DV01 MECHELLE PTY LTD

ABN 95 061 343 959

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2009

CONTENTS

CORPORATE DIRECTORY

Directors	Gregory R Madden Craig E Hughes Stephen D Robinson
Secretary	Dean W Calder
Registered Office & Business Address	Ground Floor 89 St. Georges Terrace Perth WA 6000, Australia Telephone : + 61 8 9483 5202 Facsimile : + 61 8 9483 5222 Website : www.dvo1.com
Auditor	KPMG 235 St Georges Terrace Perth WA 6000, Australia.
Custodian & Prime Broker	UBS AG, Australia Branch Level 16 Chifley Tower Sydney NSW 2000, Australia.
Registrar & Fund Administrator	Kingsway Taitz Level 2, 2 Bligh Street, Sydney NSW 2000, Australia.

INVESTMENT MANAGER'S REPORT

The fiscal year 2009 has presented one of the more difficult investments climates we are likely to encounter for some time. DV01 Mechelle Pty Ltd (the “Company”) has been fortunate to invest in a relatively sheltered harbour of predominantly Western Australian resource companies.

Last year, Western Australia produced more than 60% of Australia’s minerals and energy output and benefitted from 65% of national expenditure on mineral and energy exploration. The strong demand for commodity production has been driven by China's aggressive expansionary fiscal policies, despite a concurrent global financial crisis. This crisis, triggered by an excess financial liquidity and lapses in lending standards, ironically, will be solved by governments encouraging historically low interest rates, quantitative easing, and financial support of global banks. Such high levels of liquidity may fan an already buoyant commodity cycle and speculative demand which may drive commodity prices to unsustainable highs.

Figure 1 demonstrates that the Company has outperformed the Australian share market benchmark, the S&P/ASX 200 Index. Our hedged approach (of shorting commodities related to our investee production) continues to weather the storm better than “long only” funds with significant exposure to Western Australia.

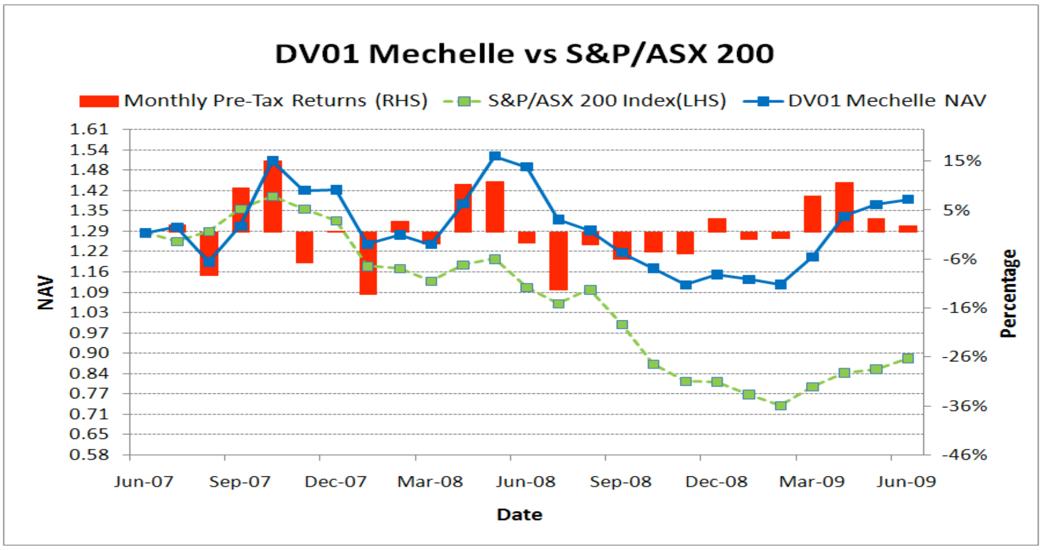


Figure 1: DV01 Mechelle vs S&P/ASX 200 | Assumptions: 1) DV01 Mechelle NAV is the after-tax Net Asset Value per ordinary share with dividends reinvested and is calculated after allowance for corporate tax at the 30% statutory rate. 2) S&P/ASX 200 Index assumes dividends are reinvested and no allowance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

The decision to de-risk the Company’s portfolio over the period of 2008 was driven by a commitment to responsible risk management.

For the last two years, the Manager has been calculating a theoretical (1 in 100) worst trading month (called the Value at Risk, or VAR). This number is based on the immediately preceding two years of historical data for the Company’s equity, interest rates, currency and derivatives portfolio.

As indicated in Figure 2, this theoretical VAR figure peaked at an all time high exceeding 40% per month of January 2008. Consequently, the Manager spent the next year working to offset this risk by increasing hedges in copper, nickel, zinc, oil, and the S&P/ASX 200 Index. By November 2008, the prices of such commodities had plummeted and the capital saved from this strategy was reinvested into solid, cash flow, producing companies.

Many financial commentators have condemned the use of such risk management strategies as inadequate and the cause of the global financial crisis in the first place. However, the problems clearly occurred not because the strategies were unsound, but because users failed to understand the limitations of such models.

