

BANJO & MATILDA, INC.

FORM 10-Q (Quarterly Report)

Filed 05/20/14 for the Period Ending 03/31/14

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|-------------|-------------------------------------------------------------|
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| CIK | 0001481504 |
| Symbol | BANJ |
| SIC Code | 5940 - Miscellaneous Shopping Goods Stores |
| Fiscal Year | 06/30 |

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2014

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 000-54277

BANJO & MATILDA, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

27-1519178

(I.R.S. employer
identification number)

**76 William Street
Paddington NSW 2021
Australia**

(Address of principal executive offices and zip code)

+61 2 8069-2665

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting
company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 19, 2014, the Registrant had outstanding 27,511,484 shares of common stock.

BANJO & MATILDA, INC.
FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain statements of a forward-looking nature. Such forward-looking statements, including but not limited to statements regarding projected growth, trends and strategies, future operating and financial results, financial expectations and current business indicators are based upon current information and expectations and are subject to change based on factors beyond the control of the Company. Forward-looking statements typically are identified by the use of terms such as “look,” “may,” “should,” “might,” “believe,” “plan,” “expect,” “anticipate,” “estimate” and similar words, although some forward-looking statements are expressed differently. The accuracy of such statements may be impacted by a number of risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including but not limited to those set forth herein and in our Current Report on Form 8-K filed on November 18, 2013.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by the federal securities laws, we undertake no obligation to update forward-looking information. Nonetheless, the Company reserves the right to make such updates from time to time by press release, periodic report or other method of public disclosure without the need for specific reference to this Report. No such update shall be deemed to indicate that other statements not addressed by such update remain correct or create an obligation to provide any other updates.

PART I FINANCIAL INFORMATION

Item 1. Financial statements

INDEX TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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**BANJO & MATILDA, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

| | March 31, 2014 | June 30, 2013 |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------|
| | <u>(Unaudited)</u> | <u></u> |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 22,490 | \$ 11,104 |
| Trade receivables, net | 289,875 | 11,120 |
| Inventory | 626,807 | 329,598 |
| Other assets | 65,720 | 78,505 |
| TOTAL CURRENT ASSETS | <u>1,004,892</u> | <u>430,327</u> |
| NON-CURRENT ASSETS | | |
| Intangible assets | 54,136 | 43,310 |
| Other receivable | 131,045 | 142,658 |
| Property, plant and equipment | 10,613 | 7,324 |
| TOTAL NON-CURRENT ASSETS | <u>195,794</u> | <u>193,292</u> |
| TOTAL ASSETS | <u>\$ 1,200,686</u> | <u>\$ 623,619</u> |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Trade and other payables | \$ 421,627 | \$ 395,802 |
| Deposit payable | 6,165 | - |
| Trade financing | 250,666 | 93,968 |
| Accrued interest | 38,052 | 13,063 |
| Loans payable | 428,131 | - |
| TOTAL CURRENT LIABILITIES | <u>1,144,641</u> | <u>502,833</u> |
| NON-CURRENT LIABILITIES | | |
| Loan from related parties | 61,799 | 293,640 |
| TOTAL NON-CURRENT LIABILITIES | <u>61,799</u> | <u>293,640</u> |
| TOTAL LIABILITIES | <u>1,206,440</u> | <u>796,473</u> |
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock, \$0.00001 par value, 100,000,000 shares authorized and 1,000,000 and 0 shares issued and outstanding, respectively | 10 | - |
| Common stock, \$0.00001 par value, 100,000,000 shares authorized and 27,411,484 and 18,505,539 shares issued and outstanding, respectively | 274 | 185 |
| Additional paid in capital | 741,279 | 246,396 |
| Other accumulated comprehensive gain | 57,167 | 51,106 |
| Accumulated deficit | (804,484) | (470,541) |
| TOTAL STOCKHOLDERS' DEFICIT | <u>(5,754)</u> | <u>(172,854)</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | <u>\$ 1,200,686</u> | <u>\$ 623,619</u> |

The accompanying notes are an integral part of these financial statements

BANJO & MATILDA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2014 AND 2013
(UNAUDITED)

| | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|-----------------------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | <u>March 31, 2014</u> | <u>March 31, 2013</u> | <u>March 31, 2014</u> | <u>March 31, 2013</u> |
| Revenue | \$ 716,144 | \$ 553,596 | \$ 1,671,373 | \$ 1,346,075 |
| Cost of sales | 446,154 | 322,611 | 1,031,130 | 792,704 |
| Gross profit | <u>269,990</u> | <u>230,985</u> | <u>640,243</u> | <u>553,371</u> |
| Payroll and employee related expenses | 164,005 | 65,004 | 364,362 | 189,471 |
| Administration expense | 72,336 | 30,685 | 234,521 | 92,731 |
| Marketing expense | 42,720 | 17,691 | 102,951 | 42,103 |
| Occupancy expenses | 33,237 | 13,502 | 69,827 | 38,428 |
| Depreciation and amortization expense | <u>2,823</u> | <u>2,324</u> | <u>9,330</u> | <u>6,973</u> |
| | <u>315,121</u> | <u>129,206</u> | <u>780,991</u> | <u>369,706</u> |
| (Loss) income from operations | <u>(45,131)</u> | <u>101,779</u> | <u>(140,748)</u> | <u>183,665</u> |
| Other Income (Expense) | | | | |
| Other income | - | - | - | 13,735 |
| Finance costs | <u>(96,906)</u> | <u>(93,625)</u> | <u>(193,195)</u> | <u>(167,734)</u> |
| Total Other Expense | <u>(96,906)</u> | <u>(93,625)</u> | <u>(193,195)</u> | <u>(153,999)</u> |
| (Loss) income before income tax | (142,037) | 8,154 | (333,943) | 29,666 |
| Provision for income taxes | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net (loss) income | (142,037) | 8,154 | (333,943) | 29,666 |
| Other comprehensive income | | | | |
| Foreign currency translation | <u>603</u> | <u>(1,916)</u> | <u>6,061</u> | <u>(12,130)</u> |
| Comprehensive (loss) income | \$ (141,434) | \$ 6,238 | \$ (327,882) | \$ 17,536 |
| Net (loss) income per share from net (loss) income | | | | |
| Basic | <u>\$ (0.005)</u> | <u>\$ 0.000</u> | <u>\$ (0.014)</u> | <u>\$ 0.002</u> |
| Diluted | <u>\$ (0.005)</u> | <u>\$ 0.000</u> | <u>\$ (0.014)</u> | <u>\$ 0.002</u> |
| Weighted average number of shares outstanding: | | | | |
| Basic | <u>27,236,683</u> | <u>18,505,539</u> | <u>24,461,219</u> | <u>18,505,539</u> |
| Diluted | <u>27,236,683</u> | <u>18,505,539</u> | <u>24,461,219</u> | <u>18,505,539</u> |

