

23 January 2014

ASX Market Announcements
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

APPENDIX 4C – Q2FY14 QUARTERLY CASH FLOW STATEMENT

Please find attached the Appendix 4C “Quarterly Report” for Emerchants Limited (Company) for the quarter and the 6 months to 31 December 2013 (**Q2FY14**).

The following are additional explanatory notes to be read in conjunction with the Report.

The Company had a strong second quarter supported by the traditional Christmas gift card volumes with new and strong growth from the reloadable business. The main focus for the quarter was on potential new contracts and system implementations. Management anticipates several new key agreements which would underpin the future growth of the Company to be finalised in the second half of the year.

As announced in the previous quarter to the ASX, the successful capital raising of \$7.1 million net of fees in a placement to institutional and sophisticated investors has provided management the opportunity to utilise these funds for infrastructure enhancements and for sales, marketing and product development initiatives during the quarter. The capital raise continued to provide the Company with significant balance sheet strength to support sales opportunities.

The outlook for the Company remains healthy, supported by a strong pipeline of revenue producing opportunities and inflows from existing business.

The directors are satisfied that the Company has adequate funding, that its current balance sheet is sound, and that the Company complies with Listing Rule 12.2.

The table below summarises the quarterly progress, with key inflows and outflows described in further detail below.

Table 1: Quarterly cash flow summary

\$ Thousands	Q1FY13	Q2FY13	Q2FY13	Q1FY14	Q2FY14	Q2FY14
	Quarter	Quarter	YTD	Quarter	Quarter	YTD
Operations	(1,154)	(783)	(1,938)	(1,135)	(327)	(1,462)
<i>% Change on prior comparative period</i>			<i>+52%</i>	<i>+2%</i>	<i>+58%</i>	<i>+25%</i>
Investing	(16)	66	49	2	(534)	(532)
<i>% Change on prior comparative period</i>			<i>+103%</i>	<i>+110%</i>	<i>(909%)</i>	<i>(1185%)</i>
Financing	2,455	Nil	2,456	7,062	Nil	7,062
<i>% Change on prior comparative period</i>			<i>+1759%</i>	<i>+188%</i>	<i>n/a</i>	<i>+188%</i>
Total inflows (outflow)	1,285	(717)	567	5,928	(861)	5,068
Closing Cash	3,575	2,858	2,858	7,288	6,427	6,427

Cash outflows from operations

- The Company successfully applied for the R&D grant based on the expenditures incurred in FY13 and \$436k was received in the quarter. The Company will continue to invest in R&D activities in the future to strengthen our competitive position in the market and would expect similar inflows in FY15.
- As we have reported on a number of occasions, the gift business is not an area of focus for us but traditionally in the second quarter we see strong growth in the gift card market due to the Christmas promotional period. The volumes did increase in Q2 FY14 over Q1 FY14 as evidenced in table 2 below, however the Q2 FY14 vs. Q2 FY13 year-on-year (YOY) transactional growth was only up 5% on the non-reloadable products. We are seeing a slowdown in the gift business as the gift industry becomes more competitive and our resellers reach a natural saturation point at these levels of volume. This is resulting in lower funds to invest on which to earn interest and coupled with a lower interest rate environment, we are seeing a reduction in margin on the gift segment.
- Our focus continues to be on our reloadable strategy and we experienced strong YOY growth across all metrics in the quarter with 117% YOY growth in Stored value on accounts and 60% YOY growth on the revenue generating transactions, despite the fact that a number of the charitable programs announced in the first half of the year were launched but we didn't see a significant contribution from them. The growth was supported by the Cash Converters pilot program and continued contributions from our established reloadable clients.

- We have previously announced our focus on some particular industry segments as our transition to a reloadable prepaid debit business continues and we look forward to announcing some progress on those in the second half and as such we expect the strong growth in reloadable metrics to continue.
- Following on from the Q1 FY14 capital raise, funds have been invested in recruiting additional staff in business development. However on a YOY basis we have been able to reduce our expense base due to continued cost control disciplines and initiatives such as the non-executive directors forfeiting fees in return for options over shares.

Table 2: Emerchants key operating metrics

<i>Thousands</i>	Q1FY13 Quarter	Q2FY13 Quarter	Q2FY13 YTD	Q1FY14 Quarter	Q2FY14 Quarter	Q2FY14 YTD
No. active accounts > \$0¹	446	528	528	518	591	591
Reloadable	32	36	36	43	44	44
<i>% Change on prior comparative period</i>			54%	34%	22%	22%
Non-Reloadable / Gift	414	492	492	475	547	547
<i>% Change on prior comparative period</i>			43%	15%	11%	11%
\$ Total Funds loaded²	27,534	38,745	66,278	31,786	47,961	79,746
Reloadable	12,251	12,516	24,767	14,269	17,624	31,892
<i>% Change on prior comparative period</i>			13%	16%	41%	29%
Non-Reloadable / Gift	15,282	26,228	41,511	17,517	30,337	47,854
<i>% Change on prior comparative period</i>			56%	15%	16%	15%
No. key transactions³	808	1,067	1,875	963	1,209	2,172
Reloadable	133	153	285	204	245	449
<i>% Change on prior comparative period</i>			41%	54%	60%	57%
Non-Reloadable / Gift	675	915	1,590	759	964	1,724
<i>% Change on prior comparative period</i>			64%	13%	5%	8%
\$ Stored value on accounts⁴	16,170	21,509	21,509	20,229	29,661	29,661
Reloadable	2,802	3,652	3,652	5,101	7,918	7,918
<i>% Change on prior comparative period</i>			62%	82%	117%	117%
Non-Reloadable / Gift	13,368	17,856	17,856	15,128	21,742	21,742
<i>% Change on prior comparative period</i>			50%	13%	22%	22%

¹ Number of active prepaid accounts measured at the end of the period with a balance greater than \$0.00. Accounts that have expired or have no funds associated with them are excluded.

