

31 October 2013

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

APPENDIX 4C – Q1FY14 QUARTERLY CASH FLOW STATEMENT

Please find attached the Appendix 4C “Quarterly Report” for Emerchants Limited (**Company**) for the quarter and the 3 months to 30 September 2013 (**Q1FY14**).

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

The Company has had a solid start to FY14, with established clients contributing to revenue volumes for the quarter. The main focus for the quarter was on finalising new contracts and system implementations, in addition to the statutory obligations and responsibilities for the financial year end. Management anticipates several new agreements which would underpin the future growth of the Company to be finalised in Q2FY14.

As announced during the quarter to the ASX on 26 August 2013, the Company was successful in raising \$7.5 million in a placement to institutional and sophisticated investors of 22.7 million new shares at \$0.33 per share. Management intend to utilise these funds for infrastructure enhancements and to fund sales, marketing and product development initiatives to take advantage of favourable market conditions. The capital raise has also provided the Company with significant balance sheet strength to support larger 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 Quarter	Q1FY14 Quarter
Operations	(1,154)	(1,135)
<i>% Change on prior comparative period</i>	<i>+57%</i>	<i>+2%</i>
Investing	(16)	2
<i>% Change on prior comparative period</i>	<i>+99%</i>	<i>+110%</i>
Financing	2,455	7,062
<i>% Change on prior comparative period</i>	<i>+1,760%</i>	<i>+188%</i>
Total inflows (outflow)	1,285	5,928
Closing Cash	3,575	7,288

Cash outflows from operations

- As the cost base of the Company is relatively fixed, improvements in cash flows from Operations is a function of increases in processing volumes generated by our clients with those volumes represented in table 2 below. For Q1 the majority of the volumes were generated by established clients, with new clients launching in Q1 contributing to a lesser extent as they were only in existence for a portion of the quarter and have yet to generate significant volumes. Notable new clients that launched in the current quarter included The Salvation Army (South), Mercy Family Services and Make a Wish.
- Whilst we are undertaking the transition to a reloadable prepaid debit business, a significant amount of our revenues remain non-reloadable, and those products experience seasonality benefits in Q2 and into Q3 due to Christmas promotions with Q1 not traditionally being a strong quarter for non-reloadable products.

Looking ahead into Q2 and the remainder of the year:

- Q1 is traditionally slow in terms of new business contracts as CEO's, Treasurers and Finance departments tend to be focused on financial year end responsibilities. However we expect to announce several new agreements in the coming quarter and upcoming implementations will improve revenue. These include: PAID International, Police Citizens Youth Club, Church of Christ, finalisation of the Salvation Army (South) rollout and Mercy Family Services rollout, launch of Best Restaurants of Australia and the Good Food Guide cards, Cash Converters trial along with the traditional seasonality we see in Q2 and Q3 from gift card sales.
- Management has been successful in applying for and receiving annual R&D grants based on expenditure incurred in prior financial years and intends to pursue such grants for the FY13 year. Should these grants be approved, they would be received in either Q2 or Q3 FY14. For the FY12 year, the Company received an R&D grant of approximately \$500k in Q3 FY13 and the Company considers it likely that a similar amount will be received for the FY13 year.

- Following on from the recent capital raise, the Company has implemented the following sales and marketing initiatives to take advantage of favourable market conditions. These will have a minor impact on the underlying cost base going forward but this is expected to result in increased revenues:
 1. Recruitment of additional business development executives based in Perth and Sydney, strategic geographical areas where we previously had no sales presence. We plan on adding one more sales employee in Sydney;
 2. Recruitment of an additional Client Service representative in Brisbane to increase support capacity prior to the launch of The Community Recovery programme (emergency funding cards) with Queensland State Government; and
 3. A public relations campaign to drive the awareness of the Company and its products to targeted audiences in selected industries and sectors (e.g. Governments).

Table 2: Emerchants key operating metrics

Thousands	Q1FY13 Quarter	Q1FY14 Quarter
No. active accounts > \$0 ¹	446	518
<i>% Change on prior comparative period</i>	<i>60%</i>	<i>16%</i>
\$ Total Funds loaded (initial and subsequent loads) ²	27,534	31,786
<i>% Change on prior comparative period</i>	<i>43%</i>	<i>15%</i>
No. key transactions ³	808	963
<i>% Change on prior comparative period</i>	<i>73%</i>	<i>19%</i>
\$ Stored value on accounts ⁴	16,170	20,229
<i>% Change on prior comparative period</i>	<i>56%</i>	<i>25%</i>

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. Previously only initial loads were reported as a means of reporting the growth in new business, however by reporting both initial and subsequent loads the total funds loaded are captured and disclosed.

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 inflow in the current quarter relates to:

- An outflow of **\$48k** incurred on the acquisition of computer equipment and software including costs associated with offering our clients BPAY functionality (see ASX announcement dated 17 September 2013), offset by;
- A final inflow of **\$50k** for the sale of Johnny Cake mining tenement after approval was received from the Queensland Department of Natural Resources and Mines.

Looking ahead into Q2 and the remainder of the year:

- Utilising a portion of the funds from the recent capital raise, the Company expects to invest approximately **\$600k** in infrastructure upgrades to expand our bandwidth capacity to support the number of users visiting our online portal. This majority of this investment will be incurred in Q2.
- Additional investments in product development will be incurred over the course of the financial year to enable the Company to offer additional fee generating product features and to enter new markets.

Cash outflows from financing activities

As announced during the quarter to the ASX on 26 August 2013, the Company was successful in raising \$7.5 million in a placement to institutional and sophisticated investor of 22.7 million new shares at \$0.33 per share. As discussed above these funds will be utilised for infrastructure upgrades, sales and marketing initiatives, product development, working capital funding and to provide balance sheet strength.

-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")

30 September 2013

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from customers	841	841
1.2 Payments for:		
(a) staff costs	(1,339)	(1,339)
(b) advertising and marketing	(33)	(33)
(c) leased assets	(7)	(7)
(d) other working capital	(278)	(278)
(e) accounting and administrative services	-	-
(f) acquisition-related expenses	-	-
(g) exploration expenditure	19	19
(h) software and systems infrastructure	(119)	(119)
(i) risk and compliance	(170)	(170)
(j) rent and utilities	(123)	(123)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	74	74
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	-	-
Net operating cash flows	(1,135)	(1,135)

+ See chapter 19 for defined terms.

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)	(1,135)	(1,135)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property/intangible assets	(29)	(29)
(d) physical non-current assets	(19)	(19)
(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	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	2	2
1.14 Total operating and investing cash flows	(1,133)	(1,133)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	7,500	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)	(438)
Net financing cash flows	7,062	7,062
Net increase (decrease) in cash held	5,929	5,929
1.21 Cash at beginning of quarter/year to date	1,359	1,359
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	7,288	7,288

+ 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 would be subject to shareholder approval 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

N/A

- 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 \$'000	Amount used \$'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 \$'000	Previous quarter \$'000
4.1 Cash on hand and at bank	1,271	559
4.2 Deposits at call	6,017	800
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	7,288	1,359

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: 31 October 2013

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.