The accompanying notes are an integral part of these financial statements

BANJO & MATILDA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, 2014 AND 2013
(UNAUDITED)

| | 2014 | 2013 |
|--------------------------------------------------------------------------------------|------------------|------------------|
| Net (loss) income | \$ (333,943) | \$ 29,666 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation and amortization | 9,330 | 6,973 |
| (Increase) / decrease in assets: | | |
| Trade receivables | (276,230) | (189,121) |
| Inventory | (291,482) | (126,348) |
| Other assets | 13,424 | (74,210) |
| Other receivable | 12,875 | (19,140) |
| Increase/ (decrease) in current liabilities: | | |
| Trade payables and other liabilities | 47,054 | 12,552 |
| Deposits payable | 6,112 | (86,686) |
| Net cash used in operating activities | (812,860) | (446,314) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of intangible assets | (15,650) | (23,672) |
| Purchase of property, plant and equipment | (7,189) | - |
| Net cash used in investing activities | (22,839) | (23,672) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceed from issuance of stock | 195,000 | - |
| Loans, net | 500,825 | 347,803 |
| Net trade financing | 154,442 | 121,042 |
| Net cash provided by financing activities | 850,267 | 468,845 |
| Effect of exchange rate changes on cash and cash equivalents | (3,182) | 102 |
| Net (decrease) / increase in cash and cash equivalents | 11,386 | (1,039) |
| Cash and cash equivalents at the beginning of the period | 11,104 | 4,061 |
| Cash and cash equivalents at the end of the period | \$ 22,490 | \$ 3,022 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Conversion of debt to equity | \$ 338,083 | \$ - |
| Cash paid during the year for: | | |
| Income tax payments | \$ - | \$ - |
| Interest payments | \$ 62,896 | \$ 25,928 |

The accompanying notes are an integral part of these financial statements

Note 1 – BASIS OF PRESENTATION AND ORGANIZATION

Banjo and Matilda, Inc. was incorporated in Nevada on December 18, 2009 under the name Eastern World Group, Inc. On September 24, 2013, its name was changed to Banjo & Matilda, Inc.

On November 14, 2013, Banjo & Matilda, Inc., entered into a Share Exchange Agreement (the “Exchange Agreement”) with Banjo & Matilda, Pty Ltd., a corporation formed under the laws of Australia (the “Company”) and the shareholders of the Company. Pursuant to the Exchange Agreement, at the closing of the transaction contemplated thereunder (the “Transaction”), the Company became a wholly-owned subsidiary of Banjo & Matilda, Inc.

Banjo & Matilda Pty Ltd. was incorporated under the laws of Australia on May 27, 2009 and manufactures and sells cashmere fashion. Headquartered at Bondi Beach, the Aussie lifestyle of sun, sand and surf resonates innately with this label and its philosophy of low maintenance, style and comfort.

The ultra-soft cashmere staples, pairing simplicity with cool sophistication has rapidly gained loyal customers worldwide positioning the label as the ‘go-to’ for contemporary cashmere products.

Under accounting principles generally accepted in the United States, the share exchange is considered to be a capital transaction in substance, rather than a business combination. That is, the share exchange is equivalent to the issuance of stock by Banjo & Matilda Pty Ltd. for the net monetary assets of the Banjo & Matilda, Inc. accompanied by a recapitalization, and is accounted for as a change in capital structure. Accordingly, the accounting for the share exchange will be identical to that resulting from a reverse acquisition, except no goodwill will be recorded. Under share reverse takeover accounting, the post reverse acquisition comparative historical financial statements of the legal acquirer, Banjo & Matilda, Inc. are those of the legal acquiree, Banjo & Matilda Pty Ltd., which is considered to be the accounting acquirer. Share and per share amounts stated have been retroactively adjusted to reflect the merger.

As a result of the exchange agreement, the reorganization was treated as an acquisition by the accounting acquiree that is being accounted for as a recapitalization and as a reverse merger by the legal acquirer for accounting purposes. Pursuant to the recapitalization, all capital stock shares and amounts and per share data have been retroactively restated. Accordingly, the financial statements include the following:

- (1) The balance sheet consists of the net assets of the accounting acquirer at historical cost and the net assets of the legal acquirer at fair value.
- (2) The statements of operations include the operations of the accounting acquirer for the period presented and the operations of the legal acquirer from the date of the merger.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements were prepared in conformity with generally accepted accounting principles in the United States of America (“US GAAP”).

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to U.S. GAAP rules and regulations for presentation of interim financial information. Therefore, the unaudited condensed interim financial statements should be read in conjunction with the audited annual financial statements for the years ended June 30, 2013 and 2012. Current and future financial statements may not be directly comparable to the Company’s historical financial statements. Accordingly, the results of operations for the interim period are not necessarily indicative of the results to be expected for any other interim period or for the full year.

Exchange Gain (Loss)

During the three and nine months ended March 31, 2014 and 2013, the transactions of the Company were denominated in foreign currency and were recorded in Australian dollar (AUD) at the rates of exchange in effect when the transactions occurred. Exchange gains and losses are recognized for the different foreign exchange rates applied when the foreign currency assets and liabilities are settled.

