# DV01 MECHELLE LIMITED
# ABN 95 061 343 959

# Financial Report
# 30 June 2011

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## CORPORATE DIRECTORY

| | |
|---|---|
| **Directors** | Gregory Madden<br>Craig Hughes<br>Stephen Robinson<br>Curtis Larson |
| **Secretary** | Tanya Channell |
| **Registered Office & Business Address** | Ground Floor<br>89 St Georges Terrace<br>Perth WA 6000<br><br>Telephone : + 61 8 9483 5202<br>Facsimile : + 61 8 9483 5222<br>Website : www.dvo1.com |
| **Auditor** | KPMG<br>235 St Georges Terrace<br>Perth WA 6000 |
| **Custodian & Prime Broker** | UBS AG, Australia Branch<br>Level 16, Chifley Tower<br>2 Chifley Square<br>Sydney NSW 2000 |
| **Registrar & Fund Administrator** | TMF Fund Administrators (Australia) Pty Ltd<br>Level 16<br>201 Elizabeth Street<br>Sydney NSW 2000 |

## INVESTMENT MANAGERS REPORT

The investment outlook for the Company under the prevailing economic environment looks positive. We maximize our shareholder returns in Australian Dollars, a "Commodity Currency" that will no doubt benefit from the uncertainties in Europe and the USA. Secondly we invest in mining companies whose revenues will benefit from the gains in commodity prices as a result of a falling US dollar.

At the time of writing this report a US government long-term credit rating has been cut from AAA to AA+ by Standard and Poors ("S&P") and rarely has the world seen so many developed countries facing the similar deficit problems at the same time. Whilst the decision by S&P, serves as a warning shot of what could happen if a deficit reducing solution is not forthcoming, it also sends a terrible signal for global consumer confidence. In particular it is likely that the US will have to change its long-standing unwritten policy of a strong US dollar and, the country's warring political parties, are going to have to decide on a method to cut the US budget deficit by either raising taxes or lowering spending.

China, which is set to overtake the USA in terms gross domestic product in the next 15 years, will have to consider a significant appreciation in value of its own currency.

In Europe the move to a single Euro, has left Greece, Portugal, Spain and Ireland without a national currency to devalue in order to shrink their national deficits. These countries must wait for the slower solution, which is for wages to fall and labour markets to slow. Because wages tend to rise fast with inflation, and decline more slowly with deflation, this means that economic recovery for Europe will take longer than the US.

The world's Central Banks may want to find a way to reduce their reserve currency dependence on the US dollar, however such a transition will take 50 years, and with Europe having similar, if not worse sovereign borrowing problems, there appears to be a growing risk that the US keeps interest rates so low and that it inflates its way out of its debt problems. Central bank quantitative easing, may also be rolled out a third time and much of the additional liquidity is likely to go into commodities and real assets.

The recent decline in the Australian stock market, regardless of very strong earnings, has hurt the company's performance more than in previous periods of stock market weakness. Whilst the fiscal year to June 2011, started with a significant uptick in net asset value, unfortunately, the second half of the year saw markets correct along deficit concern in Europe and the USA. Figure 1 demonstrates that the Company's performance versus the Australian share market benchmark, the S&P/ASX 200 Index.

