



# Half-Year Financial Report

30 June 2014  
(Unaudited)

## Community Merchant Solutions Limited

ARBN 169 838 359



# **Community Merchant Solutions Limited**

ARBN 169 838 359

## **Half-Year Financial Report For the Period Ended 30 June 2014 (Unaudited)**

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**Community Merchant Solutions Limited**  
**ARBN 169 838 359**

**Corporate Directory**

**Directors** - The names of the directors who held office during or since the end of the half-year:

H. Wain Swapp, Chairman & Chief Executive (Initial Director at 25 June 2014)

Michael S. Fisher (Initial Director at 25 June 2014)

Charles C. Christianson (Initial Director at 25 June 2014)

**Principal Office – United States of America**

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**Registered Office in Australia**

Highgate Corporate Advisors Pty Ltd

31 Highgate Ct

Kellyville NSW 2157

**Auditors**

Keeton CPA

181 N. Arroyo Grande Blvd., Ste. 140B

Henderson, NV 89074 USA

Telephone: (702) 914-0253

Fax: (702) 914-0293

**Register Holders**

Boardroom Pty Ltd

Level 8, 446 Collins Street

Melbourne VIC 3000

**Stock Exchange Listing**

National Stock Exchange of Australia

Code: **CEI**

**Community Merchant Solutions Limited**  
**ARBN 169 838 359**

## **Director's Report**

Your Directors submit the financial report of the company for the half year ended 30 June 2014. On 19 August 2014, Community Merchant Solutions Limited was authorized for issue in accordance with a resolution of the directors. The Company shares are publicly traded on the National Stock Exchange of Australia, under the NSX code "CEI".

### **Principal activities**

The principal activities of the Company during the course of the financial period were providing integrated-point of sale systems (IPOS) to retail merchants in various communities. These sales include VISA, MasterCard, and American Express bankcard processing, Gift and Loyalty transaction processing with custom designed, appointed and distributed cards, Secure Payment Gateway access; Management and Staff training and Support, Customer Service, and Equipment leasing and sales.

### **Review and results of operations**

Operations have continued to perform in line with expectations. The company operated at a net loss for the financial period of \$97,333 USD.

### **Matters subsequent to the end of the reporting period**

The Company entered into an exclusive reseller's agreement with DoubleBeam to sell and market GoPaGo point of sale software. This will launch the Company into the mobile payment market. The Company plans on signing at least three hundred new agents to board nearly 3,000 contracts.

### **Significant changes in the state of affairs**

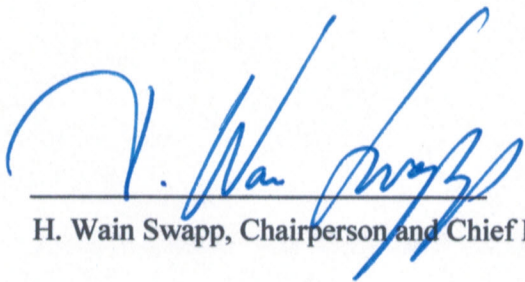
In the opinion of the directors there were no significant changes in the state of affairs of the Company that occurred during the financial period under review not otherwise disclosed in this report.

**Community Merchant Solutions Limited**  
**ARBN 169 838 359**

**Auditor's independence declaration**

The auditor's independence declaration under Section 307C of the Corporations Act 2001 has been received and is set out on page 3 for the half year ended 30 June 2014.

The director's report is signed in accordance with the resolution of the Board of Directors at Community Merchant Solutions Limited on 12 September 2014.



H. Wain Swapp, Chairperson and Chief Executive Officer



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Certified Public Accountants

## **Auditor's Independence Declaration to the Directors of Community Merchant Solutions, Ltd.**

In relation to our review of the financial report of Community Merchant Solutions, Ltd. for the half-year ended 30 June 2014, to the best of our knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

/s/ Keeton CPA  
Keeton CPA  
September 14, 2014

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**Community Merchant Solutions, Ltd**  
**ARBN 169 838 359**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**for the Six Months Ended 30 June 2014**  
**(Unaudited)**

|  |                                  |
|--|----------------------------------|
| <b>Revenue</b>                             | \$ 1,408,047                     |
| <b>Cost of sales</b>                       | <u>(1,185,404)</u>               |
| <b>Gross profit</b>                        | 222,643                          |
| <b>Operating expenses:</b>                 |                                  |
| Selling and distribution costs             | (145,374)                        |
| Administrative expenses                    | <u>(166,371)</u>                 |
| <b>Total operating expenses</b>            | <b>(311,744)</b>                 |
| <b>Net operating income (loss)</b>         | <u><b>(89,102)</b></u>           |
| <b>Finance costs</b>                       |                                  |
| Interest expense                           | <u>(8,231)</u>                   |
| <b>Total finance costs</b>                 | <b>(8,231)</b>                   |
| <b>Net and comprehensive income (loss)</b> | <u><u><b>\$ (97,333)</b></u></u> |
| <br>                                       |                                  |
| Loss Per Share-Basic                       | <u><u><b>\$ (0.00)</b></u></u>   |
| Loss Per Share-Diluted                     | <u><u><b>\$ (0.00)</b></u></u>   |

The accompanying notes are an integral part of the financial statements.