² Total funds loaded onto prepaid accounts – total of initial and subsequent loads.

³ Key transactions constituting activity such as redemption or attempted redemption of prepaid value.

⁴ Total value on deposit for the prepaid portfolio measured at the end of the period. Represents unredeemed stored value.

Cash outflows from investing activities

The net outflow in the current quarter relates to utilising a portion of the funds from the Q1 FY14 capital raise to invest in infrastructure upgrades to expand the network capacity in order to meet increasing transaction volumes. The investment of funds is largely completed and any further capital investment will only be made if it enables the Company to offer additional fee generating product features and to enter new markets.

Cash outflows from financing activities

Following on from the Q1 FY14 capital raise, these funds have provided balance sheet strength and further product development opportunities. The Company anticipates no further financing activities in the near term as the Board considers the current funding and capital structure appropriate based on the Company's operating outlook.

-ENDS-

For more information, please contact:

Tom Cregan
Managing Director
Emerchants Limited
Ph: + 61(0) 7 3607 0100

Bruce Stewart
Chief Financial Officer
Emerchants Limited
Ph: + 61(0)7 3607 0112

Appendix 4C

Quarterly report for entities admitted on the basis of commitments (Parent Company and Exploration-related Subsidiaries)

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10

(Internal document only)

Name of entity

Emerchants Limited

ABN

93 104 757 904

Quarter ended ("current quarter")

31 December 2013

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	1,015	1,855
1.2 Payments for:	-	-
(a) staff costs	(1,130)	(2,468)
(b) advertising and marketing	(47)	(80)
(c) leased assets	(8)	(15)
(d) other working capital	(461)	(738)
(e) accounting and administrative services	-	-
(f) acquisition-related expenses	-	-
(g) exploration expenditure	15	34
(h) software and systems infrastructure	(157)	(277)
(i) risk and compliance	(164)	(334)
(j) rent and utilities	(117)	(239)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	291	364
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other*	436	436
Net operating cash flows	(327)	(1,462)

*Tax refund relating to the Research and Development tax incentive scheme for the year ended 30 June 2013 was received in the quarter.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	(327)	(1,462)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property/intangible assets	(11)	(40)
(d) physical non-current assets	(523)	(542)
(e) other non-current assets	-	-
(f) cash included on consolidation of subsidiary	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	50
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other	-	-
Net investing cash flows	(534)	(532)
1.14 Total operating and investing cash flows	(861)	(1,994)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	7,500
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other – Share Issue costs	-	(438)
Net financing cash flows	-	7,062
Net increase (decrease) in cash held	(861)	5,068
1.21 Cash at beginning of quarter/year to date	7,288	1,359
1.22 Exchange rate adjustments to item 1.20		
1.23 Cash at end of quarter	6,427	6,427

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	104,000
1.25	Aggregate amount of loans to the parties included in item 1.11	Nil

1.26 Explanation necessary for an understanding of the transactions

Payments to Executive Directors, Non-Executive Directors and Associates of the directors is broken down as follows:

\$000's

Directors and Executive Directors fees*	99,556
Superannuation	4,444
Associates of the directors	-
Total	104,000

* The non-executive Directors have agreed to forgo director's fees from March 2013 until June 2014 in return for a long term, three year escrowed, option grant that was approved by shareholders at the AGM in November 2013.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2,500,000 Non-performance-based options

On 13 November 2013 an award of 2,500,000 non-performance-based options to the Non-executive directors of the Company to forgo director's fees from March 2013 to June 2014 was approved by shareholders at the General Meeting. The share options are not listed, carry no rights to dividends and no voting rights.

The Options will be subject to a voluntary escrow for the Escrow Period, being the period from the issue date of 10 December 2013 until 29 February 2016 (inclusive), the Non-Executive Directors will not be able to transfer the Options during the Escrow Period without the Company's consent. A total expense of \$263,492 was recognised in the profit or loss during the period in relation to the award of the 2,500,000 non-performance-based options.

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	1,416	1,271
4.2 Deposits at call	5,011	6,017
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	6,427	7,288

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a)) N/A
5.1 Name of entity	N/A	N/A
5.2 Place of incorporation or registration	N/A	N/A
5.3 Consideration for acquisition or disposal	N/A	N/A
5.4 Total net assets	N/A	N/A
5.5 Nature of business	N/A	N/A

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

Director

Date: 23 January 2014

Print name: Tom Cregan

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, AASB 107: Statement of Cash Flows apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.