DV01 MECHELLE LIMITED

ABN 95 061 343 959

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2010

CONTENTS

CORPORATE DIRECTORY

Directors	Gregory R Madden
	Craig E Hughes
	Stephen D Robinson
	Curtis J Larson
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

As the world awakens from the deregulation party started in the 1980's, the natural reaction is to increase regulation. Inevitably alternative investments, including how they are marketed, financed and accounted for, are being reviewed in every major financial centre. Greater regulation of the industry is now a certainty, except perhaps in South East Asia, where the economy remains relatively unscathed from what is now being called the “Great Recession”. Despite the Company’s modest size we continue to adopt international best practices and standards with an independent administrator, TMF Kingsway Taitz, and the highest calibre third party custodian and prime broker, UBS.

The investment performance of the Company, for the fiscal year to 30 June 2010, started strongly with a significant uptick in global equity markets. Unfortunately, the second half of the fiscal year saw markets correct with a concern of a double-dip recession in Europe and the USA. The Manager has traditionally had little success in accurately predicting changes in economic growth; however once again your Company’s portfolio has been strengthened by investing in predominantly Australian resource companies. Inevitably China’s demand for such production will slow in the future; however there seems little likelihood of this in the medium term. Far more likely is that global financial imbalances, caused by Chinese trade surpluses, will require the Chinese Yuan to appreciate and underpin sustained demand for Australia’s commodities production.

Figure 1 demonstrates that the Company has outperformed the Australian share market benchmark, the S&P/ASX 200 Index. Our hedged approach did little to protect us in the first half of this calendar year 2010 from the Federal Government’s unexpected proposed mining taxes, which negatively affected our resource positions. However we did complete several merger arbitrage opportunities over this period. Price gains in iron-ore and manganese have generated windfall gains to those established producers that have access to ports. Many of the emerging producers with limited access are acquiring companies that have port capacity in the North West.

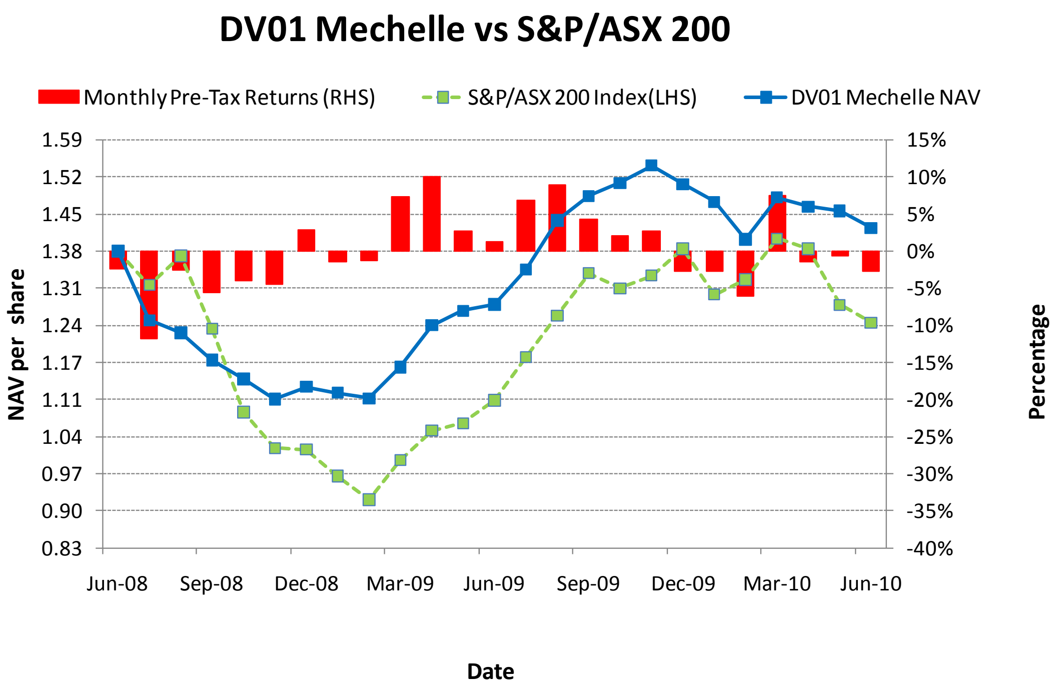


Figure 1: DV01 Mechelle vs S&P/ASX 200 | Assumptions: 1) DV01 Mechelle NAV is the after-tax Net Asset Value per ordinary share with dividends reinvested and is calculated after allowance for corporate tax at the 30% statutory rate. 2) S&P/ASX 200 Index assumes dividends are reinvested and no allowance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

Higher commodity prices are also being exacerbated by unprecedented direct commodity investment as institutional investors try and diversify away the risk of a weak US dollar. The central banks new financial tool, quantitative easing, is likely to be rolled out again. Whether this will increase inflation and consumption in the United States is yet to be seen; however much of the additional liquidity is going directly into commodities, which is likely to promote growth in a significantly dollarised Asia.

