DV01 MECHELLE PTY LTD

ABN 95 061 343 959

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2008

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CORPORATE DIRECTORY

Directors	Gregory R Madden Craig E Hughes
Secretary	Dean W Calder
Registered Office	c/- Calder Roth & Co Level 2, 10 Outram Street West Perth WA 6005 Australia Telephone: + 61 8 9321 7277 Facsimile: + 61 8 9321 7278 E-mail: reception@calderroth.com.au
Business Address	Ground Floor 89 St Georges Terrace Perth, Western Australia Telephone : + 61 8 9483 5200 Facsimile : + 61 8 9483 5222 Website & Email: www.dvo1.com
Auditors	KPMG 152-158 St Georges Terrace PERTH WA 6000

REVIEW OF OPERATIONS

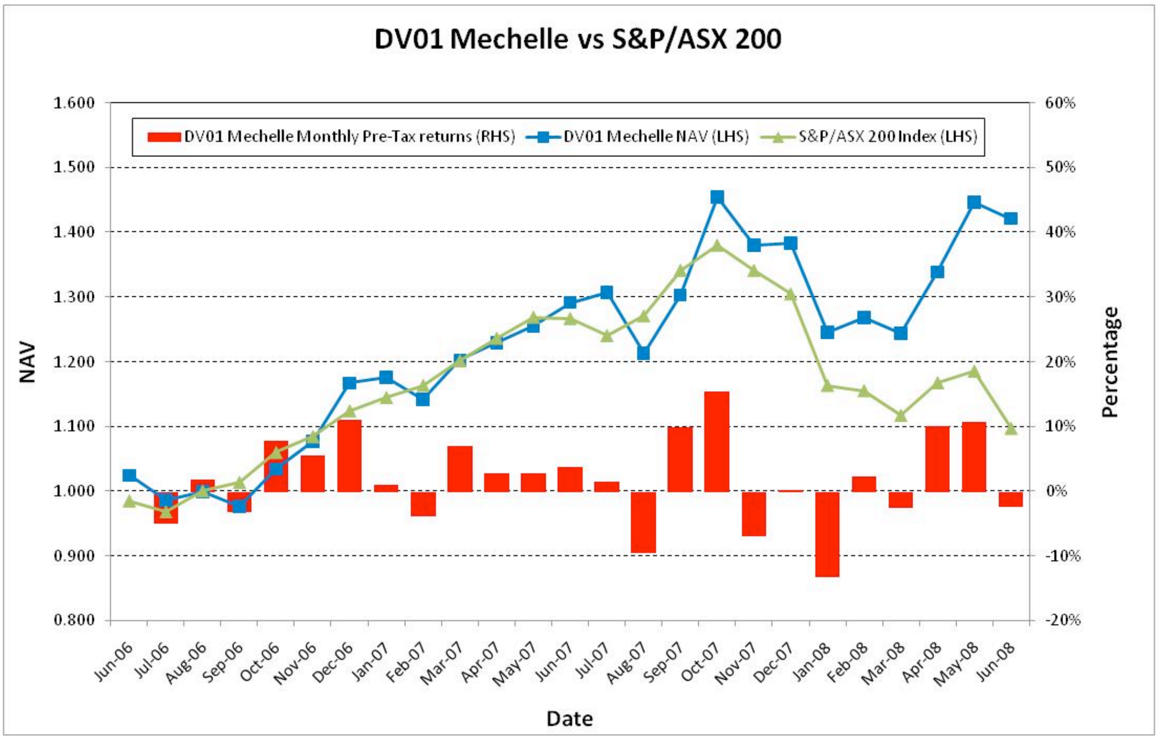
The course of 2008 saw the Company continue to evolve from a private investment company, predominantly owned by Greg Madden and family, to a larger investment vehicle for wholesale and sophisticated investors.

In November 2007, pursuant to an information memorandum, the company raised $5.8 million from an equity raising to clients of the company's Manager and other financial advisers.

In April 2008 the company signed a Prime Broking Agreement with UBS AG, who will provide custodial services and financing of the Company's listed share portfolio. In April 2008 the company also signed a funds administration agreement with Kingsway Taitz to provide accounting, registrar and administration services to the company from July 2008.

The investment climate since August 2007 has turned negative against a backdrop of house price deflation in the United States and other G8 countries. The resultant credit crisis has claimed banks that were thought to have some of the best risk management practices in the world. Western Australia has continued to boom as a result of our states close proximity to China and the producer of over 50% of Australia's mineral and energy exports.

The company's hedged approach (of shorting commodities related to its investee production) is one that continues to weather the storm better than 'long only' funds with significant exposure to Western Australia.



DV01 Mechelle vs S&P/ASX 200 Assumptions: 1) DV01 Mechelle NAV is the after tax Net Asset Value per ordinary share with dividends reinvested and is calculated after allowance for corporate tax at the 30% statutory rate. 2) S&P/ASX 200 Index assumes dividends are reinvested and no allowance on tax is made.

DIRECTORS' REPORT

The directors present their report together with the financial report of DV01 Mechelle Pty Ltd, for the year ended 30 June 2008 and the auditor's report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Gregory R Madden (appointed 16 July 2002)

Craig E Hughes (appointed 14 May 2007)

INFORMATION ON CURRENT DIRECTORS

Greg Madden

Mr Greg Madden has 20 years of international investment banking experience and has worked for extended periods in the global money centres of New York and London.

Mr Madden has a Bachelor of Economics Degree from the University of Western Australia, a Graduate Diploma from FINSIA, and a Masters in Applied Finance from the Macquarie University in Sydney.

