

AMARU INC
Form 10-Q
May 15, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark one:

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 2014

OR

☐ 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 000-32695

Amaru, Inc.

(Exact name of registrant as specified in its charter.)

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Nevada 88-0490089
(State of Incorporation) (IRS Employer Identification No.)

62 Cecil Street, #06-00 TPI Building, Singapore 049710

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (65) 6332 9287

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated reporting filer ☐ Accelerated filer ☐
Non-accelerated filer ☐ Smaller company ☒
(Do not check if a smaller reporting)

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.

Common Stock \$0.001 par value 202,911,303 shares
(Class) (Outstanding at April 30, 2014)

AMARU, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q for the Period Ended March 31, 2014

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****AMARU, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (IN U.S. \$)****MARCH 31, 2014 AND DECEMBER 31, 2013**

ASSETS	March 31, 2014 (Unaudited)	December 31, 2013
Current assets		
Cash	\$77,992	\$33,338
Accounts receivable, net of allowance of \$247,786 and \$247,590 at March 31, 2014 and December 31, 2013, respectively	4,544	18,781
Other current assets	195,546	183,666
Total current assets	278,082	235,785
Non-current assets		
Property, plant and equipment, net	2,059	2,938
Total non-current assets	2,059	2,938
TOTAL ASSETS	\$280,141	\$238,723

See accompanying notes to consolidated financial statements.

AMARU, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS (IN U.S. \$)****MARCH 31, 2014 AND DECEMBER 31, 2013**

	March 31, 2014 (Unaudited)	December 31, 2013
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued expenses	\$1,498,600	\$1,543,354
Advances from related parties	300,403	300,403
Convertible term loan	1,499,750	1,499,750
Total current liabilities	3,298,753	3,343,507
Total liabilities	3,298,753	3,343,507
Stockholders' deficit		
Preferred stock (par value \$0.001) 25,000,000 shares authorized; 12,887,478 and 9,247,478 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	12,887	9,247
Common stock (par value \$0.001) 400,000,000 shares authorized; 194,656,710 shares issued and outstanding at March 31, 2014 and December 31, 2013	194,657	194,657
Additional paid-in capital	43,427,369	43,131,009
Accumulated deficit	(42,937,306)	(42,759,864)
Total Amaru Inc.'s stockholders' equity	697,607	575,049
Non-controlling interests	(3,716,219)	(3,679,833)
Total stockholders' deficit	(3,018,612)	(3,104,784)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$280,141	\$238,723

See accompanying notes to consolidated financial statements.

amaru, Inc. and subsidiaries**CONSOLIDATED STATEMENTS OF OPERATIONS (IN U.S. \$)****FOR THE THREE MONTHS ENDED MARCH 31, 2014 and 2013 (Unaudited)**

	Three Months Ended March 31,	
	2014	2013
Revenues	\$7,801	\$6,910
Cost of services	(32,772)	(25,223)
Gross loss	(24,971)	(18,313)
Operating expenses		
Distribution costs	14,519	4,455
Bad debts	—	88,700
Administrative expenses	176,176	259,457
Total expenses	190,695	352,612
Loss from operations	(215,666)	(370,925)
Other income (expense)		
Interest expenses	(24,022)	(26,582)
Loss from sale of securities	—	(10,101)
Net change in fair value of securities held for trading	—	(25,718)
Other	25,860	26,411
Loss before income taxes	(213,828)	(406,915)
Provision for (benefit from) income taxes	—	—
Net loss before non-controlling interests	(213,828)	(406,915)
Non-controlling interests	(36,386)	(46,129)
Net loss	\$(177,442)	\$(360,786)

See accompanying notes to consolidated financial statements.

amaru, Inc. and subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS (IN U.S. \$)

FOR THE THREE MONTHS ENDED MARCH 31, 2014 and 2013 (Unaudited)

	Three Months Ended March 31,	
	2014	2013
Loss per share, basic	(0.00) (0.00
Loss per share, diluted	(0.00) (0.00
Weighted average shares outstanding , basic and diluted	205,679,744	194,656,710

See accompanying notes to consolidated financial statements.

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AMARU, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (IN U.S. \$)

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

	Preferred stock		Common stock		Additional	
	Number of shares	Par value (\$0.001)	Number of shares	Par value (\$0.001)	paid-in capital	Accumulated deficit
Balance at December 31, 2013	9,247,478	\$ 9,247	194,656,710	\$ 194,657	\$43,131,009	\$(42,759,864)
Subscribed preferred stock issued	3,640,000	3,640	—	—	296,360	—
Net loss	—	—	—	—	—	(177,442)
Balance at March 31, 2014	12,887,478	\$ 12,887	194,656,710	\$ 194,657	\$43,427,369	\$(42,937,306)

See accompanying notes to consolidated financial statements.

AMARU, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (IN U.S. \$)

FOR THE THREE MONTHS ENDED MARCH 31, 2014 (UNAUDITED)

	Minority interest	Total shareholders' equity
Balance at December 31, 2013	\$(3,679,833)	\$(3,104,784)
Subscribed preferred stock issued	—	300,000
Net loss	(36,386)	(213,828)
Balance at March 31, 2014	\$(3,716,219)	\$(3,018,612)

See accompanying notes to consolidated financial statements.

Amaru, Inc. and subsidiaries**CONSOLIDATED STATEMENT OF CASH FLOWS (IN U.S. \$)****FOR THE three months ENDED march 31, 2014 AND 2013 (unaudited)**

	Three Months Ended March 31	
	2014	2013
Cash flows from operating activities		
Net loss	\$(213,828)	\$(406,915)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	879	1,766
Net change in fair value of securities held for trading	—	25,718
Interest on convertible term loan	24,022	26,582
Loss from sales of securities	—	10,101
Change in operating assets and liabilities		
Decrease in accounts receivable	14,237	19,398
(Increase) decrease in other current assets	(11,880)	77,657
(Decrease) increase in accounts payable and accrued expenses	(68,776)	432,283
Net cash (used in) provided by operating activities	(255,346)	186,590
Cash flows from investing activities		
Cash proceeds from sales of securities	—	163,914
Net cash provided by investing activities	—	163,914
Cash flows from financing activities		
Repayment of term loan	—	(198,580)
Issuance of preferred stock for cash	300,000	—
Net cash provided by (used in) financing activities	300,000	(198,580)
Net increase in cash	44,654	151,924
Cash and cash equivalents at beginning of period	33,338	33,460
Cash and cash equivalents at end of period	\$77,992	\$185,384
Supplemental disclosure of cash flow information		
Cash paid for interest	\$—	\$—
Cash paid for income taxes	\$—	\$—

See accompanying notes to consolidated financial statements.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

1. ORGANIZATION

Amaru, Inc. and Subsidiaries (the "Company") hopes to develop the business of broadband entertainment-on-demand, streaming via computers, television sets, PDAs (personal digital assistant) and the provision of broadband services. Its business includes channel and program sponsorship (advertising and branding); online subscriptions, channel/portal development (digital programming services); content aggregation and syndication, broadband consulting services, broadband hosting and streaming services and e-commerce.

The Company was also previously in the business of digit gaming (lottery). That license has been suspended.

The key business focus of the company is to establish itself as the provider and creator of a new generation of entertainment-on-demand and e-commerce channels on broadband, and 3G (third generation) devices.

The Company delivers both wire and wireless solutions, streaming via computers, TV sets, PDAS and 3G hand phones.

The Company's business model in the area of broadband entertainment includes e-services, which the Company believes will provide it with multiple streams of revenue. Such revenues are derived from advertising and branding (channel and program sponsorship); on-line subscriptions; channel/portal development (digital programming services); content aggregation and syndication; broadband consulting services; broadband hosting and streaming services, and on-line dealerships and pay per view services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and presentation

The consolidated financial statements include the financial statements of Amaru, Inc. and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, the company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Section 810 “Consolidation” and assesses whether it is the primary beneficiary of such entities. If the determination is made that the company is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with ASC 810.

The unaudited interim consolidated financial statements of the Company as of March 31, 2014 and for the three months period ended March 31, 2014 and 2013, have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the SEC which apply to interim financial statements. Accordingly, they do not include all of the information and footnotes normally required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of management, such information contains all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for the periods presented. The interim consolidated financial information should be read in conjunction with the consolidated financial statements and the notes thereto, included in the Company’s Form 10-K filed with the SEC. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2014.