**Community Merchant Solutions, Ltd**  
**ARBN 169 838 359**  
**Consolidated Statement of Financial Position**  
**30 June 2014**  
**(Unaudited)**

**ASSETS**

|                             |                                 |
|-----------------------------|---------------------------------|
| <i>Current assets</i>       |                                 |
| Cash                        | \$ 52,171                       |
| Trade receivables           | 40,481                          |
| Deferred financing costs    | 125,000                         |
| Merchant contracts          | 971,480                         |
|                             | <hr/> 1,189,132                 |
| <i>Noncurrent assets</i>    |                                 |
| Deposits                    | 6,260                           |
| Property and equipment, net | 90,807                          |
| Note receivables, net       | 157,046                         |
| Intangible assets           | 1,652,298                       |
| Total noncurrent assets     | <hr/> 1,906,411                 |
| <b>Total assets</b>         | <hr/> <b>\$ 3,095,543</b> <hr/> |

**LIABILITIES & SHAREHOLDERS' EQUITY**

|  |                                 |
|--|---------------------------------|
| <i>Current liabilities</i>                                     |                                 |
| Accounts payable   | \$ 237,661                      |
| Notes payable  | 6,428                           |
| Total current liabilities                                      | <hr/> 244,089                   |
| <i>Noncurrent liabilities</i>                                  |                                 |
| Notes payable  | 29,998                          |
| Total noncurrent liabilities                                   | <hr/> 29,998                    |
| <b>Total liabilities</b>                                       | <b>274,087</b>                  |
| <i>Shareholders' Equity</i>                                    |                                 |
| Shareholders' capital  | 2,937,846                       |
| <i>100,000,000 Authorized; 20,000,000 issued; No Par Value</i> |                                 |
| Accumulated other comprehensive income                         | 66,685                          |
| Accumulated deficit  | (183,076)                       |
| Total shareholders' equity                                     | <hr/> 2,821,456                 |
| <b>Total liabilities and shareholders' equity</b>              | <hr/> <b>\$ 3,095,543</b> <hr/> |

The accompanying notes are an integral part of the financial statements.

**Community Merchant Solutions, Ltd**  
**ARBN 169 838 359**  
**Consolidated Statement of Changes in Equity**  
**30 June 2014**  
**(Unaudited)**

|  | Common Stock      |                     | Accumulated         | Accum Other      |                     |
|--|-------------------|---------------------|---------------------|------------------|---------------------|
|  | Shares            | Amount USD          | Losses USD          | Comprehensive    | TOTAL USD           |
|  |                   |                     |                     | Income USD       |                     |
| <b>BALANCE AT 1 JANUARY 2014</b>                           |                   | \$ -                | \$ -                | \$ -             | \$ -                |
| Shares Authorized 6 May 2014                               | 100,000,000       |                     |                     |                  |                     |
| Equity Purchase, 23 June 2014;<br>20,000,000 Shares Issued | 20,000,000        | 2,937,846           | (85,743)            | 66,685           | 2,918,789           |
| Loss for the period  |                   |                     | (97,333)            |                  | (97,333)            |
| <b>BALANCE AT 30 JUNE 2014</b>                             | <b>80,000,000</b> | <b>\$ 2,937,846</b> | <b>\$ (183,076)</b> | <b>\$ 66,685</b> | <b>\$ 2,821,456</b> |

The accompanying notes are an integral part of the financial statements.

**Community Merchant Solutions, Ltd**  
**ARBN 169 838 359**  
**Consolidated Statement of Cash Flows**  
**for the Six Months Ended 30 June 2014**  
**(Unaudited)**

**Cash flow from operating activities**

|   |                         |
|---|-------------------------|
| Net loss  | \$ (97,333)             |
| Adjustments to reconcile net loss to cash provided by operating activities: |                         |
| Depreciation expense  | 25,147                  |
| Change in merchant contracts  | (107,580)               |
| Change in trade receivables   | 13,661                  |
| Change in accounts payable  | (76,664)                |
|   | <u>(242,769)</u>        |
| <b>Cash provided by operating activities</b>                                | <b><u>(242,769)</u></b> |

**Cash flow from investing activities**

|   |                       |
|---|-----------------------|
| Purchase of property and equipment                  | (1,985)               |
| Change in fair value of intangible asset            | 297,777               |
| <b>Cash provided (used in) investing activities</b> | <b><u>295,792</u></b> |