Many doomsayers feel that we are coming to the end of a great economic power period for the United States. However it is this manager's belief that the US's rule of law, encouragement of competition, pro-business approach and lower safety nets, will eventually result in a rebound in economic activity.

The same cannot be said of Europe and that much shorter economic experiment, the Euro. Many policy commentators believe that the austerity packages being demanded of Greece are now so great, that a far easier solution would be for Greece to simply default on its borrowings (ever increasing from Germany and France), drop out of the euro and establish a depreciated fixed exchange rate. This calamitous forecast is not as outrageous as it may seem. Inevitably the politicians and bureaucrats that control the European Union would use such an event to push for a centralised European taxation authority.

Such risks will ensure that the recent volatility in financial markets may continue for at least another two to three years. This can throw up fantastic long-term wealth creating opportunities. However the emphasis now, more than ever, has to be on traditional stock picking and a measured approach to risk versus reward.

For the last 36 months 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 in the Company's equity, interest rates, currency and derivatives investments.

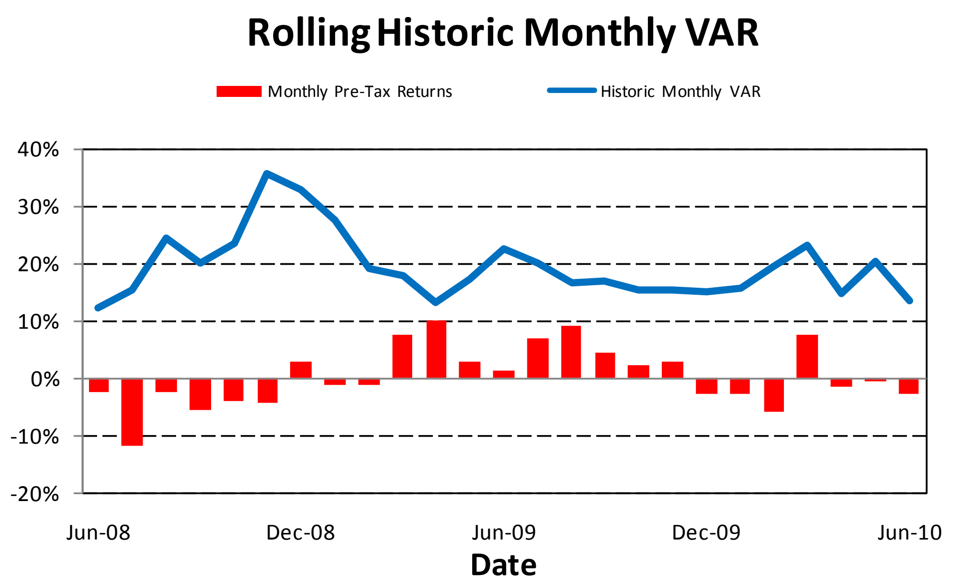


Figure 2: Rolling Historical Monthly VAR | Assumptions: 1) DV01 measures the market risk and liquidity risk it takes by reference to an in-house Value-at-Risk (VAR) model. The VAR model takes two years of historical daily portfolio performance, calculates an exponentially weighted moving average for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

Figure 2 demonstrates that the company's risk taking, as measured by VAR, is close to the lowest point it has been in the last 2 years. This fortunately coincides with increased fears of a slow down in the G20 economies.