Foreign Currency Translation and Comprehensive Income (Loss)

The accounts of the Company were maintained, and its financial statements were expressed, in AUD. Such financial statements were translated into USD with the AUD as the functional currency. All assets and liabilities were translated at the exchange rate at the balance sheet date, stockholder's equity is translated at the historical rates and income statement items are translated at the average exchange rate for the period. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Any differences between the initially recorded amount and the settlement amount are recorded as a gain or loss on foreign currency transaction in the statements of operations. The resulting translation adjustments are reported under other comprehensive income as a component of shareholders' equity. There were no significant fluctuations in the exchange rate for the conversion of AUD to USD after the balance sheet date.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include collectability of accounts receivable, accounts payable, sales returns and recoverability of long-term assets.

Reportable Segment

The Company has one reportable segment. The Company's activities are interrelated and each activity is dependent upon and supportive of the other. Accordingly, all significant operating decisions are based on analysis of financial products provided as a single global business.

Liquidity Matters

Based upon its current projection of revenue, management believes that its current cash position and available financing provide sufficient resources and operating flexibility through at least the next twelve months. However, there can be no assurance that projected revenue growth and improvement in operating results will occur or that the Company will successfully implement its plans. In the event cash flow from operations is not sufficient, additional sources of financing will be required in order to maintain the Company's current operations. Whereas management believes it will have access to other financing sources, no assurance can be given that such additional sources of financing will be available on acceptable terms, on a timely basis or at all.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. Revenue generally is recognized net of allowances for returns and any taxes collected from customers and subsequently remitted to governmental authorities.

Cost of Sales

Cost of sales consists primarily of inventory costs, as well as warehousing costs (including the cost of warehouse labor), shipping, importation duties and charges, third party royalties, and product sampling.

Operating Overhead Expense

Operating overhead expense consists primarily of payroll and benefit related costs, rent, depreciation and amortization, professional services, and meetings and travel.

Income Taxes

The Company utilizes FASB Accounting Standards Codification (ASC) Topic 740, Income Taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that were included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company follows FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (codified in FASB ASC Topic 740). When tax returns are filed, it is likely that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest associated with unrecognized tax benefits is classified as interest expense and penalties are classified in selling, general and administrative expenses in the statements of income.

At March 31, 2014 and 2013, the Company had not taken any significant uncertain tax positions on its tax returns for 2012 and prior years or in computing its tax provision for 2013.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are cash, accounts receivable and other receivables arising from its normal business activities. The Company places its cash in what it believes to be credit-worthy financial institutions. The Company has a diversified customer base across many markets, predominantly Australia, United States of America, United Kingdom, Europe and the Middle East. The Company controls credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk, establishes an allowance, if required, for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowance is limited. In addition, Receivables that are factored through the Company's Receivable finance facility are guaranteed by the finance company that further mitigates Credit Risk.

Risks and Uncertainties

The Company is subject to risks from, among other things, competition associated with the industry in general, other risks associated with financing, liquidity requirements, rapidly changing customer requirements, limited operating history, foreign currency exchange rates and the volatility of public markets.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and legal counsel assess such contingent liabilities, and such assessment inherently involves judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed. Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

Cash and Equivalents

Cash and equivalents include cash in hand and cash in demand deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. At March 31, 2014 and June 30, 2013, the Company had \$27,160 and \$11,104 in cash in Australia and not covered by insurance. The Company has not experienced any losses in such accounts and believes it is not exposed to any risks on its cash in bank accounts.

Allowance for Doubtful Accounts

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. There were no allowances for doubtful accounts as of March 31, 2014 and June 30, 2013.

Inventory

Inventories are valued at the lower of cost (determined on a weighted average basis) or market. Management compares the cost of inventories with the market value and allowance is made to write down inventories to market value, if lower. As of March 31, 2014 and June 30, 2013, inventory only consisted of the following:

| | March 31, 2014 | June 30, 2013 |
|------------------|---------------------------|--------------------------|
| Work in progress | \$ 160,456 | \$ 124,492 |
| Finished goods | 458,521 | 194,324 |
| Raw materials | 7,830 | 10,782 |
| | <u>\$ 626,807</u> | <u>\$ 329,598</u> |

Property, Plant & Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the shorter of the estimated useful life of the asset or the lease term. The estimated useful lives of our property and equipment are generally as follows: computer software developed or acquired for internal use, three to 10 years; computer equipment, two to three years; buildings and improvements, five to 15 years; leasehold improvements, two to 10 years; and furniture and equipment, one to five years.

As of March 31, 2014 and June 30, 2013, Plant and Equipment consisted of the following:

| | March 31, 2014 | June 30, 2013 |
|--------------------------|---------------------------|--------------------------|
| Plant and Equipment | \$ 29,319 | \$ 21,855 |
| Accumulated Depreciation | (18,706) | (14,531) |
| | <u>\$ 10,613</u> | <u>\$ 7,324</u> |

Depreciation was \$505 and \$2,324 for three months ended March 31, 2014 and 2012, respectively.

Depreciation was \$3,999 and \$6,973 for nine months ended March 31, 2014 and 2012, respectively.

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities and short-term debt, the carrying amounts approximate their fair values due to their short maturities. ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, "Distinguishing Liabilities from Equity," and ASC 815.

As of March 31, 2014 and June 30, 2013, the Company did not identify any assets and liabilities that are required to be presented on the balance sheet at fair value.

Earnings Per Share (EPS)

Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similar to basic net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all the potential common shares, warrants and stock options had been issued and if the additional common shares were dilutive. Diluted EPS is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method for the outstanding options and the if-converted method for the outstanding convertible preferred shares. Under the treasury stock method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Under the if-converted method, convertible outstanding instruments are assumed to be converted into common stock at the beginning of the period (or at the time of issuance, if later).

The following table sets for the computation of basic and diluted earnings per share for three and nine months ended March 31, 2014 and 2013:

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------------------------------------------------------|---------------------------|------------------|--------------------------|------------------|
| | 3/31/2014 | 3/31/2013 | 3/31/2014 | 3/31/2013 |
| Basic and Diluted: | | | | |
| Net (loss) income | \$ (142,037) | \$ 8,154 | \$ (333,943) | \$ 29,666 |
| Weighted average number of shares in computing basic and diluted net (loss) income | | | | |
| Basic | 27,236,683 | 18,505,539 | 24,461,219 | 18,505,539 |
| Diluted: | 27,236,683 | 18,505,539 | 24,461,219 | 18,505,539 |
| Net (loss) income per share | | | | |
| Basic and diluted: | <u>\$ (0.005)</u> | <u>\$ 0.000</u> | <u>\$ (0.014)</u> | <u>\$ 0.002</u> |

Intangible Assets

The Company records identifiable intangible assets at fair value on the date of acquisition and evaluates the useful life of each asset.