## INVESTMENT MANAGERS REPORT

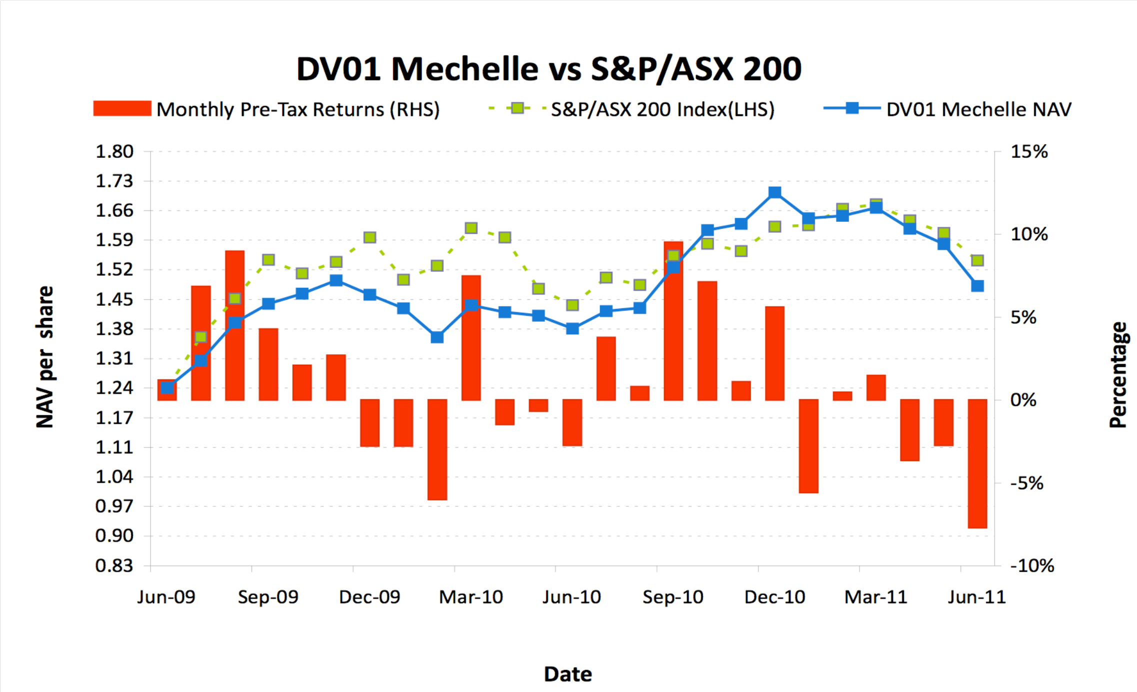



**Figure 1: DV01 Mechelle vs S&P/ASX 200** | Assumptions: 1) DV01 Mechelle NAV is the after-tax Net Asset Value per ordinary share with dividends reinvested and is calculated after allowance for corporate tax at the 30% statutory rate. 2) S&P/ASX 200 Index assumes dividends are reinvested and no allowance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

For the last 5 years the Manager has been calculating a theoretical (1 in 100) worst loss 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.

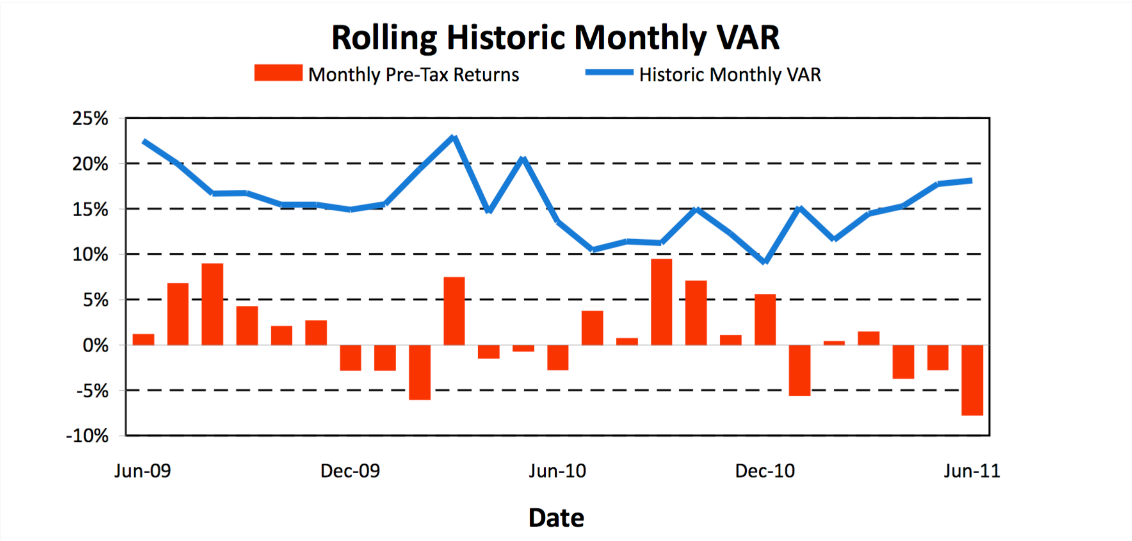



**Figure 2: Rolling Historical Monthly VAR** | Assumptions: 1) DV01 measures the market risk and liquidity risk it takes by reference to an in-house Value-at-Risk (VAR) model. The VAR model takes two years of historical daily portfolio performance, calculates an exponentially weighted moving average 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 99% VAR interval.