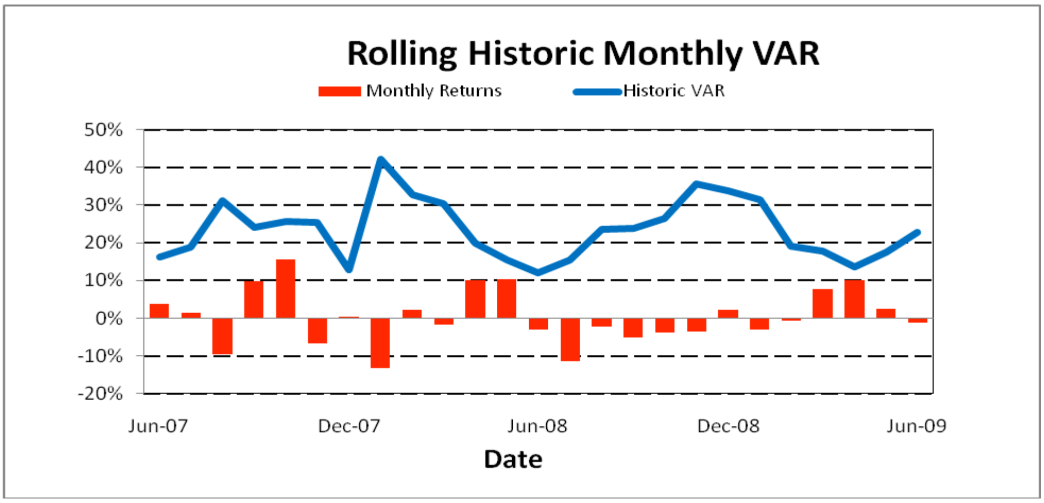


Figure 2: Rolling Historical Monthly VAR | Assumptions: 1) DV01 measures the market risk and liquidity risk it takes by reference to an in-house Value-at-Risk (VAR) model. The VAR model takes two years of historical daily portfolio performance, calculates an exponentially weighted moving average for volatility, and then conditionally weights the portfolio returns as a function of volatility. The worst one percentile of these daily returns are taken to be the 99% VAR interval.

By December 2008, the limitations of blindly following quantitative risk modelling were obvious. Such models, whilst correctly forecasting significant volatility, were unable to distinguish between recovering and falling markets. When many companies were trading below their liquidation values, the Manager was using the opportunity to increase net exposure to the market. From September 2008 to January 2009 the Company's net-long investment portfolio grew from 8% to 82% as shown by the Net Leverage line in Figure 3. By the end of Fiscal year 2009 the Company had recovered much of its investment losses incurred earlier in the financial year.

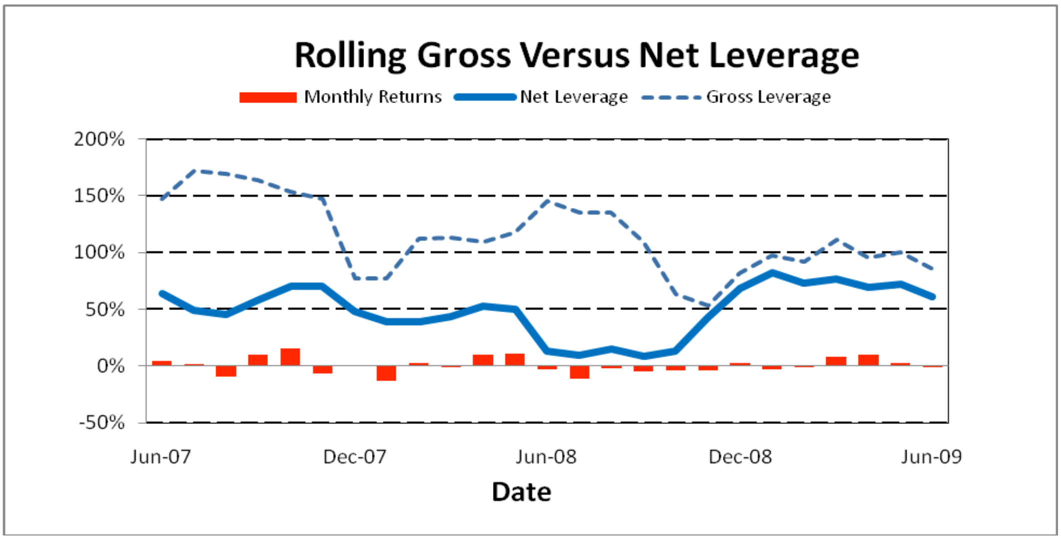


Figure 3: Rolling Gross vs Net Leverage | Assumptions: 1) Gross Leverage is the absolute aggregate notional value of all derivatives and investments divided by the Pre-Tax Net Tangible Asset of the Company. 2) Net Leverage is the aggregate notional value of all derivative and investments (long minus short).