Finite-lived intangible assets primarily consist of software development capitalized. Finite-lived intangible assets are amortized on a straight-line basis and are tested for recoverability if events or changes in circumstances indicate that their carrying amounts may not be recoverable. These intangibles have useful lives ranging from 1 to 10 years. No events or changes in circumstances indicate that impairment existed as of March 31, 2014.

Recently Issued Accounting Pronouncements

There have been no new accounting pronouncements during the three and nine months ended March 31, 2014 that we believe would have a material impact on our financial position or results of operations.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations or cash flow.

Note 3 – OTHER ASSETS

Other assets consist of the following as of March 31, 2014 and June 30, 2013:

| | March 31, 2014 | June 30, 2013 |
|--------------------------|---------------------------|--------------------------|
| VAT paid | \$ 58,410 | \$ 68,168 |
| Prepaid and other assets | 7,310 | 10,337 |
| | <u>\$ 65,720</u> | <u>\$ 78,505</u> |

Note 4 – OTHER RECEIVABLE

Other receivable consists of the following as of March 31, 2014 and June 30, 2013:

| | March 31, 2014 | June 30, 2013 |
|-------------------|---------------------------|--------------------------|
| Development grant | \$ 131,045 | \$ 98,792 |
| Other receivable | - | 43,866 |
| | <u>\$ 131,045</u> | <u>\$ 142,658</u> |

Note 5 – INTANGIBLE ASSETS

Intangible assets consist of the following as of March 31, 2014 and June 30, 2013:

| | March 31, 2014 | June 30, 2013 |
|--------------------------|---------------------------|--------------------------|
| Website | \$ 63,615 | \$ 47,371 |
| Accumulated amortization | (9,479) | (4,061) |
| | <u>\$ 54,136</u> | <u>\$ 43,310</u> |

The intangible assets are amortized over 1 to 10 years. Amortization expense was \$2,318 and \$0 for the three months ended March 31, 2014 and 2013 respectively.

Amortization expense was \$5,331 and \$0 for the nine months ended March 31, 2014 and 2013 respectively.

Note 6 – TRADE AND OTHER PAYABLES

As of March 31, 2014 and June 30, 2013, trade and other payable are comprised of the following:

| | March 31, 2014 | June 30, 2013 |
|-------------------|---------------------------|--------------------------|
| Trade payable | \$ 340,942 | \$ 334,776 |
| Employee benefits | 50,505 | 33,085 |
| Other liabilities | 30,180 | 27,941 |
| | <u>\$ 421,627</u> | <u>\$ 395,802</u> |

Note 7 – TRADE FINANCING

The Company has a trade financing agreement with a financial institution in Australia with a maximum limit of AUD \$150,000 at an interest rate of 20.95% per annum. As of March 31, 2014 and June 30, 2013, the Company had outstanding balances of \$140,768 and \$93,968, respectively.

The Company entered into a trade financing agreement with a financial institution in New York with a maximum limit of ninety five percent of the accounts receivable at an interest rate of 1/40 of one percent per day. As of March 31, 2014 and June 30, 2013, the Company had outstanding balances of \$109,898 and \$0, respectively.

Note 8 –LOANS

In November 2013, the company entered into a short term loan arrangement totalling AUD \$100,000 with a shareholder of the Company. Terms of the note were interest rate at 15% per annum or .0329% per day due 30 days from the loan date. The short term note was converted into a 30 day callable convertible note in January 2014. Interest expense on the loan was \$6,158 during the nine months ended March 31, 2014.

In December 2013, the company entered into a short term loan arrangement in the amount of \$100,000 with an individual. Terms of the note require interest payment of \$5,000 on the repayment date, 30 days after the note date. If not repaid at that time, interest will accrue at the rate of \$166 per day until the note is repaid. As of March 31, 2014 the note has not been repaid and interest of \$19,965 has been accrued.

On January 2014, the Company entered into a convertible loan agreement totaling AUD \$250,000 with a shareholder of the Company. The Convertible Note bears interest at the rate of 9% per annum and is due on the first anniversary of the date of issuance, January 12, 2015. All or any portion of the principal amount of the Convertible Note and all accrued interest is convertible at the option of the holder into common stock of the Company at a conversion price of thirty cents (\$0.30) per share, provided that if the Volume Weighted Average Price (VWAP) for the 30 days immediately preceding the receipt of a conversion notice is less than sixty cents (\$.60) per share, the conversion price shall be reduced to twenty cents (\$.20) per share. Interest expense on the loan was \$4,290 during the nine months ended March 31, 2014.

Related Party Loans

The Company has loans payable in the amount of \$61,799 and \$293,640 to a shareholder and officer of the Company as of March 31, 2014 and June 30, 2013, respectively. Interest is at three percent (3%) per annum. Interest expense on these loans for the nine months ended March 31, 2014 and 2013 was \$612 and \$3,628, respectively.

| | March 31, 2014 | June 30, 2013 |
|--------------------|---------------------------|--------------------------|
| Related party loan | \$ 61,799 | \$ 293,640 |
| | <u>\$ 61,799</u> | <u>\$ 293,640</u> |

Note 9 – STOCKHOLDERS' EQUITY

Preferred Stock

Pursuant to an Employment Agreement (the "Agreement") with the Chief Executive Officer on November 15, 2013, The Company issued 1,000,000 undesignated shares of Preferred Stock each having a par value of \$0.00001. The preferred shares shall be entitled to 100 votes to every one share of common stock. The Preferred Shares shall only valid during the term of this Agreement. At the end of the Agreement, November 15, 2016, the shares shall be cancelled and returned to Treasury and the Executive shall have no preferential voting rights. If this Agreement is renewed the preferred shares remain the Executives.