All consolidated financial statements and notes to the consolidated financial statements are presented in United States dollars (“US Dollar” or “US\$” or “\$”).

AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Presentation as a going concern

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has an accumulated deficit of \$42,937,306 and \$42,759,864 at March 31 2014 and December 31, 2013, respectively. The Company also has a working capital deficit of \$3,020,671 and \$3,107,722 at March 31, 2014 and December 31, 2013, respectively. The Company has had difficulty in raising adequate additional funding.

The items discussed above raise substantial doubts about the Company's ability to continue as a going concern. The Company will require additional equity or debt financing in order to execute its operating plan and continue as a going concern. The Company cannot predict whether this additional financing will be in the form of equity, debt or another form. The Company may not be able to obtain the necessary equity or debt on a timely basis, on acceptable terms, or at all. The Company plans also to attempt to address its working capital deficiency by increasing its sales, maintaining strict expense controls and seeking strategic alliances.

In the event that these financing sources do not materialize, or the Company is unsuccessful in increasing its revenues and ultimately returning to profitable operations, the Company will be forced to further reduce its costs, may be unable to repay its debt obligations as they become due or respond to competitive pressures, any of which circumstances would have a material adverse effect on its business, prospects, financial condition and results of operations.

The financial statements do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts or amounts and reclassification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

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 of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash

The Company considers all demand and time deposits and all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable is stated at cost, net of an allowance for doubtful accounts, if required. Receivables outstanding longer than the payment terms are considered past due. The Company maintains an allowance for doubtful accounts for estimated losses when necessary resulting from the failure of customers to make required payments. The Company reviews the accounts receivable on a periodic basis and makes allowances where there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, the customer's payment history, its current credit-worthiness and current economic trends.

Property and equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation. Cost includes the price paid to acquire or construct the asset, including capitalized interest during the construction period, and any expenditures that substantially increase the assets value or extend the useful life of an existing asset. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Major repairs and betterments that significantly extend original useful lives or improve productivity are capitalized and depreciated over the periods benefited. Maintenance and repairs are generally expensed as incurred. The estimated useful lives of the assets range from 3 to 5 years.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Film library

Investment in the Company's film library includes movies, dramas, comedies and documentaries in which the Company has acquired distribution rights from a third party. For acquired films, these capitalized costs consist of minimum guarantee payments to acquire the distribution rights. Costs of acquiring the Company's film libraries are amortized using the individual-film-forecast method in accordance with ASC 926, "Entertainment-Films," whereby these costs are amortized and participations and residuals costs are accrued in the proportion that current year's revenue bears to management's estimate of ultimate revenue at the beginning of the current year expected to be recognized from the exploitation, exhibition or sale of the films. Ultimate revenue for acquired films includes estimates over a period not to exceed twenty years following the date of acquisition. Investments in films are stated at the lower of amortized cost or estimated fair value.

The valuation of investment in films is reviewed on an overall basis, when an event or change in circumstances indicates that the fair value of the film library is less than its unamortized cost. The fair value of the film is determined using management's future revenue and cost estimates and a discounted cash flow approach. Additional amortization is recorded in the amount by which the unamortized costs exceed the estimated fair value of the film. Estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment in films may be required as a consequence of changes in management's future revenue estimates. (See Note7).

Intangible assets

Intangible assets consist of gaming, software license and product development costs. Intangible assets which were purchased for a specific period are stated at cost less accumulated amortization and impairment losses. Such intangible assets are reviewed for impairment in accordance with ASC 350, "Intangibles-Goodwill and Other". Such intangible assets are amortized over the period of the contract, which is 2 to 18 years.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Company classifies its investments in marketable equity and debt securities as "available-for-sale", "held to maturity" or "trading" at the time of purchase in accordance with "Accounting for Certain Investments in Debt and Equity Securities." Equity securities held for trading as of March 31, 2014 and December 31, 2013 were nil, respectively. The changes relates to an unrealized gain and loss of was nil for March 31, 2014. An unrealized loss of \$21,906 was recognized for March 31, 2013.

Available-for-sale securities are carried at fair value with unrealized gains and losses, net of related tax, if any, reported as a component of other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary will result in an impairment, which is charged to earnings.

Investments that are not publicly traded or have resale restrictions greater than one year are accounted for at cost. The Company's cost method investments include companies involved in the broadband and entertainment industry. The Company uses available qualitative and quantitative information to evaluate all cost method investments for impairment at least annually. An impairment is booked when there is an other-than-temporary difference between the carrying amount and fair value of the investment that would result in a loss. Please also see Notes 7 and 8 to consolidated financial statements.

AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of long-lived assets

The Company accounts for long-lived assets under ASC 360, "Property, Plant, and Equipment". Management assesses the recoverability of its long-lived assets, which consist primarily of fixed assets and intangible assets with finite useful lives, whenever events or changes in circumstance indicate that the carrying value may not be recoverable. The following factors, if present, may trigger an impairment review: (i) significant underperformance relative to expected historical or projected future operating results; (ii) significant negative industry or economic trends; (iii) significant decline in the Company's stock price for a sustained period; and (iv) a change in the Company's market capitalization relative to net book value. If the recoverability of these assets is unlikely because of the existence of one or more of the above-mentioned factors, an impairment analysis is performed using a projected discounted cash flow method. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. If these estimates or related assumptions change in the future, the Company may be required to record an impairment charge. Impairment charges would be included in the Company's consolidated statements of operations, and would result in reduced carrying amounts of the related assets on the Company's consolidated balance sheets.

Fair value of financial instruments

FASB ASC 820, "*Fair Value Measurement*," defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advances from related party

Advances from a director and related party of \$300,403 at March 31, 2014 and December 31, 2013, respectively, are unsecured, non-interest bearing and payable on demand.

Foreign currency translation

Transactions in foreign currencies are measured and recorded and translated to the functional currency, U.S. dollars, using the Company's prevailing month exchange rate. At the balance sheet date, recorded monetary balances that are denominated in a foreign currency are adjusted to reflect the rate at the balance sheet date and the operations statement accounts using the average exchange rates throughout the period. Translation gains and losses are recorded in stockholders' equity as other Comprehensive income and realized gains and losses from foreign currency transactions are reflected in operations. Translation gains or losses as of March 31, 2014 and 2013 were not material to the consolidated financial statements.

Revenues

The Company's primary sources of revenue are from the sales of advertising space on interactive websites owned by the Company; distribution and licensing of content to our partners, broadband consulting services, and gaming revenue from our digital games.

The Company recognizes revenue in accordance with Accounting Standard Codification (ASC) 605-10 Revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service or product is performed or delivered and collectability of the resulting receivable is reasonably assured.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues (continued)

Website advertising revenue is recognized on a cost per thousand impressions (CPM) or cost per click (CPC), and flat-fee basis. The Company earns CPM or CPC revenue from the display of graphical advertisements. An impression is delivered when an advertisement appears in pages viewed by users. Revenue from graphical advertisement impressions is recognized based on the actual impressions delivered in the period. Revenue from flat-fee services is based on a customer's period of contractual service and is recognized on a straight-line basis over the term of the contract. Proceeds from subscriptions are deferred and are included in revenue on a pro-rata basis over the term of the subscriptions.

The Company enters into contractual arrangements with customers to license and distribute content; revenue is earned from content licenses, and content syndication. Agreements with these customers are typically for multi-year periods. For each arrangement, revenue is recognized when both parties have signed an agreement, the fees to be paid by the customer are fixed or determinable, collection of the fees is probable, the delivery of the service has occurred, and no other significant obligations on the part of the Company remain. Licensing and content syndication revenue is recognized when the license period begins, and the contents are available for exploitation by the customer, pursuant to the terms of the license agreement.

The Company enters into contractual arrangements with customers on broadband consulting services and on-line turnkey solutions. Revenue is earned over the period in which the services are rendered. For each arrangement, revenue is recognized when a written agreement between both parties exist, the fees to be paid by the customer are fixed or determinable, collection of the fees is probable, and fulfillment of the obligations under the agreement has occurred. Revenue from broadband consulting services and on-line turnkey solutions is recognized over the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual services provided as a proportion of the total services to be performed. It is generally recognized from the date of acceptance and fulfillment of obligations under the sale and purchase agreement.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cost of services

The cost of services pertaining to advertising and sponsorship revenue and subscription and related services are the cost of bandwidth charges, channel design and alteration, copyright licensing, and hardware hosting and maintenance costs. The cost of services pertaining to E-commerce revenue is channel design and alteration, and hardware hosting and maintenance costs. All these costs are accounted for in the period incurred.

