

LIVESTAR ENTERTAINMENT GROUP INC
Form 10QSB/A
August 25, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10QSB/A

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

For the quarterly period ended June 30, 2004

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

Commission File No. 000-27233

LIVESTAR ENTERTAINMENT GROUP, INC.
(Exact name of Registrant as specified in its charter)

NEVADA
(State or other jurisdiction of incorporation or organization)

98-0204736
(I.R.S. Employer Identification Number)

62 W. 8th Avenue, 4th Floor
Vancouver, British Columbia, Canada
(Address of principal executive offices)

V5Y 1M7
(Zip Code)

Issuer's telephone number, including area code: (604) 682-6541

Check whether the issuer

- (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ().

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date.

Class
\$0.0001 par value Common Stock

Outstanding as of June 30, 2004
994,468,337

Transitional Small Business Disclosure Format (check one): Yes No

PART 1 FINANCIAL INFORMATION**Item 1. Financial Statements**

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-QSB and Item 310 (b) of Regulation S-B, and, therefore, do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the three months ended June 2004 are not necessarily indicative of the results that can be expected for the year ending December 31, 2004.

LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)
(Stated in U.S. Dollars)

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LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

CONSOLIDATED BALANCE SHEET
(Unaudited)
(Stated in U.S. Dollars)

| | JUNE 30 | DECEMBER |
|------------------------------------|----------------|-----------------|
| | 2004 | 31 |
| | 2004 | 2003 |
| | <hr/> | <hr/> |
| ASSETS | | |
| Current | | |
| Cash | \$ -- | \$ 14,892 |
| Accounts receivable | 820 | -- |
| Goods and Services Tax recoverable | 3,984 | 6,621 |
| Prepaid expense | 156,278 | 78,471 |
| Inventory | 10,072 | -- |
| | <hr/> | <hr/> |
| | 171,154 | 99,984 |
| Capital Assets (Note 4) | 17,741 | 6,729 |
| Advances Receivable | -- | 281,219 |
| | <hr/> | <hr/> |
| | \$ 188,895 | \$ 387,932 |

CONSOLIDATED BALANCE SHEET (Unaudited)(Stated in U.S. Dollars)

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| | JUNE 30 2004 | DECEMBER 31 2003 |
|--|-------------------------|---------------------------------|
| LIABILITIES | | |
| Current | | |
| Bank indebtedness | \$ 34,838 | \$ -- |
| Accounts payable | 1,431,187 | 1,530,926 |
| Loans and advances payable (Note 7) | 467,394 | 397,913 |
| | <u>1,933,419</u> | <u>1,928,839</u> |
| STOCKHOLDERS' DEFICIENCY | | |
| Share Capital | | |
| Authorized: | | |
| 1,000,000,000 common shares, par value \$0.0001 per share | | |
| 200,000,000 preferred shares, par value \$0.0001 per share | | |
| Issued and outstanding: | | |
| 904,468,337 common shares at June 30, 2004 and 208,468,337 at December 31, 2003 | 90,447 | 28,047 |
| 60,875,000 preferred shares at June 30, 2004 and December 31, 2003 | 6,088 | 88 |
| Additional paid-in capital | 3,282,560 | 2,309,897 |
| Deficit | (5,123,619) | (3,878,939) |
| | <u>(1,744,524)</u> | <u>(1,540,907)</u> |
| | <u>\$ 188,895</u> | <u>\$ 387,932</u> |

LIVESTAR ENTERTAINMENT GROUP INC. "(A Development Stage Company)"

**CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
(Unaudited)
(Stated in U.S. Dollars)**

| | THREE MONTHS ENDED JUNE 30 | | SIX MONTHS ENDED JUNE 30 | | INCEPTION OCTOBER 12 2000 TO JUNE 30 2004 |
|-----------------|---------------------------------------|-------------|-------------------------------------|-------------|--|
| | 2004 | 2003 | 2004 | 2003 | 2004 |
| Revenue | | | | | |
| Live events | \$ 9,955 | \$ 502 | \$ 68,055 | \$ 502 | \$ 77,555 |
| Night Clubs | 103,264 | -- | 103,264 | -- | 103,264 |
| | <u>113,219</u> | <u>502</u> | <u>171,319</u> | <u>502</u> | <u>180,819</u> |
| Expenses | | | | | |