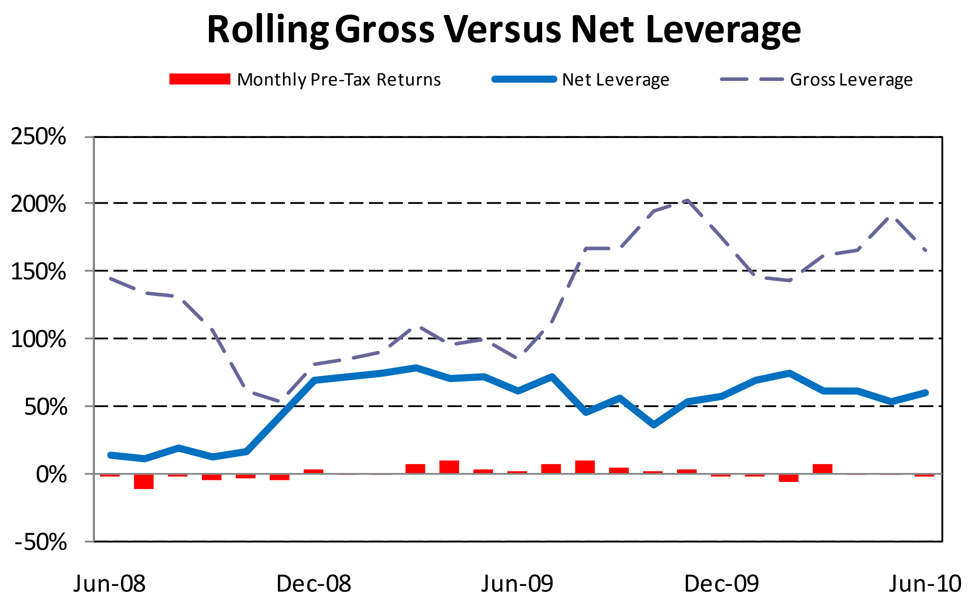


Figure 3: Rolling Gross vs Net Leverage | Assumptions: 1) Gross Leverage is the absolute aggregate notional value of all derivatives and investments divided by the Pre-Tax Net Tangible Asset of the Company. 2) Net Leverage is the aggregate notional value of all derivative and investments (long minus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

Looking forward, the company is well positioned to participate in a volatile recovery with Figure 3 showing that only 57% of Pre-tax NAV is committed to directional gains in the market. Any severe decline in the equities markets or related commodities will allow the company to establish significant opportunistic purchases.

Western Australia continues to benefit from China's growing demand for commodity production. Inflows into commodity investments are at an all-time high as more people take advantage of low interest rates and speculate on a weaker US dollar. Commodity prices have recovered from the lows of the last quarter of 2009 as global economic prospects improve.

Once again 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 statements of DV01 Mechelle Ltd, for the year ended 30 June 2010 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)

Curtis J Larson (appointed 5 August 2010)

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. Mr Madden is the Company's Chairman and the Managing Director of the Company's Manager (as described below in Investment Activities).

Curtis Larson

Mr Larson has extensive trading and risk management experience, gained over 17 years, working for various investment banks in London, Tokyo, Paris and Sydney. Curtis has an MBA from Yale University in the USA and a Bachelor of Science in Computer Engineering from the University of Alberta in Canada. Mr Larson is an Executive Director and Chief Investment Officer of the Company's Manager.

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. Craig Hughes is a Non-Executive Director of the Company and the Company's Manager.

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. Mr Steve Robinson is a Non-Executive Director of the Company.

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 Manager of the Company's investments in accordance with a Management Agreement. The Company's investments are managed with an 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:

- 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 2010 financial year.

OPERATING RESULTS

During the financial year the Company had an operating profit after income tax of $874,847 compared to a profit of $328,841 in 2009.

DIVIDENDS

Dividends recognised in the current year by the Company were:

During the year ended 30 June 2010	2010 $
Ii) Interim dividend for the year ending 30 June 2010 of 2.175 cents per share fully franked paid 15 June 2010	$173,913
iii) Final dividend for the year ended 30 June 2009 of 1.450 cent per share fully franked paid 15 January 2010	$115,941
Total	**$289,854**

For 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
i) Final Dividend for the year ended 30 June 2008 of 1.450 cents per share fully franked paid 15 January 2009.	$115,956
Total	**$289,889**

BUY-BACKS

The Manager operates a Buy-Back Facility for the Company, where the Company can buy-back shares from shareholders at the After-Tax NAV per share calculated by the company's administrator Kingsway Taitz Fund Administration Pty Ltd at the end of each quarter.

Buy-backs during the year were:

During the year ended 30 June 2010	2010 $
1,000 shares bought back at $1.4237 per share on the 16 October 2009	
Capital Component	$1,054
Dividend Component	$371
Total Buy-Back Amount	**$1,425**

During the year ended 30 June 2009	2009 $
Nil	Nil
Total Buy-Back Amount	**$Nil**

EVENTS SUBSEQUENT TO REPORTING DATE

The Company held a general meeting on 5 August 2010 and gained shareholder approval on the following:

1. For the Directors to operate the share buy backs on the terms and conditions set out in the document titled 'Buy Back Facility' approved at the general meeting.

2. That the Directors be provided with remuneration by the Company for services as directors up to the amount of $25,000 per annum.

3. That Curtis Larson is appointed Director of the Company with effect from the date that this resolution is passed.

Other subsequent events are as follows:

1. On 13 July 2010 the Manager acquired 1,000 shares in the Company at a price of $1.3465 per share.

2. On 13 July 2010 a personally related entity of Mr Stephen Robinson, a Director of the Company, acquired 33,983 shares in the Company at a price of $1.3465 per share.

3. On 13 July 2010 a personally related entity of Mr Craig Hughes, a Director of the Company, acquired 33,983 shares in the Company at a price of $1.3465 per share.

4. On the 29th July 2010 the Company invested $200,000 in a seed capital raising for Bulletin Resources Pty Ltd (Bulletin) under an Information Memorandum dated 16 July 2010 to raise $1,000,000 ahead of a potential initial public offering by the company. Mr Stephen Robinson is a Director of Bulletin.