**Cash flow from financing activities**

|  |                         |
|--|-------------------------|
| Deferred financing costs                     | (125,000)               |
| Payments toward notes payable                | (7,710)                 |
| <b>Cash provided by financing activities</b> | <b><u>(132,710)</u></b> |

|                                      |                           |
|--------------------------------------|---------------------------|
| <b>Net change in cash</b>            | <b>(79,688)</b>           |
| Cash at beginning of the period      | 27,516                    |
| <b>Cash at the end of the period</b> | <b><u>\$ (52,172)</u></b> |

|                      |                        |
|----------------------|------------------------|
| <b>Interest paid</b> | <b><u>\$ 8,231</u></b> |
|----------------------|------------------------|

The accompanying notes are an integral part of the financial statements.

## **1. Nature of Business**

### **CORPORATE INFORMATION**

Community Merchant Solutions Limited (the “Company”) was incorporated in the British Virgin Islands on 6 May 2014. Community Merchant Solutions Limited completed an equity purchase agreement on 23 June 2014 to acquire one-hundred (100%) percent of the shares of Community Merchant Solutions, LLC (CMS). CMS is a provider of diversified products and services to the electronic transaction processing industry, offering integrated point-of-sale merchant accounts for the acceptance and processing of credit and debit cards, as well as a customized gift and loyalty programs. CMS also provides marketing solutions, customer service, training, installation and support through its internet and cloud based programs.

The Company shares are publicly traded on the National Stock Exchange of Australia, under the NSX code “CEI”.

## **2. Significant Accounting Policies, accounting standards and interpretations**

### **BASIS OF PREPARATION OF HALF-YEAR REPORT**

The accompanying Consolidated Financial Statements for the half-year ended 30 June 2014 are unaudited, have been prepared by Community Merchant Solutions Limited in accordance with U.S. GAAP, and in the opinion of the directors, include all adjustments necessary for a fair statement of the results of operations, financial position and cash flows for the period presented. Results of operations reported for interim periods are not necessarily indicative of results for the entire year.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2013 presented by its subsidiary Community Merchant Solutions, LLC a Delaware entity, and considered together with any public announcements made for Community Merchant Solutions Limited during the half-year ended 30 June 2014 in accordance with the continuous disclosure obligations of the NSX Listing Rules.

The consolidated financial statements include the accounts of the Company and its subsidiary. Any significant intercompany transactions and accounts have been eliminated in consolidation. The financial report is presented in United States Dollars being the functional currency of the Company.

The accounting policies adopted are consistent with those disclosed in the annual report for the six months ended 30 June 2014. Recent accounting pronouncements issued by the Financial Accounting Standards Board in the United States (including its Emerging Issues Task Force) and the American Institute of Certified Public Accountants did not, or are not believed by management to, have a material impact on the Company's present or future financial position, results of operations or cash flows.

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**Cash and Cash Equivalents** – In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less

**Trade Receivables** – The Company evaluates the collectability of its trade receivables based on a number of factors. In circumstances where the Company becomes aware of a specific customer's inability to meet its financial obligations to the Company, a specific reserve for bad debts is estimated and recorded, which reduces the recognized receivable to the estimated amount the Company believes will ultimately be collected. The Company recorded no bad debt charge-offs or allowance for bad debts in 2014.

**Investments** – Estimates and assumptions are required by the Company to determine the valuation of its merchant contracts purchased and held for sale or investment. At each reporting date, the Company monitors recent market transactions. The Company must use judgment in reconciling the reported fair value of its contracts to market price activity, and considers a variety of factors such as current economic conditions, the estimated attrition rate compared to industry averages, age of relationship, and the value of the overall relationship with its customers in terms of other services that may be provided to its customers compared to others within the industry. Any adjustments necessary to record at fair value is reflected in other comprehensive income as a revaluation of available for sale financial assets.

**Property and Equipment** – Property and equipment is comprised of vehicles, office furniture and POS terminals. Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably.

Subsequent to recognition, property and equipment is measured at cost less accumulated depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

**Intangible Assets** – Purchased intangible assets are recorded at cost, where cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition. The cost of such an intangible asset is measured at fair value unless the exchange

transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. If the fair value of either the asset received or the asset given up can be measured reliably, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets which have indefinite lives are not amortized, and are stated at cost less accumulated impairment losses.

On November 17, 2011, an Asset Purchase Agreement ("Agreement") was executed by CMS for a company similar in nature to CMS. The purchase included all assets, including *Merchant Contract Residuals*, and *License Rights* to software it had developed. CMS has classified the license rights as an 'indefinite lived' intangible asset as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. As a result, CMS has not recorded any amortization expense in the accompanying financial statements related to the license rights, nor has CMS recorded any impairment charges for the period ended 30 June 2014. The fair value of the Company's intangible assets are classified as Level 3 in the fair value hierarchy described in *Note 2 – Summary of Significant Accounting Policies: Fair Value*, as the inputs to determine fair value do not meet the criteria to be classified as either Level 1 or Level 2.