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | | INCEPTION |
|--|--------------------|-------------------|---------------------|-------------------|----------------------------------|
| | JUNE 30 | | JUNE 30 | | OCTOBER |
| | 2004 | 2003 | 2004 | 2003 | 12 2000 TO JUNE 30 2004 |
| Administrative services | 5,616 | 2,327 | 6,672 | 4,594 | 168,388 |
| Amortization | 851 | 598 | 1,440 | 1,114 | 19,858 |
| Business development | 422,503 | 128,645 | 422,503 | 149,645 | 1,488,722 |
| Consulting | 248,108 | 50,539 | 352,548 | 100,539 | 1,024,050 |
| Equipment leases | 2,065 | -- | 11,466 | -- | 47,262 |
| Investor relations | 11,693 | 1,546 | 11,693 | 1,841 | 458,717 |
| Marketing | 11,339 | -- | 18,639 | -- | 55,028 |
| Media design | 993 | 14 | 2,164 | 194 | 87,474 |
| Night club operating costs | 120,714 | -- | 120,714 | -- | 120,714 |
| Office, rent and sundry | 41,802 | 28,456 | 70,610 | 61,001 | 448,448 |
| Professional fees | 79,440 | 24,585 | 116,517 | 32,026 | 486,284 |
| Software development | -- | -- | -- | -- | 855,135 |
| Travel | 22,335 | 688 | 45,929 | 1,184 | 196,293 |
| Wages and benefits | 117,146 | -- | 235,104 | -- | 348,891 |
| | <u>1,084,605</u> | <u>237,398</u> | <u>1,415,999</u> | <u>352,138</u> | <u>5,805,264</u> |
| Loss Before The Following | 971,386 | 236,896 | 1,244,680 | 351,636 | 5,624,445 |
| Forgiveness Of Debt | -- | -- | -- | -- | (46,655) |
| Write Down Of Investment | -- | -- | -- | -- | 6,750 |
| Minority Interest In Loss Of Subsidiary | -- | -- | -- | -- | (219) |
| Loss From Continuing Operations | <u>971,386</u> | <u>236,896</u> | <u>1,244,680</u> | <u>351,636</u> | <u>5,584,321</u> |
| Gain On Disposition Of Subsidiary | -- | -- | -- | -- | (419,427) |
| Gain From Discontinued Operations | -- | -- | -- | -- | (53,629) |
| Net Loss For The Period | <u>\$ 971,386</u> | <u>\$ 236,896</u> | <u>\$ 1,244,680</u> | <u>\$ 351,636</u> | <u>\$ 5,111,265</u> |

LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT (Continued)
(Unaudited)
(Stated in U.S. Dollars)

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--|--------------------|------|------------------|------|
| | JUNE 30 | | JUNE 30 | |
| | 2004 | 2003 | 2004 | 2003 |

Net Loss Per Share Before

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT (Continued) (Unaudited)(Stated in U.S. Dollars)

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| | THREE MONTHS ENDED JUNE 30 | | SIX MONTHS ENDED JUNE 30 | |
|--|-------------------------------|------------|-----------------------------|------------|
| | 2004 | 2003 | 2004 | 2003 |
| Discontinued Operations, Basic and diluted | \$ 0.01 | \$ 0.01 | \$ 0.01 | \$ 0.01 |
| Net Loss Per Share, Basic and diluted | \$ 0.01 | \$ 0.01 | \$ 0.01 | \$ 0.01 |
| Weighted Average Number Of Common Shares Outstanding | 435,035,465 | 79,994,738 | 362,386,150 | 57,640,620 |

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LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)
(Stated in U.S. Dollars)

| | THREE MONTHS ENDED JUNE 30 | | SIX MONTHS ENDED JUNE 30 | | INCEPTION OCTOBER 12 2000 TO JUNE 30 2004 |
|--|----------------------------------|--------------|-----------------------------|--------------|--|
| | 2004 | 2003 | 2004 | 2003 | 2004 |
| Cash Flows From Operating Activities | | | | | |
| Loss for the period from continuing operations | \$ (971,386) | \$ (236,896) | \$ (1,244,680) | \$ (351,636) | \$ (5,584,321) |
| Adjustments To Reconcile Net Loss To Net Cash | | | | | |
| Used By Operating Activities | | | | | |
| Amortization | 851 | 598 | 1,440 | 1,114 | 19,858 |
| Stock based compensation | 51,339 | -- | 96,117 | -- | 161,210 |
| Issue of common stock for expenses | 182,500 | 62,400 | 182,500 | 114,900 | 892,590 |
| Write down of investment | -- | -- | -- | -- | 6,750 |
| Minority interest in loss of subsidiary | -- | -- | -- | -- | (219) |
| Accounts receivable | 3,760 | -- | (820) | -- | (820) |
| Goods and Services Tax recoverable | 3,904 | 1,609 | 2,637 | 2,971 | (3,983) |
| Prepaid expense | (70,868) | 11,389 | (77,807) | (35,794) | (156,278) |
| Inventory | (10,072) | -- | (10,072) | -- | (10,072) |
| Accounts payable | (23,806) | 139,563 | 2,261 | 227,726 | 2,200,021 |
| | (833,778) | (8,212) | (1,048,424) | (27,594) | (2,475,264) |
| Cash Flows From Investing Activities | | | | | |