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 3 meetings of directors was held. Attendances were as follows:

	Number eligible to attend	Number Attended
GR Madden	3	3
DW Calder	3	3
CE Hughes	3	3
CJ Larson	0	0
SD Robinson	3	3

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. Non-audit service engagements carried out during the year ended 30 June 2010 totalled $63,250 (2009: $7,650). These engagements involved KPMG carrying out an independent review on the September and December 2009 quarterly accounts as prepared by the Company.

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.

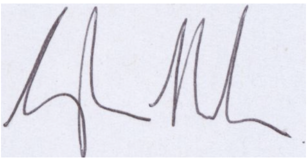
AUDITOR'S INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 11.

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 Ltd (the "Company"), DV01 Funds Management Pty Ltd (the "Manager").

Signed 23rd day of August 2010 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

To: the directors of DV01 Mechelle Ltd

1 declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 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
KPMG

Grant Robinson
Partner

Perth

23 August 20] 0

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $	2009 $
Revenue – Investment Income			
Gain/(Loss) on equity & debt investments – available for sale sold		2,082,325	(650,421)
Gain/(loss) on short sold investments		714,406	(150,939)
Gain/(loss) on derivatives		(295,059)	1,696,493
Net foreign exchange gain/(loss)		(7,248)	102,178
Dividends and trust distributions		286,121	197,106
Interest income		14,653	142,219
Net investment income		2,795,198	1,336,636
Other income		6,496	6,044
Total Revenue		**2,801,694**	**1,342,680**
Expenses			
Accounting and legal expenses		(152,977)	(44,004)
Administration expenses		(47,585)	(41,167)
Auditor remuneration		(92,730)	(35,650)
Financing expenses		(317,853)	(69,032)
Unrealised losses on equity & debt investments transferred from reserves – Available for sale		(235,922)	(360,178)
Manager fees		(482,044)	(100,694)
Other expenses		(25,757)	(5,732)
Results from operating activities		**1,446,826**	**686,223**
Share of loss of the Manager	8(b)	(8,030)	(99,182)
Impairment charges to holding cost of Manager		-	(153,050)
Profit before income tax		**1,438,796**	**433,991**
Income tax expense	4(a)	(563,949)	(105,150)
Profit after income tax expense attributable to members of the Company		**874,847**	**328,841**
Other Comprehensive Income			
Changes in fair value of equity & debt investments - Available for sale		239,600	(1,580,798)
Prior year adjustment to correct reserve		-	28,082
Tax deferred amounts from trust distributions received		10,002	-
Income tax expense/(benefit) on other comprehensive income	4(b)	(72,059)	474,239
Other comprehensive income/(loss) for the year net of tax		177,543	(1,078,477)
Total Comprehensive income/(loss) for the year		1,052,390	(749,636)

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Note	2010 $	2009 $
CURRENT ASSETS			
Cash and cash equivalents		645,597	3,647,888
Receivables	5	2,359,819	28,212
TOTAL CURRENT ASSETS		3,005,416	3,676,100
NON-CURRENT ASSETS			
Equity & Debt Investments – Available for sale	6	13,385,608	7,517,539
Derivatives at fair value		64,650	-
Investments in the Manager – Equity Accounted	7	291,970	300,000
TOTAL NON-CURRENT ASSETS		13,742,228	7,817,539
TOTAL ASSETS		**16,747,644**	11,493,639
CURRENT LIABILITIES			
Loans and borrowings	8	1,316,439	-
Trade and other payables	9	122,798	347,502
Income tax payable	4(c)	203,890	270,707
Derivatives at fair value		-	75,715
Short sold investments	10	3,941,750	534,688
TOTAL CURRENT LIABILITIES		5,584,877	1,228,612
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4(b)	424,961	288,332
TOTAL NON-CURRENT LIABILITIES		424,961	288,332
TOTAL LIABILITIES		6,009,838	1,516,944
NET ASSETS		**10,737,806**	**9,976,695**
EQUITY			
Issued Capital	11	8,409,776	8,410,830
Reserves	12	1,593,859	1,416,316
Retained earnings	13	734,171	149,549
TOTAL EQUITY		10,737,806	9,976,695
NAV per share (dollars)		**$1.3429**	**$1.2475**

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	Share Capital $	Retained Earnings $	Fair Value Reserve $	Total $
Balance at 1 July 2008	**8,410,830**	**110,597**	**2,494,793**	**11,016,220**
Total comprehensive income for the year				
Profit or loss	-	328,841	-	328,841
Other comprehensive income				
Changes in fair value of equity & debt investments - Available for sale	-		(1,580,798)	(1,580,798)
Income tax benefit on other comprehensive income			474,239	474,239
Prior year adjustment to correct reserve			28,082	28,082
Total Comprehensive income for the year	-	**328,841**	**(1,078,477)**	**(749,636)**
Transactions with owners, recorded directly in equity				
Contribution by and distributions to owners				
Dividends to shareholders	-	(289,889)	-	(289,889)
Balance as at 30 June 2009	**8,410,830**	**149,549**	**1,416,316**	**9,976,695**

