

GAMING & ENTERTAINMENT GROUP INC
Form 10KSB/A
June 19, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A

(Amendment No. 1)

x ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 000-28399

Gaming & Entertainment Group, Inc.
(Name of small business issuer in its charter)

Utah 59-1643698
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

16821 Escalon Dr., Encino, CA 91436
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (818) 400-5930

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
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Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.01 par value
(Title of each class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$1,274,819

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days: \$6,940,710 (\$0.35 per share as of March 20, 2006).

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common Stock, \$.01 par value, 19,830,602 shares (as of March 20, 2006).

DOCUMENTS INCORPORATED BY REFERENCE

None.

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On March 15, 2006, the Board of Directors of the Company concluded that based upon recent interpretations of the Securities and Exchange Commission (the "Commission") that certain of the Company's common stock subject to registration rights needed to be reclassified from shareholders' equity into temporary equity, and that a liability should be accrued for the fair value of penalty common stock related to these registration rights.

Accordingly, the Company has restated its financial statements for the interim periods ended March 31, 2005, June 30, 2005, September 30, 2005 and 2004, and the year ended December 31, 2004. Specifically, the Company reclassified amounts from shareholders' equity to temporary equity and recorded charges penalty common stock and the fair value of related warrants. This report contains restated financial information for all such periods. The financial impact of the adjustments is described in Note 3 of the Notes to Consolidated Financial Statements set forth herein and in Item 6 "Management Discussion and Analysis or Plan of Operation". Previously issued financial statements for such periods should not be relied upon.

None of the adjustments resulting from the restatements had any impact on cash balances for any period. However, the Company's consolidated balance sheets and statement of operations were restated to reflect the restated net loss and revisions to certain balance sheet accounts.

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

BACKGROUND

On January 12, 2004, NorStar Group, Inc., a publicly-held company that was not conducting or developing any commercial operations, or NorStar, consummated a series of transactions, including: (i) a 1-for-24.852732 reverse split of its outstanding shares of common stock; (ii) the issuance of 14,600,000 post-split shares of common stock in exchange for all of the outstanding shares of common stock of Gaming & Entertainment Group, Inc., a Nevada corporation, or GEG Nevada; (iii) the issuance of options and warrants to purchase 4,257,937 post-split shares of common stock in exchange for all of the outstanding options and warrants to purchase shares of GEG Nevada; and (iv) a change in the name of NorStar to Gaming & Entertainment Group, Inc., or the Company. As a result of the exchange, GEG Nevada became a subsidiary of the Company, and the former stockholders of GEG Nevada became the holders of 91.25% of the then outstanding shares of common stock of the combined companies. In addition, the former directors and officers of GEG Nevada became the controlling members of the board of directors and management of the combined companies. Since GEG Nevada was the only operating company in the exchange and the former stockholders of GEG Nevada received a substantial majority of the voting securities of the combined companies, the exchange was accounted for as a "reverse acquisition" and, effectively, as a recapitalization, in which GEG Nevada was the accounting acquirer (and the legal acquiree) and NorStar was the accounting acquiree (and the legal acquirer). Since the exchange was accounted for as a "reverse acquisition," the consolidated financial statements included in the Company's Annual Reports on Form 10-KSB for the fiscal years ended December 31, 2005 and 2004, and Form 10-KSB/A for the fiscal year ended December 31, 2005, reflect the historical financial statements of GEG Nevada, the accounting acquirer, as adjusted for the effects of the exchange of shares on its equity accounts, the inclusion of the net liabilities of the accounting acquiree as of January 12, 2004 on their historical basis and the inclusion of the accounting acquiree's results of operations from that date.

In this report, the references to "we," "us" or "our" relate to GEG Nevada prior to January 12, 2004 and to GEG, GEG Nevada and our other subsidiaries from that date forward. On May 5, 2005, we dissolved GEG Nevada. As of the date of filing of this Annual Report on Form 10-KSB/A, we have two wholly-owned operating subsidiaries, Gaming & Entertainment Technology Pty Ltd., a company formed under the laws of Australia, and Gaming & Entertainment Group, Ltd., a company formed under the laws of the United Kingdom.

SUMMARY OF BUSINESS

Since 1995, we have been a leading supplier of government-regulated networked gaming technology. During this period, we have built a comprehensive networked gaming platform that has passed multiple government prescribed validations in Australia (Tasmania and Queensland), Republic of Vanuatu and Great Britain (Alderney and the Isle of Man). Our historical focus has been on the design and deployment of our gaming platform in the Internet-based gaming market, as evidenced by our agreements with traditional land-based gaming operators and numerous Australia-based online operators. In 2000, our gaming platform went live with its first customer, www.wrestpointcasino.com in Tasmania, Australia and for points-play at GOCORP in Queensland, Australia. In 2002, we commenced live operations of www.clubfiore.com, an online gaming site offered by Action Online, Inc. through the Isle of Man.

Thereafter, we commenced the expansion of our product line to include gaming systems and game content, ultimately for deployment in land-based gaming establishments. Specifically, we developed, a proprietary gaming platform, amusement with prizes, or AWP, and Section 16 games for deployment in the United Kingdom and other European gaming markets that offer these types of games.

On August 31, 2004, we entered into a series of agreements with GEG Holdings, LLC, or GEG Holdings, an affiliate of Cantor Fitzgerald, L.P., for \$750,000 of debt financing. Thereafter, on December 8, 2004, we entered into a series of definitive agreements with Cantor G&W (Nevada), L.P., or Cantor, to create a formal strategic partnership which provided Cantor with, among other things, an exclusive perpetual worldwide license to our Internet gaming software, and an additional \$1,250,000 of debt financing to us. As part of the transaction with Cantor, we developed all of the infrastructure and games associated with the Cantor Casino. The Cantor Casino went live in October 2005. Following this date, we continued to develop additional games and other products on behalf of Cantor. On February 15, 2006, we sold certain assets to Cantor, including all rights to our Internet gaming platform and games. We remain entitled to recurring royalties from income produced by the Cantor Casino and all other white-label Internet gaming sites developed by them in the future. All such royalty payments will be applied against the outstanding senior secured note issued in favor of Cantor.

Following the sale of our Internet gaming assets to Cantor, our current business strategy consists of the following:

- Commercialization of our AWP and Section 16 games in the United Kingdom initially, and thereafter in other European Union countries where these types of games are prominent
- Acquisition of a United States-based provider of gaming machines to the Native American gaming marketplace
- Partnering with a major gaming equipment manufacturer for land-based gaming applications of our central server gaming platform

TARGET MARKET STRATEGIC INITIATIVES

Deployment of Products in Land-Based Gaming Establishments

Commencing in the late second quarter of 2006, we intend to market our Amusement With Prize (AWP) and "Section 16" (a reference to section 16 of the Lotteries and Amusements Act 1976) games in the United Kingdom through our strategic partnership Electrocoin Sales Ltd., an entity that has distributed and, through a related company, manufactured gaming machines throughout Europe for more than 25 years. Electrocoin will manufacture and distribute all of our AWP and Section 16 games on an exclusive basis. By doing so, we avoid the capital intensive costs of establishing a manufacturing facility as well as development of a sales and marketing team. Following our initial launch in the U.K., Electrocoin intends to offer the AWP and Section 16 games in other European gaming

markets.

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Over the past two years, we have developed a variety of AWP and Section 16 games in conjunction with Electrocoin. Our gaming machines have been tested in gaming establishments for more than nine months, and have demonstrated solid results. We have benefited greatly from the market knowledge of Electrocoin by working with them, gaming establishment operators and the players who use these games to offer gaming machines that we believe will have wide market appeal. Specifically, we have developed a suite of roulette games which we believe are unique to the industry in that they satisfy the gaming regulations applicable to both AWP gaming devices as well as Section 16 gaming devices. Our AWP and Section 16 roulette games offer gaming establishment owners the choice, on one gaming machine, to offer our roulette games in AWP or Section 16 format. The benefits of this option are significant in that in the United Kingdom, gaming machines are presently offered only on a purchase basis. Accordingly, gaming establishment operators are quite selective when making their acquisitions. We believe that our significant research and development efforts will provide the gaming establishment operators with the flexibility they demand in the rapidly changing United Kingdom gaming marketplace. We have spent considerable time in speaking with the players of these games to precisely understand what motivates them to play certain games, including, among other things, the graphics and other features that make some games much more successful than others.

The AWP market alone consists of more than 1,000,000 machines throughout Europe. The product offerings of today are much different than a few years ago. Players demand significantly more in graphics and playability than before. We anticipate that our extended research and development period will offer players roulette games that meet their demands and that will have long-term appeal.

In addition to our suite of roulette games, we have developed Section 16 slot games and a suite of AWP poker games. Once again, each of these games has been developed in close consultation with an experience provider to the marketplace, Electrocoin.

Our objective is to place a minimum of 500 gaming machines in our initial launch. Our arrangement with Electrocoin provides that we book all revenues associated with the sale of the machines and an even split of the profits. Given our recent reduction in staff following the sale of certain assets to Cantor, we have significantly reduced our fixed operating expenses. We believe the placement of 750 gaming machines per year will achieve profitability, and while we can provide no assurances that this objective will be achieved, we have the significant benefit of entering into these markets with a well-known and established partner who has developed an extensive distribution throughout Europe over the last twenty-five years.

United States – Native American Gaming

We are currently conducting due diligence on a United States-based provider of gaming machines to the Native American gaming marketplace. We were approached by this entity earlier this year to explore the possibility of acquiring them. This entity has been in existence for several years and has placed products on a sale and revenue sharing basis at more than twenty casinos and anticipates entering into several new markets with additional products later this year. The acquisition target is profitable, and had significantly more revenues in 2005 than the Company. At this time, there can be no assurance that we will be successful in consummating the acquisition, and the terms of such acquisition have not been determined. If we are successful in consummating the acquisition, it is likely that the terms will include a combination of cash and the issuance of shares of common stock, the latter of which would have a dilutive effect on our existing common stockholders. We intend to jointly decide whether to proceed in the coming months.

Server-Based Gaming - Downloadable Games

Twenty-five years ago, a majority of all gaming revenue in the United States was derived from traditional table games such as blackjack, craps and baccarat. Today, a majority of all gaming revenue in the United States is generated from gaming machines. The shift from traditional table games to gaming machines has occurred in the gaming markets outside the United States as well. Further, the proportion of total revenue originating from gaming machines is expected to continue to increase as a result of the higher margins produced by gaming machines when compared with increasing labor costs associated with the operation of table games and the ability to establish a fixed return on gaming devices.

Historically, the dominant architecture of gaming machines within traditional gaming venues has been stand-alone devices, where these devices are generally connected to the gaming property's monitoring system and may be connected to wide area progressive jackpot controllers. With the continued growth in gaming, especially in networked gaming, and the increased reliance on technology to deliver a superior gaming experience to patrons, substantial growth is occurring in networked gaming systems. To this end, the Gaming Standards Association has standardized the Ethernet and TCP/IP protocols for the networking of gaming machines. Our technology is compliant with these standards.