| | THREE MONTHS ENDED JUNE 30 | | SIX MONTHS ENDED JUNE 30 | | INCEPTION OCTOBER 12 2000 TO JUNE 30 2004 |
|---|----------------------------------|---------|-----------------------------|---------|--|
| | 2004 | 2003 | 2004 | 2003 | 2004 |
| | | | | | |
| | -- | -- | -- | -- | (12,355) |
| Purchase of capital assets | (12,085) | -- | (12,452) | -- | (57,617) |
| Advances receivable Net asset deficiency of legal parent at date of reverse take-over transaction | 399,198 | -- | 281,219 | -- | 200,000 |
| | 387,113 | -- | 268,767 | -- | 130,028 |
| Cash Flows From Financing Activities | | | | | |
| Loans and advances payable | 81,828 | 8,152 | 171,481 | 21,031 | 845,947 |
| Shares issued for cash | 290,923 | 8,045 | 558,446 | 8,045 | 1,293,280 |
| Share subscriptions received | -- | (8,045) | -- | (1,450) | -- |
| | 372,751 | 8,152 | 729,927 | 27,626 | 2,139,227 |
| Increase (Decrease) In Cash | (73,914) | (60) | (49,730) | 32 | (206,009) |
| Net Cash From Discontinued Operations | -- | -- | -- | -- | 53,630 |
| Cash Acquired On Acquisition Of Subsidiary | -- | -- | -- | -- | 117,541 |
| Cash, Beginning Of Period | 39,076 | 124 | 14,892 | 32 | -- |
| Cash (Bank Indebtedness), End Of Period | \$ (34,838) | \$ 64 | \$ (34,838) | \$ 64 | \$ (34,838) |

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LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(Unaudited)
(Stated in U.S. Dollars)

SUPPLEMENTAL OF CASH FLOW INFORMATION

During the period ended June 30, 2004, the Company issued 51,000,000 common shares to settle \$102,000 in accounts payable, and 60,000,000 Series B convertible preferred shares on conversion of \$102,000 loans payable.

During the period ended June 30, 2003, the Company issued 3,672,560 common shares on conversion of \$13,541 of loans payable, and 14,162,573 common shares to settle \$43,391 in accounts payable.

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LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIENCY

JUNE 30, 2004
(Unaudited)
(Stated in U.S. Dollars)

| | PREFERRED STOCK | | COMMON STOCK | | ADDITIONAL PAID-IN | DEFICIT | TOTAL |
|---|------------------------|---------------|---------------------|---------------|-------------------------------|----------------|----------------|
| | SHARES | AMOUNT | SHARES | AMOUNT | CAPITAL | | |
| Balance, December 31, 2001 | -- | \$ -- | 14,614,724 | \$ 1,462 | \$ 109,744 | \$ (1,703,603) | \$ (1,592,397) |
| Shares issued for debt | -- | -- | 11,163,816 | 1,116 | 268,026 | -- | 278,142 |
| Shares issued for services | -- | -- | 13,845,000 | 1,384 | 283,606 | -- | 275,990 |
| Shares issued for cash and notes receivable | -- | -- | 7,861,250 | 787 | 461,912 | -- | 462,699 |
| Shares cancelled | -- | -- | (1,830,000) | (183) | (61,204) | -- | (61,387) |
| Forgiveness of shareholder debt | -- | -- | -- | -- | 25,000 | -- | 25,000 |
| Loss for the year | -- | -- | -- | -- | -- | (1,265,480) | (1,265,480) |
| Balance, December 31, 2002 | -- | -- | 45,654,790 | 4,566 | 1,087,084 | (2,969,083) | (1,877,433) |
| Shares issued for debt | -- | -- | 76,591,880 | 7,659 | 236,606 | -- | 244,265 |
| Shares issued for services | -- | -- | 92,620,000 | 9,262 | 407,638 | -- | 416,900 |
| Shares issued for cash | -- | -- | 65,601,667 | 6,560 | 363,564 | -- | 370,124 |
| Shares issued | 1,000,000 | 100 | -- | -- | 199,900 | -- | 200,000 |
| Shares redeemed | (125,000) | (12) | -- | -- | (49,988) | -- | (50,000) |
| Stock based compensation | -- | -- | -- | -- | 65,093 | -- | 65,093 |
| Loss for the year | -- | -- | -- | -- | -- | (909,856) | (909,856) |
| Balance, December 31, 2003 | 875,000 | 88 | 280,468,337 | 28,047 | 2,309,897 | (3,878,939) | (1,540,907) |
| Shares issued for debt | -- | -- | 51,000,000 | 5,100 | 96,900 | -- | 102,000 |
| Shares issued for services | -- | -- | 130,000,000 | 13,000 | 169,500 | -- | 182,500 |
| Shares issued for cash | -- | -- | 443,000,000 | 44,300 | 514,146 | -- | 558,446 |
| Shares issued for debt | 60,000,000 | 6,000 | -- | -- | 96,000 | -- | 102,000 |
| Stock based compensation | -- | -- | -- | -- | 96,117 | -- | 96,117 |
| Loss for the period | -- | -- | -- | -- | -- | (1,244,680) | (1,244,680) |
| Balance, June 30, 2004 | 60,875,000 | \$ 6,088 | 904,468,337 | \$ 90,447 | \$ 3,282,560 | \$ (5,123,619) | \$ (1,744,524) |

LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)
(Stated in U.S. Dollars)

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements as of June 30, 2004 included herein have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States of America generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. It is suggested that these consolidated financial statements be read in conjunction with the December 31, 2003 audited consolidated financial statements and notes thereto.