Income taxes

Deferred income taxes are determined using the liability method in accordance with ASC 740, "Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income taxes are measured using enacted tax rates expected to apply to taxable income in years in which such temporary differences are expected to be recovered or settled. The effect on deferred income taxes of a change in tax rates is recognized in the statement of income of the period that includes the enactment date. In addition, a valuation allowance is established to reduce any deferred tax asset for which it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

The Company files income tax returns in the United States federal jurisdiction and certain states in the United States and certain other foreign jurisdictions. The Company is beyond the statute of limitations subjecting it to U.S. federal and state income tax examinations by tax authorities for years before 2010. No income tax returns are currently under examination by any tax authorities.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income (Loss) per share

The Company computes net income (loss) per common share in accordance with FASB ASC 260, "Earnings Per Share" ("ASC 260") and SEC SAB 98. Under the provisions of ASC 260 and SAB 98, basic net income (loss) per common share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted income per share includes the effect of dilutive common stock equivalents from the assumed exercise of convertible preferred stock. The Company's common stock equivalents were excluded in the computation of diluted net (loss) per share since their inclusion would be anti-dilutive. These common stock equivalents may dilute future earnings per share.

Advertising

The cost of advertising is expensed as incurred. For the three months ended March 31, 2014 and 2013, the Company incurred advertising expenses of \$3,183 and \$1,698, respectively.

AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2014, the FASB issued ASU No. 2014-06, *“Technical Corrections and Improvements Related to Glossary Terms”*. This ASU provides technical corrections and improvements to Accounting Standards Codification glossary terms. The adoption of this pronouncement, effective March 14, 2014, is not expected to have a material effect on the Company’s consolidated financial statements.

In July 2013, FASB issued ASU No. 2013-11, *“Presentation of an Unrecognized Benefit When a Net Operating Loss Carryforward”*, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU requires an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. An exception exists to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax of the applicable jurisdiction does not require the entity to use, and entity does not intend to use, the deferred tax asset for such a purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 is effective for fiscal years and interim periods beginning after December 15, 2013 and is not expected to have a material impact on the Company's consolidated financial statements.

On March 5, 2013, the FASB issued ASU 2013-05 to provide guidance for whether to release cumulative translation adjustments (“CTA”) upon certain derecognition events. The update was issued to resolve the diversity in practice about whether Subtopic ASC 810-10, “Consolidation-Overall,” or ASC 830-30, “Foreign Currency Matters-Translation of Financial Statements,” applies to such transactions. ASU 2013-05 is effective prospectively for all entities with derecognition events after the effective date. For public entities, the guidance is effective for fiscal years, and interim periods within those years, beginning after December 31, 2013. ASC 830-30 applies when an entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Consequently, the CTA is released into net income only if the transaction results in complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets resided. Otherwise, no portion of the CTA is released. The adoption of this pronouncement is not expected to have a significant impact on the Company’s consolidated financial condition or results of operations.

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AMARU, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)****4. OTHER CURRENT ASSETS**

Other current assets consist of the following:

	March 31, 2014	December 31, 2013
Prepayments	\$32,987	\$26,111
Deposits	35,714	35,685
Loan receivable	100,000	100,000
Other receivables	26,845	21,870
	\$195,546	\$183,666

A \$100,000 non-interest bearing loan that was made to a third party has been included in other receivables as of March 31, 2014 and December 31, 2013.

5. Fair value measurements

FASB ASC 820, "Fair Value Measurement," specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). In accordance with ASC 820, the following summarizes the fair value hierarchy:

Level 1	Unadjusted quoted market prices for identical assets and liabilities in an active market that the
Inputs –	Company has the ability to access.

Inputs other than the quoted prices in active markets that are observable either directly or indirectly.

Level 2
Inputs –

Level 3 Inputs based on prices or valuation techniques that are both unobservable and significant to the overall
Inputs – fair value measurements.

ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As of March 31, 2014 and December 31, 2013, none of the Company's assets and liabilities were required to be reported at fair value on a recurring basis. Carrying values of non-derivative financial instruments, including cash, payables and accrued liabilities, approximate their fair values due to the short term nature of these financial instruments. There were no changes in methods or assumptions during the periods presented.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2014	December 31, 2013
Office equipment	\$930,709	\$930,709
Motor vehicle	11,000	11,000
Furniture, fixture and fittings	89,960	89,960
Pony set-top boxes	843,946	843,946
	1,875,615	1,875,615
Accumulated depreciation	(1,873,556)	(1,872,677)
	\$2,059	\$2,938

Depreciation expense was \$879 and \$1,766 for the three months ended March 31, 2014 and 2013, respectively.

AMARU, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)****7. FILM LIBRARY**

Film library consist of the following:

	March 31, 2014	December 31, 2013
Acquired film library	\$23,686,731	\$23,686,731
Accumulated amortization	(4,520,325)	(4,520,325)
	19,166,406	19,166,406
Impairment of film library	(19,166,406)	(19,166,406)
Film library	\$—	\$—

No amortization expense was incurred for the three months ended March 31, 2014 or 2013.

8. INTANGIBLE ASSETS

Intangible assets consist of the following:

	March 31, 2014	December 31, 2013
Finite-lived intangible assets		
Gaming license	\$7,090,000	\$7,090,000
Product development expenditures	719,220	719,220

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Software license	12,649	12,649
	7,821,869	7,821,869
Accumulated amortization	(1,974,328)	(1,974,328)
	5,847,541	5,847,541
Impairment loss	(5,847,541)	(5,847,541)
	\$—	\$—

No amortization expense was incurred for the three months ended March 31, 2014 or 2013.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

9. INVESTMENTS - NET

Investments held at cost consist of the following:

	March 31, 2014	December 31, 2013
Current:		
Unquoted securities	\$—	\$—
Non-current:		
Unquoted securities	2,802,613	2,802,613
Impairment on unquoted securities	(2,802,613)	(2,802,613)
	\$—	\$—

The Company's \$2,802,613 investment at cost relates to a casino that operates in Cambodia. This investment is subject to numerous risks, including:

- difficulty enforcing agreements through the Cambodia's legal system;
- general economic and political conditions in Cambodia; and
- the Cambodian government may adopt regulations or take other actions that could directly or indirectly harm the investment's business and growth strategy.

The occurrence of any one of the above risks could harm this investment's business and results of operations. Management reviews this investment on a quarterly basis. For the three months ended March 31, 2014 and 2013, charges of impairment on the investment were nil, respectively.

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AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

10. COMMITMENTS

Operating Leases

The Company leases one of its offices at a monthly rental of approximately \$9,834 under an operating lease which expired on August 14, 2012 and subsequently renewed until August 14, 2014. Total rental expense under operating leases for the three months ended March 31, 2014 and 2013 was \$28,350 and \$29,226, respectively.

11. INCOME TAXES

The Company files separate tax returns for Singapore and the United States of America.

The Company had approximately \$5,200,000 in deferred tax assets as of March 31, 2014 and December 31, 2013, respectively. The Company provided a full allowance of \$5,200,000 as of March 31, 2014 and December 31, 2013, respectively

The Company had available approximately \$8,100,000 of unused U.S. net operating loss carry-forwards at March 31, 2014, that may be applied against future taxable income. These net operating loss carry-forwards expire for U.S. income tax purposes beginning in 2033. There is no assurance the Company will realize the benefit of the net operating loss carry-forwards.

The Company requires a valuation allowance to be recorded when it is more likely than not that some or all of the deferred tax assets will not be realized. As of March 31, 2014, the Company maintained a valuation allowance for the U.S. deferred tax asset due to uncertainties as to the amount of the taxable income from U.S. operations that will be

realized.

The Company had available approximately \$11,300,000 of unused Singapore tax losses and capital allowance carry-forwards at March 31, 2014 and December 31, 2013, respectively, that may be applied against future Singapore taxable income indefinitely provided the company satisfies the shareholdings test for carry-forward of tax losses and capital allowances.