We are focused on technology that enables the inter-connectivity of individual gaming machines intra-casino and inter-casino. Many of the major gaming equipment manufacturers have already introduced, or are in development of, server-based downloadable gaming platforms and gaming machines into the marketplace. While we intend to continue to focus on partnering with a major gaming equipment provider, there can be no assurance that we will be successful in achieving this objective. Given the capital costs associated with this emerging market and the significant competition which exists therein, we do not intend to provide our server-based gaming platform unless a strategic partnership is consummated.

COMPETITION

We view our current competition in terms of companies that provide AWP and Section 16 gaming products to the United Kingdom gaming sector. Nearly all of these companies have significantly longer operating histories, name recognition, customer bases and financial, technical and marketing resources.

MANUFACTURING, ASSEMBLY AND DISTRIBUTION

As part of our business strategy, we have elected to outsource the manufacturing, assembly and distribution of our AWP and Section 16 gaming machines to Electrocoin.

RESEARCH AND DEVELOPMENT

We have a knowledge base of all aspects of software and hardware game development and currently employ two professionals on a full-time basis for our ongoing research and development needs. We may retain additional software developers and graphics designers on a contract basis in the future. All development is undertaken at our North Sydney, Australia office.

INTELLECTUAL PROPERTY

Since our inception, we have focused exclusively on gaming and building products for reputable organizations in the gaming industry. Unless specifically agreed otherwise, the games and gaming systems we develop are owned by us, and in the case of our AWP and Section 16 games, manufactured and distributed by our partner Electrocoin. We generally protect our intellectual property through the filing of patent and trademark applications for our key inventions and unique features in the various gaming markets in which we operate.

GAMING REGULATION

We are subject to various laws and regulations that affect both our general commercial relationships as well as the products we intend to provide in Europe. Generally, we, along with our executive officers, directors and major stockholders, are required to become licensed in each jurisdiction in which we do business. The licensing process is quite intensive and time consuming, and while we foresee no problems with obtaining the aforementioned license, there can be no assurances that we, as well as each of our executive officers, directors and major stockholders will be found suitable in each jurisdiction in which we seek a gaming license.

EMPLOYEES

As of March 1, 2006, we have six full-time employees, two of which are engaged in software development, hardware development, graphical design, and quality assurance, with the remaining four employees engaged in sales and marketing, finance/accounting, and management. In terms of the geographic location of our employees, we have four employees in our North Sydney, Australia office, one employee in our Encino, California office, and one employee based in London.

In addition to employees, we retain the services of outside consultants, from time to time, on a variety of matters.

ITEM 2.

DESCRIPTION OF PROPERTY.

In 2004, we relocated our corporate offices to 6757 Spencer Street, Las Vegas, Nevada 89119. Our leased property consists of 7,200 square feet of office and warehouse space. Our lease is currently \$10,700 per month, inclusive of common area maintenance charges, and the master lease agreement expires in November 2009. We subleased all of the above premises, at the existing lease rate, to a third party on June 16, 2005. The sublease concludes on June 15, 2007, after which we will have twenty-nine months remaining on the master lease agreement. It is our intention to sublease the above premises upon the conclusion of the existing sublease agreement through the term of the master lease agreement.

On June 16, 2005, we leased office and warehouse space at 6754 Spencer St., Las Vegas, Nevada 89119. This sublease had a term of one year and a monthly lease rate of \$2,200. On February 1, 2006, we terminated the sublease and have no outstanding obligations thereunder. We have relocated our U.S. offices to 16821 Escalon Dr., Encino, California 91436. We do not pay rent at this location and fair market value would be immaterial.

We also maintain an office in North Sydney, Australia, where we lease approximately 2,750 square feet at a monthly rate of \$13,000 Australian dollars (US\$9,390 as of March 17, 2006). Commencing April 1, 2006, we will pay a nominal monthly rental amount for use of approximately 400 square feet in this office. It is our present intention to relocate our Australia operations to another location in Sydney in the third quarter of 2006 and we anticipate a monthly lease rate of approximately US\$2,500 per month.

In the United Kingdom, we operate out of the offices of our manufacturing and distribution partner, Electrocoin, Ltd., in London. We do not pay rent at this location and fair market value would be immaterial.

ITEM 3. LEGAL PROCEEDINGS.

We are not currently party to any legal proceedings or aware of any pending or threatened claims, the adverse outcome of which, individually or in the aggregate, management believes would have a material adverse effect on our business, financial condition or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS.

Our authorized capital stock consists of 150,000,000 shares of common stock, par value \$.01 per share, 10,000,000 shares of preferred stock authorized, par value \$10 per share of which 1,000,000 shares have been designated Class A preferred stock, and 1,000,000 shares have been designated Class B preferred stock. As of March 20, 2006, there were 19,830,602 shares of common stock issued and outstanding and no shares of Class A and Class B preferred stock issued and outstanding.

HIGH AND LOW BID PRICES OF OUR COMMON STOCK

As of March 20, 2006, our common stock was held by approximately 400 stockholders of record. Our common stock is quoted and traded on the Over The Counter Bulletin Board under the trading symbol "GMEI". The following table sets forth the high and low closing sale prices of our common stock during the periods indicated:

CALENDAR QUARTER ENDED	LOW	HIGH
March 31, 2003	\$ 0.50	\$ 1.74
June 30, 2003	\$ 0.25	\$ 1.49
September 30, 2003	\$ 0.50	\$ 1.99
December 31, 2003	\$ 0.25	\$ 0.99
March 31, 2004	\$ 0.75	\$ 1.75
June 30, 2004	\$ 0.67	\$ 1.30
September 30, 2004	\$ 0.42	\$ 0.90
December 31, 2004	\$ 0.28	\$ 0.60
March 31, 2005	\$ 0.35	\$ 0.51
June 30, 2005	\$ 0.21	\$ 0.45
September 30, 2005	\$ 0.13	\$ 0.23
December 31, 2005	\$ 0.13	\$ 0.23
March 31, 2006 (through March 20, 2006)	\$ 0.13	\$ 0.40

The last reported sale price of our common stock on the Over The Counter Bulletin Board on March 20, 2006 was \$0.35 per share. We are not aware of any public market for our options or warrants. The 2003 high and low bid prices reflect the legal acquirer in the January 2004 reorganization, or NorStar Group, Inc., and not the accounting acquirer, or the Company, adjusted for the 1-for 24.852732 reverse split.

EQUITY COMPENSATION PLAN INFORMATION

2004 STOCK OPTION AND INCENTIVE PLAN

The 2004 Stock Option and Incentive Plan, or the Plan, was adopted by our board on April 1, 2004 and approved by our stockholders on June 14, 2004. The Plan provides us with the vehicle to grant to employees, officers, directors and consultants stock options and bonuses in the form of stock and options. Under the Plan, we can grant awards for the purchase of up to 3,500,000 shares of common stock in the aggregate, including "incentive stock options" within the meaning of Section 422 of the United States Internal Revenue Code of 1986 and non-qualified stock options. As of March 20, 2006, we have options outstanding to purchase 1,923,168 shares of our common stock under the Plan.

Our board of directors currently determines the persons to whom awards will be granted, the nature of the awards, the number of shares to be covered by each grant, the terms of the grant and with respect to options, whether the options granted are intended to be incentive stock options, the duration and rate of exercise of each option, the option price per share, the manner of exercise and the time, manner and form of payment upon exercise of an option. In the future, we intend to form a compensation committee, comprised of a majority of non-employee directors that will oversee administration of the Plan.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. Our board presently, and for the foreseeable future, intends to retain all of our earnings, if any, for the development of our business. The declaration and payment of cash dividends in the future will be at the discretion of our board and will depend upon a number of factors, including, among others, our future earnings, operations, funding requirements, restrictions under our credit facility, our general financial condition and any other factors that our board considers important. Investors should not purchase our common stock with the expectation of receiving cash dividends.

RECENT SALES OF UNREGISTERED SECURITIES

During the three years ended December 31, 2005, we made the following issuances of our common stock which were not registered under the Act:

On October 10, 2003, we closed a private placement of units, or the 2003 Offering, consisting of up to 2,000,000 shares of common stock and warrants to purchase 2,000,000 shares of common stock. In connection with the 2003 Offering, we sold 748,332 shares of common stock, and issued warrants to purchase an equal number of shares of common stock. We received gross proceeds totaling \$598,750 and incurred transaction costs of \$145,211 for net proceeds of \$453,539. We also issued 371,833 shares to underwriters, selected dealers and finders in the 2003 Offering.

The warrants issued in the 2003 Offering are freely transferable and entitle the owner to purchase shares of common stock at an exercise price of \$1.50 through the close of business on October 10, 2005. A total of forty-nine investors purchased units in the 2003 Offering. We had reasonable grounds to believe forty-five were accredited investors and that the remaining four investors were sophisticated non-accredited investors as a result of (i) their business or financial experience, (ii) the business or financial experience of their professional advisors who were unaffiliated with and not compensated by the Company, any affiliate, or any underwriter or selected dealer of the Company either directly or indirectly, and/or (iii) their pre-existing business relationship with the Company or its officers, directors or controlling persons. In addition, each of the investors (a) had access to business and financial information concerning us, (b) represented that they were acquiring the securities for investment purposes only and not with a view towards distribution or resale except in compliance with applicable securities laws and (c) had such knowledge and experience in business and financial matters that they were able to evaluate the risks and merits of an investment in our common

stock. The certificates evidencing the securities issued in the 2003 Offering contain a legend restricting their transferability absent registration under the Act or the availability of an applicable exemption therefrom. The issuance of these securities was made in reliance upon the exemptions from the registration requirements of the Act pursuant to Section 4(2) of the Act and Rule 506 of Regulation D promulgated thereunder.

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On May 31, 2004, we closed a private placement of units, or the 2004 Offering, wherein we sold 2,445,000 shares of common stock, and issued warrants to purchase an identical number of shares of common stock, or the 2004 Warrants. The 2004 Warrants expired on May 31, 2005.

We received gross proceeds totaling \$2,445,000 from the 2004 Offering, and incurred transaction costs of \$301,758 for net proceeds of \$2,143,242. The 2004 Offering was sold to 37 investors, each of whom we had reasonable grounds to believe were accredited investors. Each of the investors (a) had access to business and financial information concerning us, (b) represented that they were acquiring the securities for investment purposes only and not with a view towards distribution or resale except in compliance with applicable securities laws, and (c) had such knowledge and experience in business and financial matters that they were able to evaluate the risks and merits of an investment in our common stock. In addition, the certificates evidencing the shares of common stock issued in the 2004 Offering contain a legend restricting their transferability absent registration under the Act or the availability of an applicable exemption therefrom.

We also issued our underwriter and selected dealers' warrants to purchase an aggregate of 366,750 shares of common stock, or the Underwriter Warrants, in consideration for the placement of securities in the 2004 Offering. The Underwriter Warrants are exercisable at \$1.50 per share commencing on May 31, 2005 and concluding on May 31, 2007. In addition, we issued 58,334 shares of common stock, and a warrant to purchase an equal number of shares of common stock at \$1.50 per share, in exchange for gaming equipment valued at \$58,334.