	Share Capital $	Retained Earnings $	Fair Value Reserve $	**Total** **$**
Balance at 1 July 2009	**8,410,830**	**149,549**	**1,416,316**	**9,976,695**
Total comprehensive income for the period				
Profit or loss		874,847		**874,847**
Other comprehensive income				
Changes in fair value of equity & debt Investments			239,600	**239,600**
Tax deferred amounts on trust distributions received			10,002	**10,002**
Income tax expense on other comprehensive income			(72,059)	(72,059)
Total other comprehensive income				
Total Comprehensive income for the year	-	**874,847**	**177,543**	**1,052,390**
Transactions with owners, recorded directly in equity				
Contribution by and distributions to owners				
Dividends paid		(289,854)		(289,854)
Share buy-back dividend component		(371)		(371)
Share buy-back capital component	(1,054)			(1,054)
Balance as at 30 June 2010	**8,409,776**	**734,171**	**1,593,859**	**10,737,806**

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 2010

	Note	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividends and trust distributions		285,471	224,680
Other income		6,496	6,044
Interest received		15,610	139,859
Interest paid		(51,723)	-
Borrowing costs		-	(2,487)
Payments of manager fees		(477,705)	(73,430)
Payments to creditors		(574,007)	(296,814)
Income taxes paid		(270,707)	(20,608)
NET CASH USED IN OPERATING ACTIVITIES	17(b)	(1,066,565)	(22,756)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of equity & debt investments – available for sale		11,389,619	6,429,800
Sale of short sold investments		7,981,870	1,740,767
Purchase of equity and debt investments – available-for-sale		(15,608,371)	(6,967,934)
Purchase of short sale investments		(6,259,342)	(1,385,505)
Investment in the Manager		-	(100,000)
Proceeds from derivatives trading		(464,662)	2,339,396
NET CASH USED IN INVESTING ACTIVITIES		(2,960,886)	2,056,524
CASH FLOWS FROM FINANCING ACTIVITIES			
Share buy-back capital component		(1,054)	-
Share buy-back dividend component		(371)	
Dividends paid		(289,854)	(289,889)
UBS Loan Advanced		1,316,439	-
NET CASH FROM FINANCING ACTIVITIES		1,025,160	(289,889)
Net increase in cash and cash equivalents held		(3,002,291)	1,743,879
Cash and cash equivalents at the beginning of the financial year		3,647,888	1,904,009
Cash and cash equivalents at the end of the financial year	17(a)	645,597	3,647,888

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 2010

1. CORPORATE INFORMATION

DV01 Mechelle Limited is an unlisted public 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 converted from a proprietary limited company to an unlisted public company on 18 November 2009. Approval for this was obtained at a general meeting of shareholders held on 28 August 2009.

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

2. BASIS OF PREPARATION

Statement of compliance

The financial statements are general purpose financial statements that have 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 statements comply with International Financial Reporting Standards (IRFSs) and interpretations adopted by the International Accounting Standards Board (IASB). These financial statements were approved by the Board of Directors on 19 August 2010

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).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 at the end of the subsequent reporting period date.

Deferred tax is accounted for using the statement of financial position 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

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

(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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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. Subsequent to recognition, 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.

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 statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 statement of comprehensive income.

(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 Sold investments
- **(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 Sold investments
- **(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 statement of financial position.

(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 statement of financial position 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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. The standards that are available for early adoption at 30 June 2010 have not been applied in preparing these financial statements.

- Revised AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 9 will become mandatory for the Company's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Company has not yet determined the potential effect of the amendment.

- Revised AASB 124 *Related Party Disclosure* simplifies and clarifies the intended meaning of the definition of a related party. The amendments, which will become mandatory for the Company's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

- *AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments* (applicable for annual reporting periods commencing on or after 1 July 2010). Addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This Interpretation is not expected to impact the Company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

4. INCOME TAX

	2010 $	2009 $
(a) Numerical reconciliation between tax expense and pre-tax net profit		
Profit before income tax	1,438,796	433,991
Prima facie tax payable on operating profit at 30% (2009: 30%)	431,639	130,197
Add / (deduct) tax effect of:		
Non deductible expenses	56,421	-
Associate equity accounted income	2,410	29,755
Movement in temporary differences	157,429	5,616
Franking credits on dividends received	(119,930)	(86,312)
Imputation gross-up of dividends received	35,980	25,894
Income tax (benefit) / expense	563,949	105,150
Income tax expense attributable to operating profit made up of:		
-Current tax expense	203,890	270,707
-Deferred tax expense	360,059	(165,557)
Income tax (benefit) / expense in income statement	563,949	105,150
(b) Recognised temporary differences		
Deferred Tax Assets (30%)		
Black hole expenditure	82,471	55,787
Accrued expenses	10,629	18,057
Revaluation of short sale investments	-	20,380
Unrealised loss on derivatives	-	22,714
Impairment on equity accounted investment	-	66,000
	93,100	182,938