Craig Hughes

Craig Hughes currently manages the foreign exchange and jet fuel exposures for an ASX 200 listed company and has been extensively involved in cash flow forecasting, debt and liquidity management. Prior to this he worked for Oakvale Capital, a financial risk management consulting and treasury outsourcing firm, and also as a foreign exchange dealer for the National Australia Bank.

Mr Hughes holds a Masters Degree in Applied Finance from Macquarie University.

COMPANY SECRETARY

Dean Calder was appointed to the position of company secretary on 17 May 2007.

PRINCIPAL ACTIVITIES

The principal activity of the company is that of an investment company. The Directors have appointed the Company's 40% owned associate DV01 Funds Management Pty Ltd (AFSL 308697) as the Manager of the Company's investments. The Company's investments will be managed with the objective of achieving a pre tax absolute return of at least 15% per annum over a rolling three year period regardless of traditional equity benchmarks. The principal strategy of the Manager is to invest in a combination of value and growth (often resource) stocks and manage market risk on those investments by hedging some of the market and commodity exposures in the portfolio. The three strategies employed by the Manager at the moment are:

- Discretionary futures overlay
- Capital markets commodity price arbitrage
- Event driven opportunities such as rights issues, private placements, private equity and convertible notes.

There were no significant changes in the nature of those activities during the 2008 financial year.

OPERATING RESULTS

During the financial year the Company had an operating profit after income tax of $91,753 (after recognising unrealised losses on available for sale investments of $531,598) compared to a profit of $122,349 in 2007.

DIVIDENDS

Dividends recognised in the current year by the Company were:

During the year ended 30 June 2008	2008 $
i) Interim Dividend for the year ending 30 June 2008 of 2.175 cents per share fully franked paid 16 June 2008	$115,955.60
i) Final Dividend for the year ended 30 June 2007 of 1.45 cents per share fully franked paid 17 January 2008	$173.933.40
Total	**$289.889.00**

During the year ended 30 June 2007	2007 $
i) Interim Dividend for the year ending 30 June 2007 of 2.50 cents per share	$100,000.00

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since the end of the financial year, no significant event has occurred.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Company appointed a Prime Broker. UBS AG, Australia Branch ("UBS"), effective April 2008. UBS will act as the Company's settlement agent and custodian on listed equities transactions and provide security financing facilities. The Prime Broker counterparties will clear transactions on behalf of the Manager's associated investment vehicles. This will minimise the risk of operational faults from manual transaction processing and other clerical errors.

A fund administrator Kingsway Taitz Fund Administration Pty Ltd ("Kingsway Taitz") has also been appointed effective July 2008. This will minimise the risk of operational faults from manual transaction processing and other clerical errors, as well as provide maintenance of the Company's financial books and records including but not limited to calculating monthly NAV per share, record keeping, share registrar and preparation of monthly financial statements.

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 year, except as stated elsewhere in this report.

MEETINGS OF DIRECTORS

During the year 1 meeting of directors was held. Attendances were as follows:

	Number eligible to attend	Number Attended
GR Madden	1	1
DW Calder	1	1
CE Hughes	1	1

Due to the directors being based in different states, many of the company's matters are resolved through director's resolutions.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties, where the auditor's expertise and experience with the Company are important. There were no non-audit service engagements carried out during the year ended 30 June 2008.

RISK MANAGEMENT

The board outsources the establishment, implementation, and regular review of the Company's risk management procedures to the Company's Manager (and 40% owned Associate) DV01 Funds Management Pty Ltd. The Manager has established and implemented appropriate risk management processes which contain features for assessing, monitoring and managing operations, financial reporting and compliance risks for the Company. The operational and other risk management compliance and controls have also been assessed and found to be operating efficiently and effectively.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or part of these proceedings.

The Company was not party to any such proceedings during the year.

ENVIRONMENTAL REGULATION

The Company's operations are not regulated by any significant environmental regulation under the law of the commonwealth or the state.

AUDITOR'S INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

INSURANCE OF DIRECTORS

The Manager, DV01 Funds Management Pty Ltd (AFSL 308697) has an insurance policy in place to cover professional liability and Directors and Officers of both DV01 Mechelle Pty Ltd (the "Company"), DV01 Funds Management Pty Ltd (the "Manager").

Signed 16 September 2008 for and on behalf of the board in accordance with a resolution of the directors.

Gregory R Madden

Director

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of DVO1 Mechelle Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

J G Robinson
Partner

Perth
16 September 2008

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 $	2007 $
Finance income	5	1,263,714	549,704
Other income	5	9,550	-
Total revenue		1,273,264	549,704
Accounting and legal expenses		(103,820)	(34,305)
Audit fees		(14,402)	(22,500)
Financing expenses	6	(54,148)	(43,882)
Unrealised losses on available for sale investments transferred from revaluation reserve	6	(531,598)	-
Depreciation expense		-	(86)
Employee expenses		-	(73,302)
Fund management expenses	6	(490,588)	(246,512)
Rental expense		-	(34)
Travel expenses		-	(2,204)
Other expenses		(28,002)	(12,024)
Results from operating activities		**50,706**	**114,855**
Share of profit of equity accounted investees net of income tax	12(b)	11,364	18,348
Profit before income tax		62,070	133,203
Income tax benefit/(expense)	7(a)	29,683	(10,854)
Profit after income tax expense attributable to members of the Company		91,753	122,349

The above Income Statement should be read in conjunction with the accompanying notes.

