

LIVESTAR ENTERTAINMENT GROUP INC  
Form 10QSB  
May 24, 2004

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10QSB**

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 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.

<u>Class</u>	<u>Outstanding as of March 31, 2004</u>
\$0.0001 par value Common Stock	403,468,337

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

-1-

## **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 March 2004 are not necessarily indicative of the results that can be expected for the year ending December 31, 2004.

-2-

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

**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

	<b>MARCH 31</b>	<b>DECEMBER</b>
	<b>2004</b>	<b>31</b>
		<b>2003</b>
	<hr/>	<hr/>

**ASSETS**

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	<b>MARCH 31</b>	<b>DECEMBER</b>
	<b>2004</b>	<b>31</b>
	<b>2004</b>	<b>2003</b>
	<hr/>	<hr/>
<b>Current</b>		
Cash	\$ 39,076	\$ 14,892
Accounts receivable	4,580	--
Goods and Services Tax recoverable	7,887	6,621
Prepaid expense	85,410	78,471
	<hr/>	<hr/>
	136,953	99,984
<b>Capital Assets (Note 5)</b>	6,507	6,729
<b>Advances Receivable (Note 6)</b>	399,198	281,219
	<hr/>	<hr/>
	\$ 542,658	\$ 387,932
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable	\$ 1,556,993	\$ 1,530,926
Loans and advances payable (Note 9)	487,566	397,913
	<hr/>	<hr/>
	2,044,559	1,928,839
	<hr/>	<hr/>
<b>STOCKHOLDERS' DEFICIENCY</b>		
<b>Share Capital</b>		
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:		
403,468,337 common shares at March 31, 2004 and 208,468,337		
at December 31, 2003	40,347	28,047
875,000 preferred shares at March 31, 2004 and December		
31, 2003	88	88
Additional paid-in capital	2,609,898	2,309,897
<b>Deficit</b>	(4,152,234)	(3,878,939)
	<hr/>	<hr/>
	(1,501,901)	(1,540,907)
	<hr/>	<hr/>
	\$ 542,658	\$ 387,932
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F-1

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

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

	<b>THREE MONTHS ENDED MARCH 31 2004</b>	<b>THREE MONTHS ENDED MARCH 31 2003</b>	<b>INCEPTION OCTOBER 12 2000 TO MARCH 31 2004</b>
<b>Revenue</b>	\$ 58,100	\$ --	\$ 67,600
<b>Expenses</b>			
Administrative services	1,056	2,267	162,772
Amortization	589	516	19,007
Business development	--	21,000	1,066,219
Consulting	104,440	50,000	775,942
Equipment leases	9,401	--	45,197
Investor relations	--	295	447,024
Marketing	7,300	--	43,689
Media design	1,171	180	86,481
Office, rent and sundry	28,809	32,545	406,646
Professional fees	37,077	7,441	406,844
Software development	--	--	855,135
Travel	23,593	496	173,958
Wages and benefits	117,959	--	231,745
	<u>331,395</u>	<u>114,740</u>	<u>4,720,659</u>
<b>Loss Before The Following Forgiveness Of Debt</b>	273,295	114,740	4,653,059
<b>Write Down Of Investment</b>	--	--	(46,655)
<b>Minority Interest In Loss Of Subsidiary</b>	--	--	6,750
	<u>--</u>	<u>--</u>	<u>(219)</u>
<b>Loss From Continuing Operations</b>	273,295	114,740	4,612,935
<b>Gain On Disposition Of Subsidiary</b>	--	--	(419,427)
<b>Gain From Discontinued Operations</b>	--	--	(53,629)
	<u>--</u>	<u>--</u>	<u>--</u>
<b>Net Loss For The Period</b>	<u>\$ 273,295</u>	<u>\$ 114,740</u>	<u>\$ 4,139,879</u>
<b>Net Loss Per Share Before Discontinued Operations, Basic and diluted</b>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	