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

4. INCOME TAX (continued)

	2010 $	2009 $
(b) Recognised temporary differences		
Deferred Tax Liabilities (30%)		
Tax deferred trust distributions	3,000	2,820
Revaluation of Equity & Debt Investments		
– Available for sale	415,138	463,969
Interest receivable	1,072	2,467
Dividends receivable	2,180	2,014
Revaluation of short sold investments	77,276	-
Revaluation of derivatives	19,395	-
	518,061	471,270
Net Deferred Tax Liability	424,961	288,332
Income tax expense/(benefit)		
Recognised directly in equity		
Equity & Debt Investments – Available for sale	69,059	(474,239)
Trust distributions tax deferred amount	3,000	-
	72,059	(474,239)
(c) Income tax payable		
Provision for income tax	203,890	270,707
(d) Dividend franking account		
30% franking credits available to shareholders of the Company from subsequent financial years	307,045	41,928

5. RECEIVABLES

	2010 $	2009 $
Dividends receivable	7,365	6,715
Interest receivable	7,266	8,223
GST refund receivable	17,493	5,215
Insurance prepayment	6,524	8,059
Unsettled trades	2,321,171	-
	2,359,819	28,212

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

	2010 $	2009 $
6. EQUITY & DEBT INVESTMENTS – AVAILABLE FOR SALE		
Shares in listed entities	13,385,608	7,517,539

2010

Opening Balance	Additions	Disposals	Changes in Fair Value	Closing Balance
7,517,539	15,474,964	(11,619,862)	2,012,967	13,385,608

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

7. INVESTMENTS IN THE MANAGER

(a) Carrying amounts

Name of company	Principal activity	Ownership interest 2010 %	Ownership interest 2009 %	2010 $	2009 $
DV01 Funds Management Pty. Ltd.	Funds management and Corporate Advisor	40%	40%	291,970	300,000

The above associate is incorporated in Australia. The Company owns 40% of the share capital of DV01 Funds Management Pty Ltd (the "Manager", AFSL 308697). The Manager provides investment management services to the Company as set out in Note 16.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	2010 $	2009 $
7. INVESTMENTS IN THE MANAGER (continued)		
(b) Movement in carrying amounts		
Carrying amount at the beginning of the financial year	300,000	449,712
Acquisition of investment	-	100,000
Share of profits/(loss) after income tax	(8,030)	(99,182)
Prior year adjustment for profit recognised	-	2,520
Impairment loss recognised	-	(153,050)
Carrying amount at the end of the financial year	291,970	300,000
8. LOANS & BORROWINGS		
UBS	1,316,439	-

The Company appointed a prime broker UBS in April 2008. In addition to providing custodian and clearing services, as part of its prime brokerage agreement, UBS also provides a financing facility to the Company at commercial rates. This can be changed within 30 business days notice.

UBS has a fixed charge over the assets which it has custody over, to secure such financings.

	2010 $	2009 $
9. PAYABLES		
Trade Creditors	87,368	36,354
Unsettled purchases	-	250,958
Accrued expenses	35,430	60,190
	122,798	347,502
10. SHORT SOLD INVESTMENTS		
At Cost	4,199,337	466,754
At fair value	(257,587)	67,934
	3,941,750	534,688
11. ISSUED CAPITAL		
Issue Capital		
Fully paid ordinary shares		
7,995,938 (2009: 7,996,938)	8,409,776	8,410,830

During the year the Company participated in a buy back arrangement whereby it bought back 1,000 of its shares at a cost of $1,054.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

(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 2010, the Company had no options to purchase shares in the Company on issue.

	2010 $	2009 $
12. RESERVES		
Fair Value Reserve		
Balance at the beginning of the financial year	1,416,316	2,494,793
Reverse out prior year revaluations (net of tax)	(1,416,316)	(2,522,875)
Current year revaluations (net of tax)	1,586,859	1,416,316
Tax deferred amounts on trust distributions (net of tax)	7,000	-
Prior year adjustment to reserve	-	28,082
Balance at the end of the financial year	1,593,859	1,416,316

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.

13. RETAINED EARNINGS

Balance at the beginning of the financial year	149,549	110,597
Net profit after tax attributable to members	874,847	328,841
Dividends paid	(289,854)	(289,889)
Share buy-back dividend component	(371)	-
Balance at the end of the financial year	734,171	149,549

14. REMUNERATION OF AUDITORS

KPMG Australia		
Remuneration for audit and review of the financial reports of the Company:	29,480	28,000
KPMG Australia		
Taxation Services	-	7,650
Transaction services – proposed prospectus	63,250	-
Total for the financial year	92,730	35,650

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

15. 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 2010 on the last sale price (for management reporting purposes) a downward adjustment of $292,067 was recognised in equity (2009: $81,770).