## INVESTMENT MANAGERS REPORT

Figure 2 demonstrates that company's risk taking as measured by VAR was close to the lowest point it had been in December 2010. A more detailed breakdown of the primary risk positions in the portfolio in June 2011 are summarized in the table in Note 20. However the rather underwhelming investment performance of the last six months of the year, regardless of the use of quantitative risk reduction techniques, demonstrates that there are no long-term alternatives for solid stock picking.

The successful raising and lodgement of the Company's prospectus, in May 2011, has meant that management have not been as focused on stock picking due to time spent on the prospectus issue. However with more funds under management and more importantly a set of rules by which to raise more funds in the future, we believe the opportunities are almost as good as they have been at anytime in the last five years.

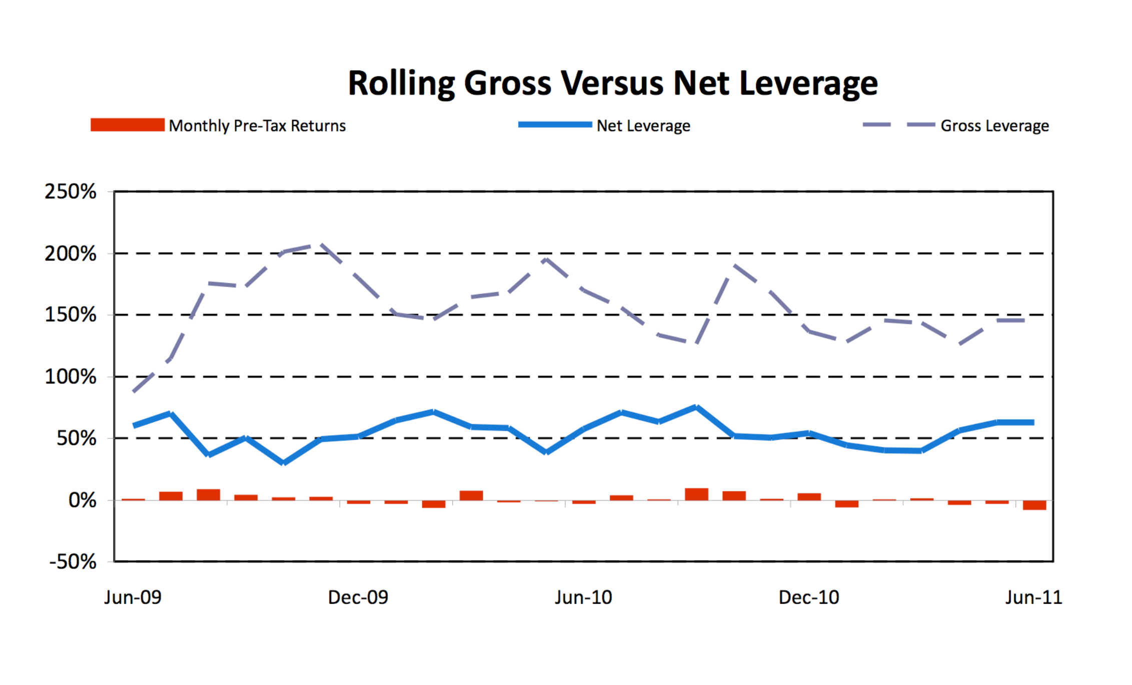



**Figure 3: Rolling Gross vs Net Leverage** | Assumptions: 1) Gross Leverage is the absolute aggregate delta weighed notional value of all derivatives and investments divided by the Pre-Tax Net Tangible Asset of the Company. 2) Net Leverage is the aggregate delta weighted notional value of all derivative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

Looking forward, the company is once again positioned to participate in what is likely to be a volatile recovery with Figure 3 showing that only 67% of Pre-tax NAV committed to directional gains in the market. Any severe decline in the equities markets or related commodities will allow the company to establish significant purchases in the exciting local market. Once again the Manager will cautiously proceed with our successful investment strategies.