	<b>THREE MONTHS ENDED MARCH 31 2004</b>	<b>THREE MONTHS ENDED MARCH 31 2003</b>	<b>INCEPTION OCTOBER 12 2000 TO MARCH 31 2004</b>
Net Loss Per Share, Basic and diluted	\$ 0.01	\$ 0.01	
Weighted Average Number Of Common Shares Outstanding	255,745,054	49,543,679	

F-2

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

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

	<b>THREE MONTHS ENDED MARCH 31 2004</b>	<b>THREE MONTHS ENDED MARCH 31 2003</b>	<b>INCEPTION OCTOBER 12 2000 TO MARCH 31 2004</b>
<b>Cash Flows From Operating Activities</b>			
Loss for the year from continuing operations	\$ (273,295)	\$ (114,740)	\$ (4,612,935)
<b>Adjustments To Reconcile Net Loss To Net Cash Used By Operating Activities</b>			

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	<b>THREE MONTHS ENDED MARCH 31 2004</b>	<b>THREE MONTHS ENDED MARCH 31 2003</b>	<b>INCEPTION OCTOBER 12 2000 TO MARCH 31 2004</b>
Amortization	589	516	19,007
Stock based compensation	44,778	--	109,871
Issue of common stock for expenses	--	52,500	710,090
Write down of investment	--	--	6,750
Minority interest in loss of subsidiary	--	--	(219)
Accounts receivable	(4,580)	--	(4,580)
Goods and Services Tax recoverable	(1,266)	1,362	(7,887)
Prepaid expense	(6,939)	(47,183)	(85,410)
Notes receivable	--	--	--
Accounts payable	26,068	88,163	2,223,827
	<u>(214,645)</u>	<u>(6,503)</u>	<u>(1,076,565)</u>
<b>Cash Flows From Investing Activities</b>			
Net asset deficiency of legal parent at date of reverse take-over transaction	--	--	(12,355)
Purchase of capital assets	(367)	--	(45,532)
Advances receivable	(117,979)	--	(199,198)
	<u>(118,346)</u>	<u>--</u>	<u>(57,887)</u>
<b>Cash Flows From Financing Activities</b>			
Loans and advances payable	89,654	12,879	764,119
Shares issued for cash	267,521	--	1,002,357
Share subscriptions received	--	6,595	--
	<u>357,175</u>	<u>6,595</u>	<u>1,002,357</u>
<b>Increase (Decrease) In Cash</b>	24,184	92	(132,095)
<b>Net Cash From Discontinued Operations</b>	--	--	53,630
<b>Cash Acquired On Acquisition Of Subsidiary</b>	--	--	117,541
<b>Cash, Beginning Of Period</b>	14,892	32	--
<b>Cash, End Of Period</b>	<u>\$ 39,076</u>	<u>\$ 124</u>	<u>\$ 39,076</u>

F-3

**LIVESTAR ENTERTAINMENT GROUP INC.****(A Development Stage Company)****CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIENCY****MARCH 31, 2004****(Unaudited)****(Stated in U.S. Dollars)**

	<b>PREFERRED STOCK</b>		<b>COMMON STOCK</b>		<b>ADDITIONAL PAID-IN</b>	<b>DEFICIT</b>	<b>TOTAL</b>
	<b>SHARES</b>	<b>AMOUNT</b>	<b>SHARES</b>	<b>AMOUNT</b>	<b>CAPITAL</b>		
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 cash	--	--	123,000,000	12,300	300,001	--	312,301
Loss for the period	--	--	--	--	--	(273,295)	(273,295)
Balance, March 31, 2004	875,000	\$ 88	403,468,337	\$ 40,347	\$ 2,609,898	\$ (4,152,234)	\$ (1,501,901)

(Stated in U.S. Dollars)



F-4

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2004**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

**1. BASIS OF PRESENTATION**

The unaudited consolidated financial statements as of March 31, 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

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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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 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 March 31, 2004, has a working capital deficiency of \$1,907,606. 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. and Livestar Entertainment Establishment Ltd., its 67% owned subsidiary, RAHX, Inc., and its discontinued wholly owned subsidiary, AXXUS Corporation. On November 27, 2002, the Company disposed of its 100% interest in AXXUS Corporation.