In March 2005, we issued the investors in the 2004 Offering, collectively, the sum of 563,250 shares of common stock as a result of our failure to file a registration statement to register the securities sold in the 2004 Offering, and gain effectiveness thereof, by the prescribed date. The original issuance of shares of common stock and warrants to purchase shares of common stock in the 2004 Offering as well as the issuance of the aforementioned 563,250 shares of common stock were made in reliance upon the exemptions from securities registration provided by Section 4(2) of the Act and Rule 506 of Regulation D promulgated thereunder.

In addition, in 2004 we issued 507,390 shares of our common stock, having a fair value of \$485,315, to non-related third parties in consideration for strategic advisory services, investment banking services and software and hardware documentation. Each of these stock issuances were made in reliance upon the exemptions from registration provided by Section 4(2) of the Act.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

Management's Discussion and Analysis for the years ended December 31, 2005 and 2004 presented below reflects certain restatements to the Company's previously reported results of operations for these periods. See Note 3 of the Notes to Consolidated Financial Statements for a discussion of these restatements.

STATEMENT ON FORWARD-LOOKING INFORMATION

Certain information included herein contains statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, such as statements relating to plans for product development, product placement, capital spending and financing sources. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made herein. These risks and uncertainties include, but are not limited to, those relating to our liquidity requirements, our ability to locate necessary sources of capital to sustain our operations, the continued growth of the gaming industry, the success of our product development activities, the acceptance of our products in the marketplace, vigorous competition in the gaming industry, our dependence on existing management, changes in gaming laws and regulations (including actions affecting licensing), our leverage and debt service (including sensitivity to fluctuations in interest rates) and domestic or global economic conditions.

OVERVIEW

On January 12, 2004, NorStar Group, Inc., a publicly-held company that was not conducting or developing any commercial operations, or NorStar, consummated a series of transactions, including: (i) a 1-for-24.852732 reverse split of its outstanding shares of common stock; (ii) the issuance of 14,600,000 post-split shares of common stock in exchange for all of the outstanding shares of common stock of Gaming & Entertainment Group, Inc., a Nevada corporation, or GEG Nevada; (iii) the issuance of options and warrants to purchase 4,257,937 post-split shares of common stock in exchange for all of the outstanding options and warrants to purchase shares of GEG Nevada; and (iv) a change in the name of NorStar to Gaming & Entertainment Group, Inc., or the Company. As a result of the exchange, GEG Nevada became a subsidiary of the Company, and the former stockholders of GEG Nevada became the holders of 91.25% of the then outstanding shares of common stock of the combined companies. In addition, the former directors and officers of GEG Nevada became the controlling members of the board of directors and management of the combined companies. Since GEG Nevada was the only operating company in the exchange and the former stockholders of GEG Nevada received a substantial majority of the voting securities of the combined companies, the exchange was accounted for as a "reverse acquisition" and, effectively, as a recapitalization, in which GEG Nevada was the accounting acquirer (and the legal acquiree) and NorStar was the accounting acquiree (and the legal acquirer). Since the exchange was accounted for as a "reverse acquisition," the consolidated financial statements included in the Company's Annual Reports on Form 10-KSB for the fiscal years ended December 31, 2005 and 2004, and Form 10-KSB/A for the fiscal year ended December 31, 2005, reflect the historical financial statements of GEG Nevada, the accounting acquirer, as adjusted for the effects of the exchange of shares on its equity accounts, the inclusion of the net liabilities of the accounting acquiree as of January 12, 2004 on their historical basis and the inclusion of the accounting acquiree's results of operations from that date.

In this report, the references to "we," "us" or "our" relate to GEG Nevada prior to January 12, 2004 and to GEG, GEG Nevada and our other subsidiaries from that date forward. On May 5, 2005, we dissolved GEG Nevada. As of the date of filing of this Annual Report on Form 10-KSB/A, we have two wholly-owned subsidiaries, Gaming & Entertainment Technology Pty Ltd., a company formed under the laws of Australia, and GET UK, Ltd., a company formed under the laws of the United Kingdom.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures, some of which may require revision in future periods. The most sensitive estimates affecting our financial statements include, or will include in subsequent periods, future volatility used in valuing equity instruments, allowances for bad debts, depreciable lives of gaming equipment in service and other equipment, deferred revenues, accrued liabilities and deferred tax valuation allowances. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on our historical experience, our observance of industry trends, information provided by or gathered from our customers and information available from other outside sources, as appropriate. There can be no assurance that actual results will not differ from our estimates. The most critical policies relate to revenue recognition. The following is a description of our revenues and our revenue recognition policies. The application of these policies, in some cases, requires our management to make subjective judgments regarding the effect of matters that are inherently uncertain.

Description of Revenues

Through December 31, 2005, we have received our revenues from the development of prospective Internet gaming sites in regulated gaming markets outside of the United States, as well as maintenance and technical support contracts. On December 8, 2004, we entered into definitive agreements with Cantor G&W (Nevada), L.P., or Cantor, which included, among other things, the exclusive license of our Internet gaming software to them. In conjunction with this license, we received a monthly development fee for the development of the Cantor Casino, which went live in October 2005 and does not permit bets in the United States. We are entitled to receive royalty payments from Cantor based upon a portion of the net win realized by the Cantor Casino following repayment of certain expenses associated therewith. Pursuant to the series of agreements with Cantor dated February 15, 2006, which includes an amendment to the senior secured note issued in favor of Cantor, the royalty payments will be applied on an annual basis against the outstanding principal and accrued interest under the senior secured note.

At this time we are principally focused on the provision of our proprietary gaming platform and suite of amusement with prizes, or AWP, and Section 16 games in the United Kingdom and other countries in the European Union where applicable. Our AWP suite consists of multiple versions of roulette and poker games, while our Section 16 games include slots and roulette.

Following an extended period of testing, successful field trials and multiple changes in the gaming laws of the United Kingdom, we anticipate commencing sales of AWP and Section 16 gaming machines in the late second quarter of 2006. To this end, we have established a strategic relationship with Electrocoin Sales, Ltd., located in London, for all manufacturing, distribution and maintenance of such gaming machines. Electrocoin has substantive manufacturing facilities in Cardiff, United Kingdom, and has been a manufacturer and distributor of gaming machines to the European market for more than twenty-five years. To this end, Electrocoin has established a significant network of sales representatives, sub-distributors and gaming operators during this period in becoming a well respected gaming machine provider.

Our arrangement with Electrocoin provides that we will realize all revenues related to the sale of our gaming machines and an equal split of the profits relating thereto.

The principal market for our AWP and Section 16 games will be local gaming arcades and possibly, to some extent, licensed betting offices in the jurisdictions. Presently, there are more than one million AWP machines in existence. Many of these machines are using relatively old technology and staid graphics. We, in coordination with management for Electrocoin, have developed roulette gaming machines that are unique in that they satisfy the AWP and Section 16 gaming laws and regulations of the United Kingdom. As a result, gaming arcade and other operators who purchase our roulette gaming machines will be able to use our gaming machine either in AWP or Section 16 format, without having to purchase new gaming machines. We view this as a significant advantage.

The placement of gaming equipment is ordinarily a capital intensive exercise involving manufacturing, distribution and maintenance of gaming machines in the field. We have made the strategic choice to outsource all of the above in an effort to limit capital expense. With our partner Electrocoin, we have been able to not only achieve our objective of limiting capital expense, but maintain the ability to realize all revenues upon the sale of AWP and Section 16 games while equally sharing in the profits from such machines sales.

While we presently have no intention in doing so, if we elect to install our gaming machines on a revenue-sharing basis in the future, there will generally be no cost to the gaming operators, as we would share in the recurring revenues generated from the gaming machines. We would, however, retain ownership of the gaming machines and all software relating thereto throughout the term of the revenue-sharing agreement, and would maintain the right to refurbish and redeploy gaming machines returned to us either upon the expiration or early termination of the revenue-sharing agreements. The placement of gaming machines on a revenue sharing basis is a capital intensive exercise and would require us to procure debt financing or a strategic partner to underwrite the costs associated with such placements.

In addition to our anticipated placement of AWP and Section 16 gaming machines in the United Kingdom and other European Union countries where applicable, we are currently performing due diligence on a United States-based provider of gaming machines to the Native American gaming marketplace for the purpose of acquiring this company. Our due diligence investigation is in the early stage, and there can be no assurance that we will be successful in consummating a transaction with this company. The specific terms of the proposed acquisition are currently being discussed and will likely include a combination of cash and common stock. We anticipate completing our due diligence of this entity in the second quarter of this year, and a closing would occur, if a definitive agreement is reached, in the second half of 2006. The transaction, if consummated, would have a dilutive effect on our existing common stockholders while providing us with revenues significantly greater than we have realized from a historical perspective.

We are also actively searching for a strategic partner to implement our central server gaming system for downloadable gaming applications in slot machines at casinos. In this regard, we have met with several large gaming equipment manufacturers about our central server system and the potential sale or license of the system to them for implementation in casinos. At this time, there can be no assurance that we will be successful in entering into a definitive agreement with a third party to achieve the foregoing. Further, given the costs associated with commercializing our central server gaming system, our current cash position and the significant competition that exists for downloadable games and central server systems, we believe that procurement of a major gaming equipment partner is a prerequisite to commercialization.

Historically, we have experienced substantial fluctuations in revenues from period-to-period as a result of our revenues being derived solely from software development contracts consisting of upfront licensing and periodic payments as opposed to steady recurring revenues. Moreover, our revenues have been limited over the last two years as we have been primarily focused on the development of products for Cantor, and the development of our gaming platform and accompanying AWP and Section 16 games for deployment in the United Kingdom and other European Union countries where applicable.

We anticipate that our future revenues will be derived from the sale of AWP and Section 16 games in the above mentioned jurisdictions. In addition, if we are successful in consummating the acquisition of the United States-based provider of gaming machines to the Native American gaming marketplace, we will realize revenues generated therefrom. At this time, it is extremely difficult to predict with accuracy, the breakdown, and amount, of anticipated future revenues from each of the foregoing initiatives.

Revenue Recognition

Revenue from the development of Internet gaming sites in regulated gaming markets will generally be reported on the percentage of completion method of accounting using measurements of progress toward completion appropriate for the work performed. The development of Internet gaming sites concluded on February 15, 2006 as a result of the sale of our Internet gaming system and games to Cantor on such date. Thus, after February 15, 2006, we will not realize revenues from the development of Internet gaming sites.

Revenues from the enhancement, maintenance and technical support of Internet gaming sites in regulated gaming markets are recognized as the services are performed or pro rata over the service period. When we receive a percentage of the gaming revenues generated by our client's Internet gaming sites, we will generally recognize such revenues upon receipt. Based upon the sale of our Internet gaming system and games to Cantor on February 15, 2006, we will not realize revenues from the enhancement, maintenance and technical support of Internet gaming sites following such date. We will, however, continue to receive royalty payments, to be applied against the outstanding principal and accrued interest under the senior secured note issued in favor of Cantor, with respect to the Cantor Casino and all "white-label" Internet gaming sites developed by Cantor utilizing the Internet gaming software sold by us to Cantor.