Common Stock

Pursuant to the Exchange Agreement on November 14, 2013, the Company issued 18,505,539 Common Stock, par value \$0.00001 per share for the acquisition of Banjo & Matilda, Pty Ltd.

On November 22, 2013, the Company agreed to issue 250,000 shares of the Company stock for \$50,000 or \$0.20 per share to an individual investor.

On November 27, 2013, the Company agreed to issue 250,000 shares of the Company stock for \$50,000 or \$0.20 per share to an individual investor.

On December 2, 2013, the Company agreed to issue 100,000 shares of the Company stock for \$20,000 or \$0.20 per share to an individual investor.

On January 9, 2014, the Company agreed to issue 250,000 shares of the Company stock for \$50,000 or \$0.20 per share to a corporate investor.

On January 10, 2014, the Company agreed to issue 125,000 shares of the Company stock for \$25,000 or \$0.20 per share to a corporate investor.

Note 10 – INCOME TAX

The following is a reconciliation of the provision for income taxes as the US federal income tax rate to the income taxes reflected in the Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended March 31, 2014 and 2013, respectively:

Three Months Ended March 31, 2014 and 2013:

| | U.S. | State | International | Total |
|-----------------------|-------------|--------------|----------------------|--------------|
| March 31, 2014 | | | | |
| Current | \$ - | \$ - | \$ - | \$ - |
| Deferred | - | - | - | - |
| Total | \$ - | \$ - | \$ - | \$ - |
| March 31, 2013 | | | | |
| Current | \$ - | \$ - | \$ - | \$ - |
| Deferred | - | - | - | - |
| Total | \$ - | \$ - | \$ - | \$ - |

Reconciliation of the differences between the statutory U.S. Federal income tax rate and the effective rate is as follows:

| | 2014 | 2013 |
|---------------------------------|-------------|-------------|
| US statutory tax rate (benefit) | 34% | 34% |
| Tax rate difference | (4)% | (4)% |
| Net operating loss | (30)% | (30)% |
| Tax expense at actual rate | <u>-%</u> | <u>-%</u> |

Nine Months Ended March 31, 2014 and 2013:

| | U.S. | State | International | Total |
|-----------------------|-------------|--------------|----------------------|--------------|
| March 31, 2014 | | | | |
| Current | \$ - | \$ - | \$ - | \$ - |
| Deferred | - | - | - | - |
| Total | \$ - | \$ - | \$ - | \$ - |
| March 31, 2013 | | | | |
| Current | \$ - | \$ - | \$ - | \$ - |
| Deferred | - | - | - | - |
| Total | \$ - | \$ - | \$ - | \$ - |

Reconciliation of the differences between the statutory U.S. Federal income tax rate and the effective rate is as follows:

| | 2014 | 2013 |
|---------------------------------|-------------|-------------|
| US statutory tax rate (benefit) | 34% | 34% |
| Tax rate difference | (4)% | (4)% |

| | | |
|----------------------------|--------------|---------------|
| Net operating loss | <u>(30)%</u> | <u>(30) %</u> |
| Tax expense at actual rate | <u>-%</u> | <u>-%</u> |

Note 11 –SUBSEQUENT EVENTS

Management has evaluated events subsequent through May 15, 2014 for transactions and other events that may require adjustment of and/or disclosure in such financial statements. We have nothing to report in this regard.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our Company's financial condition and results of operations should be read in conjunction with our unaudited financial statements and the related notes included elsewhere in this report and with the financial statements and notes thereto for as at and the year ended June 30, 2013 included in the Company's Current Report on Form 8-K filed on November 18, 2013. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements.

Company background

On November 14, 2013, we, then known as Banjo & Matilda, Inc., a Nevada corporation, consummated a Share Exchange Agreement (the "Share Exchange") with Banjo & Matilda Pty Ltd, a corporation organized under the laws of Australia ("Banjo & Matilda") and the shareholders of Banjo & Matilda ("B&M Shareholders"). Pursuant to the Exchange Agreement, we acquired 100% of the issued and outstanding capital stock of Banjo & Matilda, making it our wholly-owned subsidiary.

The Share Exchange was accounted for as a recapitalization of Banjo & Matilda effected by a share exchange, where Banjo & Matilda is considered the acquirer for accounting and financial reporting purposes. Consequently, the historical consolidated financial statements of Banjo & Matilda, the Australian entity, are now the historical financial statements of Banjo & Matilda, Inc., the reporting company. The net assets and liabilities of Banjo & Matilda, Inc., as of the date of the consummation of the Share Exchange were brought forward at their book value and no goodwill was recognized. Unless the context otherwise requires, references herein to "we," "us," "our company" and the like, for periods prior to the consummation of the Share Exchange should be understood to be references to Banjo & Matilda, the Australian entity and, from and after the consummation of the Share Exchange to the ongoing reporting company and its subsidiaries.

Founded in 2008 by Sydney designer Belinda Storelli Macpherson and her husband, Ben Macpherson, Banjo & Matilda designs, manufactures, sells and distributes premium contemporary luxury knitwear. Our products principally consist of cashmere products targeted at the premium contemporary knitwear category. Knitwear represents approximately 30% of all apparel sales in the Northern Hemisphere, and there are very few knitwear only brands. By focusing exclusively on this market our company will have a large global sales opportunity.

We do not own any manufacturing facilities and rely upon third party contract manufacturers, mainly in China, to produce our products. Our products are distributed and sold through our website, www.banjoandmatilda.com, augmented by e-media campaigns and advertising; through our own branded store, and through wholesalers to major department stores and independent retailers. Our brand has experienced strong and consistent year-on-year revenue growth.

Our revenues are largely determined by the volume of products we sell and our ability to sell these products timely and at full, as opposed to discounted prices. Our cost of sales is largely determined by the price we pay to have our products manufactured, which, in turn, is determined by the quality of the fabrics used in our products and the intricacies of the manufacturing process. In addition to our cost of sales, our profitability is determined by such corporate and overhead items as marketing, payroll, administration and occupancy expenses, and the cost of financing used to increase our sales..