Looking forward, Western Australia continues to benefit from China's growing demand for commodity production. Inflows into commodity investments are at an all-time high as people speculate on low interest rates and a weaker US dollar. Commodity prices have recovered from the lows of the first quarter of 2009, as global economic prospects improve. The key risk for Western Australia is that global expansionary policy left unchecked will undermine the long term sustainability of commodity price trends. As example we are hearing of worrying anecdotes of increased commodity stockpiling in China of copper and nickel, which is unlikely to be sustained in the long run.

The Manager will continue to closely monitor such events while proceeding cautiously with our successful investment strategies.

DIRECTORS' REPORT

The directors present their report together with the financial report of DV01 Mechelle Pty Ltd, for the year ended 30 June 2009 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)

Stephen D Robinson (appointed 28 Sep 2009)

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 Degree 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 the Macquarie University in Sydney.

Stephen Robinson

Stephen Robinson is the Managing Director and founder of Lincoln Capital, a provider of corporate and financial advisory services predominantly to the mining industry. Prior to forming Lincoln Capital, Mr. Robinson held senior management roles with Barrick Gold, Iluka Resources and WMC Resources. Mr Robinson has a Bachelor of Science Degree from Natal University and has been a Rhodes Scholarship recipient.

COMPANY SECRETARY

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

INVESTMENT ACTIVITIES

The Company is solely an Investment company. It has no employees (other than the Directors and Officers stated). It has no premises, plant or equipment or other physical assets.

The company's day-to-day affairs and investment activities are undertaken by the Company's 40% owned associate DV01 Funds Management Pty Ltd (AFSL 308697) as the Manager of the Company's investments in accordance with a Management Agreement. The Company's investments are 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 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 four strategies currently employed by the Manager are:

INVESTMENT ACTIVITIES (continued)

- Discretionary futures overlay
- Capital markets commodity price risk arbitrage
- Equity Long - Short
- Special 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 2009 financial year.

OPERATING RESULTS

During the financial year the Company had an operating profit after income tax of $328,241 compared to a profit of $91,753 in 2008.

DIVIDENDS

Dividends recognised in the current year by the Company were:

During the year ended 30 June 2009	2009 $
i) Interim dividend for the year ending 30 June 2009 of 2.175 cents per share fully franked paid 15 June 2009	$173,933.40
ii) Final dividend for the year ended 30 June 2008 of 1.450 cent per share fully franked paid 15 January 2009	$115,955.60
Total	**$289,889.00**

For 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.	$173,933.40
i) Final Dividend for the year ended 30 June 2007 of 1.450 cents per share fully franked paid 17 January 2008.	$115,955.60
Total	**$289,889.00**

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The company held a general meeting on 28 August 2009 and gained shareholder approval on the following:

1. To convert the Company into a public company and facilitate a broader potential retail raising by allowing greater than 50 shareholders.
2. Adopt an equal access Buy-Back Facility subject to a quarterly “Gate” of 12.5% issued shares.
3. Appoint Mr. Stephen Robinson as the third Director.
4. Discuss the adoption of a amended Management Agreement between the Manager and the Company which specifically gives effect to:

   (i) Allow performance fees on an equalisation basis, namely on a per share basis as opposed to a whole of fund basis, which is believed to be more equitable because the performance fee will be attributable to the specific performance of that investor.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR (continued)

(ii) The high water mark may be re-set to the highest Pre-Tax NAV per Share as of the end of any performance calculation period during the immediately preceding three years on a rolling basis.

(iii) To redefine the ability of the investment manager to gear the portfolio as follows:

'Gearing may be employed in the Portfolio, but total exposure will not exceed 3 times as measured by aggregate absolute mark-to-market value of all open investment transactions divided by the Pre-Tax NAV'.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Company intends to pursue its current investment objectives with the aim of increasing the Company's Net Asset Value per share and Shareholder's Equity without having to alter its current business strategies.

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
SD Robinson	Nil	Nil

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

DIRECTORS REMUNERATION

Prior to the appointment of Mr Stephen Robinson the directors solely comprised of directors of the Manager and accordingly have an economic interest in the portion of the management fee and do not receive any remuneration from the Company.

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. Non-audit service engagements carried out during the year ended 30 June 2009 totalled $7,650 excl GST (2008 nil).

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.

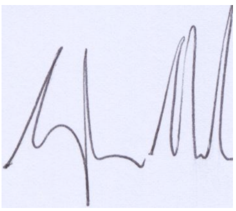
AUDITOR'S INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

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 15 September 2009 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 DV01 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 2009 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 200 1 in relation to the audit; and