Revenues from the sale of gaming machines in the United Kingdom and other European Union countries, as applicable, will be recognized upon completion of installation and acceptance by the gaming operators, provided collectibility is reasonably assured.

Revenues from the placement of our gaming machines on a revenue-sharing basis, as well as the placement of our central server gaming system on a license basis, if applicable, will be accounted for similar to an operating lease, with the revenues recognized as earned over the term of the agreement. We will negotiate our portion of the revenues generated under revenue-sharing contracts based upon the cost of the equipment installed, the location of a particular casino, and the estimated daily net win per gaming machine for each casino client. At this time, we do not anticipate the placement of our existing gaming machines on a revenue sharing basis. Further, unless we secure a major gaming equipment manufacturer as a partner, it is highly unlikely that we will commercialize our central server gaming system for downloadable gaming applications at casinos.

Impairment of Long Lived Assets

Impairment losses on long-lived assets, such as equipment, are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses are then measured by comparing the fair value of assets to their carrying amounts.

Valuation of Deferred Taxes

Deferred tax assets and liabilities are recorded based on the temporary differences between the financial statement and the tax bases of assets and liabilities and for net operating loss carryforwards measured using the enacted tax rates in effect for the year in which the differences are expected to reverse. We periodically evaluate the realizability of our net deferred tax assets and record a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Stock-Based Compensation

In accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", we have used the intrinsic value method and recognize compensation costs as a result of the issuance of stock options to employees based on the excess, if any, of the fair value of the underlying stock at the date of grant or award (or at an appropriate subsequent measurement date) over the amount the employee must pay to acquire the stock. Therefore, we have not been required to recognize compensation expense as a result of any grants of stock options to employees at an exercise price that is equivalent to or greater than fair value. We have also made pro forma disclosures, as required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), of net income or loss as if a fair value based method of accounting for stock options granted to employees had been applied instead when such amounts differ materially from the historical amounts.

In accordance with SFAS 123, we will also recognize the cost of shares, options, warrants and other equity instruments issued to nonemployees as consideration for services as expense over the periods in which the related services are rendered by a charge to compensation cost (or another appropriate expense or prepaid expense account) and a corresponding credit to additional paid-in capital. Generally, cost will be determined based on the fair value of the equity instruments at the date of issuance. The fair value of options, warrants and similar equity instruments will be estimated based on the Black-Scholes option-pricing model, which meets the criteria set forth in SFAS 123, and the assumption that all of the options or other equity instruments will ultimately vest. The effect of actual forfeitures will be recognized as they occur.

Equity Issued with Registration Rights

In connection with sales of our common stock and warrants to certain investors during the year ended December 31, 2004, the Company granted certain registration rights that provide for liquidated damages in the event of failure to timely perform under the agreements. Although the common stock purchase agreement does not provide for net-cash settlement, the existence of liquidated damages provides for a defacto net-cash settlement option. Therefore, common stock subject to such liquidated damages does not meet the tests required for shareholders' equity classification, and accordingly has been reflected between liabilities and equity in the accompanying consolidated balance sheet until such time as the conditions are eliminated.

Warrant Liability

In connection with the sale of certain equity instruments during the year ended December 31, 2004, as described above, the Company issued freestanding warrants. Although the terms of the warrants do not provide for net-cash settlement, in certain circumstances, physical or net-share settlement is deemed to not be within the Company's control and, accordingly, the Company is required to account for these freestanding warrants as a derivative financial instrument liability, rather than as stockholders' equity.

The warrant liability is initially measured and recorded at its fair value, and is then re-valued at each reporting date, with changes in the fair value reported as non-cash charges or credits to earnings. For warrant-based derivative financial instruments, the Black-Scholes option pricing model is used to value the warrant liability.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks.

Effect of Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), which is a revision to SFAS 123. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. Primarily, SFAS 123R focuses on accounting for transactions in which an entity obtains employee services in share-based payment transactions. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

SFAS 123R requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

In accordance with the Securities and Exchanges Commission's Staff Accounting Bulletin 107, SFAS 123R is effective as of the beginning of the annual reporting period that begins after December 15, 2005. Under these guidelines, the Company will adopt SFAS 123R as of January 1, 2006. The Company expects the adoption of SFAS 123R will have a significant adverse impact on its future results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs" ("SFAS 151"), which is an amendment of ARB No. 43. SFAS 151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that allocation of fixed production overhead costs to the cost of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for us beginning January 1, 2006 and resulting adjustments will be made on a prospective basis. We do not anticipate that the adoption of this standard will have a significant impact on our business, results of operations or financial position.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29". The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions", is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged. The guidance in Opinion 29, however, included certain exceptions to that principle. SFAS 153 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on our financial position and results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), which is a replacement of APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS 154 changes the requirements for the accounting for and reporting a change in an accounting principle. Previously, most voluntary changes in accounting principle required recognition of a cumulative effect adjustment in the results of operations of the period of change. SFAS 154 requires retrospective application to prior periods unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in years beginning after December 15, 2005; however, it does not change the transition provisions of any existing accounting pronouncements, such as SFAS 123R. We do not believe the adoption of SFAS 154 will have a material effect on our business, results of operations, or financial position.

FINANCIAL CONDITION

Our ability to continue as a going concern and achieve profitability, if at all, will depend upon a number of factors, including, among other things, market acceptance of our gaming machine products, reliability of our products and services, customer support and satisfaction, sufficient capital to fund ongoing research and development and adequate capital to expand our business. There can be no assurance that any of the foregoing will be accomplished or that we will achieve profitability on an ongoing basis. As with all developing companies, we are subject to risks such as uncertainty of revenues, markets, profitability and the need for additional funding. All of these factors could have a material adverse effect on our business, financial condition and results of operations.

RESULTS OF OPERATIONS - YEARS ENDED DECEMBER 31, 2005 AND 2004

Revenues

During the year ended December 31, 2005, we generated revenues from maintenance and development of Internet gaming sites and technical support services of \$1,274,819, as compared to revenues from technical support services of \$312,401 during the year ended December 31, 2004. The \$962,418, or 308.1%, increase in revenues, consists of a \$938,615 increase in services revenue and a \$23,803 increase in product sales revenue. The increase related to the significant, and consistent, Internet gaming development undertaken on behalf of Cantor in 2005. We anticipate a slight increase in revenue during the first quarter of 2006 from the sale of certain assets to Cantor on February 15, 2006. Thereafter, we anticipate commencing sales of our AWP and Section 16 gaming machines in the United Kingdom in late second quarter of 2006.

Cost of Revenues

During the year ended December 31, 2005, our cost of revenues was \$528,085, as compared to \$305,343 during the year ended December 31, 2004. During the year ended December 31, 2005, our cost of revenues consisted of \$507,348 attributable to services and \$20,737 attributable to product sales. The \$222,742 increase in the cost of revenues was directly attributable to the significant increase in Internet gaming development revenues, as compared to the year ended December 31, 2004. We anticipate that our revenues in future periods may escalate upon the future sales of AWP and Section 16 games in the United Kingdom initially, and in other European Union countries where such games are offered thereafter. Our cost of revenues may increase, but our margins are anticipated to improve with future sales of AWP and Section 16 games through our manufacturing and distribution partner Electrocoin, Ltd. We will not be engaged in the manufacture, distribution or maintenance of AWP and Section 16 games, but rather we will simply provide our software to be loaded on each of the gaming devices. In addition, our arrangement provides that we will realize all revenues from the sale of such gaming machines and an equal split in the profit.

During the year ended December 31, 2005, we realized a gross margin of \$746,734, as compared to a gross margin of \$7,058 during the year ended December 31, 2004. The \$739,676, or 10,480.0% increase in gross margin, related to the significant increase in Cantor related Internet gaming development revenues throughout 2005 as compared to only the fourth quarter of 2004.

Operating Expenses

During the year ended December 31, 2005, we incurred total operating expenses of \$1,887,314, as compared to \$3,157,693 during the year ended December 31, 2004, a decrease of \$1,270,379, or 40.2%. We anticipate that our operating expenses, particularly as relates to selling, general and administrative expenses, will decrease in terms of percentage of revenues in 2006 as we focus on the sale of AWP and Section 16 games through our manufacturing and distribution partner, Electrocoin.

During the year ended December 31, 2005, we incurred research and development expenses of \$459,029, as compared to \$712,467 during the year ended December 31, 2003, a decrease of \$253,438, or 35.6%. The decrease in our research and development expenses was due primarily to the development of the Cantor Casino utilizing our existing Internet gaming platform, as compared to 2004 when we utilized more resources towards the development of our central server gaming system platform and related games and other products for deployment in land-based casinos. We anticipate making our initial deployment of AWP and Section 16 games into the United Kingdom market in late second quarter of this year utilizing our strategic partner, Electrocoin. Thereafter, we anticipate selling such gaming machines in other European Union jurisdiction where such games are offered. While this is our initial deployment of gaming machines into land-based gaming operations, we have minimized the risk by partnering with Electrocoin, an established manufacturing and distribution company. Moreover, by doing so, we have eliminated the traditional

capital costs associated with the deployment of gaming machines through avoidance of manufacturing and the establishment of a sales and distribution team.

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During the year ended December 31, 2005, we incurred selling, general and administrative expenses of \$1,428,285, as compared to \$2,445,226 during the year ended December 31, 2004, a decrease of \$1,016,941, or 41.6%. The decrease in our selling, general and administrative expenses was due primarily to focusing on the development of the Cantor Casino in 2005 and substantially decreasing many expenses incurred in the prior fiscal year. In 2004, we incurred significant expense associated with travel, road shows for our private placement in the first half of 2004, retention of outside professionals, including gaming, intellectual property and other counsel, exhibiting at five industry tradeshow and conventions, salaries related to new employees, and non cash compensation expense of \$660,403 relating to shares, options and warrants issued to consultants in consideration of strategic services. Included in these non cash compensation costs were \$485,315 of expenses relating to the fair value of shares of restricted common stock issued to consultants in consideration for strategic advisory, investment banking, research and hardware and software documentation services during the year ended December 31, 2004. We anticipate that our selling, general and administrative expenses will be significantly lower in 2006 as we reduced the number of employees from fourteen to six in conjunction with the sale of certain assets to Cantor in February 2006, as well as our new focus on the sale of AWP and Section 16 games through Electrocoin in the United Kingdom. Our selling, general and administrative expenses may, however, increase if we are successful in consummating the acquisition of a United States-based provider of gaming machines to the Native American gaming marketplace. While we are currently undertaking a due diligence investigation on this entity, there is no assurance that we will be successful in consummating the transaction. If we are successful, the increase in selling, general and administrative expenses is expected to be offset by increased revenues upon the consolidation of such entity.