BALANCE SHEET
AS AT 30 JUNE 2008

	Notes	2008 $	2007 $
CURRENT ASSETS			
Cash and cash equivalents	8	1,479,078	40,965
Trade and other receivables	9	70,286	18,370
TOTAL CURRENT ASSETS		1,549,364	59,335
NON-CURRENT ASSETS			
Available-for-sale investments	10	9,427,778	5,946,157
Other financial assets	11	754,930	177,189
Investments in equity accounted investees	12	449,712	338,348
TOTAL NON-CURRENT ASSETS		10,632,420	6,461,694
TOTAL ASSETS		12,181,784	6,521,029
CURRENT LIABILITIES			
Trade and other payables	13	189,860	301,722
Current tax payable	7(c)	20,608	17,548
TOTAL CURRENT LIABILITIES		210,468	319,270
NON-CURRENT LIABILITIES			
Loans and borrowings	14	-	213,083
Deferred tax liabilities	7(b)	955,096	861,106
TOTAL NON-CURRENT LIABILITIES		955,096	1,074,189
TOTAL LIABILITIES		1,165,564	1,393,459
NET ASSETS		11,016,220	5,127,570
EQUITY			
Issued capital	15	8,410,830	2,823,184
Reserves	16	2,494,793	1,995,653
Retained profits	17	110,597	308,733
TOTAL EQUITY		11,016,220	5,127,570
NAV per share (cents)	19	**1.37755**	**1.2819**

The above Balance Sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

	Share Capital $	Retained Earnings $	Reserves $	Total $
Balance at 1 July 2006	4	286,384	789,307	1,075,695
Changes in fair value of available for sale financial assets net of tax	-	-	1,330,176	1,330,176
Gain on sale of available for sale financial assets transferred to profit or loss net of tax	-	-	(123,830)	(123,830)
Total income and expenses recognised directly in equity	4	286,384	1,995,653	2,282,041
Profit for the year attributable to members	-	122,349	-	122,349
Total direct equity adjustments and profit for the year	4	408,733	1,995,653	2,404,390
Issue of shares	2,823,180	-	-	2,823,180
Transaction costs	-	-	-	-
Dividends to shareholders	-	(100,000)	-	(100,000)
Balance at 30 June 2007	**2,823,184**	**308,733**	**1,995,653**	**5,127,570**
Balance at 1 July 2007	2,823,184	308,733	1,995,653	5,127,570
Changes in fair value of available for sale financial assets net of tax	-	-	2,522,875	2,522,875
Gain on sale of available for sale financial assets transferred to profit or loss net of tax	-		(2,023,735)	(2,023,735)
Total income and expenses recognised directly in equity	2,823,184	308,733	2,494,793	5,626,710
Profit for the year attributable to members	-	91,753	-	91,753
Total direct equity adjustments and profit for the year	2,823,184	400,486	2,494,793	5,718,463
Issue of shares	5,795,561	-	-	5,795,561
Transaction costs	(207,915)		-	(207,915)
Dividends to shareholders		(289,889)	-	(289,889)
Balance at 30 June 2008	**8,410,830**	**110,597**	**2,494,793**	**11,016,220**

The amounts recognised in equity are disclosed net of tax.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 $	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividends and distributions received		174,377	128,845
Interest received		97,787	10,746
Other income		9,550	-
Borrowing costs		(53,576)	(32,709
Payments to suppliers and employees		(788,787)	(119,878)
Income taxes paid		(10,259)	(2,828)
NET CASH USED IN OPERATING ACTIVITIES	21(b)	(570,908)	(15,824)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of investment portfolio assets		2,134,201	1,498,479
Purchase of investment portfolio assets		(4,625,650)	(1,920,098)
Purchase of investments in associates		(100,000)	(320,000)
Purchase of futures		(395,093)	-
Proceeds from sale of property, plant and equipment		-	1,204
NET CASH USED IN INVESTING ACTIVITIES		(2,986,542)	(740,415)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		5,795,557	2,187,450
Share issue costs		(297,022)	-
Repayment of borrowings		(213,083)	(1,304,636)
Dividends paid		(289,889)	(100,000)
NET CASH FROM FINANCING ACTIVITIES		4,995,563	782,814
Net increase in cash and cash equivalents held		1,438,113	26,575
Cash and cash equivalents at the beginning of the financial year		40,965	14,390
Cash and cash equivalents at the end of the financial year	21(a)	1,479,078	40,965

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1 CORPORATE INFORMATION

DV01 Mechelle Pty Ltd is a proprietary company, incorporated and domiciled in Australia. The address of the registered office is, Level 2, 10 Outram Street West Perth.

The Company's principal activity is the purchase of listed securities for investment purposes.

2 BASIS OF PREPARATION

Statement of compliance
The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (AASB's) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB), and the Corporations Act 2001. The financial report complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 16 September 2008.

Basis of measurement
The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value; and
- Available for sale financial assets are measured at fair value.

The methods used to measure the fair values are discussed further in note 3.

Functional and presentation currency
The financial statements are presented in Australian dollars, which is the Company's functional currency.

Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Investment in Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The financial statements include the Company's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Income Statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

(c) **Financial Instruments**

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below, and as disclosed in Note 22(i).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include shares and units in listed entities, and any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value, where revaluation is possible. Unrealised gains and losses arising from changes in fair value are taken directly to equity, except to the extent the investments are considered impaired. See note 3 (d)(i). When an investment is derecognised, the cumulative gain or loss in equity is transferred to the profit or loss.

Derivative financial instruments

The Group holds derivative financial instruments to reduce market risks and enhance investment exposures.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(d) Impairment of Assets

(i) **Financial Assets**

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

(e) Impairment of Assets

When a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is immediately recognised in profit or loss. Any subsequent reversal of an impairment loss is not reversed through profit or loss.

(ii) Non Financial Assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Income Statement.

(f) **Foreign Currency Transactions and Balances**

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical costs continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the Income Statement.

(g) **Finance Income and Expenses**

Finance income comprises interest income on funds invested, dividend and trust distribution income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend and trust distribution income is recognised on that date that the company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue from equity accounted associates is recognised on an accruals basis i.e. the record date. Revenue from the sale of assets is recognised at the date that the contract is entered into, and is measured at the fair value of the consideration received, or receivable.