2. NATURE OF OPERATIONS

a) Organization

The Company was incorporated in the State of Nevada, U.S.A., on October 12, 2000.

b) Development Stage Activities

The Company was organized as a holding company to develop or acquire innovative ventures with an emphasis on serving the lifestyle needs of the 18 - 34 year Digital Generation through the production and marketing of lifestyle products and services. The Company's initial venture is RAHX, a business concept previously focused on delivering, for its customers, a consolidated Entertainment Experience Network comprised of many services ranging from digital media peer to peer file exchange to live entertainment and online video games. At this time, the Company's focus is the developing of a live entertainment business, specifically nightclubs and live events.

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LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)
(Stated in U.S. Dollars)

2. NATURE OF OPERATIONS (Continued)

c) Going Concern

Since inception, the Company has suffered recurring losses, net cash outflows from operations and, at June 30, 2004, has a working capital deficiency of \$1,762,265. The Company expects to continue to incur substantial losses to complete the development of its business. Since its inception, the Company has funded operations through common stock issuances and related party loans in order to meet its strategic objectives. Management believes that sufficient funding will be available to meet its business objectives, including anticipated cash needs for working capital, and is currently evaluating several financing options. However, there can be no assurance that the Company will be able to obtain sufficient funds to continue the development of and, if successful, to commence the sale of its products under development. As a result of

the foregoing, there exists substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates which have been made using careful judgement.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Consolidation

These consolidated financial statements include the accounts of the Company, its 100% owned subsidiaries, RRUN Labs Inc., Livestar Entertainment Canada Inc., Livestar Entertainment Establishment Ltd., and 1615496 Ontario Ltd., 1614718 Ontario Ltd. and its 67% owned subsidiary, RAHX, Inc.,

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LIVESTAR ENTERTAINMENT GROUP INC. (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)
(Stated in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Development Stage Company

The Company is a development stage company as defined in the Statements of Financial Accounting Standards No. 7. The Company is devoting substantially all of its present efforts to establish a new business. All losses accumulated since inception have been considered as part of the Company's development stage activities.

c) Investments

Investments in companies owned less than 20% are recorded at the lower of cost or fair market value.

d) Software Development Costs

The costs to develop new software products and enhancements to existing software products will be expensed as incurred until technological feasibility has been established. Once technological feasibility has been established, any additional costs will be capitalized.

e) Income Taxes

The Company has adopted Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes (SFAS 109). This standard requires the use of an asset and liability approach for financial accounting and reporting on income taxes. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

f) Amortization

Capital assets are being amortized on the declining balance basis at the following rates:

| | |
|--------------------------------|-------|
| Computer equipment | 30% |
| Leasehold improvements | 6.67% |
| Computer software | 100% |
| Office furniture and equipment | 20% |

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LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)
(Stated in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Stock Based Compensation

The Company accounts for stock based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees (APB No. 25) and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123 Accounting for Stock Based Compensation (SFAS No. 123). Under APB No. 25, compensation expense is recognized based on the difference, if any, on the date of grant between the estimated fair value of the Company's stock and the amount an employee must pay to acquire the stock. Compensation expense is recognized immediately for past services and rateably for future services over the option vesting period.

h) Financial Instruments

The Company's financial instruments consist of cash, GST recoverable and accounts payable.

Unless otherwise noted, it is management's opinion that this Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

i) Net Loss Per Share

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In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 Earnings Per Share (SFAS 128). Under SFAS 128, basic and diluted earnings per share are to be presented. Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share takes into consideration common shares outstanding (computed under basic earnings per share) and potentially dilutive common shares. Diluted loss per share is not presented separately from loss per share as the exercise of any options and warrants would be anti-dilutive.

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LIVESTAR ENTERTAINMENT GROUP INC. (A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)
(Stated in U.S. Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Foreign Currency Translation

Transaction amounts denominated in foreign currencies are translated at exchange rates prevailing at transaction dates. Carrying values of monetary assets and liabilities are adjusted at each balance sheet date to reflect the exchange rate at that date. Non-monetary assets and liabilities are translated at the exchange rate on the original transaction date. Gains and losses from restatement of foreign currency monetary and non-monetary assets and liabilities are included in the statements of operations. Revenues and expenses are translated at the rates of exchange prevailing on the dates such items are recognized in the statements of operations.