## DIRECTORS REPORT

The directors present their report together with the financial report for the year ended 30 June 2011 and the auditor's report thereon.

### DIRECTORS

The directors of the Company in office during or since the end of the financial year are:

| Name | Position | Period of directorship |
|---|---|---|
| Greg Madden | Non-executive Chair<br>Managing Director of Manager | Director since 16 July 2002 |
| Curtis Larson | Non-executive<br>Executive & CIO of the Manager | Director since 5 August 2010 |
| Craig Hughes | Non-executive<br>Non-executive of the Manager | Director since 14 May 2007 |
| Stephen Robinson | Independent Non-executive | Director since 28 September 2009 |

**Particulars of Directors**

Greg Madden
Greg has a Bachelor of Economics Degree from the University of Western Australia, a Graduate Diploma from the Securities Institute of Australia (now Financial Services Institute of Australasia (FINSIA)), and a Master of Applied Finance from Macquarie University in Sydney, where he won the 2003 prize for the Applied Portfolio Management.

With over 20 years of finance and investment experience, Greg has worked for extended periods in the financial centres of London, New York, Sydney and Melbourne. Since his return to Perth at the end of 2004, Greg has been running the Company.

Greg's finance career began in Perth in 1988 with various roles in corporate finance, trade finance, foreign exchange and commodity dealing and advisory. In 1995, Greg joined Credit Suisse, Melbourne to establish a commodity hedging and min finance facilities, securing a large number of Australia's top 50 Gold producers as clients, before joining Commonwealth Bank, Sydney as Global Head of Precious Metals and Commodities. Recruited back to the Credit Suisse Group (1998) as Vice President responsible for commodities derivative marketing in New York, Greg was promoted to Director in 2000 and was subsequently places in charge of the banks Precious Metals desk for North & South America.

Immediately prior to returning to Perth, Greg was based in London as Country Head of Africa for the international investment bank Credit Suisse (then Credit Suisse First Boston). Greg had moved to London in 2003 where he was focused on structured finance and credit producers for the Latin America market.

Curtis Larson
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. Curtis has over 17 years of international investment banking experience, working in the financial centres of London, Tokyo, Paris and Sydney.

## DIRECTORS REPORT

Curtis started his career as a quantitative analyst for the Dresdner Bank in Sydney and Paris before moving onto the trading side in 1996, managing first the foreign currency option book then the precious metals book. In 1998, Curtis moved to Tokyo to join the Credit Suisse Financial Products (now Credit Suisse), running the global precious metals book in the Asian time zone before moving to London in 2000 to take overall charge of the global precious metals book. Curtis then started up Credit Suisse's credit hedging desk for the interest-rate products group. In 2003, Curtis returned to Sydney, joining Mitsui Precious Metals, trading Australian dollar and Japanese Yen denominated gold options. In 2004 he moves to ABN Amro where he co-headed the global precious metals trading desk.

Craig Hughes
Craig holds a Masters Degree in Applied Finance from the Macquarie University in Sydney.

Craig currently manages the foreign exchange and jet fuels exposure 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 treasuring outsourcing firm, and also as a foreign exchange dealer for the National Australia Bank.

Stephen Robinson
Steve is a Rhodes Scholar, business strategist and financial economist with over 20 years experience across the agribusiness and mining industries. Currently Steve is a Director of Lincoln Capital Pty Ltd, a corporate advisory firm providing services predominantly to the mining sector and a non-executive director of Bulletin Resources Limited.

