

30 April 2014

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

APPENDIX 4C – Q3FY14 QUARTERLY CASH FLOW STATEMENT

Please find attached the Appendix 4C “Quarterly Report” for Emerchants Limited (Company) for the quarter and the 9 months to 31 March 2014 (**Q3FY14**).

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

The Company had a steady third quarter focused predominantly on infrastructure and software system enhancements, supported by the launch of a multi-year agreement with online corporate bookmaker Ladbrokes Digital, further strengthening the growth of the reloadable business and providing the Company with a new industry segment to focus on.

The outlook for the Company remains healthy, supported by a strong pipeline of revenue producing opportunities, inflows from existing business and continued growth in new industry verticals.

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 tables below summarise the quarterly progress, with key inflows and outflows described in further detail below.

Table 1: Emerchants key operating metrics

Thousands	Q1FY13 Quarter	Q2FY13 Quarter	Q3FY13 Quarter	Q3FY13 YTD	Q1FY14 Quarter	Q2FY14 Quarter	Q3FY14 Quarter	Q3FY14 YTD
No. active accounts > \$0¹	446	528	518	518	518	591	532	532
Reloadable	32	36	39	39	43	44	40	40
<i>% Change on prior comparative period</i>				44%	34%	22%	1%	1%
Non-Reloadable / Gift	414	492	478	478	475	547	492	492
<i>% Change on prior comparative period</i>				42%	15%	11%	3%	3%
\$ Total Funds loaded onto accounts²	27,534	38,745	34,634	100,912	31,786	47,961	37,563	117,309
Reloadable	12,251	12,516	12,259	37,026	14,269	17,624	20,291	52,184
<i>% Change on prior comparative period</i>				10%	16%	41%	66%	41%
Non-Reloadable / Gift	15,282	26,228	22,375	63,886	17,517	30,337	17,272	65,126
<i>% Change on prior comparative period</i>				55%	15%	16%	(23%)	2%
No. key transactions³	808	1,067	1,006	2,881	963	1,209	1,004	3,176
Reloadable	133	153	168	454	204	245	293	741
<i>% Change on prior comparative period</i>				40%	54%	60%	74%	63%
Non-Reloadable / Gift	675	915	837	2,427	759	964	711	2,434
<i>% Change on prior comparative period</i>				56%	13%	5%	(15%)	0%
\$ Stored value residing on accounts⁴	16,170	21,509	23,201	23,201	20,229	29,661	25,197	25,197
Reloadable	2,802	3,652	4,991	4,991	5,101	7,918	6,508	6,508
<i>% Change on prior comparative period</i>				81%	82%	117%	30%	30%
Non-Reloadable / Gift	13,368	17,856	18,210	18,210	15,128	21,742	18,689	18,689
<i>% Change on prior comparative period</i>				53%	13%	22%	3%	3%

Non-Reloadable / Gift metrics.

Usage based metrics (funds loaded and transaction volumes) have declined relative to the prior comparative quarter (Q3FY13) due to the ongoing slowdown in volumes from our main third party reseller. We have previously discussed the declining trends in the gift card industry and while we would expect the near term volumes to remain at these current levels, we don't

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

² Total funds loaded onto prepaid accounts – total of initial and subsequent loads. This excludes any funds that clients have deposited with the Companies ADI and not loaded onto a prepaid account.

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.

expect a significant amount of growth in gift metrics in the near term. The static metrics measured at the period end (stored value and active accounts) are up slightly on the prior comparative quarter due to the longer lead times for residual funds to be removed from a card and have the card expire. All gift metrics are down on the prior quarter as Q2 incorporates the Christmas and New Year season which is traditionally a very strong period for gift card volumes.

Reloadable metrics.