4. CAPITAL ASSETS

| | | 2004 | 2004 | 2003 |
|--------------------------------|------------------|-------------------------------------|---------------------------|---------------------------|
| | COST | ACCUMULATED AMORTIZATION | NET BOOK VALUE | NET BOOK VALUE |
| Computer equipment | \$ 14,897 | \$ 7,713 | \$ 7,184 | \$ 5,490 |
| Leasehold improvements | 6,731 | 114 | 6,617 | -- |
| Computer software | 456 | 456 | -- | -- |
| Office furniture and equipment | 6,412 | 2,472 | 3,940 | 1,239 |
| | \$ 28,496 | \$ 10,755 | \$ 17,741 | \$ 6,729 |

5. STOCK OPTIONS AND WARRANTS OUTSTANDING

Stock Options

As at June 30, 2004, options were outstanding for the purchase of common shares as follows:

| NUMBER OF SHARES | PRICE PER SHARE | EXPIRY DATE |
|---------------------|--------------------|----------------|
|---------------------|--------------------|----------------|

5. STOCK OPTIONS AND WARRANTS OUTSTANDING

| | | |
|---------|---------|-------------------|
| 200,000 | \$ 0.10 | September 5, 2004 |
| 380,000 | \$ 0.10 | February 8, 2005 |

LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)
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5. STOCK OPTIONS AND WARRANTS OUTSTANDING (Continued)

Stock Options (Continued)

In accordance with the vesting provisions of these agreements, 580,000 stock options are exercisable at June 30, 2004.

A summary of the changes in stock options for the period ended June 30, 2004 is presented below:

| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
|----------------------------|---------------|--|
| Balance, December 31, 2001 | 1,281,500 | \$ 0.22 |
| Granted | 9,475,000 | 0.12 |
| Exercised | (5,600,000) | (0.13) |
| Expired | (3,953,500) | (0.12) |
| Balance, December 31, 2002 | 1,203,000 | 0.14 |
| Granted | 67,000,000 | 0.01 |
| Exercised | (62,000,000) | (0.01) |
| Expired | (623,000) | (0.18) |
| Balance, December 31, 2003 | 5,580,000 | 0.01 |
| Granted | 438,000,000 | 0.01 |
| Exercised | (443,000,000) | (0.01) |
| Balance, June 30, 2004 | 580,000 | \$ 0.01 |

LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)
(Stated in U.S. Dollars)

5. STOCK OPTIONS AND WARRANTS OUTSTANDING (Continued)

Share Purchase Warrants

As at June 30, 2004, share purchase warrants were outstanding for the purchase of common shares as follows:

| NUMBER OF SHARES | PRICE PER SHARE |
|-----------------------------|--------------------------------|
| 1,882,355 | \$ 0.25 |
| 1,332,000 | \$ 0.10 |
| 2,230,000 | \$ 0.50 |
| 168,795 | \$ 3.00 |
| 567,500 | \$ 0.75 |
| 420,000 | \$ 0.20 |
| 100,000 | \$ 0.40 |
| 340,000 | \$ 0.06 |
| 100,000 | \$ 1.00 |
| 1,648,750 | \$ 0.01 |

The warrants expire between September 4, 2004 and January 17, 2006.

A summary of the changes in share purchase warrants for the period ended June 30, 2004 is presented below:

| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
|--|---------------|--|
| Balance, December 31, 2001 | 1,944,650 | \$ 0.47 |
| Granted | 5,476,000 | 0.37 |
| Exercised | (180,000) | (0.20) |
| Cancelled | (100,000) | (0.06) |
| Balance, December 31, 2002 | 7,140,650 | 0.41 |
| Granted | 1,648,750 | 0.01 |
| Balance, December 31, 2003 and June 30, 2004 | 8,789,400 | \$ 0.33 |

LIVESTAR ENTERTAINMENT GROUP INC.
A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)
(Stated in U.S. Dollars)

6. STOCK BASED COMPENSATION

On January 30, 2004, March 5, 2004, May 6, 2004 and June 28, 2004 respectively, the Board of Directors approved the Employee Stock Incentive Plan for the Year 2004 No. 1, No. 2, No. 3, and No. 4 under which designated officers and employees of the Company and its subsidiaries may be granted stock options. The Company may grant options to acquire up to 850,000,000 shares of common stock under the plans.

Employee Stock Incentive Plan for year 2004, No. 4 also approved the issue to non-employees, directors and consultants of up to 350,000,000 shares of common stock at a price of \$0.0007 for fees for services performed or to be performed.

During the period ended June 30, 2004, the Company granted stock options to officers and employees to acquire up to 438,000,000 shares of common stock at weighted average exercise prices of \$0.01 per share, expiring up to June 2014. All of these options vest immediately.