**Financial Assets** – The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Financial assets 'at fair value through profit or loss' are financial assets held for trading. The Company had no financial assets 'at fair value through profit or loss' during 30 June 2014. 'Loans and receivables' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables', 'notes receivable', and 'cash and cash equivalents' in the statement of financial position. 'Available-for-sale' financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories, and are carried at fair value, with changes in valuation reflected in a valuation reserve as a component of other comprehensive income.

**Notes payable** - The note payable is an auto loan with payments of \$714 per month at 3.9% interest ending December 2016.

**Comprehensive Income** - Comprehensive income is defined as all changes in shareholder's equity from transactions and other events and circumstances. Therefore, comprehensive income includes our net income (loss) and all charges and credits made directly to shareholders' equity such as the revaluation reserve for available for sale financial assets, which is included as a component of 'other comprehensive income' within shareholders' equity.

**Revenue** – A substantial portion of the Company's revenue is generated from processing services. The Company recognizes revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when persuasive evidence of an arrangement exists, the services have been rendered to the customer, the sales price is fixed or determinable, and collection is reasonably assured.

**Depreciation** - The cost less the residual value of each item property, plant and equipment is amortized over its useful economic life. Depreciation commences when assets are available for use. The assets' useful lives and methods of depreciation are reviewed and adjusted, if appropriate, at the end of each reporting period.

**Income Taxes** - As required by the Income Taxes Topic of Financial Accounting Standards Board's Accounting Standards Codification ("FASB ASC"), the Company accounts for income taxes under the liability method of accounting for income taxes. The liability method requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company's management determines if a valuation allowance is necessary to reduce any tax benefits when the available benefits are more likely than not to expire before they can be used. The Company is not obligated for U.S. federal income taxes because it is a British Virgin Islands company, which is not subject to U.S. Federal income tax. The British Virgin Islands also does not have a corporate income tax. If the Company merges with a U.S. based company, historical net operating losses may not be available for future net income offset.

**Related Party Transactions** – The financial statements include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. The disclosures shall include the nature of the relationship involved, description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements, the dollar amounts of transactions; and amounts due from or to related parties as of the balance sheet date and, if not otherwise apparent, the terms and manner of settlement.

**Fair Value Accounting** - As required by the Fair Value Measurements and Disclosures Topic of the FASB ASC, fair value is measured based on a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets;

(Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The three levels of the fair value hierarchy are described below:

|         |  |
|---------|--|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;                                |
| Level 2 | Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;   |
| Level 3 | Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity). |

### **3. Critical Accounting Estimates and Judgments**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management routinely makes judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

***Intangible Assets and Property & Equipment: Valuation*** – Significant estimates and assumptions are required to determine the valuation of tangible and intangible assets, and the expected useful lives for amortizing and determining the recoverability of these assets. Estimates are also necessary in assessing whether there is an impairment of their value requiring a write-down of their carrying amount. In order to ensure that its assets are carried at no more than their recoverable amount, the Company evaluates at each reporting date certain indicators that would result, if applicable, in the calculation of an impairment test. The recoverable amount of an asset or group of assets may require



the Company to use estimates and mainly to assess the future cash flows expected to arise from the asset or group of assets and a suitable discount rate in order to calculate present value. Any negative change in relation to the operating performance or the expected future cash flows of individual assets or group of assets will change the expected recoverable amount of these assets or group of assets and therefore may require a write-down of their carrying amount.

**6. Events subsequent to reporting date**

On 4 September 2014, the Company entered into an exclusive Reseller's Agreement with DoubleBeam (<http://www.doublebeam.com/who-we-are/>), the owner of GoPago (<https://www.gopago.com/>), a leading mobile application provider. The Company will be responsible for Sales and Marketing along with launching and managing the program over the next 18 months.

## DIRECTOR' DECLARATION

In accordance with the resolution of the directors of Community Merchant Solutions Limited, I state that:

In the opinion of the directors:

- 1) The financial statements and notes of Community Merchant Solutions Limited for the period ended 30 June 2014 are in accordance with the Corporations Act 2001, including:
  - a) Giving a true and fair view of its financial position as at 30 June 2014 and of its performance for the period ended on that date; and
  - b) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*

Signed in accordance with a resolution of the Directors:



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H. Wain Swapp  
Director, Chief Executive Officer

12 September 2014



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Certified Public Accountants

## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members' of  
Community Merchant Solutions, Ltd.

We have reviewed the accompanying consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of profit or loss and other comprehensive income, cash flows and changes in shareholders' equity for the six month period then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Keeton CPA  
Keeton CPA  
September 14, 2014

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