NAV Based on Mid Prices	$10,942,253 /7,995,938 shares	$1.3685 per share
NAV Based on Bid Prices	$10,737,806 / 7,995,938 shares	$1.3429 per share

	2010 $	2009 $
Equity at mid prices	10,942,253	10,033,934
Adjustment for deferred tax liability recognised	87,620	24,531
Adjustment required to value equity and debt investments - available for sale bid price	(292,067)	(81,770)
Equity at bid prices	**10,737,806**	**9,976,695**

16. 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.

However, Mr Stephen Robinson and Mr Craig Hughes are not executives of the Manager and are entitled to receive compensation for their Director services. As at the balance date the Company has provisioned $5,000 payable in Directors fees. Subsequent to approval at the Company's general meeting on 5 August, Mr Robinson and Mr Hughes will receive Directors fees each of $20,000 p.a.

As at 30 June 2010, the number of shares held in the Company by each director of DV01 Mechelle Ltd, including their personally-related entities, is 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	1,892,000	-	-	1,892,000
C J Larson	68,966	-	-	68,966
C E Hughes	50,000	-	-	50,000
S R Robinson	-	-	-	-

(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 2010:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

16. RELATED PARTY TRANSACTIONS (Continued)

1. Paid management fees of $482,044 (2009: $108,062).

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

	2010 $	2009 $
Trade payables – DV01 Funds Management Pty Ltd	31,603	27,264

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;

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

16. RELATED PARTY TRANSACTIONS (Continued)

- 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.

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:

16. RELATED PARTY TRANSACTIONS (Continued)

- 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

17. 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:

	2010 $	2009 $
Reconciliation of cash and cash equivalents		
Cash at bank	645,597	3,647,888
(b) Reconciliation of profit after income tax to net cash flow from operating activities		
Operating profit after income tax	874,847	328,841
<u>Non Cash Items</u>		
Net (gain)/loss on disposal of available for sale	(2,322,663)	650,421
Short sold investments (gain)/loss	(714,406)	150,939
Share of profit / (loss) of the Manager	8,030	99,182
Unrealised losses on equity & debt investments – Available for sale transferred from reserves	476,260	360,178
Impairment on DV01 FM	-	153,050
Net (gain)/loss on futures	295,059	(1,696,493)
Foreign exchange gain/(loss)	7,248	(102,178)
<u>Change in operating assets and liabilities</u>		
Decrease/(increase) in receivables	(11,971)	50,134
Decrease/(increase) in prepayments	1,535	(8,059)
(Decrease)/increase in trade creditors	51,014	(111,424)
(Decrease)/increase in tax obligations	293,242	84,544
(Decrease)/increase in accruals	(24,760)	18,109
Net cash used in operating activities	1,066,565	(22,756)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

18. FINANCIAL INSTRUMENTS

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 16

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.

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 is rated as a Aa3 (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 $10,390,726 (2009: $9,718,936) 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 2010	Carrying Amount 2009
Equity and debt investments - Available for sale	13,385,608	7,517,539
Less short sale investments	(3,941,750)	(534,688)
Receivables	2,359,819	20,153
Cash and cash equivalents	645,597	3,647,888
Loans and borrowings	(1,316,439)	-
Maximum Credit Exposure	11,132,835	10,650,892

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

18. FINANCIAL INSTRUMENTS (continued)

RISK MANAGEMENT

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

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

18. FINANCIAL INSTRUMENTS (continued)

RISK MANAGEMENT

Monthly VAR Analysis	June 2010 $	June 2009 $
Income statement – Derivatives Decrease (Increase)	(55,601)	225,866
Income statement – Short Sold investments Decrease (Increase)	(177,921)	(142,308)
Income statement - unrealised loss on Available for sale assets transferred from revaluation reserve Decrease (Increase)	1,241,179	1,743,170
Balance sheet – available-for- sale investment Decrease (Increase)	600,147	602,285
Total Loss VAR (99%) Month	**1,607,804**	**2,429,013**

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

Fin. Year Jun-10	Weighted to Total Var	Number of Shares	Fair Value ($)	Percentage of Portfolio Equity	Fin. Year Jun-09	Weighted to Total VAR	Number of shares	Fair Value ($)	Percentage of Portfolio Equity
AXO.AX	19.58%	2,175,000	1,511,625	12.70%	RIO.AX	36.22%	23,904	1,248,000	13.68%
AEC.AX	17.42%	855,233	3,001,868	25.23%	AEC.AX	11.92%	720,000	1,512,000	16.58%
VMG.AX	12.11%	2,098,377	734,432	6.17%	WPL.AX	9.44%	22,744	983,000	10.77%
WPL.AX	11.20%	31,436	1,315,282	11.05%	KIK.AX	8.05%	2,170,000	380,000	4.16%
MMW.AX	9.39%	1,701,500	714,630	6.01%	MMW.AX	7.58%	1,001,500	461,000	5.05%
Total	**69.70%**			**61.16%**		**73.21%**			**50.24%**

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities as they fall due. The Manager monitors its cash flow requirements and ensures that it has cash or access to sufficient borrowing facilities or liquid securities to meet all its financial obligations as they fall due.