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AMARU, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)****12. CONVERTIBLE TERM LOAN**

March 31,	December
2014	31,
	2013

Current:

Convertible loan	\$1,499,750	\$1,499,750
	\$1,499,750	\$1,499,750

The convertible loan represents a two year convertible loan drawn down by a subsidiary company, M2B World Asia Pacific Pte. Ltd.. It bears interest at a fixed rate of 5.0% per annum. The loan allowed the lender the option to convert the loan into shares of the subsidiary company at the issue price of \$0.942 per share at the end of the two year period. The due date of the loan was July 7, 2010. The conversion period of the convertible loan was extended for an additional twelve months commencing July 8, 2010 and was further extended to June 29, 2012. M2B World Asia Pacific Pte. Ltd. is negotiating to obtain a further extension on the convertible loan. The accrued interest was \$24,022 and \$26,582 for the three months ended March 31, 2014 and 2013, respectively.

AMARU, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (UNAUDITED)

13. CONTINGENCIES:

On October 16, 2013, M2B World Asia Pacific Pte Ltd. ("Plaintiff"), a subsidiary of the Company, filed a civil claim against a director ("Defendant") of a subsidiary of a company listed on the Singapore Stock Exchange for repayment of US\$1,000,000, representing a commission received in advance by the Defendant in exchange for procurement of a significant advertising contract on the Plaintiff's behalf. On March 7, 2014, a judgment was rendered in favor of the Plaintiff in the sum of US\$1,000,000 and interest at the rate of 5.33% per annum from the date of the claim. On April 7, 2014, the Defendant filed an appeal to the highest court.

Since the ultimate outcome of this matter cannot be determined at this time, the Company's consolidated financial statements do not include any adjustments that might result from the future outcome of this uncertainty.

14. ISSUANCE OF PREFERRED STOCK

As of March 31, 2014, the Company issued a total of 3,640,000 shares of Series B Convertible Preferred Stock ("Preferred Stock") through its private placement of shares of Preferred Stock for a total of \$300,000, to "accredited investors," as that term is defined in Regulation D of the Securities Act of 1933. Each share of Series B Convertible Preferred Stock is convertible into ten (10) shares of common stock.

15. SUBSEQUENT EVENTS

On April 17, 2014, the Company issued a total of 1,000,000 shares of Series B Convertible Preferred Stock ("Preferred Stock") through its private placement of shares of Preferred Stock at a purchase price of \$0.10 per share for a total amount of \$100,000, to "accredited investors", as that term is defined in Regulation D of the Securities Act of 1933. Each share of Series B Convertible Preferred Stock is convertible into ten (10) shares of common stock. The proceeds of the private placement were used for working capital.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY THE COMPANY TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. PROSPECTIVE SHAREHOLDERS SHOULD UNDERSTAND THAT SEVERAL FACTORS GOVERN WHETHER ANY FORWARD - LOOKING STATEMENT CONTAINED HEREIN WILL BE OR CAN BE ACHIEVED. ANY ONE OF THOSE FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED HEREIN. THESE FORWARD - LOOKING STATEMENTS INCLUDE PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, INCLUDING PLANS AND OBJECTIVES RELATING TO THE PRODUCTS AND THE FUTURE ECONOMIC PERFORMANCE OF THE COMPANY. ASSUMPTIONS RELATING TO THE FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE AND MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND THE TIME AND MONEY REQUIRED TO SUCCESSFULLY COMPLETE DEVELOPMENT PROJECTS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY AND MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THOSE ASSUMPTIONS COULD PROVE INACCURATE AND, THEREFORE, THERE CAN BE NO ASSURANCE THAT THE RESULTS CONTEMPLATED IN ANY OF THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN WILL BE REALIZED. BASED ON ACTUAL EXPERIENCE AND BUSINESS DEVELOPMENT, THE COMPANY MAY ALTER ITS MARKETING, CAPITAL EXPENDITURE PLANS OR OTHER BUDGETS, WHICH MAY IN TURN AFFECT THE COMPANY'S RESULTS OF OPERATIONS. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD - LOOKING STATEMENTS INCLUDED THEREIN, THE INCLUSION OF ANY SUCH STATEMENT SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES OR PLANS OF THE COMPANY WILL BE ACHIEVED.

General

The Company is in the business of broadband entertainment-on-demand, streaming via computers, television sets, and 3G (Third Generation) devices and the provision of broadband services. Its business includes channel and program sponsorship (advertising and branding); online subscriptions, channel/portal development (digital programming services); content aggregation and syndication, broadband consulting services, broadband hosting and streaming services and E-commerce.

The Company was also in the business of digit gaming (lottery). The Company has an 18 year license to conduct nationwide lottery in Cambodia. The Company through its subsidiary, M2B Commerce Limited, signed an agreement

with Allsports Limited, a British Virgin Islands company to operate and conduct digit games in Cambodia and to manage the digit games in Cambodia. On March 25, 2009, the Company was notified that the digit games were suspended by the Cambodia Government as part of the suspension of all lotteries in Cambodia. Although the Company is still a holder of the license, it cannot use it for the gaming business until the suspension of the digit games is lifted. At this time, the suspension of the digit games is expected to be permanent as the Government of Cambodia has closed the gaming business by the order of its Ministry of Economy and Finance.

The following discussion should be read in conjunction with the financial statements and notes to financial statements.

OVERVIEW

The business focus of the Company is Entertainment-on-Demand and E-Commerce Channels on Broadband, and 3G (Third Generation) devices.

For the broadband, the Company delivers both wire and wireless solutions, streaming via computers, TV sets, PDAs and 3G hand phones.

The Company's business model in the area of broadband entertainment includes focuses on e-services, which would provide the Company with multiple streams of revenue. Such revenues would be derived from advertising and branding (channel and program sponsorship); on-line subscriptions; channel/portal development (digital programming services); content aggregation and syndication; broadband consulting services; broadband hosting and streaming services; and on-line dealerships; and pay per view services.

In fiscal 2008, the business was reorganized under the following entities to spearhead the expansion of the Company's business and focus on specific growth areas and territories.

M2B WORLD PTE. LTD.

M2B World Pte. Ltd. was incorporated on April 3, 2003. This subsidiary used to oversee the management and operation of the Company as a whole and oversees the Asian business. With effect from September 1, 2006, the Company's Asian business was overseen by another subsidiary, M2B World Asia Pacific Pte. Ltd.

The Company took an investment on May 16, 2005 for a 9.1% equity position with a company called Activ Lifestyle Pte Ltd in Singapore to help facilitate Amaru Inc.'s diversification into the health and wellness market. On September 27, 2005, the Company raised its investment in Activ Lifestyle Pte Ltd to 12.6%. This was further increased to 17.4% as of December 31, 2006.

In December 2005, M2B World Pte. Ltd. sold 81% equity interests of its wholly-owned subsidiary, M2B Game World Pte. Ltd. to Auston International Group Ltd (Auston), a public listed company in Singapore, in exchange for 27% equity interest in Auston. As of December 31, 2008, the Company disposed all of its common shares in Auston. As of the date of this report, the Company holds no shares in Auston.

M2B WORLD, INC.

M2B World, Inc., a California corporation, was incorporated on January 24, 2005. This subsidiary handles and oversees the Company's business in the U.S. The Company has not renewed its office lease in West Hollywood in August 2011, and currently does not maintain an office space in the US.

On May 27, 2005, M2B World, Inc. entered into an agreement with Indie Vision Films, Inc., a California corporation, to purchase 20% of the beneficial ownership of Indie Vision Films, Inc. which provided to M2B World, Inc. access the library of programs of Indie Vision Films, Inc. The Company entered into an agreement on December 22, 2009 with Indie Vision Films, Inc to convert its investment into content rights, thereby giving up its 20% share of beneficial ownership in lieu of library rights that the Company could exploit commercially for international use.

M2B WORLD ASIA PACIFIC PTE. LTD.

M2B World Asia Pacific Pte Ltd was incorporated in the Republic of Singapore on 1 August 2006 for the purposes of handling all the business operations of the Company in the Asia Pacific region. This company had taken over the Asian business operations as well as the assets and liabilities of M2B World Pte. Ltd. with effect from September 1, 2006.

On January 3, 2007, M2B World Asia Pacific Pte Ltd, issued 7,778,014 shares of common stock through a private placement at a price of \$0.77 a share for a total amount of \$6,000,000. This had effectively reduced the Company's effective equity interest in M2B World Asia Pacific Pte. Ltd from 100% to 81.6%.

On July 8, 2008, M2B World Asia Pacific Pte Ltd signed a two year convertible loan agreement with a third party to raise \$2,500,000 in funding. The loan allows the borrower to convert the loan into shares of the Company at the issue price of \$0.942 per share at the end of the two years period. The loan bears an interest rate of 5.0% per annum, and will mature in July 7, 2010. The note was obtained from a company in which a board of director is the Joint Company Secretary of the lender. The conversion period of the convertible loan was extended for an additional twelve months commencing July 8, 2010 and was further extended to November 30, 2011. The loan was further granted extension to June 29, 2012 and an extension of the due date is being negotiated.