The fair value of the options granted during the period was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.15%, expected volatility ranging from 29% to 295%, an expected option life of one week, and no expected dividends. Had the Company determined compensation cost based on the fair value at the date of grant for its employees stock options, the net loss would have increased by \$152,344 for the period ended June 30, 2004. During the period ended June 30, 2004, the Company recognized stock based compensation for the intrinsic value of employee awards in the amount of \$96,117.

| | 2004 | 2003 |
|---|--------------------|--------------------|
| Net loss, as reported | \$(804,728) | \$(351,636) |
| Add: Stock based compensation expense included in net loss, as reported | 96,117 | -- |
| Deduct: Stock based compensation expense determined under fair value method | (248,461) | -- |
| | \$(957,072) | \$(351,636) |
| Net loss, pro-forma | \$ (0.01) | \$ (0.01) |
| Net loss per share (basic and diluted), as reported | \$ (0.01) | \$ (0.01) |
| Net loss per share (basic and diluted), pro-forma | \$ (0.01) | \$ (0.01) |

LIVESTAR ENTERTAINMENT GROUP INC.
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004

(Unaudited)
(Stated in U.S. Dollars)**7. LOANS AND ADVANCES PAYABLE**

Loans and advances payable are interest free and are repayable within one year. Certain of the loans and advances are convertible to common shares as follows:

| AMOUNT | CONVERSION PRICE | CONVERSION AFTER |
|-----------|---------------------|---------------------|
| \$ 11,570 | \$ 0.12 | August 31, 2002 |
| \$ 1,000 | \$ 0.02 | September 14, 2002 |
| \$ 400 | \$ 0.02 | August 31, 2003 |
| \$263,087 | \$ 0.02 | June 30, 2004 |
| \$107,321 | \$ 0.05 | June 30, 2004 |

8. RELATED PARTY TRANSACTIONS

- a) Included in accounts payable at June 30, 2004 is \$520,568 (2003 \$476,811) owing to directors or companies controlled by a director.
- b) Included in loans and advances payable at June 30, 2004 is \$370,416 (2003 \$370,605) owing to directors or a company controlled by a director.
- c) During the period ended June 30, 2004, the Company incurred \$30,000 (2003 \$50,001) in consulting and business development expenses with directors, or a company controlled by a director.

9. COMMITMENTS

- a) During the year ended December 31, 2002, the Company executed Management Services Memorandums with three key directors/officers which were effective January 1, 2002. In addition to total signing bonuses of \$258,000 which have no specific payment date and are payable in cash or shares of the Company or its subsidiary, RAHX, Inc., the memorandums provide for performance bonuses and total annual compensation as follows:

| | |
|------------------------------|-----------|
| Year ended December 31, 2004 | \$200,000 |
| Year ended December 31, 2005 | \$200,000 |
| Year ended December 31, 2006 | \$200,000 |

- b) In connection with its nightclub operation, the Company has leased real estate for a five year term at an annual rate of \$52,946.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2004
(Unaudited)
(Stated
in U.S. Dollars)

10. SUBSEQUENT EVENT

Subsequent to June 30, 2004, the Company granted stock options to officers and employees to acquire up to 452,000,000 shares of common stock at weighted average exercise prices of \$0.01 per share.

Item 2. Management's Discussion and Analysis or Plan of Operations

Forward Looking Statements

Except for the historical information and discussions contained herein, statements contained in this Form 10-QSB may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including any projections of earnings, revenues, or other financial items; any statements of the plans, strategies, and objectives of management for future operation; any statements concerning proposed new products, services, or developments, any statements regarding future economic conditions or performance, statements of belief, statements of assumptions underlying any of the foregoing and other risks, uncertainties and factors discussed elsewhere in this Form 10-QSB or in the Company's other filings with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2004

For the six-month period ended June 30, 2004, the Company earned revenues of \$171,319. The revenues were related to ticket sales from three (3) concert productions through the Company's live events business, and from beverage sales and entry fees from the Company's venues business.

During the six month period ended June 30, 2004, the Company incurred operational expenses of \$1,415,999. These operating expenses included: business development & consulting fees of \$775,051, wages and benefits of \$ 235,104, and professional fees of \$116,517 for the six month period ending June 30, 2004. The company continues to incur significant consulting costs, which includes business development, in its effort to realize its business strategy and its business plan.

During the six month period ended June 30, 2004, the Company incurred a net loss from operations of \$1,244,680.

FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2004, COMPARED TO THE THREE MONTH PERIOD ENDED JUNE 30, 2003.

For the three month period ended June 30, 2004, the Company earned revenues of \$ 113,219 as compared to revenues of \$502 for the same period ended June 30, 2003. The revenues in 2004 are realized from continued efforts in our Live Events business that began in 2003, and our Venues business in 2004.

For the three month period ended June 30, 2004, the Company incurred operational expenses of \$1,084,605, as compared to \$237,398 during the same period in 2003. These operating expenses included: consulting fees and business development expenses \$670,611 and \$179,184; wages & benefits of \$117,146 and \$0, and professional fees of \$79,440 and \$24,585 for the three month period ended June 30, 2004, and 2003, respectively. The increase in expenses from June 30, 2004 as compared to the same period in 2003 is due to the increased level of business and operating activities in the Company.

The Company incurred a net loss from operations of \$971,386 for the fiscal quarter ended June 30, 2004, as compared to \$236,896 for the same period in 2003.

Liquidity and Financial Condition As Of June 30, 2004

We had cash-on hand of totaling \$0 as of June 30, 2004.