Other Income (Expense)

During the year ended December 31, 2005, other expense was \$332,029, as compared to other expense of \$205,727 during the year ended December 31, 2004, an increase of \$126,302, or 61.39%. The increase is related primarily to an increase of \$337,997 of interest expense and amortization of debt discount associated with the debt financing provided by Cantor, offset, in part, by the \$124,614 increase in other income.

Gain on fair value of warrants for the years ended December 31, 2005 and 2004 was approximately \$2,717 and \$23,305. The gain is due primarily to the decrease in the market value of our common stock. The gain represents the unrealized non-cash change in the fair value of certain warrants, using the Black-Scholes option pricing model. The non-cash gain on fair value of warrants has no impact on our cash flows or liquidity.

Net Loss

During the year ended December 31, 2005, we realized a net loss of \$1,472,609, as compared to a net loss of \$3,356,362 during the year ended December 31, 2004, a decrease in net loss of \$1,883,753. The decrease in net loss resulted from a \$962,418 increase in revenues, a decrease in operating expenses of \$1,270,379, offset, in part, by a \$126,302 increase in other expense. A decreased loss and increased revenues directly relates to our development activities on behalf of Cantor throughout 2005. As we concluded our development work for Cantor upon the sale of certain assets on February 15, 2006, we will not realize revenues from this project after such date. We do, however, anticipate realizing revenues from the sale of AWP and Section games in the United Kingdom in late second quarter of 2006. In addition, we have reduced our staff to six employees following the sale of certain assets to Cantor, and do not expect to increase our current base of employees significantly given that our AWP and Section 16 games are nearing commercialization. In the event we are successful in consummating the acquisition briefly described in this Annual Report, we would increase our staff through the addition of employees currently employed by the acquisition target, while revenues would increase significantly. There can be no assurance that we will be successful in consummating the acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Overview

As of December 31, 2005, we had cash of \$122,318, accounts receivable of \$90,142 and total liabilities of \$1,833,328, of which \$669,683 are current liabilities. In addition, as of December 31, 2005, we had a working capital deficit of \$457,223 and a stockholders' deficiency of \$1,195,821. During the year ended December 31, 2005, cash on hand decreased from \$594,024 to \$122,318.

Operating activities used net cash of \$861,153 during the year ended December 31, 2005, whereas operating activities used net cash of \$2,530,387 during the year ended December 31, 2004. The net cash used in operating activities during the year ended December 31, 2005 related primarily to our net loss of \$1,472,609, a decrease in accounts receivable of \$84,478, an increase in accounts payable of \$48,080, an increase in accrued expenses of \$181,769, an increase in accrued compensation - officers of \$73,842, and a decrease in foreign taxes payable of \$166,009, offset, in part, by amortization of debt discount of \$222,068. During the year ended December 31, 2004, our operating activities used net cash of \$2,530,387 related primarily to our net loss of \$3,556,362, an increase in accounts receivable of \$172,645, an increase in accounts payable of \$102,298, a decrease in accrued expenses of \$31,252, a decrease in accrued compensation - officers of \$59,090, and an increase in foreign taxes payable of \$19,500, offset, in part, by non-cash costs of investment banking, strategic advisory, research, and hardware and software documentation services of \$660,403 paid through the issuance of restricted shares of common stock with a fair value of \$485,315 and the issuance of options and warrants with a fair value of \$175,088. Issuances of equity securities as payments for services and compensation result in non-cash charges to expense.

Investing activities used \$96,229 during the year ended December 31, 2005, as compared to \$114,967 during the year ended December 31, 2004. The decrease in use of cash in investing activities reflects a \$68,738 decrease in acquisition of equipment and furnishings, offset by the \$50,000 acquisition of intangible assets from Absolute Game, Ltd.

Our financing activities provided net cash of \$500,000 during the year ended December 31, 2005, as compared to \$3,227,644 during the year ended December 31, 2004. The net cash provided by financing activities during the year ended December 31, 2005 reflects the final \$500,000 of loan proceeds received from Cantor pursuant to the senior secured note. The net cash provided by financing activities during the year ended December 31, 2004 reflects \$2,143,242 in net proceeds from the sale of 2,445,000 shares of common stock in a private placement, \$42,852 from stockholder loans, \$1,500,000 from the issuance of a senior secured note and warrants, offset by \$458,450 used to repay stockholder loans.

Outlook

We incurred losses of \$1,472,609 and \$3,356,362, and negative net cash flows from operating activities of \$861,153 and \$2,530,387, for the years ended December 31, 2005 and 2004, respectively. As of December 31, 2005, we had an accumulated deficit of \$8,315,625. The foregoing raises substantial doubt about our ability to continue as a going concern for a reasonable period of time.

Our principal objectives at this time are to (i) commence sales of AWP and Section 16 gaming machines in the United Kingdom, and thereafter in other European Union countries where such gaming machines are utilized, through our manufacturing and distribution partner Electrocoin, Ltd., and (ii) to consummate the acquisition of United States-based provider of gaming machines to the Native American gaming marketplace. We anticipate that sales of AWP and Section 16 gaming machines will commence in late second quarter of this year. We cannot provide any assurance as to the consummation of the acquisition noted above.

In an effort to reduce operating expenses and obtain capital for our operations, we sold certain assets to Cantor on February 15, 2006 for \$500,000. In addition, we agreed to Cantor hiring eight of our former employees as part of this transaction. In addition, we have closed our Las Vegas, Nevada offices and relocated to Encino, California. We do not pay rent at this location. In addition, our lease obligations have concluded at our office in North Sydney, Australia, where we previously paid a monthly rate of \$13,000 Australian dollars (US\$9,390 as of March 20, 2006). Commencing April 1, 2006, we will pay a nominal monthly rental amount for use of approximately 400 square feet in this office. It is our present intention to relocate our Australia operations to another location in Sydney in the third quarter of 2006 and we anticipate a monthly lease rate of approximately US\$2,500 per month, or less. In the United Kingdom, we operate out of the offices of our manufacturing and distribution partner, Electrocoin, Ltd., in London. We do not pay rent at this location.

While we have significantly reduced our fixed monthly operating expenses, we anticipate that for the twelve month period ending December 31, 2006, we will require a cash infusion for further working capital and to consummate the proposed acquisition. The amount of such cash infusion will be dependent upon the volume, and timing, of our anticipated sales of AWP and Section 16 gaming machines, as well as the cash component of the proposed acquisition. Further, until such time as we achieve a measurable amount of AWP and Section 16 gaming machines sales, our executive officers will defer all salaries payable to them.

In summary, until we generate sufficient cash from the sale of AWP and Section 16 gaming machines, we will need to rely upon private and institutional sources of debt and equity financing. Based on presently known plans, we believe that we will be able to fund our existing operations and required expenditures through the third quarter of 2006 with cash on hand. We will likely require additional cash from the issuance of equity or debt securities in the nine months ending September 30, 2006 to finance our ongoing operations and strategic objectives. No assurances can be given that we will successfully obtain liquidity sources necessary to fund our operations to profitability and beyond.

RISK FACTORS

We are subject to a high degree of risk as we are considered to be in unsound financial condition. The following risks, if any one or more occurs, could materially harm our business, financial condition or future results of operations. If that occurs, the trading price of our common stock could further decline.

RISKS RELATED TO GAMING & ENTERTAINMENT GROUP, INC.

We have a history of significant operating losses, anticipate continued operating losses and we may be unable to achieve profitability.

We have a history of significant operating losses. For the years ended December 31, 2005 and 2004, we have incurred operating losses of \$1,472,609 and \$3,356,362, respectively, and our operations have used \$861,153 and \$2,530,387 of cash, respectively. As of December 31, 2005, we had an accumulated deficit of \$8,315,625 and stockholders' deficiency of \$1,195,821. We anticipate realizing operating losses for the foreseeable future until such time as we realize revenues from the sale of AWP and Section 16 games sufficient to offset our operating expenses.

Our ability to continue as a going concern and achieve profitability will depend upon a number of factors, including, among other things, market acceptance, performance and reliability of our AWP and Section 16 gaming machines. There can be no assurance that the foregoing will be accomplished or that we will achieve profitability on an ongoing basis. In addition, we are subject to risks such as uncertainty of revenues and the United Kingdom's recently enacted tax duty on all Section 16 machines placed in gaming establishments, which tax duty will commence in the third quarter of 2006. These factors could have a material adverse effect on our business, financial condition and results of operations.

We have recently sold the assets relating to the large majority of our historical revenues and future revenues are difficult to predict

On February 15, 2006, we sold certain assets to Cantor. These assets included our Internet gaming system and related games. Given that our historical revenues have been largely derived from these assets, we must generate revenues from other assets that have not yet been commercialized. While we anticipate that we will be successful in placing AWP and Section 16 gaming machines in the U.K. through our partner Electrocoin, based on the trial results of these products over the last several months, such placements mark our first product offering in land-based gaming. Accordingly, it is very difficult to predict our future revenues. If our manufacturing and distribution partner Electrocoin is not successful in placing a significant number of gaming machines, our business, financial condition and results of operations may be materially adversely affected.

There are significant uncertainties as to our proposed entrance into the land-based gaming market.

Historically, we have been involved in the development and provision of government accredited and gaming laboratory certified online gaming systems. Following the sale of our Internet gaming software and certain other assets to Cantor on February 15, 2006, we are directing our focus on the placement of AWP and Section 16 gaming machines in the United Kingdom initially, and thereafter in other European Union countries where these types of gaming machines are offered.

As in any industry, product demand and market acceptance are subject to considerable uncertainty, particularly with new products. While management believes that we have limited our risk by partnering with Electrocoin, Ltd., an established manufacturer and distributor of gaming machines in the markets we intend to enter, no assurance can be made that we will be successful in realizing revenues sufficient to achieve profitability. In the event we are not successful in placing a significant number of AWP and Section 16 gaming machines, our business, financial condition and results of operations could be materially adversely affected.

We face considerable competition from established companies in the United Kingdom and other countries where AWP and Section 16 gaming machines are offered, and such companies generally have substantially greater capital, research and development, manufacturing and marketing resources than we possess.

While we have a well-established manufacturing and distribution partner in Electrocoin, Ltd., there are several well financed established providers of AWP and Section 16 gaming machines in the U.K. that have similar product offerings and significant market penetration. Additionally, while we believe that we offer the first roulette machine that can be played in an AWP and Section 16 format, there likely will be other companies who offer the same type of roulette gaming machine in the future. Further, our competitors may be able to develop technologies more effectively, generally have significantly more game content than us, and may be able to adopt more aggressive pricing strategies than us. These companies generally have longer operating histories, greater brand name recognition, larger customer bases and significantly greater financial, technical and marketing resources than us; provided, however, in the gaming markets we intend to enter, Electrocoin is well known.

Our capitalization is limited and we will likely require additional funding.

A limiting factor on our growth, including our ability to make acquisitions in the future, is our limited capitalization. We believe that our current cash on hand is sufficient to fund our operations through the third quarter of this year. We will, however, likely require additional financing for working capital purposes and to consummate an acquisition. There can be no assurance, however, that such financing will be available to us, and if so on reasonable terms. If we do not procure adequate financing when required, our business, financial condition and results of operations may suffer.