All revenue is stated net of the amount of goods and services tax (GST).

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit loss using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

(h) **Provisions**

Provisions are recognised when the group has a legal or constructive obligation, as a result of a past event, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(i) **Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the Balance Sheet.

(j) **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(k) **Trade and other receivables**

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists and in any event when the debt is more than 60 days overdue.

(l) **Trade and other creditors**

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) **Operating Leases**

Operating lease payments are charged to the Income Statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(n) **Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(o) **Share Capital**

Ordinary Shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any related income tax benefit.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

(o) **Share Capital (continued)**

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(p) **New Standards and Interpretations Not Yet Adopted**

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008 but have not been applied in preparing this financial report.

- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements.

- Revised AASB 123 *Borrowing* Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Company's 30 June 2010 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Company has not yet determined the potential effect of the revised standard on future earnings.

(q) New Standards and Interpretations Adopted Early

The Company has early adopted AASB 8 Operating Segments. As a result, the Company is no longer required to provide segment disclosure information.

4. FINANCIAL RISK MANAGEMENT

The Company's income is generated from investment in financial instruments, namely securities. As securities are subject to fluctuation due to changing market conditions, the company invests in a diversified range of holdings. By investing in a diversified range of holdings it limits the risk where the actual performances of individual stocks do not meet expectations. Risk controls put in place in helping to limit risk are:

- No one investment transaction will represent more than a 20% stake in the total Portfolio value at the time of acquisition;
- No investment will represent more than a 20% stake in the issued securities of a company;
- Total unlisted investment transactions cannot exceed 50% of the portfolio value as measured by cost/portfolio value;
- That the portfolio consist of between 20 and 70 investments, this could be more or less depending on whether the securities meet the performance expectations;
- Where suitable investments cannot be identified, the portfolio may be invested in cash;

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

- There are no limitation on short positions; and
- Gearing may be employed in the portfolio, but total exposure will not exceed 75% of portfolio valuation.

Other risks the company is exposed to in investing in financial instruments are as follows:

Currency Risk
The company is exposed to this risk when it invests in offshore securities. In order to limit currency risk exposure the company will hedge the foreign currency back into Australia currency at all times to maximise returns in Australian dollars. The Company's portfolio as at 30 June 2008 does not hold any overseas securities. Currency risk therefore is not considered material.

Market Risk
Securities are subject to movements in the exchange rate, commodity, indices and equity prices which can result in a loss or a potential unrealised loss. In order to limit exposure to market risk, the company has in place controls to ensure that any exposure will be within predefined trading limits and marked to market with a full revaluation on a daily basis. Overall market risk limits will be determined by reference to value at risk based calculations taking into account both historical and implied volatility, and using historical estimation, variance and co-variance methods of estimation or a Monte Carlo simulation on the portfolio.

Credit Risk
The company's exposure to credit risk, is the risk that a counterparty defaults on a foreign exchange option or forward contract. Credit risk for spot transactions is often negligible due to real time payment settlement methods. In order to limit exposure to credit risk, the company will transact only with authorised foreign exchange dealers. As a general rule, the company will transact forwards and options with counterparties that have long term Standard & Poors (or Moody's equivalent) rating of A+ or better. In the case where a counterparty is unrated, the decision to transact will be subject to a formal credit analysis and approval taking into account the creditworthiness of the counterparty the type of transaction, the overall exposure to the counterparty and any mitigating circumstances such as Collateral Service Agreements and rights to offset.

The Company appointed prime broker UBS in April 2008, which has effectively given UBS ownership over the Company's asset portfolio. This has exposed the Company to credit risk on the basis that if UBS were to collapse, it may risk losing its asset portfolio. The Company chose UBS as its prime broker on the basis UBS is one of the world's leading financial firms, and has a reputation as being:

- a leading global wealth manager
- a leading, global investment banking and securities firm
- one of the largest global asset managers; and
- in Switzerland, UBS is the market leader in retail and commercial banking.

Further UBS is present in all major finance centres worldwide.

Operational Risk
In reducing exposure to operational risk DV01 in April 2008 established a Prime Broker relationship for clearing and custody of foreign currency transactions. The Prime Broker counterparties will clear

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

transactions on behalf of the company's associated investment vehicles. This will minimise the risk of operational faults from manual transaction processing and other clerical errors. Additionally fund administrator Kingsway Taitz has been employed in the 2009 year to manage the administration of the Company.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The only financial obligation the Company has is trade creditors and other payables. There are no contractual liabilities in place, however UBS have a finance facility of $5,937,383 secured over cash and shares of the company to a value of $8,552,516. As at 30 June 2008 this facility was undrawn. Liquidity risk is considered low and not material.

Interest Rate Risk

The economic entity's exposure to interest rate risk, is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on classes of financial assets and liabilities. The Company does not have a major exposure in this area as the interest rate earned on deposited funds does not vary greatly from month to month. This risk is not considered material.

Capital Management Risk

The Company outsources the capital management of the fund to the Manager. The agreement between the companies is the return objective of the fund which is *"15% per annum, measured over a rolling three-year period regardless of traditional investment benchmarks"*. DV01 has a broad mandate in managing the portfolio and can alter the strategies currently employed in order to meet the return objective.