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

KPMG

KPMG

David Sinclair
Partner

Perth

15 September 2009

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009 $	2008 $
Revenue - Investment Income			
Gain / (Loss) on equity & debt investments – available for sale sold		(733,426)	775,402
Realised gain/(loss) on derivatives		2,242,042	(135,080)
Unrealised gain/(loss) on derivatives		(545,549)	329,999
Short sales gain/(loss)		(67,934)	-
Net foreign exchange gain/(loss)		102,178	(18,919)
Dividends & trust distributions		197,106	208,665
Interest income		142,219	103,647
Net investment income		1,336,636	1,263,714
Other Income		6,044	9,550
Total Revenue		**1,342,680**	**1,273,264**
Expenses			
Accounting and legal expenses		(44,004)	(103,820)
Administration expenses		(41,167)	-
Audit fees		(28,000)	(14,402)
Financing expenses		(69,032)	(59,443)
Unrealised losses on equity & debt investments transferred from reserves - Available for sale		(360,178)	(531,598)
Manager Fees		(100,694)	(490,588)
Other expenses		(13,382)	(22,707)
Results from operating activities		**686,223**	**50,706**
Share of profit/(loss) of the Manager	8(b)	(99,182)	11,364
Impairment Charges to holding cost of Manager		(153,050)	-
Profit before income tax		**433,991**	**62,070**
Income tax benefit/(expense)	4(a)	(105,150)	29,683
Profit after income tax expense attributable to members of the Company		**328,841**	**91,753**

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

BALANCE SHEET

AS AT 30 JUNE 2009

	Notes	2009 $	2008 $
CURRENT ASSETS			
Cash and cash equivalents	5	3,396,930	1,904,009
Receivables	6	28,212	70,286
TOTAL CURRENT ASSETS		**3,425,142**	**1,974,295**
NON-CURRENT ASSETS			
Equity & Debt Investments – Available for sale	7	7,517,539	9,427,778
Derivatives	10	-	329,999
Investments in the Manager	8	300,000	449,712
TOTAL NON-CURRENT ASSETS		**7,817,539**	**10,207,489**
TOTAL ASSETS		**11,242,681**	**12,181,784**
CURRENT LIABILITIES			
Trade and other payables	9	96,544	189,860
Income tax payable	4(c)	270,707	20,608
TOTAL CURRENT LIABILITIES		**367,251**	**210,468**
NON-CURRENT LIABILITIES			
Derivatives	10	75,715	-
Short sale investments	11	534,688	-
Deferred tax liabilities	4(b)	288,332	955,096
TOTAL NON-CURRENT LIABILITIES		**898,735**	**955,096**
TOTAL LIABILITIES		**1,265,986**	**1,165,564**
NET ASSETS		**9,976,695**	**11,016,220**
EQUITY			
Issued capital	12	8,410,830	8,410,830
Reserves	13	1,416,316	2,494,793
Retained profits	14	149,549	110,597
TOTAL EQUITY		**9,976,695**	**11,016,220**
NAV per share (dollars)		**$1.24756**	**$1.37755**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

	Share Capital $	Retained Earnings $	Reserves $	Total $
Balance at 1 July 2007	2,823,184	308,733	1,995,653	5,127,570
Changes in fair value of equity & debt Investments - Available for sale net of tax	-	-	2,522,875	2,522,875
Gain on sale of Equity & Debt Investments - Available for sale 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**
Balance at 1 July 2008	**8,410,830**	**110,597**	**2,494,793**	**11,016,220**
Changes in fair value of equity & debt Investments - Available for sale net of tax	-	-	1,416,316	1,416,316
2008 revaluations reversed out net of tax	-	-	(2,522,875)	(2,522,875)
Prior year adjustment to correct reserve	-	-	28,082	28,082
Total income and expenses recognised directly in equity	8,410,830	110,597	1,416,316	9,937,743
Profit for the year attributable to members	-	328,841	-	328,841
Total direct equity adjustments and profit for the year	8,410,830	439,438	1,416,316	10,266,584
Dividends to shareholders	-	(289,889)	-	(289,889)
Balance at 30 June 2009	**8,410,830**	**149,549**	**1,416,316**	**9,976,695**

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 2009

	Note	2009 $	2008 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividends and trust distributions		224,680	174,377
Other income		6,044	-
Interest received		139,859	97,787
Placement fees		-	9,550
Borrowing costs		(2,487)	(53,576)
Payments of manager fees		(73,430)	(363,954)
Payments to creditors		(296,814)	(424,833)
Income taxes paid		(20,608)	(10,259)
NET CASH USED IN OPERATING ACTIVITIES	18(b)	(22,756)	(570,908)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of equity & debt investments – available for sale (including short sales		8,170,567	2,134,201
Purchase of equity and debt investments – available-for-sale (including short sales)		(8,604,397)	(4,200,719)
Investment in the Manager		(100,000)	(100,000)
Proceeds from derivatives trading		2,339,396	(395,093)
NET CASH USED IN INVESTING ACTIVITIES		1,805,566	(2,561,611)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	5,795,557
Share issue costs		-	(297,022)
Repayment of borrowings		-	(213,083)
Dividends paid		(289,889)	(289,889)
NET CASH FROM FINANCING ACTIVITIES		(289,889)	4,995,563
Net increase in cash and cash equivalents held		1,492,921	1,863,044
Cash and cash equivalents at the beginning of the financial year		1,904,009	40,965
Cash and cash equivalents at the end of the financial year	18(a)	3,396,930	1,904,009

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 2009

1. CORPORATE INFORMATION

DV01 Mechelle Pty Ltd is a proprietary company, incorporated and domiciled in Australia. The address of the registered office is, Ground Floor, 89 St. George's Terrace, Perth, WA 6000.