Our success depends on our ability to prevent others from infringing on our technologies.

Our success is heavily dependent upon proprietary technology. To protect our proprietary technology, we rely principally upon copyright and trade secret protection. All proprietary information that can be copyrighted is marked as such. All employees and consultants are required to execute confidentiality agreements with us. There can be no assurance that the steps taken by us in this regard will be adequate to prevent misappropriation or independent third-party development of our technology. Further, the laws of certain countries in which we anticipate placing AWP and Section 16 gaming machines do not protect software and intellectual property rights to the same extent as the laws of the United States. While we generally require the execution of an agreement that restricts unauthorized copying and use of our products, should unauthorized copying or misuse of our products occur, our business, financial condition and results of operations could be materially adversely affected.

Moreover, while the disclosure and use of our proprietary technology, know-how and trade secrets are generally controlled under agreements with the parties involved, there can be no assurance that all confidentiality agreements will be honored, that others will not independently develop similar or superior technology, that disputes will not arise concerning the ownership of intellectual property, or that dissemination of our proprietary technology, know-how and trade secrets will not occur. Further, if an infringement claim is brought against us, litigation would be costly and time consuming, but may be necessary to protect our proprietary rights and to defend ourselves. We could incur substantial costs and diversion of management resources in the defense of any claims relating to the proprietary rights of others or in asserting claims against others.

We are dependent on our key personnel, and the loss of any could adversely affect our business.

We depend on the continued performance of the members of our management team and our technology team. Tibor N. Vertes, our Chief Executive Officer and Chairman, Gregory L. Hrncir, our President and a Director, and Simon Daniel, our Chief Technology Officer have each contributed significantly to our business. If we lose the services of any of the foregoing parties, and are unable to locate suitable replacements for such persons in a timely manner, it could have a material adverse effect on our business.

Currency rate fluctuations can have an adverse effect on our business operations.

Our wholly-owned foreign operating subsidiaries include Gaming & Entertainment Technology Pty Ltd, an Australian company utilizing Australian dollars as its functional currency, and Gaming & Entertainment Ltd., a United Kingdom company utilizing pounds sterling as its functional currency. Future sales of AWP and Section 16 gaming machine sales will be made in pounds sterling in the United Kingdom and in Euros in other European Union countries where sold. Given that our financial results are reported in United States dollars, which is subject to fluctuations in respect of the currencies of the countries in which we anticipate placing products, fluctuations in the exchange rate of the U.S. dollar to pounds sterling and Euros could have a positive or negative effect on our reported results. Given the constantly changing currency exposures and the substantial volatility of currency exchange rates, we cannot predict the effect of exchange rate fluctuations upon future operating results. We do not currently have a hedging program to mitigate currency risk, and do not presently intend to implement one. Thus, there can be no assurance that we will not

experience currency losses in the future, which could have a material adverse effect on our business, revenues, operating results and financial condition.

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Worsening economic conditions may adversely affect our business.

The demand for entertainment and leisure activities tends to be highly sensitive to the disposable incomes of consumers and thus a decline in general economic conditions may lead to our end-users having less discretionary income with which to wager, the result of which could affect our business, financial condition and results of operations.

Although we have entered into confidentiality and non-compete agreements with our employees, if we are unable to protect our proprietary information against unauthorized use by others, our competitive position could be harmed.

Our proprietary information is critically important to our competitive position and is a significant aspect of the products we intend to offer commencing in the late second quarter of this year. If we are unable to protect our proprietary information against unauthorized use by others, our competitive position could be harmed. While we have and continue to enter into confidentiality and non-compete agreements with our employees, along with controlling access to and distribution of our documentation and other proprietary information, we cannot make assurances that these strategies will be adequate to prevent misappropriation of our proprietary information. Therefore, we could be required to expend significant amounts to defend our rights to proprietary information in the future if a breach were to occur.

Our anticipated future revenues are expected to be extremely concentrated, and revenues for 2005 were derived solely from Cantor.

All of our reported revenues for 2005 have been derived from the exclusive license of our Internet gaming system to Cantor. Cantor has been our sole source of revenue in 2006 as well through the date of the sale of assets consummated on February 15, 2006. Our anticipated future revenues, relating to the placement of AWP and Section 16 gaming machines, will be made solely through our manufacturing and distribution partner Electrocoin Ltd. Electrocoin is our exclusive distributor, but also manufactures and distributes its own gaming machines as well as on behalf of other third parties. Our future revenues for AWP and Section 16 gaming machine sales will be entirely dependent on the efforts of Electrocoin as we have no intention of selling and marketing the gaming machines. Consequently, we do not have control over the volume of AWP and Section 16 gaming machines placed and the revenues derived therefrom.

RISKS RELATED TO OUR COMMON STOCK

Our stock price has been and may continue to be volatile and our trading volume is extremely limited.

The market price of our common shares has experienced significant fluctuations and may continue to fluctuate significantly due to various factors, some of which are beyond our control, such as market acceptance of our AWP and Section 16 gaming products, technological innovation by our competitors, quarterly variations in our revenue and results of operations, general market conditions or market conditions specific to particular industries, including the gaming sector. In addition, given the extremely limited trading volume in our common stock, stockholders seeking to liquidate all or some of their holdings may experience difficulty in doing so.

Our common stock is deemed to be "penny stock," which may make it more difficult for our stockholders to resell their shares due to suitability requirements.

Historically, our common stock has been deemed to be "penny stock" as that term is defined in Rule 3a51-1 promulgated under the Exchange Act. Penny stock may be more difficult for investors to resell. Penny stocks are stocks:

· Having a price of less than \$5.00 per share

· Not traded on a "recognized" national exchange

· Not quoted on the Nasdaq automated quotation system (Nasdaq-listed stock must still have a price of not less than \$5.00 per share); or

· Of issuers with net tangible assets less than \$2.0 million (if the issuer has been in continuous operation for at least three years) or \$5.0 million (if in continuous operation for less than three years), or with average revenues of less than \$6.0 million for the last three years.

The closing bid price for our common stock on the OTC Bulletin Board on March 20, 2006, was \$0.35.

Under the penny stock regulations, a broker-dealer selling penny stock to anyone other than an established customer or "accredited investor," generally, an individual with net worth in excess of US\$1,000,000 or an annual income exceeding US\$200,000, or US\$300,000 together with his or her spouse, must make a special suitability determination for the purchaser and must receive the purchaser's written consent to the transaction prior to sale, unless the broker-dealer or the transaction is otherwise exempt. In addition, the penny stock regulations require the broker-dealer to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt. A broker-dealer is also required to disclose commissions payable to the broker-dealer and the registered representative and current quotations for the securities. Finally, a broker-dealer is required to send monthly statements disclosing recent price information with respect to the penny stock held in a customer's account and information with respect to the limited market in penny stocks.

We do not anticipate issuing dividends to our stockholders.

We do not anticipate issuing dividends to our stockholders in the foreseeable future. In the event we achieve profitability in the future, the issuance of dividends will be at the discretion of our board of directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends, and other considerations that our board of directors deems relevant. Accordingly, stockholders may have to sell some or all of their common stock in order to generate cash flow from their investment.

We have a significant number of outstanding options and warrants that could materially dilute existing shareholders.

As of March 20, 2006, there were outstanding options and warrants to purchase an aggregate of up to 8,476,622, with a weighted average exercise price of \$0.64. Of this amount, Cantor holds warrants to purchase 5,703,704 shares of common stock (exercisable through December 8, 2009 and assumes that Cantor's warrant to purchase \$2,000,000 of our common stock is exercised at \$0.54 per share), there are options outstanding to purchase 1,906,168 shares of common stock pursuant to our 2004 Stock Option and Incentive Plan, and there are outstanding warrants to purchase (i) 366,750 shares of common stock held by underwriters relating to our private placement in 2004, and (ii) 500,000

shares of common stock issued in conjunction with the purchase of Absolute Game, Ltd. in 2005. All of the outstanding options and warrants are immediately exercisable. If all of the options and warrants are exercised, our common stockholders will experience significant dilution; provided, however, we would receive \$5,425,038 if all outstanding options and warrants were exercised with cash.

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ITEM 7. FINANCIAL STATEMENTS.

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Gaming & Entertainment Group, Inc.

We have audited the accompanying consolidated balance sheet of Gaming & Entertainment Group, Inc. and Subsidiaries as of December 31, 2005, and the related consolidated statements of operations, stockholders' deficiency and cash flows for the years ended December 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gaming & Entertainment Group, Inc. and Subsidiaries as of December 31, 2005, and their results of operations and cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As further discussed in Note 2 to the consolidated financial statements, the Company's operations have generated recurring losses and negative net cash flows from operating activities, and it had an accumulated deficit and a stockholders' deficiency as of December 31, 2005. Such matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of reported amounts or the amounts and classifications of liabilities that might result from the outcome of this uncertainty.

As discussed in Note 3, the Company has restated its consolidated financial statements for the year ended December 31, 2004.

/s/ J. H. Cohn LLP

Roseland, New Jersey
March 27, 2006

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**Consolidated Balance Sheet
December 31, 2005****ASSETS****Current Assets**

Cash	\$	122,318
Accounts receivable		90,142
Total current assets		212,460

Equipment and Furnishings , net of accumulated depreciation of \$317,858	132,625
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Intangible Assets , net of accumulated amortization of \$31,350	282,150
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Other Assets	10,272
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Total assets	\$	637,507
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LIABILITIES AND STOCKHOLDERS' DEFICIENCY**Current Liabilities**

Accounts payable	\$	163,998
Accrued expenses		229,598
Accrued compensation - officers		220,539
Notes payable - officers		55,548
Total current liabilities		669,683

Senior Secured Note Payable , net of unamortized debt discount of \$869,407	1,130,593
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Deferred Rent	33,052
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Total liabilities	1,833,328
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Commitments**Stockholders' Deficiency**

Preferred stock, par value \$10 per share; 10,000,000 shares authorized	
Class A convertible preferred stock, par value \$10 per share; 1,000,000 shares designated; none issued	-
Class B preferred stock, par value \$10 per share; 1,000,000 shares designated; none issued	-
Common stock, par value \$.01 per share; 150,000,000 shares authorized; 19,830,602 shares issued and outstanding	198,306
Additional paid-in capital	6,783,528
Accumulated deficit	(8,315,625)
Accumulated other comprehensive income - foreign currency translation gains	137,970
Total stockholders' deficiency	(1,195,821)

Total liabilities and stockholders' deficiency	\$	637,507
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See Notes to Consolidated Financial Statements

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**Consolidated Statements of Operations
For the Years Ended December 31, 2005 and 2004**