	2008 $	2007 $
5. REVENUE		
Finance income recognised in profit and loss		
Net gain on disposal of available-for-sale financial assets	775,402	516,555
Net loss realised on derivatives	(135,080)	(104,135)
Net loss on foreign exchange	(18,919)	5,327
Net change in fair value of derivatives through profit and loss	329,999	16,346
Dividends and trust distributions on available-for-sale assets	208,665	104,866
Interest income on bank deposits	103,647	10,745
Financing income recognised in profit and loss	1,263,714	549,704
Other income		
Placement fees	9,550	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

	2008 $	2007 $
Finance income recognised directly in equity		
Net change in fair value of available-for-sale financial assets	1,070,074	1,206,346

6. OPERATING PROFIT
Net Expenses
The profit before income tax includes the following specific expenses:

	2008	2007
(i) Expenses:		
Fund management expenses	490,588	246,512
Financing expenses	54,148	43,882
Contributions to defined contribution plans	-	73,302
*Unrealised losses on available for sale investments	531,598	-

*This figure has been calculated by using the following parameters:

1. If there has been a significant decline in the market value of the available-for-sale asset of 20% or more from its cost; or
2. There has been a prolonged decline in the market value of more than nine months.

7. INCOME TAX

	2008 $	2007 $
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from ordinary activities before income tax expense	62,070	133,203
Prima facie tax payable on profit from ordinary activities at 30% (2007: 30%)	18,621	39,961
Tax effect of amounts which are not deductible/ (assessable) in calculating taxable income		
Impairment loss on available-for-sale assets	159,479	-
Trust distributions	12,038	3,819
Imputation gross-up of dividends received	18,821	11,420
Franking credits on dividends received	(62,736)	(38,066)
Foreign taxation gross-up	508	714
Unrealised gains on futures	(94,096)	(4,904)
Dividends receivable	(10,286)	-
Interest receivable	(1,759)	-
Accrued expenditure	2,874	9,750
Share of profits from associates	(3,409)	(5,504)
Non-deductible expenses	793	363
Capital raising costs	(17,822)	(5)
Trust distributions not assessable	(1,830)	-
	21,196	17,548

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

	2008 $	2007 $
7. INCOME TAX (CONTINUED)		
Current income tax expense	21,196	17,548
Deferred tax expense	(42,856)	(6,694)
Over provision in prior year	(8,023)	-
Income tax expense/(benefit)	(29,683)	10,854
(b) Recognised temporary differences		
Deferred Tax Assets (30%)		
Black hole expenditure – Legal fees	792	5
Accrued expenses	12,624	9,750
Black hole expenditure – Capital raising costs	71,285	-
	84,701	9,755
Deferred Tax Liabilities (30%)		
Tax deferred trust distributions	7,002	5,173
Revaluation of available-for-sale investments	921,752	855,280
Share of profits from equity accounted investees	-	5,504
Interest receivable	1,758	-
Dividends receivable	10,285	-
Revaluation of futures	99,000	4,904
	1,039,797	870,861
Net Deferred Tax Liability	**955,096**	**861,106**
Income Tax Recognised Directly in Equity		
Available-for-sale financial assets	225,952	517,007
(c) Current tax liabilities		
Provision for income tax	20,608	17,548

Note in the “current income tax expense” amount of $21,196 there are tax file number credits of $588 owing to the Company (2007: nil) reducing the current tax payable amount to $20,608.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

	2008 $	2007 $
(d) Dividend franking account		
30% franking credits available to shareholders of the Company from subsequent financial years	58,109	110,087

8. CASH AND CASH EQUIVALENTS

	2008 $	2007 $
Cash at bank and cash in hand	1,479,078	40,965

The effective interest rate on short-term bank deposits was 5.86% (2007: 3.04%); these deposits are at call.

9. TRADE AND OTHER RECEIVABLES

	2008 $	2007 $
Dividends receivable	34,288	-
Interest receivable	5,862	-
GST refund receivable	30,136	18,370
	70,286	18,370

10. AVAILABLE-FOR-SALE INVESTMENTS

	2008 $	2007 $
Shares in listed entities	9,427,778	5,946,157

2008

Opening Balance	Additions	Disposals	Changes in Fair Value	Closing Balance
5,946,157	4,625,650	(2,134,201)	997,079	9,427,778

2007

Opening Balance	Additions	Disposals	Changes in Fair Value	Closing Balance
3,415,195	1,230,849	(423,240)	1,723,353	5,946,157

11. OTHER FINANCIAL ASSETS

	2008 $	2007 $
Derivatives	754,930	177,189

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

12. EQUITY ACCOUNTED INVESTEES

(a) Carrying amounts

Name of company	Principal activity	Ownership interest 2008 %	2007 %	2008 $	2007 $
DV01 Funds Management Pty Ltd	Funds management	40%	40%	449,712	338,348

The above associate is incorporated in Australia. On 15 October 2006 the company acquired 40% of the share capital of DV01 Funds Management Pty Ltd (the "Manager", AFSL 308697). On 29 February 2008 the Manager issued a further 250,000 shares of which the company purchased 100,000 with its interest remaining at 40%. The Manager provides investment management services to the company as set out in Note 20.

	2008 $	2007 $
(b) Movement in carrying amounts		
Carrying amount at the beginning of the financial year	338,438	-
Acquisition of investment	100,000	320,000
Share of profits after income tax	11,364	18,348
Carrying amount at the end of the financial year	449,712	338,348

13. TRADE AND OTHER PAYABLES

Trade creditors	147,780	269,222
Accrued expenses	42,080	32,500
	189,860	301,722

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

	2008 $	2007 $
14. LOANS AND BORROWINGS		
UNSECURED		
BT Margin Lending	-	213,083

The BT Margin Lending facility was repaid on 23 May 2008 and the shares were transferred to UBS, the Company's Prime Broker. As at June 30 2008, UBS Nominees Pty Ltd held $8,552,516 of shares and cash, over which UBS has a fixed charge. As at 30 June 2008, the UBS Prime Broking facility had an undrawn facility limit of $5,938,383 (2007:nil) through which the company could finance its investments.