Results of Operations

The following discussion of the results of operations constitutes management's view of the factors that affected the financial and operating performance for the three and nine months ended March 31, 2014 and 2013. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report. The Company has a June 30 fiscal year end.

The accounts of Banjo & Matilda are maintained, and its consolidated financial statements are expressed, in Australian dollars. Such financial statements were translated into United States Dollars with the Australian Dollar as the functional currency to prepare the consolidated financial statements included in this Report. All assets and liabilities were translated at the exchange rate at the balance sheet date, stockholders' equity is translated at the historical rates and income statement items are translated at the average exchange rate for the period. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Any differences between the initially recorded amount and the settlement amount are recorded as a gain or loss on foreign currency transaction in the consolidated statements of operations. The resulting translation adjustments are reported under other comprehensive income as a component of shareholders' equity.

March Quarter Highlights

- Retail Outlets (“Doors”) increased 122% to 40 as of March 31, 2014 from 18 at the end of the December 2013 quarter as key premium department stores and specialty retailers have begun to stock the brand. Based on confirmed forward wholesale orders the number of Doors are anticipated to grow significantly through the remainder of the year.
- Revenue increased 29% from the March 2013 quarter. Revenue for the nine months to March 2014 increased 24% from the prior year corresponding period
- Both Online & Store retail sales grew sharply recording a 369% growth in online sales and 417% growth in same store retail sales, as compared to the prior year March 2013 quarter.
- Gross Margin % for the March 2014 quarter fell four percentage points to 38% from the March 2013 quarter, and decreased three percentage points to 38% for the nine months to March 2014 from the corresponding periods. Gross Profit increased 17% to \$269,990 in the quarter ended March 31, 2014 from \$230,985 for the corresponding period in 2013.
- Losses from operations were (\$45,000) for the March 2014 quarter compared to a profit of \$102,000 for the March 2013 quarter. The loss reflects the impact of corporate and public company related expenses which were not present in the earlier year, as well as increased staffing to support the company’s growth.

Three months ended March 31, 2014 and 2013

| | Three Months Ended | | Dollar | Percentage |
|---------------------------------------|---------------------------|------------------|-------------------|-------------------|
| | March 31, | March 31, | Increase | Increase |
| | 2014 | 2013 | (Decrease) | (Decrease) |
| Revenue | \$ 716,144 | \$ 553,596 | \$ 162,548 | 29% |
| Cost of sales | 446,154 | 322,611 | 123,543 | 38% |
| Gross profit | <u>269,990</u> | <u>230,985</u> | 39,005 | 17% |
| Payroll and employee related expenses | 164,005 | 65,004 | 99,001 | 152% |
| Administration expense | 72,336 | 30,685 | 41,651 | 136% |
| Marketing expense | 42,720 | 17,691 | 25,029 | 141% |
| Occupancy expenses | 33,237 | 13,502 | 19,735 | 146% |
| Depreciation and amortization expense | 2,823 | 2,324 | 499 | 21% |
| | <u>315,121</u> | <u>129,206</u> | 185,915 | 144% |
| (Loss) income from operations | <u>(45,131)</u> | <u>101,779</u> | (146,910) | -144% |
| Other Income (Expense) | | | | |
| Finance costs | (96,906) | (93,625) | (3,281) | 4% |
| Total Other Expense | <u>(96,906)</u> | <u>(93,625)</u> | (3,281) | 4% |
| Net (loss) income | <u>\$ (142,037)</u> | <u>\$ 8,154</u> | (150,191) | -1842% |

Revenue:

Revenue increased 29% from \$553,596 in the three months ended March 2013 to \$716,144 in the three months ended March 2014. The Revenue increase during this period is attributable to the following items: (i) An increase in Online sales of 369%, mainly as a result of increasing brand recognition in part driven by the increase in retail outlets carrying the brand; and, a growing online customer base driven by online marketing initiatives and general publicity and brand development; (ii) The number of retail outlets (“Doors”) selling our products increasing to 40 from 22 doors as of March 31, 2013. (Wholesale revenue fell slightly by 6% for the quarter mainly due to timing of deliveries compared to the prior 2013 March quarter. However, we expect wholesale revenue to increase in future periods as the trend of increased doors will continue throughout the rest of calendar year 2014); and (iii) Retail sales increased by 417% due to increased local marketing and a sales promotion in January 2014.

Cost of Sales, Gross Profit & Gross Margin:

Gross profit increased to \$269,990 for the three months ended March 31, 2014 from \$230,985 the same period in fiscal 2013, a 17% increase. Our gross margin decreased to 38% for the three months ended March 31, 2014 from 42% during the three months ended March 31, 2013 mainly as a result of lower margins from January retail and online clearance sales. Our cost of sales increased in the 2014 quarter by \$123,543 to 63% of sales from 59% of sales for the same period in fiscal 2013. Cost of Sales as a percentage of revenues increased slightly, 4%, for the three months ended 2014 compared to the same period in fiscal 2013. It is expected that margins will improve in future quarters, particularly as the company achieves greater scale.

Overhead Expenses:

Overhead expenses consisting of payroll, administrative, marketing, occupancy and depreciation increased from 23% of revenue in the three months ended March 31, 2013 to 44% for the three months ended March 31, 2014. This increase reflects the added personnel to scale up operations to meet our growth and also the additional costs related to the Share Exchange transaction and the maintenance costs of being a public company. These expense should not continue to grow at the same rate as our revenues.

Our payroll expenses increased by \$99,000, or 152%, related to hiring additional employees necessary for growth we have experienced and new employment agreements entered into with our Chief Executive Officer and our Chief Creative Officer.

Administrative costs increased by \$41,651, or 136%, due to increased legal and auditing fees related to becoming a public company in the United States.

Marketing expenses increased \$25,029, or 141%, based on increased spending in electronic, direct, marketing campaign.

Other Expenses:

Other Expenses of \$96,906 for the three months ended 2014 increased from \$93,625 for the three months ended March 2103 due to increase in loan interest and financing costs.