Current Development Finance Strategy:

In order to finance the first and second acquisition or development establishments the Company may use its preferred or common stock to finance the acquisition or development or to raise the necessary capital for acquisition or development.

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Future Development Financing Strategy:

In the future, we hope to fund the majority of our new establishment locations through the selling of a minority interest in the new establishments through the sale of up to 49% of the equity or through limited partnerships. This minority interest is hoped to be sold to either individual investors who wish to invest directly into an establishment or into a fund or partnership that will be funded by investors wishing to diversify their investment over a number of establishments that the fund or partnership may invest in. This proposed fund is planned to be formed by LIVESTAR exclusively for LIVESTAR establishments. The Company has begun the establishment of an internal corporate finance department and external network or syndicate of investment advisors, investment bankers and broker dealers that will raise capital via the direct investments strategy and/or form the fund or partnership that will raise capital through the fund or partnership strategy. This planned internal corporate finance department has commenced development through the recent formation of LIVESTAR Entertainment Capital Corporation. It is planned that investors under this strategy are planned to receive cash dividends and some capital stock or warrants in the Company.

In addition to the direct investment and fund or partnership strategy the Company hopes to raise capital for its new establishments through the forming of a real estate financing plan that is hoped to utilize real estate financing to fund the purchase of properties and subsequently secure construction financing to fund the renovations of the establishment.

We believe that this Future Development Financing Strategy will enable us to achieve our development goals with a hope over the long-term of reducing the potential dilution to our existing shareholders. By raising capital directly in each establishment through our planned Future Development Financing Strategy we may not have to dilute the existing shareholders to any great extent to grow the business. As our cash producing businesses grow due to the planned implementation and hopeful success of the Future Development Financing Strategy we plan to utilize the available cash to pay for operations without having to use stock to pay for large and important operational items item such as staff and consultants.

The result of this is that as our cash flow may grow as our dilution may slow. More specifically, we have developed comprehensive business and financial plans that result in our development of a network of entertainment establishments that should operate on a cash positive basis and without incurring substantial dilution to stockholders such that the Company can possibly increase its overall valuation substantially. This possible increase in the Company's overall valuation may be accomplished by using the positive cash flow to buy back the Company's common stock from the public float. There is no current plans to implement a stock buy back program, although one is intended over the long-term and will only be implemented based on the success of the foregoing and solely of the discretion of the Company's management and board of directors.

In addition to the above we plan we plan to invite direct investments into the Company to provide funds for general corporate purposes.

CAPITAL REQUIREMENTS

We believe that the first acquisition or development of an entertainment establishment will require approximately a minimum of \$500,000 for the transaction, plus approximately \$100,000 in legal, accounting and administrative expenses. In addition our first acquisition or development will require a minimum of another \$400,000 for working capital and general corporate purposes. This is a minimum total of approximately \$1,000,000 that will be required in the next quarter during which we are hoping to make the first acquisition or development. In the following 3 months, we plan to execute one or two additional acquisitions or developments. We believe that the cost of a second and third acquisition or development project will be approximately a minimum of \$1,000,000 each and that approximately another \$500,000 minimum each will be required for the same purposes as listed above for the first acquisition or development and for working capital and general corporate purposes. Thus, we anticipate needing a minimum of \$4,000,000 of investment capital during the next six months.

After the first two acquisitions or development projects, we intend to develop other entertainment establishments from initial build-out rather than from acquisitions. Our plan is to open two additional entertainment establishments by the end of 2004 and we anticipate that additional funding (approximately \$1,000,000) will be required to accomplish this. Management anticipates that funding requirements for this plan will be less than the overall cost of opening these nightclubs, since the revenues from the first two or three nightclubs is expected to generate enough positive cash flow to reduce the level of external capital required. We have developed comprehensive business and financial plans that result in our development of a network of entertainment establishments that should operate on a cash positive basis and hopefully without incurring substantial dilution to stockholders such that the Company can possibly increase its overall valuation substantially. The Company believes it will require approximately \$1,000,000 to grow its live events business unit, including the cost of acquisitions or development and their subsequent integration and for the venture development of other potential lines of business for 2004. The total additional working capital financing described in this section is planned to also include the development of other synergistic business units such as, including but not limited to, membership services, brand licensing and merchandising.

CAPITAL ACQUIRING PLANS

Management plans on initiating a series of securities offerings to raise the investment capital needed to meet our acquisition and development plans. Although we will make efforts to minimize dilution to current shareholders, we may not be able to avoid significant dilution due to many factors, including but not limited to, the closing of financing at lower than the desired market price of the Company's common stock.

LIVESTAR hopes to secure the financing to satisfy the capital needs for each phase of its implementation plan through the execution of various funding methods, primarily financing through its Future Development Financing Strategy, private placement investments or debt financing. LIVESTAR hopes to achieve this by securing relationships with accredited individual investors, investment bankers, venture capitalists, and/or finance investment advisors that have the experience and relationships to aid LIVESTAR with its capital raising efforts. The source of the capital may be comprised of a mix of principal shareholders, private investors and venture capital companies.