	2005	2004 (Restated)
Revenues:		
Services	\$ 1,251,016	\$ 312,401
Product	23,803	-
Total revenues	1,274,819	312,401
Cost of revenues:		
Services	507,348	305,343
Product	20,737	-
Total cost of revenues	528,085	305,343
Gross margin	746,734	7,058
Operating expenses:		
Research and development	459,029	712,467
Selling, general and administrative	1,428,285	2,445,226
Total operating expenses	1,887,314	3,157,693
Operating loss	(1,140,580)	(3,150,635)
Other income (expense):		
Interest expense and amortization of debt discount	(419,377)	(81,380)
Foreign currency transaction loss	-	(14,170)
Other income	164,613	39,999
Gain on fair value of warrants	2,717	23,305
Fair value of penalty common stock	(79,982)	(173,481)
Total other expense	(332,029)	(205,727)
Net loss	\$ (1,472,609)	\$ (3,356,362)
Weighted average number of shares outstanding	19,665,724	17,726,004
Net loss per share - basic and diluted	\$ (0.07)	\$ (0.19)

See Notes to Consolidated Financial Statements

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Deficiency
Years ended December 31, 2005 and 2004 (Restated)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
Balance at January 1, 2004	11,947,872	\$ 11,948	\$ 2,538,678	\$ (3,486,654)	\$ 206,766	\$ (729,262)
Common stock issuance costs	—	—	(301,758)	—	—	(301,758)
Effects of reverse acquisition	4,058,756	148,118	(180,170)	—	—	(32,052)
Warrants issued through private placement	—	—	(26,022)	—	—	(26,022)
Common stock issued for services	507,390	5,074	480,241	—	—	485,315
Options and warrants issued to nonemployees for services	—	—	175,088	—	—	175,088
Warrants issued in connection with senior secured note payable	—	—	1,110,340	—	—	1,110,340
Foreign currency translation loss (A)	—	—	—	—	(59,350)	(59,350)
Net loss	—	—	—	(3,356,362)	—	(3,356,362)
Balance at December 31, 2004 as restated	16,514,018	165,140	3,796,397	(6,843,016)	147,416	(2,734,063)
Reclassifications of proceeds from sale of common stock and warrants with registration rights through private placement	2,445,000	24,450	2,420,550	—	—	2,445,000
Reclassifications of common stock and warrants issued for equipment	58,334	583	57,751	—	—	58,334
Shares issued for late registration filing	563,250	5,633	247,830	—	—	253,463
Shares issued in exchange for purchase of intangible assets	250,000	2,500	125,000	—	—	127,500
Warrants issued in exchange for purchase of intangible assets	—	—	136,000	—	—	136,000

Foreign currency translation loss (A)	—	—	—	—	(9,446)	(9,446)
Net loss	—	—	—	(1,472,609)	—	(1,472,609)
Balance at December 31, 2005	19,830,602	\$ 198,306	\$ 6,783,528	\$ (8,315,625)	\$ 137,970	\$ (1,195,821)

(A) Comprehensive loss (net loss plus or minus foreign currency translation loss or gain) for the year ended December 31, 2005 and 2004 totaled \$1,482,055 and \$3,415,712, respectively.

See Notes to Consolidated Financial Statements

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows
Years Ended December 31, 2005 and 2004**

	2005	2004 (Restated)
Cash flows from operating activities		
Net loss	\$ (1,472,609)	\$ (3,356,362)
Adjustments to reconcile net loss to net cash used in operating activities:		
Recoveries of loan and note receivable and provision for bad debts	-	(2,419)
Amortization of debt discount	222,068	18,865
Amortization of intellectual property	31,350	-
Depreciation expense	73,325	91,927
Shares issued for services	-	485,315
Options and warrants issued to nonemployees for services	-	175,088
Gain on fair value of warrants	(2,717)	(23,305)
Fair value of penalty common stock	79,982	173,481
Deferred rent	(14,713)	47,765
Changes in operating assets and liabilities:		
Accounts receivable	84,478	(172,645)
Prepaid expenses	-	10,000
Other assets	-	(9,553)
Accounts payable	48,080	102,298
Accrued expenses	181,770	(31,252)
Accrued compensation - officers	73,842	(59,090)
Foreign taxes payable	(166,009)	19,500
Net cash used in operating activities	(861,153)	(2,530,387)
Cash flows from investing activities		
Acquisition of intangible assets	(50,000)	-
Acquisition of equipment and furnishings	(46,229)	(114,967)
Net cash used in investing activities	(96,229)	(114,967)
Cash flows from financing activities		
Repayments of related party loans	-	(458,450)
Proceeds from the issuance of senior secured note and warrants	500,000	1,500,000
Proceeds of related party loan	-	42,852
Net proceeds from sale of common stock and warrants	-	2,143,242
Net cash provided by financing activities	500,000	3,227,644
Effect of exchange rate changes on cash	(14,324)	(74,581)
Net increase (decrease) in cash	(471,706)	507,709
Cash, beginning of year	594,024	86,315

Cash, end of year	\$	122,318	\$	594,024
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Supplemental disclosure of cash flow information

Interest paid	\$	-	\$	64,165
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Supplemental schedule of noncash investing and financing activities:

Intangible assets purchased in exchange for common stock

and warrants	\$	263,500	\$	-
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Shares of common stock and warrants issued for equipment	\$	-	\$	58,334
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See Notes to Consolidated Financial Statements

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GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BUSINESS AND ORGANIZATION

On or about January 12, 2004, NorStar Group, Inc., a publicly-held company incorporated in Utah that was not conducting or developing any commercial operations ("NorStar"), consummated a series of transactions, including: (i) a 1-for-24.852732 reverse split of its outstanding shares of common stock; (ii) the issuance of 14,600,000 post-split shares of common stock in exchange for all of the outstanding shares of common stock of Gaming & Entertainment Group, Inc., a Nevada corporation ("G&EG Nevada"); (iii) the issuance of options and warrants to purchase 4,257,937 post-split shares of common stock in exchange for all of the outstanding options and warrants to purchase shares of G&EG Nevada; and (iv) a change in the name of NorStar to Gaming & Entertainment Group, Inc. ("G&EG"). As a result of the exchange, G&EG Nevada became a subsidiary of G&EG, and the former stockholders of G&EG Nevada became the holders of 91.25% of the then outstanding shares of common stock of the combined companies. In addition, the former directors and officers of G&EG Nevada became the controlling members of the board of directors and management of the combined companies. Since G&EG Nevada was the only operating company in the exchange and the former stockholders of G&EG Nevada received a substantial majority of the voting securities of the combined companies, the exchange was accounted for as a "reverse acquisition" and, effectively, as a recapitalization, in which G&EG Nevada was treated as the accounting acquirer (and the legal acquiree) and NorStar was the accounting acquiree (and the legal acquirer). Since the exchange was accounted for as a "reverse acquisition," the accompanying condensed consolidated financial statements reflect the historical financial statements of G&EG Nevada, the accounting acquirer, as adjusted for the effects of the exchange of shares on its equity accounts, the inclusion of the net liabilities of the accounting acquiree as of January 12, 2004 at their historical basis and the inclusion of the accounting acquiree's results of operations from that date.

As used herein, the "Company" refers to G&EG Nevada prior to January 12, 2004 and to G&EG, G&EG Nevada and their other subsidiaries from that date forward.

The Company is a developer of amusement with prizes ("AWP") and Section 16 gaming machines for the United Kingdom and European gaming markets. Historically, the Company has primarily been involved in the development of Internet gaming system and games for third parties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the financial statements, the Company has incurred losses of \$1,472,609 and \$3,356,362 and negative cash flows from operating activities of \$861,153 and \$2,530,387 for the years ended December 31, 2005 and 2004, respectively, and recurring losses in prior years. As of December 31, 2005, the Company had an accumulated deficit of \$8,315,625 and a stockholders' deficiency of \$1,195,821. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flows from its operations or obtain sufficient liquid resources from other sources to meet its obligations as they become due. Through December 31, 2005, the Company has funded its operations primarily through the issuance of common stock, warrants and options to outside investors for cash and consultants and others for services. The Company anticipates that it will require additional funding through the issuance of equity or debt securities later this year. Management anticipates that additional funding of not less than \$250,000 will be necessary to fund the Company's operations through December 31, 2006. Management believes, but cannot assure, that the Company will be able to obtain such financing and continue its operations through at least December 31, 2006. If the Company is not able to obtain adequate financing, it may have to curtail or

terminate some, or all, of its operations. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary in the event the Company cannot continue as a going concern.

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GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of G&EG and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(d) Revenue Recognition

Revenues from the enhancement, maintenance and technical support of Internet gaming sites in regulated gaming markets, in relation to the software development previously performed, are recognized as the services are performed, or if no pattern of performance is discernable, on a straight-line basis over the period in which the services are performed.

Revenues from Internet gaming site development contracts in regulated gaming markets, in relation to software development specifically performed for each respective client, will be recognized using the percentage of completion method of accounting with labor hours as the basis for measurement of progress toward completion of the contracts.

Revenues from online gaming software license fees, in relation to the utilization of the G&EG proprietary gaming platform, will be recognized as earned over the term of the agreement based upon a percentage of the gross win. When the Company receives a percentage of the gaming revenues generated by its client's Internet gaming sites, it will recognize such revenues when earned.

Revenue from gaming machines that are sold will be recognized upon completion of installation and acceptance by the gaming establishment, provided collectibility is reasonably assured.

(e) Equipment and Furnishings

Equipment and furnishings are stated at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Improvements to leased properties are amortized using the straight-line method over their estimated useful lives or the remaining lease period, whichever is shorter.

(f) Impairment of Long Lived Assets

Impairment losses on long-lived assets, such as equipment, are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses are then measured by comparing the fair value of assets to their carrying amounts.

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(g) Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), provides for the use of a fair value based method of accounting for employee stock compensation. However, SFAS 123 also allows an entity to continue to measure compensation cost for stock options granted to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), which only requires charges to compensation expense for the excess, if any, of the fair value of the underlying stock at the date a stock option is granted (or at an appropriate subsequent measurement date) over the amount the employee must pay to acquire the stock. The Company has elected to continue to account for employee stock options using the intrinsic value method under APB 25. By making that election, it is required by SFAS 123 and Statement of Financial Accounting Standard No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS 148"), to provide pro forma disclosures of net loss and net loss per common share as if a fair value based method of accounting had been applied, if such amounts differ materially from the historical amounts.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), which is a revision to SFAS 123. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. Primarily, SFAS 123R focuses on accounting for transactions in which an entity obtains employee services in share-based payment transactions. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

SFAS 123R requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, which is usually the vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service.

In accordance with the Securities and Exchanges Commission's Staff Accounting Bulletin 107, SFAS 123R is effective as of the beginning of the annual reporting period that begins after December 15, 2005. Under these guidelines, the Company will adopt SFAS 123R as of January 1, 2006. The Company expects the adoption of SFAS 123R will have a significant adverse impact on its future results of operations.