M2B COMMERCE LIMITED

M2B Commerce Limited, a company incorporated in the British Virgin Islands on July 25, 2002, focuses on e-commerce and digit gaming, with a branch in Cambodia that oversees the digit gaming operation in Cambodia.

The Company has an agreement with Allsports Limited, a British Virgin Islands company to operate, administer, and manage the lottery digit game activities in Cambodia, as an extension of the Company's entertainment operations. On March 25, 2009, the Company was notified that the digit game were suspended by the Cambodia Government as part of the suspension of all lotteries in Cambodia. At this time, the Company believes that the suspension of the digit game is permanent as the Government of Cambodia has closed the gaming business by the order of its Ministry of Economy and Finance.

The company had entered into an investment agreement on January 12, 2006, with Khoo Kim Leng, the beneficial owner of Dai Long Co., Ltd, which holds a valid casino license and freehold land and intends to develop and operate an integrated resort in the Kingdom of Cambodia. The resort will feature a hotel, guest house, shopping arcade, entertainment and amusement center and some gaming tables. The resort was completed and is in operation in 2006. As of December 31, 2011, the company had invested \$2,802,613 in relation to this investment. This investment had been fully impaired as of March 31, 2014.

M2B ENTERTAINMENT, INC.

On April 19, 2010, M2B Entertainment, Inc. was dissolved because the Company did not want to continue operations in Canada.

M2B AUSTRALIA PTY LTD

M2B Australia Pty Ltd was incorporated on June 15, 2005. This subsidiary handles and oversees the Company's business in Australia. As of March 31, 2013, this subsidiary is dormant.

M2B WORLD TRAVEL SINGAPORE PTE. LTD.

M2B World Travel Singapore Pte Ltd was incorporated in the Republic of Singapore on March 7, 2006. This subsidiary of M2B World Travel Limited launches a global online travel platform which offers global e-travel services.

On October 14, 2011, M2B World Travel Singapore was dissolved because the Company did not want to continue its travel operations.

AMARU HOLDINGS LIMITED AND M2B WORLD HOLDINGS LIMITED

Amaru Holdings Limited and M2B World Holdings Limited are incorporated in the British Virgin Islands on February 21, 2005 and June 15, 2006, respectively. Amaru Holdings Limited focuses on content syndication and distribution in areas other than Asia Pacific region. M2B World Holdings Limited focuses on content syndication and distribution in Asia Pacific region and is a subsidiary of M2B World Asia Pacific Pte. Ltd.

TREMAX INTERNATIONAL LIMITED AND M2B WORLD TRAVEL LIMITED

Tremax International Limited and M2B World Travel Limited are both incorporated in the British Virgin Islands on June 8, 2006 and May 3, 2005 respectively. Both companies are investment holdings companies.

On July 10, 2007, Tremax International Limited entered into a sale and purchase agreement (the "Agreement") with Domaine Group Limited, a British Virgin Islands corporation (the "Vendor"), for the acquisition of CBBN Holdings Limited ("CBBN Holdings"). CBBN Holdings is a 80% beneficial owner of Cosmactive Broadband Networks Co. Ltd ("CBN"), which is a broadband service provider incorporated in Taiwan. The purchase consideration is satisfied in full by the issuance of 5,333,333 of common stock of the Company.

On January 22, 2009, the Company approved the termination and rescission of the Agreement, because the seller failed to comply with the terms of the Agreement and did not deliver to the Company or Purchaser the consideration for the issuance of the Amaru Shares. The Company further approved the cancellation of the Amaru Shares.

RESULTS OF OPERATIONS

REVENUE

Financial Statement

- Revenue for the three months ended March 31, 2014 was \$7,801 compared with \$6,910 for the same period in 2013.
- The Company's cash balance was \$77,992 at March 31, 2014 compared with \$33,338 at December 31, 2013.

Revenue

Revenue from entertainment for the three months ended March 31, 2014 at \$7,801 was higher than revenue of \$6,910 for the three months ended March 31, 2013 by \$891 (13%). It was mainly due to an increase in content distribution and licensing revenue from new customers for the three months ended March 31, 2014.

Cost of Services

Cost of services for the three months ended March 31, 2014 was \$32,772 which increased by \$7,549 (30%) from \$25,223 for the three months ended March 31, 2013. It was mainly due to increase in cost spending on website design, maintenance and other related production costs by \$5,907 (58%) from \$10,250 for the three months ended March 31, 2013 to \$16,157 for the three months ended March 31, 2014.

DISTRIBUTION EXPENSES

Distribution expenses for the three months ended March 31, 2014 at \$14,519 were higher by \$10,064 (226%) as compared to the amount of \$4,455 incurred for the three months ended March 31, 2013.

The higher distribution expenses were attributed to increase spending on transportation expenses which increased by \$5,821 (3,216%) from \$181 for the three months ended March 31, 2013 to \$6,002 for the three months ended March 31, 2014.

BAD DEBTS WRITTEN OFF

The bad debts written off in 2013 were primarily attributed to the write off of the long outstanding balance of \$88,700 from previous accounts receivable and other current assets. There were no bad debts written off for the three months ended March 31, 2014.

GENERAL AND ADMINISTRATIVE EXPENSES

Administration expenses for the three months ended March 31, 2014 at \$176,176 were lower by \$83,281 (32%) as compared to the amount of \$259,457 incurred for the three months ended March 31, 2013.

The decrease in administrative expenses for the period ended March 31, 2014 was attributed mainly to the decrease in:

- Total staff costs had decreased by \$12,941 (12 %), from \$105,868 for the three months ended March 31, 2013 to \$92,927 for the period ended March 31, 2014. .

- Legal and professional expenses had decreased by \$13,545 (31%), from \$44,341 for the three months ended March 31, 2013 to \$30,796 for the three months ended March 31, 2014.

LOSS FROM OPERATIONS

The Company incurred a loss from operations of \$215,666 for the three months ended March 31, 2014 as compared to the loss from operations of \$370,925 for the three months ended March 31, 2013 mainly due to decrease in general and administrative expenses and no bad debts were being written off.

NET LOSS BEFORE NON-CONTROLLING INTERESTS

Net loss before non-controlling interest sets for the three months ended March 31, 2014, was \$213,828 which decreased by \$193,087 (47%) from net loss of \$406,915 for the three months ended March 31, 2013, it was mainly due to decrease in operation and administrative expenses for the three months ended March 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash at \$77,992 at March 31, 2014 as compared to cash of \$33,338 at December 31, 2013.

The Company does not finance its operations through short-term bank credit nor long-term bank loans. Its operations were financed by the proceeds through its private placement of shares.

During the three months ended March 31, 2014, the Company had not entered into any transactions using derivative financial instruments or derivative commodity instruments. Accordingly the Company believes its exposure to market interest rate risk is not material.

Cash generated from operations will not be able to cover the Company's intended growth and expansion. The Company has plans in 2014 to expand its broadband coverage by launching new broadband sites in Asia Pacific region and Australia. No assurances can be made that such plans will be carried out in a timely manner.

The Company intends to raise additional funds, to fund its business expansion; however no assurances can be made that the Company will raise sufficient funds as planned.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investment activities is to preserve principal while concurrently maximizing the income we receive from our investments without significantly increasing risk. Some of the securities that we may invest in may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the current value of the principal amount of our investment will decline. To minimize this risk in the future, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, high-grade corporate bonds, government and non- government debt securities and certificates of deposit. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate. The Company held Nil in marketable securities as of March 31, 2014 and December 31, 2013 respectively.

The Company does not believe that it faces material market risk with respect to its cash and cash equivalents which totaled \$77,992 and \$33,338 at March 31, 2014 and December 31, 2013, respectively.

The Company has no other material long-term obligations or hedging activities other than the convertible term with an outstanding balance of \$1,499,750 as of March 31, 2014. The convertible loan represents a two year convertible loan drawn down by a subsidiary company, M2B World Asia Pacific Pte. Ltd.. It bears interest at a fixed rate of 5.0% per annum. The loan allowed the lender the option to convert the loan into shares of the subsidiary company at the issue price of \$0.942 per share at the end of the two year period. The due date of the loan was July 7, 2010. The conversion period of the convertible loan was extended for an additional twelve months commencing July 8, 2010 and was further extended to June 29, 2012. M2B World Asia Pacific Pte. Ltd. is negotiating to obtain a further extension on the convertible loan.