	2008 $	2007 $
15. ISSUED CAPITAL		
Issued capital		
Fully paid ordinary shares		
7,996,938 (2007: 4,000,000)	8,410,830	2,823,184

Movements in ordinary share capital of the company during the year was as follows

		Number of shares	$
01/07/2007	Opening balance	4,000,000	2,823,184
05/12/2007	Capital raising costs (net of tax)	-	(207,915)
01/01/2008	Share issue	3,996,938	5,795,561
30/06/2008	Closing balance	7,996,938	8,410,830

(i) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(ii) Options

At 30 June 2008, the Company had no options to purchase shares in the Company on issue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 $	2007 $
16. RESERVES		
Fair Value Reserve		
Balance at the beginning of the financial year	1,995,653	789,307
Net revaluation of available-for-sale investments	1,528,677	1,723,353
Net deferred tax liability on revaluation	(453,603)	(517,007)
Net revaluation transferred to profit or loss on disposal	(575,934)	-
Balance at the end of the financial year	2,494,793	1,995,653

Fair Value Reserve

The fair value reserve comprises of the cumulative net changes in fair value of available-for-sale financial assets until the investment is derecognised or considered impaired.

	2008 $	2007 $
17. RETAINED PROFITS		
Balance at the beginning of the financial year	308,733	286,384
Net profit after tax attributable to members	91,753	122,349
Dividends paid/provided for	(289,889)	(100,000)
Balance at the end of the financial year	110,597	308,733
18. REMUNERATION OF AUDITORS		
KPMG		
Remuneration for audit or review of the financial reports of the Company:	12,080	22,500

Note : The 2007 auditors' remuneration included the audit fee for DV01 Funds Management Pty Ltd.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

19. RECONCILIATION OF NAV FROM BID TO MID PRICES

AASB 139 requires that in revaluing financial assets and liabilities to market, the current bid price must be used. As the Company valued its financial assets in 2008 based on the mid price (for management reporting purposes) a downward adjustment of $47,078 was recognised in equity (2007 : nil).

NAV Based on Mid Prices	11,049,175 / 7,996,938	1.38168 cents
NAV Based on Bid Prices	11,016,220 / 7,996,938	1.37755 cents

Reconciliation of equity from mid to bid price revaluation:

Equity at mid prices	11,049,175
Adjustment for deferred tax liability recognised	14,123
Adjustment required to value available-for-sale assets on bid price	(47,078)
Equity at bid prices	**11,016,220**

A reconciliation of equity from mid to bid price was not required to be performed for 2007 as there was no material difference in the resulting revaluations.

20 RELATED PARTIES

During the current period, all key management personnel compensation was paid by a related entity, DV01 Funds Management Pty Ltd.

The number of shares in the company held by each director of DV01 Mechelle Pty Ltd, including their personally-related entities, are set out below:

Name	Balance at start of the year	Purchase/issue of shares	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
G R Madden	1,950,000	-	-	-	1,950,000
C E Hughes	50,000	-	-	-	50,000

Related party transactions

The Company has a management agreement with DV01 Funds Management Pty Ltd, a related party, to provide it with fund administration and management services.

The following transactions occurred with the related party – DV01 Funds Management Pty Ltd during 2008:

1. Paid management fees of $526,485 (GST inclusive) (2007: $240,500).
2. Received a placement fee of $11,000 (GST inclusive) (2007: nil)
3. Paid a capital raising commission of $318,756 (GST inclusive) (2007: nil)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

20. RELATED PARTIES (continued)

Aggregate amounts payable to related parties at balance date were as follows:

	2008 $	2007 $
Trade payables – DV01 Funds Management Pty Ltd	126,635	264,550

Management Agreement

On the 15th June 2007 the company entered into a Management Agreement with its 40% associate, DV01 Funds Management Pty Ltd (the "Manager", AFSL 308697) to manage the company's investments. The Directors of the Company are also common with the Directors of the Manager, and offer their services without compensation other than under the terms of the Management Agreement.

Term

The Management Agreement is for a period of 25 years. On each anniversary of the commencement date (25 June 2007), the term automatically extends for 1 year unless either the Company or the Manager provides written notice prior to the contrary.

Powers of Manager

Subject to the further terms set out in the Management Agreement, the Manager may manage the Portfolio in its absolute discretion and do all things considered necessary or desirable in relation to the management of the Portfolio, including, without limitation: investigation of, negotiation for, acquisition of, or disposal of any investment or proposed investment; to buy, sell, realise or deal with all or any investments or to vary, convert, exchange or add other investments in lieu of those investments; if any investment is redeemed or the capital paid on it is wholly or partly repaid by the entity by which that investment was created or issued, to convert that investment into some other investment or accept repayment of the capital paid or advanced on the investment and any other monies payable in connection with that redemption or repayment and to invest any of those monies; retain or sell any securities or other property received on behalf of the Company by way of bonus, or in lieu of, or in satisfaction of, a dividend in respect of any investments or from the amalgamation or reconstruction of any company; to sell all or some of the rights to subscribe for new securities in an investment, to use all or part of the proceeds of sale of such rights for the subscription for securities or to subscribe for securities pursuant to those rights; and to make or redeem any mortgage, loan or other security.