The exercise price of all of the options granted to employees has been equal to or greater than the stock price at the date of grant and, accordingly, the Company has not recorded any earned or unearned compensation cost related to such options in the accompanying consolidated financial statements. The Company's historical net loss and net loss per share and pro forma net loss and net loss per share assuming compensation cost had been determined based on the fair value of the options at the date of grant and amortized over the vesting period consistent with the provisions of SFAS 123 are set forth below:

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	For Years Ended December 31,	
	2005	2004 (Restated)
Net loss, as reported	\$ (1,472,609)	\$ (3,356,362)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(2,486)	(464,307)
Pro forma net loss	\$ (1,475,095)	\$ (3,820,669)
Basic and diluted loss per common share as reported	\$ (0.07)	\$ (0.19)
Basic and diluted loss per common share pro forma	\$ (0.08)	\$ (0.22)

In accordance with the provisions of SFAS 123, all other issuances of common stock, options or other equity instruments to employees and consultants as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of any options or similar equity instruments issued will be estimated based on the Black-Scholes option-pricing model, which meets the criteria set forth in SFAS 123, and the assumption that all of the options or other equity instruments will ultimately vest.

(h) Net Loss per Share

The Company presents "basic" earnings (loss) per share and, if applicable, "diluted" earnings per share pursuant to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). Basic earnings (loss) per share is calculated by dividing net income or loss by the weighted average number of common shares outstanding during each period which includes shares outstanding subject to continuing registration in 2004. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of options and warrants, were issued during the period and the treasury stock method had been applied. Since the Company had net losses for the years ended December 31, 2005 and 2004, the effects of the assumed exercise of outstanding options and warrants would have been anti-dilutive and, accordingly, basic and diluted net loss per share in each period were the same. As of December 31, 2005 and 2004, the Company had options and warrants outstanding for the purchase of 15,889,918 and 19,754,565 shares of common stock, respectively, that were not included in the computation of diluted loss per share.

(i) Research and Development

Research and development costs are expensed as incurred.

(j) Foreign Currency Translation

The functional currencies of the Company's foreign subsidiaries are their respective local currencies. Accordingly, gains and losses from the translation of the financial statements of the foreign subsidiaries are reported as a separate component of accumulated other comprehensive income. Assets and liabilities in foreign currencies (primarily Australian dollars as of December 31, 2005) are translated using the exchange rate at the balance sheet date. Revenues and expenses are translated at average exchange rates during the year. Foreign currency transaction gains and losses are included in net loss.

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(k) Credit Risk Concentration

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable.

The Company maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced, and management does not expect, any losses on these accounts. Management also believes that the Company is not subject to any significant concentrations of credit risk related to accounts receivable at this time.

(l) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recorded based on the temporary differences between the financial statement and the tax bases of assets and liabilities and for net operating loss carryforwards measured using the enacted tax rates in effect for the year in which the differences are expected to reverse. The Company periodically evaluates the realizability of its net deferred tax assets and records a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

(m) Intangible Assets

Intangible assets, which consist of intellectual property, are recorded at cost and amortized on a straight-line basis over their estimated useful lives of 5 years.

(n) Effect of Recently Issued Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs" ("SFAS 151"), which is an amendment of ARB No. 43. SFAS 151 requires idle facility expenses, freight, handling costs, and wasted material (spoilage) costs to be recognized as current-period charges. It also requires that allocation of fixed production overhead costs to the cost of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for the Company beginning January 1, 2006 and resulting adjustments will be made on a prospective basis. We do not anticipate that the adoption of this standard will have a significant impact on our business, results of operations or financial position.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29" ("SFAS 153"). The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions", is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged. The guidance in APB 29, however, included certain exceptions to that principle. SFAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS 153 is not expected to have a material impact on the Company's financial position and results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), which is a replacement of APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS 154 changes the requirements for the accounting for and reporting a change in an accounting principle. Previously, most voluntary changes in accounting principle required recognition of a

cumulative effect adjustment in the results of operations of the period of change. SFAS 154 requires retrospective application to prior periods unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors made in years beginning after December 15, 2005; however, it does not change the transition provisions of any existing accounting pronouncements, such as SFAS 123R. We do not believe the adoption of SFAS 154 will have a material effect on our business, financial position, or results of operations.

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GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(o) Reclassifications

Certain amounts for the year ended December 31, 2004 have been reclassified to conform to the presentation of the December 31, 2005 amounts.

NOTE 3 - RESTATEMENT FOR EQUITY ISSUED WITH REGISTRATION RIGHTS

On May 31, 2004, the Company received proceeds of \$2,143,242, net of expenses of \$301,758, from the sale of 244.5 units to investors at a price of \$10,000 per unit through a private placement. Each unit consisted of 10,000 shares of common stock and a warrant to purchase 10,000 shares of common stock at \$1.50 per share. The warrants expired on May 31, 2005. Pursuant to the private placement, the Company was obligated to file a registration statement (the "Registration Statement") no later than July 15, 2004.

The Company did not file the Registration Statement by July 15, 2004, but rather filed it on March 3, 2005. Accordingly, the Company issued to the purchasers of units a total of 563,250 shares of common stock, which represented 3% of the number of shares of common stock purchased by each purchaser for each month or part thereof of such late filing. Such shares of common stock were registered under the Registration Statement on Form S-3 filed with the Securities and Exchange Commission and declared effective on March 3, 2005.

The Emerging Issues Task Force ("EITF") is currently reviewing the accounting for securities with liquidated damages clauses as stated in EITF 05-04, "The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF 00-19" ("EITF 05-04"). There are currently several views as to how to account for this type of transaction and the EITF has not yet reached a consensus. In accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in the Company's Own Stock," ("EITF 00-19") and EITF 05-04, because the maximum potential liquidated damages for failure to file and have the registration statement declared effective is greater than the difference between the fair value of registered and unregistered shares, the value of the common stock subject to such registration rights should be classified as temporary equity. Additionally, in accordance with EITF 00-19 and the terms of the above warrants, the fair value of the warrants should be recorded as a liability, with an offsetting reduction to stockholders' equity. The warrant liability is initially measured at fair value using the Black-Scholes option pricing model, and is then re-valued at each reporting date, with changes in the fair value reported as non-cash charges or credits to earnings.

Historically, the Company classified the common stock and warrants with registration rights described above as stockholders' equity, as it believed these securities met the requirements necessary to record them as stockholders' equity. The Company has concluded that its financial statements for the year ended December 31, 2004, and interim periods ended September 30, 2004, and March 31, 2005, will be restated. The restatement includes the reclassification of common stock subject to registration rights from stockholders' equity and into temporary equity, and the inclusion of the liability for the fair value of penalty common stock as of forty five (45) days after the closing date (July 15, 2004).

Based on the above determination, as of December 31, 2004, the Company reclassified \$2,445,000 of common stock subject to registration rights from stockholders' equity and into temporary equity. On March 3, 2005, such shares of common stock were registered under the Registration Statement on Form S-3 filed with the Securities and Exchange Commission and declared effective. Accordingly, the Company reclassified \$2,445,000 from temporary equity and into stockholders' equity.

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In addition, the Company measured the initial fair value of the warrants on the closing date at \$26,022 and recorded the fair value to warrant liability. At the end of each reporting period, the value of the warrants was re-measured based on the fair value of the underlying shares, and changes to the warrant liability and related "gain or loss in fair value of the warrants" was recorded as a non-cash charge or credit to earnings. The warrant liability was cancelled when the warrants expired on May 31, 2005.

The fair value of the warrants was estimated using the Black-Scholes option-pricing model, with the following assumptions: risk-free interest rate of 4.13% to 4.50%, dividend yield of 0%, expected life of 0.67 to 0.17 years and volatility range of 71.01% to 86.32% were used.

For the years ended December 31, 2005 and 2004, the non-cash gain on fair value of warrants was \$2,717 and \$23,305 respectively. The gain on fair value of warrants is due principally to the decrease in the market value of the common stock of the Company. The non-cash gain on fair value of warrants has no effect on the Company's cash flows or liquidity.

In addition, the Company measured the initial fair value of the penalty common stock to be \$86,365, and recorded as a non-cash charge. At the end of each reporting period, the increase in the penalty common stock was valued based on the fair value of the underlying shares, and changes to the penalty common stock liability and related non-cash charge was recorded. The penalty common stock liability was reclassified to stockholders' equity when the shares of common stock were registered under the Registration Statement on Form S-3 filed with the Securities and Exchange Commission and declared effective on March 3, 2005 and the shares of common stock were issued.

The restatement adjustments to the Company's consolidated balance sheets and statements of operations for the year ended December 31, 2004 and interim periods ended March 31, 2005, September 30, 2005 and 2004, and June 30, 2005 are summarized below. Restated statements of cash flows for the interim periods have not been presented. The restatement adjustment had no effect on previously reported total operating, investing and financing activities.

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Restated Consolidated Balance Sheet September 30, 2004 (unaudited)

	As Previously Reported 9/30/04	Restatement Adjustment 9/30/04	As Restated 9/30/04
ASSETS			
Current Assets			
Cash	\$ 36,646	\$ -	\$ 36,646
Accounts receivable	60,000	-	60,000
Prepaid expenses	21,790	-	21,790
Total current assets	118,436	-	118,436
Equipment , net of accumulated depreciation of \$211,994	161,608	-	161,608
Other Assets	706	-	706
Total assets	\$ 280,750	\$ -	\$ 280,750
LIABILITIES AND STOCKHOLDERS' DEFICIENCY			
Current Liabilities			
Accounts payable	\$ 219,496	\$ -	\$ 219,496
Accrued expenses	46,428	-	46,428
Current portion of notes payable - officers	171,600	-	171,600
Foreign taxes payable	148,476	-	148,476
Loan from stockholder	43,007	-	43,007
Warrant liability	-	26,022	26,022
Penalty Common Stock subject to continuing registration	-	86,365	86,365
Total current liabilities	629,007	112,387	741,394
Senior secured note payable	250,000	-	250,000
Notes payable - officers, net of current portion	40,891	-	40,891
Total liabilities	919,898	112,387	1,032,285
Commitments and Contingencies			
Common Stock with Registration Rights:			
Common Stock subject to continuing registration, \$0.0001 par value, 2,445,000 shares issued and outstanding	-	2,445,000	2,445,000
Common Stock issued for equipment subject to continuing registration, \$0.0001 par value, 58,334 shares issued and outstanding	-	58,334	58,334

	-	2,503,334	2,503,334
Stockholders' Deficiency			
Preferred Stock, par value \$10 per share; 10,000,000 shares authorized Class A convertible preferred stock, par value \$10 per share; 1,000,000 shares designated; none issued	-	-	-
Class B preferred stock, par value \$10 per share; 1,000,000 shares designated; none issued	-	-	-
Common stock, par value \$.01 per share; 150,000,000 shares authorized; 16,514,018 shares issued and outstanding	190,173	(25,033)	165,140
Additional paid-in capital	5,190,380	(2,504,323)	2,686,057
Accumulated deficit	(6,182,261)	(86,365)	(6,268,626)
Accumulated other comprehensive income – foreign currency translation gains	162,560	-	162,560
Total stockholders' deficiency	(639,148)	(2,615,721)	(3,254,869)
Total liabilities and stockholders' deficiency	\$ 280,750		