

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 reached an agreement with Eagle Consulting Group, Inc. on March 28, 2003 to provide operational funding for the Company. In exchange for twenty percent (20%)of the Company's outstanding common stock on an anti-dilutive, continuing basis until the Company could secure additional financing from another source, Eagle agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. Eagle advances from January 1, 2007 to September 30 total $31,437. In accordance with the anti-dilutive provision, the amount of stock due Eagle is calculated on a quarterly basis. This anti-dilution provision to the agreement could have a material adverse effect on our shareholders as it might continue for a substantial period of time and as a result the dilutive effect to the shareholders cannot be fully determined until the funding from Eagle ceases.

Going Concern Uncertainties

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has experienced recurring operating losses and negative cash flows from operations in part due to the long sales cycles associated with its business model.

The Company's continued existence is dependent upon its ability to generate operating revenues and/or obtain additional debt, equity or other type of financing.

The Company entered into an agreement with Eagle Consulting Group, Inc., a Nevada corporation ("Eagle"), to provide equity financing. That agreement has since been transferred to the Atwell Group, LLC ("TAG"). TAG has advanced and/or arranged for the Company various amounts of funds during the first, second and third quarters of 2007, and it appears likely that such funding should be enough to meet all of the Company's cash requirements for the remaining quarter in 2007 and throughout fiscal year 2008. However, should TAG elect not to fund the Company in the future, the Company must find additional sources of financing in order to remain a going concern until revenues are generated is such an amount that will sustain operations for an extended period of time. In addition, the majority of the Company's fiscal assets have been directed toward the project known as "Camelot Studios at ATEP". To date, the Company has incurred total costs of approximately $2,600,000 in connection with Camelot Studios at ATEP through its Camelot Studio Group division. There can be no assurance that this project will be successful and as a result generate any revenues for Camelot Studio Group and/or the Company. The financial statements do not include any

adjustments that might result from the outcome of this uncertainty.

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

As of September 30, 2007, we have an accumulated deficit of $14,749,231 the majority of which related to our previous activities as a business development organization and none of which relate to our current activities as a motion picture, television and digital media production, marketing and distribution entity. There can be no assurance that our management will be successful in managing the Company as a motion picture, television and digital media production, distribution and marketing concern.

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

Derivative Instruments

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

Plan of Operations

Overview

Our predecessor company was incorporated in Delaware on October 12, 1999. Our current President and CEO acquired the predecessor company in May 2003, with the intention to reorganize the predecessor company through the jettison of the predecessors' business model, a process which began in May 2003. During the next twelve months, a new management team was brought in, the Company acquired Camelot Films® and began to develop and implement its current business model as a motion picture, television and digital media development, production and distribution company.

During May 2004 we changed our name to Camelot Entertainment Group, Inc. and began the process of updating the "Camelot Studio Model" (or "CSM"), which provides for the development, production, marketing and distribution of motion pictures in a fiscally responsible environment. During 2004 and into 2005, the Company entered into various development agreements and began the process of implementing the CSM business plan. At that time, the Company had three divisions, Camelot Film Group, which consisted of Camelot Films® and Camelot Features; Camelot Studio Group, for future studio development; and Camelot Production Services Group, for technology development and production consulting.

In June 2005, after returning from the Cannes film festival, management made the decision to transition the focus of the Company over to the Studio Group and the acquisition and/or development of a major studio. It had become apparent that with the rapidly approaching digital revolution in the motion picture, television and digital media industry, there would be an emerging need for modern, state-of-the-art facilities that could produce content in a fiscally responsible environment while at the same time building infrastructure through education. As a result, the decision was made to switch the emphasis from the CSM to Camelot Studio Group, which had for some time been working on various potential studio locations domestically and internationally. All projects already under development would continue, however the focus was now clearly on building an operating infrastructure for the Company through the implementation of the Camelot Studio Group business model.

In September 2005, the Company was contacted about the possibility of building a major studio with an emphasis on traditional and non-traditional education in Orange County, California. Shortly thereafter, the Company began the process of what now has become known as "Camelot Studios at ATEP", a planned 21st Century, state-of-the-art traditional and non-traditional education campus that will house the first and only major film, television and digital

media studio in Orange County California. It is anticipated that more details of the campus will be made public during the fourth quarter of 2007. As a result of the contemplated campus in Orange County, Camelot Studio Group plans to build its first studio in Nevada have been put on hold until the Orange County location is secured.

Even though the emphasis is now on the studio group, the development and implementation of the CSM is still moving forward. In October 2006, the Company, through its Camelot Film Group division, entered into an agreement with an established production and distribution company to serve as consultants to the film group and eventually be acquired at a later date. As part of that consulting agreement, the principles will oversee the production activity for the film group, including films being developed by Camelot Films®. Negotiations have continued on a more formal agreement during 2007. The Company anticipates further news on that agreement and the CSM during the first quarter of 2008.