F-6

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2004**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

MARCH 31, 2004 (Unaudited) (Stated in U.S. Dollars)

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 and none of its planned principal operations have commenced. 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%
Computer software	100%
Office furniture and equipment	20%

F-7

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 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

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.

F-8

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 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. DISCONTINUED OPERATIONS**

By an agreement dated November 27, 2002, the Company disposed of its 100% interest in Axxus Corporation ( Axxus ) for cash consideration of \$1. The revenue and expenses related to the business of Axxus for the years ended December 31, 2002 and 2001, and for the period from inception to December 31, 2002, are reflected as discontinued operations in the statements of operations and cash flows.

**5. CAPITAL ASSETS**

**2004**

**2003**

	2004		2003	
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Computer equipment	\$ 11,910	\$ 7,057	\$ 4,853	\$ 5,490
Computer software	456	456	--	--
Office furniture and equipment	4,048	2,394	1,654	1,239
	<u>\$ 16,414</u>	<u>\$ 9,907</u>	<u>\$ 6,507</u>	<u>\$ 6,729</u>

**6. ADVANCES RECEIVABLE**

The Company has entered into an agreement to acquire 100% of the issued and outstanding common shares of 1485684 Ontario Limited, an Ontario, Canada corporation, doing business as The Sequel Nightclub ( Sequel ). Completion of the acquisition is subject to certain conditions precedent which had not been satisfied at March 31, 2004.

F-9

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2004**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

**6. ADVANCES RECEIVABLE (continued)**

As at March 31, 2004, the Company has issued 1,000,000 preferred shares at a value of \$200,000 to acquire certain amounts owed by Sequel to its shareholder. In addition, the Company has made working capital advances to Sequel totaling \$199,198.

**7. STOCK OPTIONS AND WARRANTS OUTSTANDING**

Stock options

As at March 31, 2004, options were outstanding for the purchase of common shares as follows:

NUMBER OF SHARES	PRICE PER SHARE	EXPIRY DATE
200,000	\$ 0.10	September 5, 2004
380,000	\$ 0.10	February 8, 2005

In accordance with the vesting provisions of these agreements, 580,000 stock options are exercisable at March 31, 2004.

A summary of the changes in stock options for the period ended March 31, 2004 is presented below:

	<b>SHARES</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
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

F-10

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2004**  
(Unaudited)  
(Stated in U.S. Dollars)

7. **STOCK OPTIONS AND WARRANTS OUTSTANDING** (Continued)

Stock Options (Continued)

	<b>SHARES</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>
Balance, December 31, 2003	5,580,000	\$ 0.01
Granted	118,000,000	0.01
Exercised	(123,000,000)	(0.01)
Balance, March 31, 2004	580,000	\$ 0.01

Share Purchase Warrants

As at March 31, 2004, share purchase warrants were outstanding for the purchase of common shares as follows:

<b>NUMBER OF SHARES</b>	<b>PRICE PER SHARE</b>
1,882,355	\$ 0.25
1,332,000	\$ 0.10

MARCH 31, 2004 (Unaudited) (Stated in U.S. Dollars)

NUMBER OF SHARES	PRICE PER SHARE
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.

F-11

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2004**  
(Unaudited)  
(Stated in U.S. Dollars)

**7. STOCK OPTIONS AND WARRANTS OUTSTANDING** (Continued)

Share Purchase Warrants (Continued)

A summary of the changes in share purchase warrants for the period ended March 31, 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 March 31, 2004	8,789,400	\$ 0.33

**8. STOCK BASED COMPENSATION**

On January 30, 2004, March 5, 2004 and May 6, 2004 respectively, the Board of Directors approved the Employee Stock Incentive Plan for the Year 2004 No. 1, No. 2 and No. 3, 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



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510,000,000 shares of common stock under the plans.