Borrowings incorporating Short Sales were $3,941,750 the end of the financial year (2009: $534,688) representing approximately 23.53% (2009: 4.65%) of the asset value of the Company. The Company has a Prime broking facility in place with UBS which includes the facility to both borrow stock for short selling and borrow cash advances at floating rates. The terms of the facility can be varied with 30 days notice. Annual interest expense during the year was covered 41 times by investment revenue.

The major cash inflows for the Company include dividends, distributions and sales proceeds received. The major cash outflows are the purchase of securities, dividends paid to shareholders, taxes and management fees which are managed actively by the Manager.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

19. FINANCIAL INSTRUMENTS (continued)

RISK MANAGEMENT

Maturity Analysis

The following are the contractual maturities of financial liabilities:

30 June 2010	Carrying Amount	6mths or less	More than 6 mths
Non Derivative Financial Liabilities			
Loans and Borrowings – UBS	1,316,589	(1,316,589)	-
Derivative Financial Liabilities			
Short sold investments	3,941,750	(3,941,750)	-
	5,258,339	5,258,339	-

30 June 2009	Carrying Amount	6mths or less	More than 6 mths
Non Derivative Financial Liabilities			
Loans and Borrowings – UBS	-	-	-
Derivative Financial Liabilities			
Short sold investments	534,688	(534,688)	-
Derivatives	75,715	(75,715)	-
	610,403	(610,403)	-

The above liabilities are collateralised with cash or listed equity and debt investments.

FAIR VALUE HIERARCHY

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1:quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs.)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

18. FINANCIAL INSTRUMENTS (continued)

RISK MANAGEMENT

30 June 2010	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	13,085,608	-	300,000	13,385,608
Derivative financial assets	64,650	-	-	64,650
	13,150,258	-	300,000	13,450,258
Short sold investments	(3,941,750)	-	-	(3,941,750)
	9,208,508	-	300,000	9,508,508

The available for sale investments held under Level 3 represent unlisted investments. These investments have been valued in the financial statements at cost. As the investments have only recently been acquired the directors believe that this is a fair value for the investment as at 30 June 2010.

30 June 2009	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	7,517,539	-	-	7,517,539
Short sold investments	(534,688)	-	-	(534,688)
Derivative financial liabilities	(75,715)	-	-	(75,715)
	6,907,136	-	-	**6,907,136**

19. EVENTS OCCURRING AFTER BALANCE DATE

The Company held a general meeting on 5 August 2010 and gained shareholder approval on the following:

1. For the Directors to operate the share buy backs on the terms and conditions set out in the document titled 'Buy Back Facility' approved at the general meeting.
2. That the Directors be provided with remuneration by the Company for services as directors up to the amount of $25,000 per annum.
3. That Curtis Larson is appointed as a Director of the Company with effect from the date that this resolution is passed.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

19. EVENTS OCCURRING AFTER BALANCE DATE (continued)

Other events occurring after balance date are as follows:

1. On 13 July 2010 the Manager acquired 1,000 shares in the Company at a price of $1.3465 per share.

2. On 13 July 2010 a personally related entity of Mr Stephen Robinson a Director of the Company acquired 33,983 shares in the Company at a price of $1.3465 per share.

3. On 13 July 2010 a personally related entity of Mr Craig Hughes a Director of the Company acquired 33,983 shares in the Company at a price of $1.3465 per share.

5. On the 29th July 2010 the Company invested $200,000 in a seed capital raising for Bulletin Resources Pty Ltd (Bulletin) under an Information Memorandum dated 16 July 2010 to raise $1,000,000 ahead of a potential initial public offering by the company. Mr Stephen Robinson is a Director of Bulletin.

DIRECTORS'DECLARATION

The directors declare that:

1. The financial statements and notes set out on pages 10 to 36, are in accordance with the Corporations Act 200, including:

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

   (b) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date.

   (c) The financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

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

23 August 2010

Perth

Independent auditor's report to the members of DV01 Mechelle Ltd

Report on the financial report

We have audited the accompanying financial report of DV01 Mechelle Ltd (the company), which comprises the statement of financial position as at 30 June 2010, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 19 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 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 2010 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

Grant Robinson

Grant Robinson

Partner

Perth

23 August 2010