The CSM attempts to combine the efficiencies realized by studios of the early 1900's, with the technology, artistic focus and diversity of today's independent productions. Using this approach, we believe the risk-reward relationship facing the typical film project can be dramatically shifted. For example, whereas a typical film pushes artists and directors to rush development and production in hopes of conserving cash, the CSM extends the pre-production cycle substantially to reduce costs while simultaneously increasing quality. Similarly, whereas a low-budget picture is severely limited by the types of postproduction technology used, due to budget constraints, we intend to invest directly in top of the line technology, spreading the costs over a targeted minimum of 12 original motion pictures each year. The goal of the CSM is to develop the ability to consistently produce films with the look, feel and artistic content of multi-million dollar pictures, for a fraction of the cost.

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

Through our wholly owned subsidiary Camelot Films®, we have a history of operations as a film development, production and distribution company dating back to 1978. As a public company, we have a limited operating history. Our primary focus has been on the studio project since September 2005, as we consider that critical to our long term business. Prior to current management acquiring the Company in 2003, the predecessors' business consisted primarily of attempting to provide support, organization and restructuring services to other development stage companies. We believe that due to the complete and drastic change in our business focus, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you review the audited financial statements, the unaudited interim financial statements and the related notes in addition to thoroughly reading our current plan of operations.

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

Our current cash requirements are provided principally through our financing agreement with Eagle Consulting Group, Inc. ("Eagle"), which has since been transferred to The Atwell Group ("TAG"). We entered into an agreement with Eagle (now TAG) on March 28, 2003, to provide operational funding for the Company. In exchange for twenty percent (20%)of the Company's outstanding common stock on a non-dilutive, continuing basis until the Company can secure additional financing from another source, TAG has agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. For the period ending September 30, 2007, TAG has advanced the Company a total, including interest, of $81,624 which with the financing received in December 2006, covered all of our operating expenses for 2007.

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

As more fully discussed below, we secured additional financing from 4 investors for the purpose of funding film development, studio development and operations in December 2006. It was our goal to use this funding to have between 10 and 12 motion pictures in various stages of development within the next 12 months and to offset costs incurred by the Studio group. To date, we have 14 pictures in various stages of development, and the studio group projects continue to move forward. In addition, during fiscal year 2007 to date, we have secured additional funds through bridge loans and other fiscal instruments.

Like all motion picture production companies, our revenues and results of operations could be significantly dependent upon the timing of releases and the commercial success of the motion pictures we distribute, none of which can be predicted with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods. Similarly, the efficiencies we aim to realize through our model may not materialize. Failure of the efficiencies to materialize, along with other risks germane to the picture production, may cause us to produce fewer films than our plan calls for. In addition, until our studio group activities result in stages actually being built and operated, there can be no guarantee that potential revenues from those operations will ever materialize. Further, because our business model involves traditional and non-traditional education elements, the actual profits realized from any of our proposed ventures may

be capped and/or limited by contract provisions, thereby further reducing our ability to produce consistent revenues in the future.

Recent Financing

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

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

1. At closing on December 27, 2006 (“Closing”), the Investors purchased Notes aggregating $600,000 and Warrants to purchase 10,000,000 shares of CMEG common stock;

2. Upon effectiveness of the Registration Statement, June 6, 2007, the Investors purchased Notes aggregating $400,000.

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

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

Scorpion Bay LLC Notes

In June 2007, Camelot issued a note payable to Scorpion Bay, LLC for $300,000 which matured November 15, 2007. Camelot issued a total of 11,800,000 shares of common stock with a fair market value of $357,400 for interest related to this note. As the note matures, this amount is being recognized as interest expense.

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

RESULTS OF OPERATIONS

General

Through our wholly owned subsidiary Camelot Films®, we have a history of operations as a film development, production and distribution company dating back to 1978. As a public company, we have a limited operating history. Our primary focus has been on the studio project since September 2005, as we consider that critical to our long term business. Prior to current management acquiring the Company in 2003, the predecessors' business consisted primarily of attempting to provide support, organization and restructuring services to other development stage companies. We believe that due to the complete and drastic change in our business focus, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you review the audited financial statements, the unaudited interim financial statements and the related notes in addition to thoroughly reading our current plan of operations.

PERIOD ENDED SEPTEMBER 30, 2007, COMPARED TO PERIOD ENDED SEPTEMBER 30, 2006:

The Company did not generate any revenue during the nine months ended, September 30, 2007.