ABILITY TO EXPAND CUSTOMER BASE

The Company's future operating results depend on our ability to expand our customer base for broadband services and e-commerce portals. An increase in total revenue depends on our ability to increase the number of broadband and e-commerce portals, in the US, Europe and Asia. The degree of success of this depends on

- our efforts to establish independent broadband sites in countries where conditions are suitable.
- our ability to expand our offerings of content in entertainment and education, to include more niche channels and offerings.

- our ability to provide content beyond just personal computers but to encompass television, wireless application devices and 3G hand phones.

ABILITY TO ACQUIRE NEW MEDIA CONTENTS

The continued ability of the Company to acquire rights to new media contents, at competitive rates, is crucial to grow and sustain the Company's business.

AVAILABILITY OF TECHNOLOGICALLY RELIABLE NEW GENERATION OF BROADBAND DEVICES

The growth of demand for broadband services is dependent on the wide availability of technologically reliable new generation of broadband devices, at affordable prices to prospective customers of broadband services. The early and widespread availability and market adoption of new generation broadband devices, will significantly impact demand for broadband services and the growth of the Company's business.

CAPITAL INVESTMENT IN BROADBAND INFRASTRUCTURE BY GOVERNMENT AND TELCOS

The growth of demand for broadband services is dependent on the capital investment in broadband infrastructure by governments and Telcos. A significant source of demand for the Company's broadband services could be from homes and enterprises with access to high-speed broadband connections. The ability of countries to invest in public broadband infrastructure to offer public accessibility is subject to countries' economic health. The Company's prospects for business growth in Asia especially would be impacted by overall economic conditions in the territories that we seek to expand into.

COMPETITION FROM BROADBAND CABLE AND TV NETWORKS OPERATORS

The competition of services provided by broadband cable network operators and TV networks. As traditional TV networks and cable TV operators provide alternate supply of entertainment and on-demand broadband services, they are in competition with the Company, for market share. The Company, nevertheless, will continue to leverage on its advantage of ownership rights to its own portfolio of media content and its ability to provide broadband services over both the cable and wireless networks, at competitive rates.

The Company's business is reliant on complex information technology systems and networks. Any significant system or network disruption could have a material adverse impact on our operations and operating results. The Company's nature of business is highly dependent on the efficient and uninterrupted operation of complex information technology systems networks, may they, either be that of ours, or our Telco/ ISP partners.

All information technology systems are potentially vulnerable to damage or interruption from a variety of sources, including but not limited to computer viruses, security breach, energy blackouts, natural disasters and terrorism, war and telecommunication failures.

System or network disruptions may arise if new systems or upgrades are defective or are not installed properly. The Company has implemented various measures to manage our risks related to system and network disruptions, but a system failure or security breach could negatively impact our operations and financial results.

LAW AND REGULATIONS GOVERNING INTERNET

Increased regulation of the Internet or differing application of existing laws might slow the growth of the use of the Internet and online services, which could decrease demand for our services. The added complexity of the law may lead to higher compliance costs resulting in higher costs of doing business.

UNAUTHORIZED USE OF PROPRIETARY RIGHTS

Our copyrights, patents, trademarks, including our rights to certain domain names are very important to M2B's brand and success. While we make every effort to protect and stop unauthorized use of our proprietary rights, it may still be possible for third parties to obtain and use the intellectual property without authorization. The validity, enforceability and scope of protection of intellectual property in Internet-related industries remain uncertain and still evolving. Litigation may be necessary in the future to enforce these intellectual property rights. This will result in substantial costs and diversion of the Company's resources and could disrupt its business, as well as have a material adverse effect on its business.

LAW AND REGULATIONS GOVERNING BUSINESS

As the Company continues to expand its business internationally across different geographical locations there are risks inherent including:

- 1) Trade barriers and changes in trade regulations
- 2) Local labor laws and regulations
- 3) Currency exchange rate fluctuations
- 4) Political, social or economic unrest
- 5) Potential adverse tax regulation
- 6) Changes in governmental regulations

OUTBREAK OF N1H1 VIRUS FLU PANDEMIC OR SIMILAR PUBLIC HEALTH DEVELOPMENTS

Any future outbreak of the N1H1 flu pandemic or similar adverse public health developments may have a material adverse effect on the Company's business operations, financial condition and results of operations.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

A system of disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e)) under the Securities Exchange Act of 1934, as amended [the "Exchange Act"] are controls and other procedures that are designed to provide reasonable assurance that the information that the Company is required to disclose in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls 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. Moreover, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a control system, misstatements due to error or fraud may occur and not be detected.

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company, and have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were not effective as of the end of the period covered by this report, based on their evaluation of these controls and procedures required by paragraph (b) of Rules 13a-15(f) and 15d-15(f), due to certain material weaknesses in our internal control over financial reporting as discussed below.

Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting for the Company. Due to limited resources, Management conducted an evaluation of internal controls based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The results of this evaluation determined that our internal control over financial reporting was ineffective as of March 31, 2014, due to material weaknesses. A material weakness in internal control over financial reporting is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our

financial reporting.

Management's assessment identified the following material weaknesses in internal control over financial reporting:

The small size of our Company limits our ability to achieve the desired level of separation of internal controls and financial reporting. We do not have a separate CEO and CFO, to review and oversee the financial policies and procedures of the Company, which does achieve a degree of separation. Until such time as the Company is able to hire a separate CFO, we do not believe we meet the full requirement for separation.

We do not have a functional audit committee since our Board of Directors acts as the audit committee.

We have not achieved the desired level of documentation of our internal controls and procedures. When the Company obtains sufficient funding, this documentation will be strengthened through utilizing a third party consulting firm to assist management with its internal control documentation and further help to limit the possibility of any lapse in controls occurring.

As a result of the material weaknesses in internal control over financial reporting described above, the Company's management has concluded that, as of March 31, 2014, the Company's internal control over financial reporting was not effective based on the criteria in Internal Control - Integrated Framework issued by the COSO.

To date, the Company has not been able to add any additional members to its Audit Committee due its limited financial resources. When the Company obtains sufficient funding, Management intends to add additional members to the Audit Committee and charge them with assisting the Company in addressing the material weaknesses noted above. The Company's lack of current financial resources makes it impossible for the Company to hire the appropriate personnel needed to overcome these weaknesses and ensure that appropriate controls and separation of responsibilities of a larger organization exist. We also will continue to follow the standards for the Public Company Accounting Oversight Board (United States) for internal control over financial reporting to include procedures that:

- o Pertain to the maintenance of records in reasonable detail accurately that fairly reflect the transactions and dispositions of the Company's assets;

- o Provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the Board of Directors; and

- o Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Changes In Internal Control Over Financial Reporting

Our management determined that there were no changes made in our internal controls over financial reporting during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

PART II: OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

None

ITEM 1A: RISK FACTORS

An investment in the Company's common stock involves a high degree of risk. One should carefully consider the following risk factors in evaluating an investment in the Company's common stock. If any of the following risks actually occurs, the Company's business, financial condition, results of operations or cash flow could be materially and adversely affected. In such case, the trading price of the Company's common stock could decline, and one could lose all or part of one's investment. One should also refer to the other information set forth in this report, including the Company's consolidated financial statements and the related notes.

THE COMPANY CONTINUES TO USE SIGNIFICANT AMOUNTS OF CASH FOR ITS BUSINESS OPERATIONS, WHICH COULD RESULT IN US HAVING INSUFFICIENT CASH TO FUND THE COMPANY'S OPERATIONS AND EXPENSES UNDER OUR CURRENT BUSINESS PLAN.

The Company's liquidity and capital resources remain limited. There can be no assurance that the Company's liquidity or capital resource position would allow us to continue to pursue its current business strategy. The Company's quoted equity securities held as assets are dependent on the market value. Any fluctuations or downturn in the securities market could adversely affect the value of these equity securities held. As a result, without achieving growth in its business along the lines it has projected, it would have to alter its business plan or further augment its cash flow position through cost reduction measures, sales of assets, additional financings or a combination of these actions. One or more of these actions would likely substantially diminish the value of its common stock.

THE MARKET MAY NOT BROADLY ACCEPT THE COMPANY'S BROADBAND WEBSITES AND SERVICES, WHICH WOULD PREVENT THE COMPANY FROM OPERATING PROFITABLY.