If needed capital investment for our acquisitions or developments is not available, in whole or in part, we intend to delay the implementation plan regarding our acquisitions or development plans until sufficient investment capital becomes available. We cannot give any assurances that we will raise sufficient investment capital to meet the business plan. In addition to delays to the implementation plan regarding our acquisition or development plans due to insufficiency of investment capital, we may suffer other consequences, including but not limited to the following: We may have to significantly alter the scope and/or direction of our business plan and subsequent capital requirements; we may have to suspend or discontinue operations of one or more of our business units; or we may have to suspend or discontinue operations of the Company if we become insolvent as a result.

Until planned acquisitions (current and future) and new development establishments begin to produce significant revenues and subsequent positive cash flow, we will be reliant on capital received from private placements, loans, and the exercise of options and warrants. Due to the depressed market for our securities, we may not be able avoid significant dilution to current shareholders. In addition, we expect to continue to retain certain management, staff and consultants, such as legal counsel, and may need to compensate these individuals through the issuance of our common stock as compensation. These stock based compensations may result in significant dilution to current shareholders due to the depressed market for our securities. We also continue to reduce or prevent collection of outstanding vendor debts and accounts with creditors, such as suppliers and consultants, which could result in litigation against the Company. There can be no guarantee that all of these negotiations will be successful and the outcome of these negotiations may include settlements in cash and/or issuance of common stock. These stock based settlements may result in significant dilution to current shareholders due to the depressed market for our securities. We plan on continuing to meet certain of our expenses through the issuance of our shares of common stock, which may cause additional and significant dilution to existing shareholders due to the depressed market for our securities.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

Recent Sales of Unregistered Securities

During May 2004, the Company issued 60,000,000 shares of its previously authorized, but unissued preferred series B stock. The shares were issued in settlement of a debt with an officer of the Company. The transaction was valued at \$0.0017 per share for a total consideration of \$102,000. The transaction was an isolated transaction with an individual having a close affiliation with us and was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of the Act because of not being part of a public offering. The offering was for a limited purpose and did not use the machinery of public distribution.

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

(a) We held an Annual General Meeting of our shareholders (the Annual General Meeting) on June 25, 2004 for the fiscal year ended December 31, 2003.

(b) Please refer to Item 4(C)(i) below.

(c) Set forth below is a brief description of each matter voted upon at the Annual General Meeting and the number of affirmative votes and the number of negative votes cast:

(i) The board of directors of the corporation nominated Ray Hawkins and Edwin Kwong to stand for election as members of the board of directors for the coming year which two persons shall constitute the entire board of directors. No other nominations were made.

| | |
|------------------|---------------|
| Votes for | 3,805,727,914 |
| Votes against | 245,000 |
| Votes abstaining | 6,125,200 |

(ii) The board of directors of the corporation requested the shareholders of the corporation approve the amendments to the articles of incorporation to increase the number of authorized common shares from 1,000,000,000 shares to 10,000,000,000 shares.

| | |
|------------------|---------------|
| Votes for | 3,798,297,324 |
| Votes against | 13,790,790 |
| Votes abstaining | 10,000 |

(iii) In further connection with the notice of the meeting, the board of directors of the corporation requested the shareholders of the corporation approve the following Livestar Entertainment Group, Inc. stock plans:

- 1) Employee Stock Incentive Plan for the Year 2003 approved by the board of directors on September 5, 2003 with 30,000,000 shares of our common stock in the aggregate authorized for issuance under the Plan;

- 2) Employee Stock Incentive Plan for the Year 2003 No. 2 approved by the board of directors on October 15, 2003 with 55,000,000 shares of our common stock in the aggregate authorized for issuance under the Plan; and
- 3) Employee Stock Incentive Plan for the Year 2004 approved by the board of directors on January 29, 2004 with 100,000,000 shares of our common stock in the aggregate authorized for issuance under the Plan.

| | |
|--------------------|---------------|
| Votes for | 3,798,097,724 |
| Votes against | 13,980,390 |
| Votes abstaining | 20,000 |
| (d) Not applicable | |

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

- 31.1 Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification by CFO 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

On June 4, 2004, the Company filed a report on Form 8-K/A. This filing further amends the original Form 8-K report filed on August 11, 2003, and states under Item 5 that the Registrant was unable to obtain an audit of the prior business operations of the Sequel as required by the rules and regulations of the Security and Exchange Commission. Upon that realization it then became necessary to renegotiate the contemplated business transaction. The Registrant then determined to operate the Sequel through a business lease arrangement.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

LIVESTAR Entertainment Group, Inc.

Date: August 23, 2004

By:

/s/ Ray Hawkins

Ray Hawkins, President and Chief Executive Officer

By:

/s/ Edwin Kwong

Edwin Kwong, Principal Accounting Officer and
Chief Financial Officer