Permitted Investments as defined by the Mandate

The permitted investment transactions are: securities, derivatives and foreign exchange; rights to subscribe for or convert to securities, derivatives and foreign exchange (whether or not such rights are tradeable on a securities exchange); securities, derivatives and foreign exchange for the purpose of short selling; warrants or options to purchase any investment and warrants or options to sell any investment; discount or purchase of bills of exchange, promissory notes or other negotiable instruments accepted, drawn or endorsed by any bank or by any corporation; deposits with any bank or corporation declared to be an authorised dealer in the short-term money market; and units or other interest in cash management trusts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

20. RELATED PARTIES (continued)

Performance of the Portfolio will be generated from investment in suitable stocks. However, diversification of holdings will be used to limit the risk where the actual performance of individual stocks does not meet expectations. Risk control features of the Portfolio will include:

- no one investment transaction will represent more than 20% of the total Portfolio value at the time of acquisition;
- no investment will represent more than a 20% stake in the issued securities of a company;
- total unlisted investment transactions cannot exceed 50% of the Portfolio value as measured by cost / Portfolio value;
- it is anticipated that the Portfolio will consist of between 20 and 70 investments, although more or less may be held depending on the number of securities identified that are expected to meet the performance expectations;
- where suitable investments cannot be identified, the Portfolio may be invested in cash. Whilst unlikely over the medium term, the Portfolio may consist from time to time of significant cash deposits;
- there are no limitations on short positions; and
- gearing may be employed in the Portfolio, but total exposure will not exceed 75% as measured by debt/(Portfolio value).

Any breach of these risk control measures will be reported to the Company by the Manager and the Company will determine the appropriate action to remedy the breach.

Fees

The Manager will charge one of two fees:

1. A flat 1% p.a. fee on total pre tax funds in the company (0.25% per quarter); or
2. A performance fee of 20% of the pre-tax total returns and subject to the exceeding of a previous high water mark per share.

The high water mark is calculated based on pre-tax cash-flows inclusive of franking credits and by subtracting any dividends and franking credits (i.e. gross dividends) paid by the Company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

20. RELATED PARTIES (continued)

<u>Termination</u>

The Company may terminate the Management Agreement at any time if:

- The Manager or any of its directors or servants are found guilty of grave misconduct in relation to the affairs of the Company;
- The Manager's Australian financial services (AFS) License is suspended or cancelled at any time for any reason;
- The Manager commits a fundamental default or breach of its obligations under the Management Agreement or is in breach of any conditions of its AFS License and such default or breach is not remedied within thirty (30) days after the Company has notified the Manager in writing to remedy that default or breach;
- The Manager enters into liquidation (except voluntary liquidation for the purpose of reconstruction);
- A receiver or receiver and manager is appointed to the whole or part of the undertaking of the Manager;
- The Manager is guilty of any gross default, breach, non-observance or non-performance of any of the terms and conditions contained in the Management Agreement; or
- The Manager is not lawfully able to continue to provide services to the Company pursuant to the terms of the Management Agreement.

The Manager may terminate the Management Agreement at any time if:

- The Company fails to make payment of any fees due under the Management Agreement and the failure continues for twenty one (21) days from the delivery of a written notice by the Manager to the Company requesting payment;
- The Company enters into liquidation (except voluntary liquidation for the purpose of reconstruction);
- The Company is guilty of any gross default, breach, non-observance or non-performance of any of the terms and conditions contained in the Management Agreement;
- A receiver or receiver and manager is appointed to the whole or part of the undertakings of the Company; or
- The Manager has given three (3) months written notice to the Company of its intention to terminate, such notice not being given within three (3) years of the commencement date of the Management Agreement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

20. RELATED PARTIES (continued)

Termination by Notice and Termination Fee

The Company may terminate the Management Agreement by giving three (3) months written notice to the Manager if at any time during the term the shareholders of the Company pass a special resolution approving the termination of the Management Agreement at a general meeting. If the Company terminates the Management Agreement, the Company must pay the Manager a Termination Fee equal to the aggregate Performance Fees and Management Fees for the three years immediately prior to Termination.

Company Indemnity

The Company must indemnify the Manager against any losses or liabilities reasonably incurred by the Manager arising out of, or in connection with, and any costs, charges and expenses incurred in connection with the Manager or any of its officers, employees or agents acting under the Management Agreement or on account of any bona fide investment decision made by the Manager or its officers or agents except insofar as any loss, liability, cost, charge or expense is caused by the negligence, default, fraud or dishonesty of the Manager or its officers or employees.

Manager Indemnity

The Manager must indemnify the Company against any losses or liabilities reasonably incurred by the Company arising out of, or in connection with, and any costs, charges and expenses incurred in connection with, any negligence, default, fraud or dishonesty of the Manager or its officers or supervised agents.

21. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows cash and cash equivalents includes cash on hand and at call deposits with banks, and investments in money market instruments net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

	2008 $	2007 $
Reconciliation of cash and cash equivalents		
Cash at bank	1,479,078	40,965

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

21. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of loss after income tax to net cash flow from operating activities

Operating profit after income tax	91,753	122,349
Non Cash Items		
Depreciation	-	86
Net gain on disposal of investments	(775,402)	(412,420)
Share of (profit) / loss from associates	(11,364)	(18,348)
Interest expense capitalised	-	11,174
Unrealised gain on futures	(329,838)	(16,346)
Impairment on available-for-sale assets	531,598	
Realised loss on futures	135,080	-
Foreign exchange (gain)/loss	18,919	(5,327)
Income tax receivable	(29,174)	-
Change in operating assets and liabilities		
Decrease/(increase) in receivables	(51,917)	8,500
(Decrease)/increase in trade creditors	(121,443)	236,381
(Decrease)/increase in tax obligations	(38,702)	25,627
(Decrease)/increase in accruals	9,581	32,500
Net cash used in operating activities	(570,908)	(15,824)

22. FINANCIAL INSTRUMENTS

Credit Risk

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2008	2007
Available-for-sale assets	9,427,778	5,946,157
Financial assets at fair value through profit and loss	754,930	177,189
Receivables	70,286	18,370
Cash and equivalents	1,479,078	40,965
	11,732,072	6,182,681

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

22. FINANCIAL INSTRUMENTS (CONTINUED)

The Company's maximum exposure to credit risk at the reporting date was $9,427,778 (2007: $5,946,157) for available-for-sale financial assets which are held by UBS pursuant to a Prime Broking Agreement and $754,930 (2007: $177,189) for derivatives.

