PIA
ANDERSON
DORIUS
REYNARD
MOSS

Wednesday, June 2, 2010

NOTICE AND NO WAIVER

SENT VIA EMAIL & U.S. MAIL

Camelot Entertainment Group
c/o Bob Atwell
cc: Jamie Thompson, Ted Baer, Peter Jarowey
10 Universal City Plaza
NBC/Universal Building 20th Floor
Universal City, CA 91608

Re: Incentive Capital Financing – Camelot's Failure to Perform

Gentlemen:

Since the inception of this loan, the lender Incentive Capital has operated in good faith in making its scheduled disbursements, based in large part upon the pre-closing representations by the borrower Camelot and its representatives concerning specific profitability benchmarks of this business enterprise. However, as you know, Incentive Capital has been apprehensive about making loan disbursements beyond the initial acquisition disbursement until it sees that Camelot can and will generate sufficient funds to make regularly scheduled loan payments as well as promised participation payments.

As you will recall, this was a matter of much focus and discussion just prior to closing. In other words, there is no question that the amount of revenue generated by the acquisition represented by Camelot was and continues to be "material." It was represented to Incentive Capital that the film library was currently generating $150,000 of gross revenues each month. We reminded you of this material representation in our email to you on April 27th, which reads in relevant part as follows:

> The lender is "uneasy about advancing operational funds to a distributor before having some level of comfort that the distributor will perform as agreed – i.e., make its participation payments. As you have represented to us that the library now generates approximately $150,000 in gross revenues monthly, this should not pose much of a hardship."

Your representations in the final Note confirm this to be the case and specifically reference the sales projections enclosed herewith as **<u>Exhibit A</u>**. The Note states in pertinent part that payment is "conditioned upon the (a) Borrower's and Guarantors' performance of all other obligations under th[e] Note and the related loan documents . . . (b) all representations and warranties by Borrower and the Guarantors in the Loan Documents being true and accurate."

Although a payment of $40,000 was made in good faith as scheduled after the initial financing of $500,000, Incentive Capital now believes that the Warranties set forth in the Note are in breach. That relevant section of the Note reads: "The Borrower represents that the international sales projections previously provided by Borrower in connection with the parties' initial term sheet shall not vary by more than 25% less than that represented therein on the estimated low value and short term sales potential 10% columns. A copy of the international sales projections is attached hereto as Exhibit A."

Thus, it continues to be Incentive Capital's express understanding of the parties' agreements that in addition to your representations that $150,000 was being generated by the film library at the time it was acquired (the "Existing Sales Revenues"), that Incentive Capital would also receive participation payments according to the "Short Term Sales Potential" amounts (which total $2,284,500 annually) reflected in the projections spreadsheet incorporated into the Note (the "Exploitation Sales Revenues"). This representation has been relied upon by Incentive Capital.

If the forgoing constitute accurate and truthful representations by Camelot, then during the month of May 2010 Incentive Capital should have received no less than $15,000 in participation payments. However, to date Incentive Capital has only received a participation payment of $4,400 on May 21, 2010 and $1,012.22 on May 26, 2010. The total participation payments to date equal $5,412.22, which constitutes 10% of $54,122. Incentive Capital has also received $6,750 in interest payments.

To make sure that there was a meeting of the minds between Incentive Capital and Camelot on this critical issue, the Note provides for operational advances on the express condition that all representations be accurate and true, including (as mentioned above) the representation that the film library would generate revenues within 25% of the projections provided by Camelot to Incentive Capital (which were attached as an exhibit to the Note and incorporated by reference). Those projections indicate that the library will generate $22,845,000 annually (under the "Estimated Total Value – Low" column"). Based upon these projections and the terms of the loan documents, Camelot represented and agreed to generate gross Exploitation Sales Revenues of approximately $1,427,812.50 per month in order to hit the annualized target amount of $17,133,750 (given the 25% margin provided for in the Note). Thus, Camelot should be paying Incentive Capital the sum of $15,000 (representing 10% of the Existing Sales Revenues) and $142,781.25 (representing 10% of the Exploitation Sales Revenues), for a total monthly payment of $157,781.25. Clearly, the participation payments made to Incentive Capital thus far fall considerably short of the agreed upon amounts. In fact, Camelot has failed to pay Incentive Capital the $15,000 from Existing Sales Revenues, let alone any portion of the Exploitation Sales Revenues.

Based upon the participation payments received to date, Incentive Capital is concerned that one of two things is happening: (a) Camelot is not generating monthly gross revenues as it represented in order to induce Incentive Capital to make this loan, or (b) Camelot is not making the full participation payments as required under the loan documents. Despite the occurrence of what Incentive Capital believes to be material breaches of the loan documents by Camelot, Incentive Capital, without waiving its rights and remedies under the loan documents, has made the promised operational advances to Camelot.

According to the terms of the Note, Incentive Capital is excused from making any operational advances if Camelot's representations (including those concerning revenue projections) are inaccurate. Therefore, Incentive Capital will not make any further operational advances unless and until Camelot evidences to Incentive Capital that it is in compliance with its representations concerning revenue projections. If Camelot is unable to do so within the next 30 days, then Incentive Capital will exercise its rights and remedies under the loan documents. Camelot may call either Nathan Dorius or Joe Pia directly (801) 350-9000 with respect to this issue.

Please provide our office with evidence of the gross revenues from the film library for the months of March, April and May 2010, so that we may review them with Incentive Capital. We are hopeful that the documentation provided by you will show that the film library was and is generating revenues as represented to Incentive Capital in order to induce Incentive Capital to make this loan. If that is the case, then we will advise Incentive Capital to resume making the operational advances under the Note. Thank you for your anticipated cooperation.

Sincerely,
PIA ANDERSON DORIUS REYNARD & MOSS

Nathan S. Dorius