Nine Months Ended March 31, 2014

Selected Financial Information

| | Nine Months Ended | | Dollar | Percentage |
|---------------------------------------|--------------------------|------------------|-------------------|-------------------|
| | March 31, | March 31, | Increase | Increase |
| | 2014 | 2013 | (Decrease) | (Decrease) |
| Revenue | \$ 1,671,373 | \$ 1,346,075 | \$ 325,298 | 24% |
| Cost of sales | <u>1,031,130</u> | <u>792,704</u> | 238,426 | 30% |
| Gross profit | <u>640,243</u> | <u>553,371</u> | 86,872 | 16% |
| Payroll and employee related expenses | 364,362 | 189,471 | 174,891 | 92% |
| Administration expense | 234,521 | 92,731 | 141,790 | 153% |
| Marketing expense | 102,951 | 42,103 | 60,848 | 145% |
| Occupancy expenses | 69,827 | 38,428 | 31,399 | 82% |
| Depreciation and amortization expense | 9,330 | 6,973 | 2,357 | 34% |
| | <u>780,991</u> | <u>369,706</u> | 411,285 | 111% |
| (Loss) income from operations | <u>(140,748)</u> | <u>183,665</u> | (324,413) | -177% |
| Other Income (Expense) | | | | |
| Other income | - | 13,735 | (13,735) | -100% |
| Finance costs | <u>(193,195)</u> | <u>(167,734)</u> | (25,461) | 15% |
| Total Other Expense | <u>(193,195)</u> | <u>(153,999)</u> | (39,196) | 25% |
| Net (loss) income | <u>\$ (333,943)</u> | <u>\$ 29,666</u> | (363,609) | -1226% |

Revenue:

Revenue increased 24% from \$1,346,075 during the nine months ended March 31, 2013 to \$1,671,373 in the nine months ended March 31, 2014. Before accounting for the impact of changes in currency exchange rates resulting from the decrease in value of the Australian dollar, revenues period over period increased 36% on a functional currency basis. This increase in revenue reflects: (i) 9% period to period increase in wholesale revenues as a result of the increase in the number of our wholesale accounts, including an increase to 40 doors as of March 31, 2014 compared to 7 doors at July 1, 2013, and (ii) 174% period to period increase in online sales due to increased online marketing efforts and greater brand recognition as our product is seen in more doors.

Cost of Sales, Gross Profit & Gross Margin:

Gross profit increased 16% to \$640,243 for the nine months ended March 31, 2014 compared to \$553,371 for the same period in fiscal 2013. The increase in gross profit primarily reflects the increase in our revenues slightly offset by a decrease in gross margin percentage of 3%.

Gross margin declined to 38% for nine months ended March 31, 2014 from 41% for the comparable prior year period.

Cost of Sales as a percentage of revenues increased slightly to 62% for the nine months ended 2014 compared to 59% for the comparable period in fiscal 2013. While prices of raw materials such as cashmere yarn increased as a result of a sharply increased demand for the yarn, the increase in our volume of purchases from factories enabled us to lower manufacturing costs on a per unit basis to offset higher input costs.

Overhead Expenses:

Overhead expenses increased to 46% of revenue in the nine months ended March 31, 2014 from 27% for the nine months ended March 31, 2013 as we added personnel to scale up operations, entered into new employment contracts with our Chief Executive Officer and Chief Creative Officer and completed a Share Exchange agreement.

Payroll and employee related expenses increased by \$174,891, or 92% during the period. This increase is related to additional employees hired due to our growth and expansion plans as well as an increase based on new employment agreements with our Chief Executive Officer and Chief Creative officer that began in November 2013.

Administrative expenses increased by \$141,790, or 153%, during the period. The increase in administrative expenses is due to legal, auditing and compliance fees related to becoming a publicly listed company in the United States.

Marketing expenses increased by \$60,848, or 145%, during the period. This increase is due to expanded marketing programs implemented during the current fiscal year including an online campaign.

Occupancy expenses increased by \$31,399, or 82% during the period. This increase is due to renting temporary retail locations for promotional sales and increased costs related to larger warehouse facilities.

Other Expenses:

Other Expenses of \$193,195 for the nine months ended March 31, 2014 represent an increase from \$153,999 for the nine months ended March 31, 2013 due to increases in loan interest and financing costs as we increased the amount of financing used to improve cash flow.

LIQUIDITY and CAPITAL RESOURCES

We will continue to borrow to acquire inventory and fund sales. The rates at which we can acquire funds will directly impact our ability to operate profitably and generate positive cash flow. In addition to relying upon debt, we will seek to raise equity to support our efforts to grow. There is no assurance that debt or equity financing will be available to us on acceptable terms, if at all, and, in all events, the sale of equity or instruments convertible into equity will dilute the interests of our current shareholders.

During the nine months ended March 31, 2014 we raised \$850,267 in a combination of debt and equity. These funds improved our balance sheet and provided capital to fund higher inventory supporting retail and online sales, as well as funding new orders from wholesale customers.

| | NINE MONTHS ENDED | |
|-------------------------------------------|--------------------------|-------------|
| | March 31, | |
| | 2014 | 2013 |
| Net cash (used in) operating activities | (812,860) | (446,314) |
| Net cash (used in) investing activities | (22,839) | (23,672) |
| Net cash provided by financing activities | 850,267 | 468,845 |

Cash Used in Operating Activities

During the nine months ended March 31, 2014, we used approximately \$812,860 of cash in our operating activities. This reflects our net loss from continuing operations of \$333,943 and the use of cash to increase our trade receivables and inventory which grew by \$276,230 and \$291,482, respectively.

During the nine months ended March 31, 2013, we used approximately \$446,314 of cash in our operating activities. This reflects our net income from continuing operations of \$29,666 offset by increases in our inventory and trade receivables of \$126,348 and \$189,121, respectively, and a decrease in our deposit payable of \$86,686.

Cash Used in Investing Activities

During the nine months ended March 31, 2014, cash used in investing activities of \$22,839 primarily reflects \$15,650 in capitalized costs incurred and purchases of fixed assets for \$7,189.

During the nine months ended March 31, 2013, cash used in investing activities of \$23,672 reflects the purchase of intangible assets.

Cash Provided by Financing Activities

During the nine months ended March 31, 2014, cash provided by financing activities of \$850,267 primarily reflects proceeds from issuances of common stock for \$195,000, increases in loans of \$500,825 and an increase in trade financing of \$154,442.