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 Australian Equivalents to International Financial Reporting Standards (AIFRS). These financial statements were approved by the Board of Directors on 15 September 2009

Preparing Financial Statements in accordance with AIFRS standards requires the use of certain estimates which are outlined in the coming sections.

Basis of measurement

The financial statements have been prepared on the historical cost basis except as modified by 1) the revaluation of "financial assets held at fair value through profit or loss" and 2) Available for sale investments measured at fair value through equity, both 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and prepared in accordance with the Corporations Act 2001 and AIFRS (Australian Equivalents to International Reporting Standards). Compliance with AIFRS ensures that the Financial Statements of the company (and the notes herein) comply with International Financial Reporting Standards (IFRS).

(a) Investment in the Manager (i.e. Associate)

The Manager is an entity in which the Company has significant influence, but not control, over the financial and operating policies. The Manager is accounted for using the equity method (equity accounted investees). The financial statements include the Company's share of Net Profit (or loss) of the Manager, 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Investment in the Manager (i.e. Associate) (continued)

When the Company's share of losses exceeds its interest in the Manager, 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 combinations 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.

(c) Financial Instruments Recognition

Financial instruments are initially measured at cost on trade date,. Subsequent to initial recognition the fair value of these instruments are measured on their quoted market prices at balance sheet date .

(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. Interest Income on Loans and receivables is recognised on a proportional basis taking into account the effective interest rates applicable to the financial asset

(ii) Equity & Debt Investments – Available for sale

Equity and Debt investments – available for sale are listed equity and debt securities and any financial assets (other than Derivatives) not included in the above category. Such Investments are reflected at fair value, using current bid prices, where revaluation is possible. Unrealised gains and losses arising from changes in the fair values of these investments are taken directly to equity, except to the extent an Investment is impaired in which case the cumulative fair value losses are transferred to profit and loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial Instruments Recognition (continued)

(ii) Equity & Debt Investments - Available for sale (continued)

Any subsequent reversal of an impairment loss is not reversed through profit or loss. Revenue from the sale of an Equity or Debt Investment – available for sale is recognised on the date that the company's right to receive payment is established and is measured at the fair value of the consideration received. Finance Income in the form of Dividend and Trust Distributions are recognised upon entitlement and accrued from the Record Date.

(iii) Derivatives and Short Sold Investments

The Company holds derivatives and short sold equity investments to reduce market risk and enhance investment exposure. Derivatives and Short Sold Investments are reflected in the accounts at fair value based on their last traded market price or settled price at balance date. Changes in fair value are taken directly to profit and loss. Transaction Costs for Derivatives and Short Sold Investments are taken to Profit and Loss as a Financing Expense. Dividends payable and other corporate actions under short sale arrangements are recognised on the entitlement date and accrued from the record date at fair value.

(iv) Financial liabilities

Financial liabilities (other than those mentioned above) are recognised at amortised cost, comprising original debt less principal payments and amortisation. Interest Expense on borrowings are taken to Profit and Loss as a Financing Expense using the effective interest method.

(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.

(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.

(e) Foreign Currency Translation

Transactions denominated in a foreign currency are translated into the 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. Exchange differences arising on the translation of monetary items are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment Income
Investment Income comprises of;

(i) Realised gains/(losses) on Equity & Debt Investments – Available for sale
(ii) Dividends and trust Income on Equity & Debt Investments – Available for sale
(iii) Realised and Unrealised gains/(losses) on Derivatives and Short Sales
(iv) Realised and Unrealised gains/(losses) on Foreign Exchange
(v) Interest Income

(g) Financing expenses

Financing expenses comprises;

(i) Transaction Costs on Equity & Debt Investments – Available for sale
(ii) Transaction Costs on Derivatives and Short Sales
(iii) Interest Expense & Bank Charges

(h) 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 deposits held as security for derivatives. Borrowings secured against Cash, Equity & Debt investments and derivatives are shown within short term borrowings in current liabilities on the Balance Sheet.

(i) 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 Financing 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.

(j) 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.

(k) 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.

(l) Comparative Figures

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

Dividends

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

(n) 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 2009 but have not been applied in preparing this financial report.

- Revised AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Company's 30 June 2010 financial statements, will require a change in the presentation on and disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The Company has not yet determined the potential effect of the amendment.

- Revised101 *Presentation of Financial Statements (2007)* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. The Company has not yet determined the potential effect of the amendment.

- Revised AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Process* and 2008-6 *Further Amendments to Australian Accounting Standards arising from annual Improvements Process* after various AASB's resulting in minor changes for presentation, disclosure, recognition and measurement purposes. These amendments become mandatory as of 30 June 2010 financial statements. The company has not yet determined if this amendment will have any potential impact on its financial statements.

- AASB 2008-7 *Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement of dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the amendment.