Over the past 3 years Steve has gained significant experience in the structuring and managing of listings on the ASX. Prior to forming Lincoln Capital Pty Ltd, Steve Robinson held a variety of senior management roles in large corporations including Director Business Development and Strategy at Barrick (Australia Pacific) Limited (formerly Barrick Gold of Australia Limited), Group Manager Planning at Iluka Resources Limited, Treasury and Financial Consultant at Minara Resources Limited (formerly Anaconda Nickel Limited) and Planning Manager at WMC Resources Limited (Gold Business) (now known as BHP Billiton Nickel West Pty Ltd). Steve was appointed as director of the Company on 28 August 2009.

### COMPANY SECRETARY

Tanya Channell was appointed to the position of company secretary on 21 January 2011.

### COMPANY PARTICULARS

DV01 Mechelle Limited was incorporated in Australia.

The principal place of business of the Company is:

Ground Floor
89 St Georges Terrace
Perth Western Australia

## DIRECTORS REPORT

### 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) 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 was no significant change in the nature of these activities during the period.

### OPERATING RESULTS

The Company made a profit after income tax of $412,963 (2010: $874,847). The first half of the year started with a significant upturn but the second half of the year saw markets correct along deficit concern in Europe and Asia. Further details regarding performance for the year are contained in the investment report contained in this annual report.

### DIVIDENDS

Dividends paid and declared by the Company to members since the end of the previous financial year were:

| | |
|---|---|
| Interim dividend for the year ending 30 June 2011<br>of 2.4 cents per share fully franked paid on 15 June 2011 | 191,879 |
| Final dividend for the year ending 30 June 2010<br>of 1.6 cents per share fully franked paid on 17 January 2011 | 127,919 |

### Buy-Backs

The Manager operates a Buy-Back facility for the Company, where the Company can buy-back shares from its shareholders at the after-tax NAV per share calculated by the Company's administrator TMF Services (Australia) Pty Ltd as the end of each quarter.

Buy-backs during the year ended were:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| 1,000 shares bought back at $1.4694 per share (2010 $1.4237) | | |
| Capital component | 1,052 | 1,053 |
| Dividend component | 417 | 371 |
| Total buy-back amount | 1,469 | 1,424 |

# DIRECTORS REPORT

## Events Subsequent to Reporting Date

Issue of Prospectus
As at the reporting date the Company has 7,994,938 Shares on issue. Under the Prospectus issued on 7 June 2011 the minimum subscription of $5,000,000 was raised prior to 30 June 2011.

To the date of this report subscriptions for $6.1million have been collected resulting in the issue of 4,074,188 new ordinary shares under the terms of the Prospectus.

It is expected that the number of Shares on issue during the term of the Offer pursuant to the Prospectus will change following the Initial Offer Period and subsequently from month to month based on the number of Shares issued by the Company in that period and also as a result of any quarterly buy back of Shares pursuant to the Buy Back Facility.

Buy Back Facility
The company held a general meeting on the 4 August 2011 and gained shareholder approval to operate a share buy back on the terms and conditions set out in the document titled 'Buy Back Facility' approved at the general meeting.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

## Future Developments, Prospectus 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.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

## 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 2 meeting of directors were held. Attendances were as follows:

| | Number eligible to attend | Number Attended |
|---|---|---|
| Greg Madden | 2 | 2 |
| Craig Hughes | 2 | 2 |
| Curtis Larson | 2 | 2 |
| Steve Robinson | 2 | 2 |
| Tanya Channell | 2 | 2 |

## DIRECTORS REPORT

### 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 accessing, monitoring and managing operations, financial reporting and compliance risk 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 proceeding to which the company is party for the purposes of taking responsibility on behalf of the Company for all or part of these proceedings.

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

### Environmental Regulation

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

### Insurance of Directors

The Manager, DV01 Fund 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"). There is no disclosure of the total amount of insurance contract premiums paid during the year as this is prohibited by the insurance contract.

### CORPORATE GOVERNANCE

The board is committed to establishing an effective governance framework which promotes a sound and prudent management in the interests of all stakeholders. The Company's corporate governance framework has been based on the ASX Corporate Governance Councils' Corporate Governance Principles and Recommendations with modifications to reflect the size of the Company and the outsourcing of its day to day affairs and investment management to the Manager.