Usage based metrics (transaction volumes and funds loaded) have increased significantly relative to the prior comparative quarter (Q3FY13) due to the success of our existing small portfolio of programs. We disclosed the signing of an agreement with Ladbrokes Digital in the Q3FY14 quarter, but as the program only formally launched in late Q3FY14, it did not contribute significantly to the operational metrics in this quarter. Our product is well suited to the gaming industry both in terms of the near term solutions and also long term product enhancements, and we are pursuing other client opportunities in this space. Aside from gaming opportunities, we expect continued volume growth from existing clients and new clients to be announced in the next quarter. The static metrics measured at the period end (stored value and active accounts) are up slightly, while the usage based metrics have continued the strong growth this financial year. Reloadable accounts are less seasonal than gift cards and therefore generally exhibit quarter on quarter growth regardless of the season.

Table 2: Quarterly cash flow summary

\$ Thousands	Q1FY13	Q2FY13	Q3FY13	Q3FY13	Q1FY14	Q2FY14	Q3FY14	Q3FY14
	Quarter	Quarter	Quarter	YTD	Quarter	Quarter	Quarter	YTD
Operations	(1,154)	(783)	(189)	(1,938)	(1,135)	(327)	(951)	(2,413)
<i>% Change on prior comparative period</i>				<i>+52%</i>	<i>+2%</i>	<i>+58%</i>	<i>(403%)</i>	<i>+25%</i>
Investing	(16)	66	(56)	49	2	(534)	(97)	(629)
<i>% Change on prior comparative period</i>				<i>+103%</i>	<i>+110%</i>	<i>(909%)</i>	<i>(73%)</i>	<i>(1384%)</i>
Financing	2,455	Nil	(126)	2,456	7,062	Nil	Nil	7,062
<i>% Change on prior comparative period</i>				<i>+1759%</i>	<i>+188%</i>	<i>n/a</i>	<i>n/a</i>	<i>+188%</i>
Total inflows (outflow)	1,285	(717)	(371)	567	5,928	(861)	(1,048)	4,019
Closing Cash	3,575	2,858	2,487	2,858	7,288	6,427	5,379	5,379

Cash outflows from operations

- The main drivers of the decline in Cash outflows from operations relative to the in the prior comparative quarter (Q3FY13) are due to:
 - the Q3FY13 comparative quarter included an annual tax refund relating to the R&D tax incentive scheme for the FY12 tax year of \$494k. (The FY13 refund of \$436k was received in Q2FY14);
 - the increase in reloadable revenues associated with the increases in reloadable operating metrics described in Table 1 above, has not yet offset the decline in gift card volumes as gift cards generate more revenue than reloadable cards per dollar loaded.
- On a year-on-year basis we have been able to keep our operating expense base consistent with the prior year due to continued cost control disciplines and initiatives such as the non-executive directors forfeiting fees in return for options over shares.

Cash outflows from investing activities

The net outflow in the current quarter relates to continued utilisation of a portion of the funds from the Q1FY14 capital raise set aside to invest in IT infrastructure enhancement. We expect to incur a further \$500k to complete the project and the outflow will largely occur in Q4FY14.

Cash outflows from financing activities

Following on from the Q1FY14 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:

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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 March 2014

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from customers	823	2,678
1.2 Payments for:		
(a) staff costs	(1,189)	(3,658)
(b) advertising and marketing	(32)	(113)
(c) leased assets	(8)	(23)
(d) other working capital	(385)	(1,122)
(e) accounting and administrative services	-	-
(f) acquisition-related expenses	-	-
(g) exploration expenditure	-	34
(h) software and systems infrastructure	(136)	(413)
(i) risk and compliance	(104)	(438)
(j) rent and utilities	(98)	(337)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	178	543
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other*	-	436
Net operating cash flows	(951)	(2,413)

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

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

	Current quarter \$A'000	Year to date (9 months) \$A'000
1.8 Net operating cash flows (carried forward)	(951)	(2,413)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property/intangible assets	(13)	(54)
(d) physical non-current assets	(84)	(625)
(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	(97)	(629)
1.14 Total operating and investing cash flows	(1,048)	(3,042)
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	(1,048)	4,020
1.21 Cash at beginning of quarter/year to date	6,427	1,359
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	5,379	5,379

+ 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 \$652,251 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 \$'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	867	1,416
4.2 Deposits at call	4,512	5,011
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	5,379	6,427

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: 30 April 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.