- AASB 2008-8 *Amendments to Australian Accounting Standard – Eligible Hedged Items* clarifies the effect of using options as hedging instruments and the circumstances in which inflation risk can be hedged. The amendments become mandatory for the Company's 30 June 2010 financial statements, with retrospective application. The Company has not yet determined the potential effect of the amendment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

4. INCOME TAX

	2009 $	2008 $
(a) Numerical reconciliation between tax expense and pre-tax net profit		
Profit before income tax	433,991	62,070
Prima facie tax payable on operating profit at 30% (2008: 30%)	130,197	18,621
Add / (deduct) tax effect of:		
Non deductible expenses	-	793
Associate equity accounted income	29,755	(3,409)
Sundry items	5,616	6,250
Prior year adjustment	-	(8,023)
Franking credits on dividends received	(86,312)	(62,736)
Imputation gross-up of dividends received	25,894	18,821
Income tax (benefit) / expense	105,150	(29,683)
Income tax expense attributable to operating profit made up of:		
-Current tax expense	270,707	21,196
-Deferred tax expense	(165,557)	(42,856)
-Prior year adjustment	-	(8,023)
Income tax (benefit) / expense in income statement	105,150	(29,683)
(b) Recognised temporary differences		
Deferred Tax Assets (30%)		
Black hole expenditure – Legal fees	2,323	792
Accrued expenses	18,057	12,624
Black hole expenditure – Capital raising costs	53,464	71,285
Revaluation of short sale investments	20,380	-
Unrealised loss on derivatives	22,714	-
Impairment on equity accounted investment	66,000	-
	182,938	84,701

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

4. INCOME TAX (continued)

	2009 $	2008 $
(b) Recognised temporary differences		
Deferred Tax Liabilities (30%)		
Tax deferred trust distributions	2,820	7,002
Revaluation of Equity & Debt Investments – Available for sale	463,969	921,752
Interest receivable	2,467	1,758
Dividends receivable	2,014	10,285
Revaluation of futures	-	99,000
	471,270	1,039,797
Net Deferred Tax Liability	288,332	955,096
Income Tax Recognised Directly in Equity		
Equity & Debt Investments – Available for sale	(474,239)	225,952
(c) Income tax payable		
Provision for income tax	270,707	20,608
(d) Dividend franking account		
30% franking credits available to shareholders of the Company from subsequent financial years	41,928	58,109

5. CASH AND CASH EQUIVALENTS

	2009 $	2008 $
Cash at bank and cash in hand	3,396,930	1,904,009

The effective interest rate on short-term bank deposits was 3.27% (2008: 5.86%); these deposits are at call.

6. RECEIVABLES

	2009 $	2008 $
Dividends receivable	6,715	34,288
Interest receivable	8,223	5,862
GST refund receivable	5,215	30,136
Insurance prepayment	8,059	-
	28,212	70,286

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	2009 $	2008 $

7. EQUITY & DEBT INVESTMENTS – AVAILABLE FOR SALE

	2009 $	2008 $
Shares in listed entities	7,517,539	9,427,778

2009

Opening Balance	Additions	Disposals	Changes in Fair Value	Closing Balance
9,427,778	7,104,754	(6,447,685)	(2,567,308)	7,517,539

2008

Opening Balance	Additions	Disposals	Changes in Fair Value	Closing Balance
5,946,157	4,625,650	(2,134,201)	990,172	9,427,778

8. INVESTMENTS IN THE MANAGER

(a) Carrying amounts

Name of company	Principal activity	Ownership interest 2009 %	2008 %	2009 $	2008 $
DV01 Funds Management Pty. Ltd.	Funds management and Corporate Advisor	40%	40%	300,000	449,712

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 at $1 of which the company purchased 100,000 with its interest remaining at 40%. On the 26 June 2009 the Manager raised $250,000 by issuing 625,000 shares at 40 cents per share and the company has reduced the carrying amount of its investment in the Manager to reflect the price implied in the last raising.

The Manager provides investment management services to the Company as set out in Note 17.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

8. INVESTMENTS IN THE MANAGER (continued)

	2009 $	2008 $
(b) Movement in carrying amounts		
Carrying amount at the beginning of the financial year	449,712	338,438
Acquisition of investment	100,000	100,000
Share of profits/(loss) after income tax	(99,182)	11,364
Prior year adjustment for profit recognised	2,520	(90)
Impairment loss recognised.	(153,050)	-
Carrying amount at the end of the financial year	300,000	449,712

9. PAYABLES

Trade creditors	36,354	147,780
Accrued expenses	60,190	42,080
	96,544	189,860

10. DERIVATIVES

At fair value	75,715	(329,999)

11. SHORT SOLD INVESTMENTS

At Cost	466,754	-
At fair value	67,934	-
	534,688	-

12. ISSUED CAPITAL

Issued capital		
Fully paid ordinary shares		
7,996,938 (2008: 7,996,938)	8,410,830	8,410,830

There were no movements in share capital during the year.