The relationship between the Company and the Manager is critical to the Company's long term cusses. The day to day management of the Company's activities and the investment activities and strategies have been formally delegated by the Board to the Manager with regular reporting required of the Manager to the Board.

The main corporate governance practices adopted by the Board are set out below and the Corporate Governance Statement is available on the Company's website: www.dvo1.com

### a. The Role and Responsibilities of the Board

The Board has ultimate responsibility to the Shareholders for the overall performance of the Company. The Board represents and promotes the interests of the Shareholder with a view to enhancing growth and return across the Company, adding long-term value to the Shares.

The primary role of the Board is to govern the Company and to do all things necessary to carry out the objectives of the Company. In carrying out its role the Boards main task is oversight of the business and the exercise of all the powers of the Company which are not required to be exercised in a general meeting.

## DIRECTORS REPORT

When fulfilling its roles and responsibilities, the Board will have appropriate regard to the Company's values, the concerns and interests of its Shareholders and relationships with significant stakeholders and the communities and environment in which it operates.

i. Role of the Chairman

Inside the Boardroom the Chairman's role is to provide leadership to the Board and the Company by facilitating the effective organisation and work of the Board and discussions to ensure that the significant issues facing the Company are addressed in a timely manner.

Due to the size of a Company the Board has determined the Chairman need not be an independent Chairman.

The existing Chairman Mr Gregory Madden is also the managing director of the Manager. He is responsible for ensuring the Manager and the Administration Company comply with the terms of the Management Agreement and Administrative Agreement respectively.

ii. Composition of the Board

The Board will review the skills represented by Directors on the Board and determine whether the composition and mix of those skills remain appropriate to achieve the corporate objective.

The Board will determine the level of remuneration paid to its Directors within any limits approved by Shareholders.

The Board has determined that the current composition of the Board is appropriate and that there is a diversity of background and collective expertise, necessary to understand he Company's business, the Manager's trading activities and the nature of underlying investments, including their risk and liquidity profile.

iii. Responsibilities and Duties Of Individual Directors

The principal responsibilities of the Board include:
- monitoring the Company's financial performance;
- monitoring adherence to the investment mandate prescribed in the Management Agreement;
- monitoring net asset value calculations;
- monitoring communications and reporting to Shareholders;
- reviewing the appointment and performance of external service providers;
- compliance with laws and regulations;
- approving investment decisions outside the investment mandate prescribed in the Management Agreement; and
- exercising and discretions permissible under the Valuation Policy

All Directors must:
- act in accordance with their legal responsibilities;
- recognise that when sitting as a director of the Company the primary responsibility is to the Shareholder as a whole but, where appropriate, have regards for the interests of stakeholders of the Company; and
- properly manage any conflict with the interests of the Company.

iv. Independent Professional Advice

Director may seek independent professional advice at the Company's expense, after first notifying the Board. The Board will review the estimated costs for the reasonableness, but will not impede the seeking of advice.

## DIRECTORS REPORT

### b. Board Committees

The Board may establish committees to assist in the execution of its duties and to aloe a detailed consideration of complex issues. Given the Company's size, to date the Board has not found the need to establish such committees.

### c. External Auditors

The functions normally the responsibility of a separate audit committee such as ensuring that the appropriate procedures are in place to identify and report on financial and operation risk associated with Company's activities are undertaken by the Board as a whole.

All Directors may at any time consult the Company's external auditor on any matter related to the Company's affairs and financial statements.

### d. Remuneration Policies

The Board reviews and seeks approval from Shareholder's for remuneration prior to the payment of any fees to the Non-Executive Directors.

Executive remuneration expenses of the Manager are not borne by the Company. Greg Madden and Curtis Larson are paid for their services by the Manager. Craig Hughes and Stephen Robinson receive Directors fees from the Company.

Directors do not receive options or bonus payments from the Company for their services as directors nor do they receive retirement benefits in connection with their directorships.

The Company does not have any equity incentive schemes.

### e. Board meetings

The Board meets regularly throughout the year to review the Manager's performance and to consider investment strategy or valuation policy outside the terms defined in the Management Agreement and nomination of additional or replacement directors.