The Company's maximum exposure to credit risk for Receivables at the reporting date by category is as follows:

Interest receivable	5,862	-
Dividends receivable	34,288	-
GST receivable	30,136	18,370
	70,286	18,370

Impairment Losses
No impairment loss was recognised in either 2007 or 2008 with regards to receivables. The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered by the economic entity. All receivables are expected to be received in full within the month of July 2008.

Liquidity Risk
Other than short-term trade and other payables of $189,860, the company had no contractual financial liabilities as at 30 June 2008. In 2007, the Company had short-term trade and other payables of $301,722 plus a margin loan of $213,083 which has been repaid during the year ended 30 June 2008

Currency Risk
The Company had no material exposure to foreign currency risk as at 30 June 2008 (2007 : Nil).

Interest Rate Risk
The Company does not have any contractual financial liabilities. Further the Company does not have a major exposure in this area as the interest rate earned on deposited funds does not vary greatly from month to month. This risk is not considered material.

Market Risk – Equity Prices, Commodity Prices, Indices Prices and Currency Exchange Rates
The financial instruments that the company invests in are subject to movements in equity, commodity, indice and currency prices which can result in a loss or a potential unrealised loss.

Sensitivity Analysis
The Manager measures the market risk on its available-for-sale financial assets and financial instruments (collectively the "Portfolio") by reference to an in-house Value-at-Risk model (VAR). The diversity of the Company's investment's make individual one off stress of the investments inadequate for any meaningful risk measurement.

VAR Methodology
The Manager collects two years of historical daily portfolio returns. The worst one percent of these daily returns are then taken as the 99% VAR interval, and is an indication (only) of the worst market risk for 1 in 100 trading days. This 99% VAR interval is then converted into a theoretical monthly number indicating (but not limited to) the worst monthly market risk for 1 in 100 months of portfolio returns.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

22. FINANCIAL INSTRUMENTS (CONTINUED)

VAR Limitations

The model employed is backward looking and makes no attempt to predict forward looking unforeseen events, other than increases in market volatility. Unforeseen events, that may not be reflected in the historical price data can include, but are not limited to, wars, recessions, changes in taxes, or fiscal and monetary policies.

Daily VAR Analysis	June 2008 $	June 2007 $
Decrease (Increase) in other financial assets	12,059	(34,982)
Decrease (Increase) available-for-sale investments	276,611	225,397
Total VAR (99%) Day	**288,670**	**190,415**

A hypothetical change in market risk incorporating a VAR 99% month would have decreased equity and profit or loss amounts as shown below. This analysis is not a static analysis but assumes some offset between derivatives and available for sale investments. The analysis is performed on the same basis for 2007.

Monthly VAR Analysis	June 2008 $	June 2007 $
Income statement – other financial assets Decrease (Increase)	60,199	(178,647)
Income statement - unrealised loss on available-for-sale assets transferred from revaluation reserve Decrease (Increase)	775,847	258,475
Balance sheet – available-for- sale investment Decrease (Increase)	605,001	892,595
Total VAR (99%) Month	**1,441,047**	**972,422**

The top five financial instruments ranked in order of contribution to VAR 99% as at 30 June were as shown below.

June 2008				June 2007			
	Weighted to Total VAR	**Shares**	**Fair Market Value**		**Weighted to Total VAR**	**Shares**	**Fair Market Value**
CNX.AX	22.01%	1,185,000	$971,700	AGO Opt	18.28%	250,000	$270,000
AGO.AX	19.93%	400,000	$1,472,000	CNX AX	18.08%	1,580,000	$300,200
NICKEL	11.64%	-36 (tonn.)	$821,000	MMB AX	8.84%	440,000	$184,000
BHP.AX	9.19%	20,922	$914,291	POL.AX	8.45%	395,000	$164,320
KZL.AX	8.06%	102,900	$473,340	BHP.AX	8.30%	12,060	$422,462

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008**

22. FINANCIAL INSTRUMENTS (CONTINUED)

Determination of Fair Values

(i) Investments in equity and debt security

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(ii) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iii) Derivatives

The fair value of forward exchange/ futures contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residential maturity of the contract using a risk-free interest rate (based on government bonds). Futures are traded on established markets such as Sydney Futures Exchange (SFE), London Metal Exchange (LME) and New York Mercantile Exchange (NYMEX).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

23. EVENTS OCCURRING AFTER BALANCE DATE

Since the end of the financial year, no significant events have occurred which would have a material effect on the financial report.

DIRECTORS' DECLARATION

The directors declare that:

1. The financial statements and notes set out on pages 8 to 34:

   (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   (b) give a true and fair view of the company's financial position as at 30 June 2008 and of its performance, as represented by the results of its operations and its cashflows, for the financial year ended on that date.

2. The Chief Executive Officer and Company Secretary have each declared that:

   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;

   (b) the financial statements and notes for the financial year comply with Accounting Standards; and

   (c) the financial statements and notes for the financial year give a true and fair view.

3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with the resolution of directors.

Gregory R. Madden
Director

16 September 2008
Perth

Independent auditor's report to the members of DVOI Mechelle Pty Ltd

Report on the financial report

We have audited the accompanying financial report of DV01 Mechelle Pty Ltd (the Company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 23 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion

In our opinion:

(a) the financial report of DV01 Mechelle Pty Ltd is in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the Company's financial position as at 30 June 2008 and of its performance for the ended on that date; and

    (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

KPMG

KPMG

J G Robinson
Partner

Perth
16 September 2008