The Company must be able to achieve broad market acceptance for its Broadband websites and services, at a price that provides an acceptable rate of return relative to the Company-wide costs in order to operate profitably. There is no assurance that the market will develop sufficiently to enable the Company to operate its Broadband business profitably. Furthermore, there is no assurance that any of the Company's services will become generally accepted, nor

is there any assurance that enough paying users and advertisers will ultimately be obtained to enable us to operate these business profitably.

BROADBAND USERS MAY FAIL TO ADOPT THE COMPANY'S BROADBAND SERVICES.

The Company's Broadband services are targeted to the growing market of Broadband users worldwide to deliver content and E-commerce in an efficient, economical manner over the Broadband networks. The challenge is to make the Company's business attractive to consumers, and ultimately, profitable. To do so has required, and will require, the Company to invest significant amounts of cash and other resources. There is no assurance that enough paying users and advertisers will ultimately be obtained to enable the Company to operate the business profitably.

FAILURE TO SIGNIFICANTLY INCREASE THE COMPANY'S USERS AND ADVERTISERS MAY RESULT IN FAILURE TO ACHIEVE CRITICAL MASS AND REVENUE TO BUILD A SUCCESSFUL BUSINESS.

The Company incurs significant up-front costs in connection with the acquisition of content, and bandwidth and network charges. The plan is to obtain recurring revenues in the form of subscription and advertising fees to use the Broadband services, either paid by the users or advertisers.

There is no assurance as to whether the Company will be able to maintain, or whether and how quickly the Company will be able to increase its user base, or whether the Company will be able to generate recurring subscription and advertising fees to such a level that would enable this line of business to continue to operate profitably. If the Company is not successful in these endeavors, the Company could be required to revise its business model, exit or reduce the scale of the business, or raise additional capital.

COMPETITION IN THE BROADBAND BUSINESS IS EXPECTED TO INCREASE, WHICH COULD CAUSE THE BUSINESS TO FAIL.

The Company's Broadband services are targeted to the end user market. As the Broadband penetration rates increase globally, an increasing number of well-funded competitors have entered the market. Companies that compete with the Company's business include telecommunications, cable, content management and network delivery companies.

The Company may face increased competition as these competitors partner with others or develop new Broadband websites and service offerings to expand the functionality that they can offer to their customers. These competitors may, over time, develop new technologies and acquire content that are perceived as being more secure, effective or cost efficient than the Company. These competitors could successfully garner a significant share of the market, to the exclusion of the Company. Furthermore, increased competition could result in pricing pressures, reduced margins, or the failure of the business to achieve or maintain market acceptance, any one of which could harm the business.

THE INABILITY TO SUCCESSFULLY EXECUTE TIMELY DEVELOPMENT AND INTRODUCTION OF NEW AND RELATED SERVICES AND TO IMPLEMENT TECHNOLOGICAL CHANGES COULD HARM THE BUSINESS.

The evolving nature of the Broadband business requires the Company to continually develop and introduce new and related services and to improve the performance, features, and reliability of the existing services, particularly in response to competitive offerings.

The Company has under development new features and services for its businesses. The Company may also introduce new services. The success of new or enhanced features and services depends on several factors - primarily market acceptance. The Company may not succeed in developing and marketing new or enhanced features and services that respond to competitive and technological developments and changing customer needs. This could harm the business.

CAPACITY LIMITS ON THE COMPANY'S TECHNOLOGY AND NETWORK HARDWARE AND SOFTWARE MAY BE DIFFICULT TO PROJECT, AND THE COMPANY MAY NOT BE ABLE TO EXPAND AND/OR UPGRADE ITS SYSTEMS TO MEET INCREASED USE, WHICH WOULD RESULT IN REDUCED REVENUES.

While the Company has ample through-put capacity to handle its customers' requirements for the medium term, at some point it may be required to materially expand and/or upgrade its technology and network hardware and software. The Company may not be able to accurately project the rate of increase in usage of its network. In addition, it may not be able to expand and/or upgrade its systems and network hardware and software capabilities in a timely manner to accommodate increased traffic on its network. If the Company does not appropriately expand and/or upgrade our systems and network hardware and software in a timely fashion, it may lose customers and revenues.

INTERRUPTIONS TO THE DATA CENTERS AND BROADBAND NETWORKS COULD DISRUPT BUSINESS, AND NEGATIVELY IMPACT CUSTOMER DEMAND FOR THE COMPANY.

The Company's business depends on the uninterrupted operation at the data centers and the broadband networks run by the various service providers. The data centers may suffer for loss, damage, or interruption caused by fire, power loss, telecommunications failure, or other events beyond the Company. Any damage or failure that causes interruptions in the Company's operations could materially harm business, financial conditions, and results of operations.

In addition, the Company's services depend on the efficient operation of the Internet connections between customers and the data centers. The Company depends on Internet service providers efficiently operating these connections. These providers have experienced periodic operational problems or outages in the past. Any of these problems or outages could adversely affect customer satisfaction and customers could be reluctant to use our Internet related services.

THE COMPANY MAY NOT BE ABLE TO ACQUIRE NEW CONTENT, OR MAY HAVE TO DEFEND ITS RIGHTS IN INTELLECTUAL PROPERTY OF THE CONTENT THAT IS USED FOR ITS SERVICES WHICH COULD BE DISRUPTIVE AND EXPENSIVE TO ITS BUSINESS.

The Company may not be able to acquire new content, or may have to defend its intellectual property rights or defend against claims that it is infringing the rights of others, where its content rights are concerned. Intellectual property litigation and controversies are disruptive and expensive. Infringement claims could require us to develop non-infringing services or enter into royalty or licensing arrangements. Royalty or licensing arrangements, if required, may not be obtainable on terms acceptable to the Company. The business could be significantly harmed if the Company is not able to develop or license new content. Furthermore, it is possible that others may license substantially equivalent content, thus enabling them to effectively compete against us.

THE COMPANY DEPENDS ON KEY PERSONNEL.

The Company depends on the performance of its senior management team. Its success depends on its ability to attract, retain, and motivate these individuals. There are no binding agreements with any of its employees that prevent them from leaving the Company at any time. There is competition for these people. The loss of the services of any of the key employees or failure to attract, retain, and motivate key employees could harm the business.

THE COMPANY RELIES ON THIRD PARTIES.

If critical services and products that the Company sources from third parties, such as content and network services were to no longer be made available to the Company or at a considerably higher price than it currently pays for them, and suitable alternatives could not be found, the business could be harmed.

THE COMPANY COULD BE AFFECTED BY GOVERNMENT REGULATION.

The list of countries to which our solutions and services could not be exported could be revised in the future. Furthermore, some countries may in future impose restrictions on streaming of broadband contents and related services. Failure to obtain the required governmental approvals would preclude the sale or use of services in international markets and therefore, harm the Company's ability to grow sales through expansion into international markets. While regulations in almost all countries in which our business currently operates generally permit the broadband services, such regulations in future may not be as favorable and may impede our ability to develop business.

THE COMPANY COULD BE AFFECTED BY PIRACY IN ASIA.

The Company is in the process of expanding its services globally, and in particular is entering specific countries in Asia with customized country sites. These country sites are designated to suit viewership patterns and styles in the countries they are launched in, and make use of the Company's content and intellectual property rights to the content. The piracy of content is a significant problem in many Asian countries, and it is not uncommon to see movies and television dramas appearing on illegal internet sites, and sold as pirated DVDs and VCDs. The extent of this piracy of content in the specific countries that the Company is launching its sites will adversely affect to a certain degree the amount of advertising and subscription revenues that the Company intends to earn.

THE COMPANY COULD BE AFFECTED BY ECONOMIC DOWNTURNS

The global economy underwent a massive downturn in 2009, which commenced in the second half of 2008. Many countries were faced with negative growth rates.. Where the media industry was concerned, major corporations reduced their advertising expenditures or even cut back substantially all advertising and promotional expenditures towards the latter half of 2008. The Company is heavily reliant on advertising and syndication revenues. Any future downturns in any one country that the Company operates its WOWtv service would significantly affect the Company's revenues.

OUR COMMON STOCK IS CONSIDERED A "PENNY STOCK". THE APPLICATION OF THE "PENNY STOCK" RULES TO OUR COMMON STOCK COULD LIMIT THE TRADING AND LIQUIDITY OF THE COMMON STOCK, ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK AND INCREASE THE TRANSACTION COSTS TO SELL THOSE SHARES.