(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 2009, the Company had no options to purchase shares in the Company on issue.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

13. RESERVES

	2009 $	2008 $
Fair Value Reserve		
Balance at the beginning of the financial year	2,494,793	1,995,653
Reverse out prior year revaluations (net of tax)	(2,522,875)	(1,995,653)
Current year revaluations (net of tax)	1,416,318	2,522,875
Prior year adjustment to reserve	28,082	(28,082)
Balance at the end of the financial year	1,416,318	2,494,793

Fair Value Reserve

The fair value reserve comprises of the cumulative net changes in fair value of equity and debt investments - available for sale until the investment is derecognised or considered impaired.

14. RETAINED PROFITS

	2009 $	2008 $
Balance at the beginning of the financial year	110,597	308,733
Net profit after tax attributable to members	328,838	91,753
Dividends paid/provided for	(289,889)	(289,889)
Balance at the end of the financial year	149,546	110,597

15. REMUNERATION OF AUDITORS

	2009 $	2008 $
KPMG Australia		
Remuneration for audit or review of the financial reports of the Company:	28,000	12,080
KPMG Australia		
Taxation services	7,650	-

16. 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 equity and debt investments – available for sale in 2009 on the mid price (for management reporting purposes) a downward adjustment of $81,770 was recognised in equity (2008: $47,048).

NAV Based on Mid Prices	$10,033,934 /7,996,938 shares	$1.25472 per share
NAV Based on Bid Prices	$9,976,695 / 7,996,938 shares	$1.24756 per share

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

16. RECONCILIATION OF NAV FROM BID TO MID PRICES (Continued)

	2009 $	2008 $
Equity at mid prices	10,033,934	11,049,175
Adjustment for deferred tax liability recognised	24,531	14,123
Adjustment required to value equity and debt investments - available for sale bid price	(81,770)	(47,078)
Equity at bid prices	9,976,695	11,016,220

17. RELATED PARTY TRANSACTIONS

(a) DIRECTORS

The directors are also directors of the Manager and accordingly have an economic interest in the portion of the management fee and do not receive any remuneration from the Company.

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	Other changes during the year	Balance at end of the year
G R Madden	1,950,000	-	(58,000)	1,892,000
C E Hughes	50,000	-	-	50,000

Mr Madden sold 58,000 shares in the company at a rate of $1.2322 per share on the 26 June 2009 to fund an investment in the Manager.

(b) The Manager

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

The following transactions occurred with the related party – DV01 Funds Management Pty Ltd during 2009:

1. Paid management fees of $108,062 (GST inclusive) (2008: $526,485).
2. Paid no placement fees for 2009 (2008: $11,000)
3. Paid no capital raising commissions in 2009 (2008: $318,756)

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

	2009 $	2008 $
Trade payables – DV01 Funds Management Pty Ltd	27,264	126,635

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

17. RELATED PARTY TRANSACTIONS (Continued)

Management Agreement

On the 15 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.

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.

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.

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 can not 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

17. RELATED PARTY TRANSACTIONS (continued)

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.

Termination

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

17. RELATED PARTY TRANSACTIONS (continued)

- 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.

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 (3) 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.

18. 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:

	2009 $	2008 $
Reconciliation of cash and cash equivalents		
Cash at bank	3,396,930	1,904,009

18. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

	2009 $	2008 $
(b) Reconciliation of loss after income tax to net cash flow from operating activities		
Operating profit after income tax	328,841	91,753
Non Cash Items		
Net (gain)/loss on disposal of investments	733,426	(775,402)
Share of profit / (loss) of the Manager	99,182	(11,364)
Unrealised losses on equity & debt investments – Available for sale transferred from reserves	360,178	531,598
Impairment on DV01 FM	153,050	-
Realised (gains)/loss on futures	(2,242,042)	135,080
Unrealised (gains)/loss on futures	545,549	(329,999)
Foreign exchange gain/(loss)	(102,178)	18,919
Short sale gain/loss	67,934	-
Change in operating assets and liabilities		
Decrease/(increase) in receivables	50,134	(51,917)
Decrease/(increase) in prepayments	(8,059)	-
(Decrease)/increase in trade creditors	(111,424)	(121,443)
(Decrease)/increase in tax obligations	84,544	(67,714)
(Decrease)/increase in accruals	18,109	9,581
Net cash used in operating activities	(22,756)	(570,908)

19. FINANCIAL RISK MANAGEMENT

The Company's income is generated from investment in financial instruments. 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 defined by the Management Agreement Mandate discussed in note 17

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

Credit Risk

The company's exposure to credit risk, is the risk that a counterparty defaults on a financial contract. foreign exchange option or forward contract. 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

19. FINANCIAL RISK MANAGEMENT (continued)

The Company appointed prime broker UBS in April 2008, which has effectively given UBS the right to re-hypothecate the Company's investment portfolio. This has exposed the Company to credit risk on the basis that if UBS were to become insolvent, it may risk losing its investment portfolio. UBS AG is Switzerland's largest bank as measured by assets. In 2008 the Swiss government injected six billion Swiss francs, the equivalent of USD 5.2 Billion dollars as part of a state aid package into the company. UBS continues to be rated Aa2 (negative credit watch) by Moody's and A+ (stable) by S&P.