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

The Company has incurred $ 11,324,973 of general and administrative expenses since its inception. General and administrative expenses were $ 1,177,537 for the nine months ended September 30, 2007, respectively, compared to $ 591,743 for the nine months ended September 30, 2006. Increase in expenses primarily due to increase professional fees, rent, insurance and payroll expenses.

The general and general administrative expenses for the nine-month period were comprised of $ 342,500 of officers salaries and $ 304,717 of professional services and $253,200 professional (consulting, legal & accounting) fees. Other costs, $85,853 for trade show travel, marketing, seminars, telephone costs $12,376, rent $65,816, payroll expenses $41,230, insurance costs $38,099 and $90,000 other administrative costs These expenses were related to the pursuit of the Company's plan of operation to produce and distribute motion pictures.

LIQUIDITY AND CAPITAL RESOURCES

Through our wholly owned subsidiary Camelot Films®, we have a history of operations as a film development, production and distribution company dating back to 1978. As a public company, we have a limited operating history. Our primary focus has been on the studio project since September 2005, as we consider that critical to our long term business. We believe that due to the complete and drastic change in our business focus, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance.

Our current liquidity and capital resources are provided principally through our financing agreement with Eagle Consulting Group, Inc. ("Eagle") which has since been transferred to The Atwell Group ("TAG"). We entered into an agreement with Eagle on March 28, 2003, to provide operational funding for the Company. In exchange for twenty percent (20%)of the Company's outstanding common stock on a non-dilutive, continuing basis until the Company can secure additional financing from another source, TAG has agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. For the nine months ended, September 30, 2007, TAG has advanced the Company a total of

$81,624. The funding commitment from TAG will be able to cover all of our operating expenses for the remaining three months of 2007 and fiscal year 2008.

Further, we sucessfully prepared an SB-2 registration statement that went effective in June 2007 for the purpose of funding the development of our initial slate of pictures, studio group costs and operations. Because the funding wass successful, it is our goal to have between 10 and 12 motion pictures in various stages of development or production within 12 months. In the event we are unable to complete the additional funding of our slate, we could have to delay our slate until such time as the necessary funding is acquired.

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

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

We expect to have a need for Additional Financing

As of September 30, 2007, we had a working capital deficit of $973,487. Despite maintaining operations since taking control of the Company in 2003, and despite having secured financial commitments through fiscal year 2008, our history of recurring losses from operations raises a doubt about our ability to continue as a going concern if we are unable to continue to generate the necessary financial requirements in the future. There can be no assurance that we will have adequate capital resources to fund planned operations or that any additional funds will be available to us when needed, or if available, will be available on favorable terms or in amounts required by us. If we are unable to obtain adequate capital resources to fund our motion picture operations, it may be required to delay, scale back or eliminate some or all of our operations, which may have a material adverse effect on our business, results of operations and ability to operate as a going concern.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FACTORS THAT MAY AFFECT FUTURE RESULTS

We have an Accumulated Deficit and we have a Limited 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. While our wholly owned subsidiary Camelot Films® does have an operating history of operations as a motion picture company dating back to 1978, the Company has a limited history, having acquired Camelot Films® in 2003.

ITEM 4. CONTROLS AND PROCEDURES

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Quarterly Report on Form 10-QSB, Camelot’s management evaluated, with the participation of Camelot’s principal executive officer and principal financial officer, the effectiveness of the design and operation of Camelot’s disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act). Based on their evaluation of these disclosure controls and procedures, Camelot’s chief executive officer and Camelot’s chief financial officer have concluded that the disclosure controls and procedures were not effective as of the end of the period covered by this report. While conducting the review of the interim financial

statements as of and for the period ended September 30, 2007, our independent auditors found numerous adjustments that indicated a material weakness in our controls over financial reporting. It is our plan with additional funding to devote more resources to this very critical function.

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

NONE.

ITEM 2. CHANGE IN SECURITIES

On March 16, 2007, 5,000,000 common shares were issued to Nucore Industries, Inc. as a deposit for a funding deal for Camelot Entertainment Group, Inc, and it has been presented as a subscription receivable at March 31, 2007. As of September 30, 2007, funding has not been received by the company. The stock has been stopped from any transfer and is currently being recalled from Nucore. The transaction with Nucore has been terminated due to lack of performance The funding contemplated by Nucore has never been publicized as the Company never received any funds, despite having executed contracts and stock in escrow.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITIES HOLDERS

NONE

ITEM 5. OTHER INFORMATION

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

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

ITEM 6. EXHIBITS

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.

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SIGNATURES

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

	CAMELOT ENTERTAINMENT GROUP, INC. (Registrant)	
Date: November 19, 2007	By:	/s/ ROBERT P. ATWELL Title: Chief Executive Officer
Date: November 19, 2007	By:	/s/ GEORGE JACKSON Title: Chief Financial Officer