Our common stock is a "low-priced" security or "penny stock" under rules promulgated under the Securities Exchange Act of 1934, as amended. In accordance with these rules, broker-dealers participating in transactions in low-priced securities must first deliver a risk disclosure document which describes the risks associated with such stocks, the broker-dealer's duties in selling the stock, the customer's rights and remedies and certain market and other information. Furthermore, the broker-dealer must make a suitability determination approving the customer for low-priced stock transactions based on the customer's financial situation, investment experience and objectives. Broker-dealers must also disclose these restrictions in writing to the customer, obtain specific written consent from the customer, and provide monthly account statements to the customer. The effect of these restrictions will likely decrease the willingness of broker-dealers to make a market in our common stock, will decrease liquidity of our common stock and will increase transaction costs for sales and purchases of our common stock as compared to other securities.

THE STOCK MARKET IN GENERAL HAS EXPERIENCED VOLATILITY THAT OFTEN HAS BEEN UNRELATED TO THE OPERATING PERFORMANCE OF LISTED COMPANIES. THESE BROAD FLUCTUATIONS MAY BE THE RESULT OF UNSCRUPULOUS PRACTICES THAT MAY ADVERSELY AFFECT THE PRICE OF OUR STOCK, REGARDLESS OF OUR OPERATING PERFORMANCE.

Shareholders should be aware that, according to SEC Release No. 34-29093 dated April 17, 1991, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. The occurrence of these patterns or practices could increase the volatility of our share price.

WE DO NOT EXPECT TO PAY DIVIDENDS FOR THE FORESEEABLE FUTURE, AND WE MAY NEVER PAY DIVIDENDS. INVESTORS SEEKING CASH DIVIDENDS SHOULD NOT PURCHASE OUR COMMON STOCK.

We currently intend to retain any future earnings to support the development of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our Board of Directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. In addition, our ability to pay dividends on our common stock may be limited by Nevada state law. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize a return on their investment. Investors seeking cash dividends should not purchase our common stock.

FUTURE SALES OF OUR COMMON STOCK COULD PUT DOWNWARD SELLING PRESSURE ON OUR COMMON STOCK, AND ADVERSELY AFFECT THE PER SHARE PRICE. THERE IS A RISK THAT THIS DOWNWARD PRESSURE MAY MAKE IT IMPOSSIBLE FOR AN INVESTOR TO SELL SHARES OF COMMON STOCK AT ANY REASONABLE PRICE, IF AT ALL.

Future sales of substantial amounts of our common stock in the public market or the perception that such sales could occur, could put downward selling pressure on our common stock and adversely affect its market price.

THE OVER THE COUNTER BULLETIN BOARD IS A QUOTATION SYSTEM, NOT AN ISSUER LISTING SERVICE, MARKET OR EXCHANGE. THEREFORE, BUYING AND SELLING STOCK ON THE OTC BULLETIN BOARD IS NOT AS EFFICIENT AS BUYING AND SELLING STOCK THROUGH AN

EXCHANGE. AS A RESULT, IT MAY BE DIFFICULT FOR YOU TO SELL YOUR COMMON STOCK OR YOU MAY NOT BE ABLE TO SELL YOUR COMMON STOCK FOR AN OPTIMUM TRADING PRICE.

The Over the Counter Bulletin Board (the "OTC BB") is a regulated quotation service that displays real-time quotes, last sale prices and volume limitations in over-the-counter securities. Because trades and quotations on the OTC Bulletin Board involve a manual process, the market information for such securities cannot be guaranteed. In addition, quote information, or even firm quotes, may not be available. The manual execution process may delay order processing and intervening price fluctuations may result in the failure of a limit order to execute or the execution of a market order at a significantly different price. Execution of trades, execution reporting and the delivery of legal trade confirmations may be delayed significantly. Consequently, one may not be able to sell shares of our common stock at the optimum trading prices.

When fewer shares of a security are being traded on the OTC Bulletin Board, volatility of prices may increase and price movement may outpace the ability to deliver accurate quote information. Lower trading volumes in a security may result in a lower likelihood of an individual's orders being executed, and current prices may differ significantly from the price one was quoted by the OTC Bulletin Board at the time of the order entry. Orders for OTC Bulletin Board securities may be canceled or edited like orders for other securities. All requests to change or cancel an order must be submitted to, received and processed by the OTC Bulletin Board. Due to the manual order processing involved in handling OTC Bulletin Board trades, order processing and reporting may be delayed, and an individual may not be able to cancel or edit his order. Consequently, one may not be able to sell shares of common stock at the optimum trading prices.

The dealer's spread (the difference between the bid and ask prices) may be large and may result in substantial losses to the seller of securities on the OTC Bulletin Board if the common stock or other security must be sold immediately. Further, purchasers of securities may incur an immediate "paper" loss due to the price spread. Moreover, dealers trading on the OTC Bulletin Board may not have a bid price for securities bought and sold through the OTC Bulletin Board. Due to the foregoing, demand for securities that are traded through the OTC Bulletin Board may be decreased or eliminated.

WE GENERATED A NET LOSS OF \$213,828 AND \$406,915 BEFORE TAXES FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND MARCH 31, 2013, RESPECTIVELY. WE MAY BE UNABLE TO CONTINUE AS A GOING CONCERN.

Our consolidated financial statements have been prepared on a going concern basis which assumes that we will be able to realize our assets and discharge our liabilities in the normal course of business for the foreseeable future. We generated a consolidated net loss before taxes of \$213,828 for the three months ended March 31, 2014 compared to a consolidated net loss before taxes of \$406,915 during 2012. We realized a deficit cash flow from operating activities of \$255,346 for the three months ended March 31, 2014 compared to gain of \$186,590 for the three months ended March 31, 2013. For the three months ended 31 March 2014, we had an accumulated deficit of \$42,937,306 and a working capital deficiency of \$3,020,671 compared to an accumulated deficit of \$42,759,864 and a working capital deficiency of \$3,107,722 for the year ended December 31, 2013. At at March 31, 2014, we had a stockholders' deficit of \$3,018,612 compared to a stockholders' deficit of \$3,104,784 as at December 31, 2013. Our ability to continue as a going-concern is in substantial doubt as it is dependent on a number of factors including, but not limited to, the receipt of continued financial support from our investors, our ability to raise equity or debt financing as we need it, and whether we will be able to use our securities to meet certain of our liabilities as they become payable. The outcome of these matters is dependent on factors outside of our control and cannot be predicted at this time.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended March 31, 2014, the Company received a total of \$364,000 for the sale of 3,640,000 shares of Series B Convertible Preferred Stock ("Preferred Stock") through its private placement of shares of Preferred Stock at a purchase price of \$0.10 per share to "accredited investors," as that term is defined in Regulation D of the Securities Act of 1933. Each share of Series B Convertible Preferred Stock is convertible into ten (10) shares of common stock. The total proceeds were used for the working capital of the Company. The shares of the Company's preferred stock in above private placement were issued and sold in reliance upon the exemption provided by Section 4(2) and/or Regulation D/Regulation S of the Securities Act of 1933. Appropriate investment representations were obtained and the securities were issued with restrictive legends.

On April 17, 2014, the Company issued a total of 1,000,000 shares of Series B Convertible Preferred Stock ("Preferred Stock") through its private placement of shares of Preferred Stock at a purchase price of \$0.10 per share for a total amount of \$100,000, to "accredited investors", as that term is defined in Regulation D of the Securities Act of 1933. Each share of Series B Convertible Preferred Stock is convertible into ten (10) shares of common stock. The proceeds of the private placement were used for working capital. The shares of the Company's preferred stock in above private placement were issued and sold in reliance upon the exemption provided by Section 4(2) and/or Regulation D/Regulation S of the Securities Act of 1933. Appropriate investment representations were obtained and the securities were issued with restrictive legends.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4: MINE SAFETY DISCLOSURES

None

ITEM 5: OTHER INFORMATION

None

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ITEM 6: EXHIBITS:

Exhibit 31.1	CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT
Exhibit 31.2	CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT
Exhibit 32.1	CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT
Exhibit 32.2	CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT
Exhibit 99.1	Temporary Hardship Exemption

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB* XBRL Taxonomy Extension Labels Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

* To be furnished by amendment per Temporary Hardship Exemption under Regulation S-T.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Amaru, Inc.

(Registrant)

May 15, 2014 By: /s/ Chua Leong Hin

President, Chief Executive Officer and Chief Financial Officer