The Company's maximum exposure to UBS with respect to credit risk at the reporting date was $9,467,978 (2008: $9,747,845) and included financial assets lodged with UBS pursuant to a Prime Broking Agreement.

The following financial assets, which are calculated at fair value as discussed in Note 3, represents the Company's maximum credit exposure:

	Carrying Amount 2009	Carrying Amount 2008
Equity and debt investments - Available for sale	7,517,539	9,427,778
Less short sale investments	(534,688)	-
Receivables	20,153	70,286
Cash and cash equivalents	3,396,930	1,904,009
Maximum Credit Exposure	10,399,934	11,402,073

Operational Risk

In April 2008 the Company established a Prime Broker relationship for clearing and custody of all of its Debt and Equity Investment transactions. This minimises the risk of operational faults from manual transaction processing and other clerical errors. Additionally a fund administrator, Kingsway Taitz has been employed since April 2008 and provides the following services but not limited to:

- Performs day to day accounting functions which includes the maintenance of the company's books and records
- Performs independent reconciliations of all transactions that occur
- Records all trade related transactions and corporate actions
- Maintains the company's share registry
- Provides monthly reports to shareholders
- Manages subscriptions and redemptions of the company
- Provides independent pricing

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

19. FINANCIAL RISK MANAGEMENT (continued)

Capital Management Risk

The Company outsources the capital management of the fund to the Manager. DV01 has a broad mandate in managing the portfolio and can alter the strategies currently employed in order to meet a Pre-Tax return objective of 15 % per annum regardless of traditional benchmarks.

Market Risk – Equity Prices, Commodity Prices, Indices Prices and Currency Exchange Rates & Interest Rate

The financial instruments that the company invests in are subject to movements in equity, commodity, indices, currency prices and interest rates which can result in a loss (either realised or unrealised)

The Manager measures the market risk on its 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.

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 (a Var 99% month)

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.

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 Equity & Debt investments. The analysis is performed on the same basis for 2009.

Monthly VAR Analysis	June 2009 $	June 2008 $
Income statement – other financial assets Decrease (Increase)	202,194	60,199
Income statement - unrealised loss on Available for sale assets transferred from revaluation reserve Decrease (Increase)	1,387,910	775,847
Balance sheet – available-for- sale investment Decrease (Increase)	838,929	605,001
Total Loss VAR (99%) Month	**2,429,033**	**1,441,047**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

19. FINANCIAL RISK MANAGEMENT (continued)

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

Fin. Year Jun-09	Weighted to Total Var	Notional	Notional Value ($)	Percentage of Portfolio	Fin. Year Jun-08	Weighted to Total VAR	Notional	Notional Value ($)	Percentage of Portfolio
RIO.AX	36.22%	23,904	1,248,000	13.68%	CNX.AX	22.01%	1,185,000	971,700	9.24%
AEC.AX	11.92%	720,000	1,512,000	16.58%	AGO.AX	19.93%	400,000	1,472,000	13.97%
WPL.AX	9.44%	22,744	983,000	10.77%	LME Nickel	11.64%	(36 tonnes)	821,000	7.81%
KIK.AX	8.05%	2,170,000	380,000	4.16%	BHP.AX	9.19%	20,922	914,291	8.69%
MMB.AX	7.58%	1,001,500	461,000	5.05%	KZL.AX	8.06%	102,900	473,340	4.51%
Total	**73.21%**			**50.26%**		**70.83%**			**28.62%**

20. EVENTS OCCURRING AFTER BALANCE DATE

The company held a general meeting on 28 August 2009 and gained shareholder approval on the following:

1. To convert the Company into a public company and facilitate a broader potential retail raising by allowing greater than 50 shareholders.
2. Adopt an equal access Buy-Back Facility subject to a quarterly “Gate” of 12.5% issued shares.
3. Appoint Mr. Stephen Robinson as the third Director.
4. Discuss the adoption of a amended Management Agreement between the Manager and the Company which specifically gives effect to:

(i) Allow performance fees on an equalisation basis, namely on a per share basis as opposed to a whole of fund basis, which is believed to be more equitable because the performance fee will be attributable to the specific performance of that investor.

(ii) The high water mark may be re-set to the highest Pre-Tax NAV per Share as of the end of any performance calculation period during the immediately preceding three years on a rolling basis.

(iii) To redefine the ability of the Manager to gear the portfolio as follows:

Gearing may be employed in the Portfolio, but total exposure will not exceed 3 times as measured by aggregate absolute mark-to-market value of all open investment transactions divided by the Pre-Tax NAV.

DIRECTORS' DECLARATION

The directors declare that:

1. The financial statements and notes set out on pages 9 to 30:

(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 2009 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

15 September 2009
Perth

Independent auditor's report to the members of DV01 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 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 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.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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 2009 and of its performance for the year 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

David Sinclair
Partner

Perth

15 September 2009