During the period ended March 31, 2004, the Company granted stock options to officers and employees to acquire up to 118,000,000 shares of common stock at a weighted average exercise prices of \$0.01 per share, expiring between January and February 2014. All of these options vest immediately.

F-12

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2004**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

**8. STOCK BASED COMPENSATION (Continued)**

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 3.10%, expected volatility ranging from 29% to 194%, 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 \$61,734 for the period ended March 31, 2004. During the period ended March 31, 2004, the Company recognized stock based compensation for the intrinsic value of employee awards in the amount of \$44,778.

	<b>2003</b>	<b>2002</b>
	<hr/>	<hr/>
Net loss, as reported	\$ (273,295)	\$ (114,740)
Add: Stock based compensation expense included in net loss, as reported	44,778	--
Deduct: Stock based compensation expense determined under fair value method	(106,516)	--
	<hr/>	<hr/>
Net loss, pro-forma	\$ (335,033)	\$ (114,740)
	<hr/>	<hr/>
Net loss per share (basic and diluted), as reported	\$ (0.01)	\$ (0.01)
	<hr/>	<hr/>
Net loss per share (basic and diluted), pro-forma	\$ (0.01)	\$ (0.01)
	<hr/>	<hr/>

**9. 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:

<b>AMOUNT</b>	<b>CONVERSION PRICE</b>	<b>CONVERSION AFTER</b>
<hr/>	<hr/>	<hr/>
\$ 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

MARCH 31, 2004 (Unaudited) (Stated in U.S. Dollars)

AMOUNT	CONVERSION PRICE	CONVERSION AFTER
\$ 107,321	\$ 0.05	June 30, 2004 F-13

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2004**  
(Unaudited)  
(Stated in U.S. Dollars)

**10. RELATED PARTY TRANSACTIONS**

- a) Included in accounts payable at March 31, 2004 is \$546,192 (2003 \$436,848) owing to directors or companies controlled by a director.
- b) Included in loans and advances payable at March 31, 2004 is \$366,350 (2003 \$374,432) owing to directors or a company controlled by a director.
- c) During the period ended March 31, 2004, the Company incurred \$Nil (2003 \$50,000) in consulting and business development expenses with directors.

**11. COMMITMENT**

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

**12. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	MARCH 31 2004	DECEMBER 31 2003
Loss before income taxes	\$ 273,295	\$ 909,856
Income tax recovery	\$ 93,000	\$ 309,000
Unrecognized benefit of operating loss carryforwards	(93,000)	(309,000)
Income tax recovery	\$ --	\$ --

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2004**  
**(Unaudited)**  
**(Stated in U.S. Dollars)**

**12. INCOME TAXES (Continued)**

Significant components of the Company's future tax assets based on statutory tax rates are as follows:

	<b>MARCH 31 2004</b>	<b>DECEMBER 31 2003</b>
	<hr/>	<hr/>
Deferred tax assets		
Loss carryforwards	\$ 1,411,000	\$ 1,318,000
Valuation allowance	(1,411,000)	(1,318,000)
	<hr/>	<hr/>
	\$ -	\$ -
	<hr/>	<hr/>

The Company has approximately \$4,149,000 (2003 \$3,875,000) of operating loss carryforwards which expire beginning in 2020.

The Company has provided a valuation allowance against its deferred tax assets given that it is in the development stage and it is more likely than not that these benefits will not be realized.

**13. SUBSEQUENT EVENT**

Subsequent to March 31, 2004, 36,000,000 common shares on the settlement of debt, and 75,000,000 common shares for services pursuant to consulting agreements.

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

F-15

**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

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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 THREE MONTH PERIOD ENDED MARCH 31, 2004

For the three-month period ended March 31, 2004, the Company earned revenues of \$58,100. The revenues were related to ticket sales from three (3) concert productions through the Company's live events business.