During the nine months ended March 31, 2013, cash provided by financing activities of \$468,845 primarily reflects increase in loans of \$347,803 and increase in trade financing of \$121,042.

Commitments for Capital Expenditures

We do not have substantial commitments for capital expenditures. All of our products are manufactured by third parties, enabling us to scale up operations without acquiring substantial production equipment. Although we will need to increase our design capabilities and augment our sales and administrative staff as we grow, the rate of growth of these expenses should be less than the rate of growth of our revenue. Further, we anticipate that as we expand our sales, the interest rates, fees and other expenses we pay to obtain credit, should be lower than those we incur presently. Of course, any substantial growth in our revenues will require additional equity which, if available, will dilute the interests of our current shareholders. We do anticipate an increase in the rate of growth of our operating expenses this year due to, among other factors, the fact that our historical financial statements do not include the expenses associated with being a public company.

Off Balance Sheet Items

We do not have any off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as "special purpose entities" (SPEs).

Critical Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include collectability of accounts receivable, accounts payable, sales returns and recoverability of long-term assets.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. Revenue generally is recognized net of allowances for returns and any taxes collected from customers and subsequently remitted to governmental authorities.

Cost of Sales

Cost of sales consists primarily of inventory costs, as well as warehousing costs (including the cost of warehouse labor), shipping, importation duties and charges, third party royalties, and product sampling.

Inventory

Inventories are valued at the lower of cost (determined on a weighted average basis) or market. Management compares the cost of inventories with the market value and allowance is made to write down inventories to market value, if lower.

Allowance for Doubtful Accounts

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves.

Exchange Gain (Loss)

To date, transactions of the Company were denominated in foreign currency and were recorded in Australian dollar (AUD) at the rates of exchange in effect when the transactions occurred. Exchange gains and losses are recognized for the different foreign exchange rates applied when the foreign currency assets and liabilities are settled.

Foreign Currency Translation and Comprehensive Income (Loss)

The accounts of the Company were maintained, and its financial statements were expressed, in AUD. Such financial statements were translated into USD with the AUD as the functional currency. All assets and liabilities were translated at the exchange rate at the balance sheet date, stockholder's equity is translated at the historical rates and income statement items are translated at the average exchange rate for the period. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Any differences between the initially recorded amount and the settlement amount are recorded as a gain or loss on foreign currency transaction in the statements of operations. The resulting translation adjustments are reported under other comprehensive income as a component of shareholders' equity.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable as the Company is a smaller reporting company

Item 4. Controls and Procedures

a) Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

At the end of the period covered by this report we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, Brendan Macpherson, of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation included an evaluation of our financial controls. Since our Chief Executive Officer also serves as our Chief Financial Officer and we do not have financial and accounting personnel thoroughly familiar with U.S. GAAP and U.S. securities laws and regulations, we have a deficiency in our financial controls. This deficiency in our financial controls and procedures constitutes a deficiency in our disclosure controls and procedures in that our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in our periodic reports is recorded, processed, summarized and reported, within the time periods specified for each report and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. This deficiency will not be considered remediated until we hire accounting personnel with the requisite knowledge and experience concerning U.S. GAAP and the U.S. securities laws.

b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarterly period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

Our business is subject to numerous risks and uncertainties including but not limited to those discussed in "Risk Factors" in our Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 18, 2013 which are incorporated by reference into this report.

Item 2. Unregistered Sales of Equity Securities

On November 22, 2013, the Company issued 250,000 shares of the Company stock for \$50,000 or \$0.20 per share to an individual investor.

On November 27, 2013, the Company issued 250,000 shares of the Company stock for \$50,000 or \$0.20 per share to an individual investor.

On December 2, 2013, the Company issued 100,000 shares of the Company stock for \$20,000 or \$0.20 per share to an individual investor.

On December 19, 2013, the Company issued 100,000 shares of the Company stock to a lender/investor in connection with a \$100,000 term loan agreement of even date therewith.

On January 9, 2014, the Company issued 250,000 shares of the Company stock for \$50,000 or \$0.20 per share to a corporate investor; and

On January 10, 2014, the Company issued 125,000 shares of the Company stock for \$25,000 or \$0.20 per share to a corporate investor.

On January 12, 2014, the Company issued to an existing stockholder a convertible note in the amount of AUD \$250,000, bearing interest at the rate of 9% per annum and due January 12, 2015. The principal amount (together with accrued interest) note is convertible at the option of the holder into the Company's common stock at an initial conversion price of \$0.30 per share, subject to adjustment in certain circumstances depending upon the Company's volume weighted average price immediately prior to the date of conversion.

The securities described above were issued in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act.

Item 6. Exhibits

The following exhibits are filed herewith:

| Exhibit Number | Document |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certifications of the principal executive officer and principal financial officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications of the principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema |
| 101.CAL* | XBRL Taxonomy Extension Calculation |
| 101.DEF* | XBRL Taxonomy Extension Definition |
| 101.LAB* | XBRL Taxonomy Extension Label |
| 101.PRE* | XBRL Taxonomy Extension Presentation |

* In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (“Exchange Act”), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 19, 2014

BANJO & MATILDA, INC.

By: /s/ Brendan Macpherson
Brendan Macpherson
Chief Executive Officer and Chief Financial
Officer
(Principal Executive and Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO
RULE 13A-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Brendan Macpherson, Chief Executive Officer and Chief Financial Officer of Banjo & Matilda, Inc. (the "Company"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 19, 2014

By: /s/ Brendan Macpherson
Brendan Macpherson
Chief Executive Officer and Chief Financial
Officer
(principal executive and financial officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICE AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Banjo & Matilda., a Nevada corporation (the "Company"), on Form 10-Q for the quarter ended December 31, 2013, as filed with the Securities and Exchange Commission (the "Report"), Brendan Macpherson, Chief Executive Officer and Chief Financial Officer of the Company, does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: May 19, 2014

By: /s/ Brendan Macpherson
Brendan Macpherson
Chief Executive Officer and Chief Financial
Officer
(principal executive and financial officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.