During the three month period ended March 31, 2004, the Company incurred operational expenses of \$331,395. These operating expenses included: consulting fees of \$104,440, \$117,959 in wages and benefits, and professional fees of \$37,077 for the three month period ending March 31, 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 three month period ended March 31, 2004, the Company incurred a net loss from operations of \$273,295.

#### FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2004, COMPARED TO THE THREE MONTH PERIOD ENDED MARCH 31, 2003.

For the three month period ended March 31, 2004, the Company earned revenues of \$58,100, as compared to revenues of \$0 for the same period ended March 31, 2003. The revenues in 2004 are realized from continued efforts in our Live Events business that began in 2003.

For the three month period ended March 31, 2004, the Company incurred operational expenses of \$331,395, as compared to \$114,740 during the same period in 2003. These operating expenses included: consulting fees and business development expenses \$104,440 and \$71,000; wages & benefits of \$117,959 and \$0, and professional fees of \$37,077 and \$7,441 for the three month period ended March 31, 2004, and 2003, respectively. The increase in expenses from March 31, 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 \$273,295 for the fiscal quarter ended March 31, 2004, as compared to \$114,740 for the same period in 2003.

-3-

### Liquidity and Financial Condition As Of March 31, 2004

We had cash-on hand of totaling \$39,076 as of March 31, 2004.

In order to finance our acquisitions and developments, and our phases of implementation we plan to raise investment capital through the execution of a number of development finance strategies. 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.

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 hopes to establish 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. 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

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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.

-4-

### CAPITAL REQUIREMENTS

We believe that the first acquisition or development of a 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 buildout 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.

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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.

-5-

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

In November 2003, Paul Carpenter filed a lawsuit in the Lynchburg General District Court for the Commonwealth of Virginia. The action concerned an alleged claim for unpaid wages of an employee of RRUN Labs, Inc., a subsidiary of LIVESTAR Entertainment Group, Inc. The amount of the lawsuit is \$7,205.06, not including interest accruing from October 30, 2001 plus court costs of \$37.

The Company believes that, as it grows revenue-producing operations and as it raises capital, we will have the resources to settle the abovementioned case and we have every intention of doing so. We are working to reduce or prevent collection litigation by creditors or others. Settlements in stock may result in unforeseen dilution to current shareholders.

### **Item 2. Changes in Securities**

#### **Recent Sales of Unregistered Securities**

During February 2004, the Company issued 36,000,000 shares of its previously authorized, but unissued common stock. The shares were issued in settlement of a debt with a consultant for services previously rendered. The transaction was valued at \$0.0025 per share for a total consideration of \$90,000. 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**

None

### **5. Other Information**

On October 24, 2003, the Registrant entered into an agreement to acquire 1485684 Ontario Limited, an Ontario corporation that owns and operates a nightclub styled as The Sequel. Subsequent to the execution of the agreement the Registrant commenced its regulatory mandated process to finalize the acquisition and implemented its efforts and plans to assume operations. Ultimately, however, the Registrant was unable to

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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 has now determined to operate the Sequel through a business lease arrangement. Final documentation for the business lease is being negotiated at the present time and is expected to become completed in the near future.

-6-

### 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 January 8, 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 7 that applicable financial statements and information continues to be prepared. The filing further stated that management hopes to file the required financial statements and information in a further amendment to the original Form 8-K filing in the near future.

On March 29, 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 7 that applicable financial statements and information continues to be prepared. The filing further discussed under Item 2 certain aspects of the operations of the Sequel, regarding the ongoing discussions were continuing with the Landlord regarding a renewal of the Premises Lease.

-7-

### 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: May 24, 2004

By: \_\_\_\_\_  
Ray Hawkins, President and Chief  
Executive Officer

LIVESTAR Entertainment Group, Inc.

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By: \_\_\_\_\_  
Edwin Kwong, Principal Accounting Officer  
and Chief Financial Officer