### f. Financial Reporting – Declarations from the Manager Administration and Custodian

The Directors are responsible for the preparation and fair presentation of the financial report accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act. 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 respect of the monthly financial reports presented to Directors, the Manager is required to make the following certifications to the Board:

- That the Company's financial report is complete and presents a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant Accounting Standards and Company Valuation Policies;

- That the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Manager's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

## DIRECTORS REPORT

In addition, the Board requires its Administrator, and the Custodian, to provide copies of their respective auditor's most recent report under GS 007 (Guidance Statement GS 007, Audit Implication of the Use of Services Organisations for Investment Management Services Issued by the Auditing and Assurance Standards Board) or IFRS equivalent. A service auditor's examination performed in accordance with GS 007 provides assurance that a service organisation has been through an in-depth audit of their control objective and control activities, which often include controls over information technology and related processes.

**g. Communications with Shareholders**

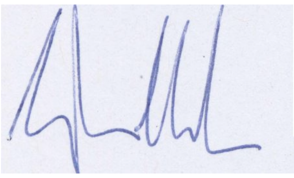
The Company has appointed an Administrator to provide monthly valuation statements to Shareholders. The Manager values the portfolio daily for internal management purposes and posts monthly performance figures on its website. To enhance communication with Shareholder, other important information is also made available to Shareholders on the website including investment strategy, governance practices, audited accounts for the Company and contact details.

### LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The Lead auditor's independence declaration is set out on page 36 and forms part of the directors' report for the financial year ended 30 June 2011.

This report is made in accordance with a resolution of the directors.

Dated at Perth this the 19th day of September 2011.



Gregory R Madden
Director

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2011

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **Revenue – Investment Income** | | | |
| Gain on equity & debt investments – available for sale sold | | 2,749,774 | 2,082,325 |
| Gain/(Loss) on short sold investments | | (10,185) | 714,406 |
| Gain/(Loss) on derivatives | | (547,283) | (295,059) |
| Net foreign exchange gain/(loss) | | 23,633 | (7,248) |
| Dividend and trust distributions | | 492,053 | 286,121 |
| Other income | | 5,297 | 6,496 |
| **Total Revenue** | | 2,713,289 | 2,787,041 |
| **Expenses** | | | |
| Accounting & legal expenses | | (321,914) | (152,977) |
| Audit fees | | (41,887) | (92,730) |
| Administration fees | | (49,713) | (47,585) |
| Management & performance fees | | (844,565) | (482,044) |
| Directors fees | | (40,001) | - |
| Unrealised losses on equity & debt investments transferred from Reserves – Available for sale | | (484,564) | (235,922) |
| Other expenses | | (302,098) | (25,757) |
| **Total Expenses** | | **(2,084,742)** | **(1,037,015)** |
| **Results from Operating Activities** | | **628,547** | **1,750,026** |
| Financial income | | 96,388 | 14,653 |
| Financial expenses | | (113,440) | (317,853) |
| **Net financing costs** | | **(17,052)** | **(303,200)** |
| Share of profit/(loss) of the Manager | | 42,331 | (8,030) |
| **Profit before income tax** | | **653,826** | **1,438,796** |
| Income tax expense | 4 | 240,863 | 563,949 |
| **Profit for the year** | | **412,963** | **874,847** |
| **Other comprehensive income** | | | |
| Changes to fair value of equity & debt investments – available for sale | | 263,523 | 239,600 |
| Tax deferred amounts from trust distributions received | | - | 10,002 |
| Income tax expense/(benefit) on other comprehensive income | | (79,057) | (72,059) |
| **Other comprehensive income for the year, net of income tax** | | **184,466** | **177,543** |
| **Total comprehensive income for the year** | | **597,429** | **1,052,390** |

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2011

| | Share Capital $ | Retained Earnings $ | Fair Value Reserve $ | Total $ |
|---|---|---|---|---|
| **30 June 2011** | | | | |
| **Comprehensive income for the year** | | | | |
| Balance at start of period | 8,409,776 | 734,171 | 1,593,859 | 10,737,806 |
| Profit or loss | - | 412,963 | - | 412,963 |
| Other comprehensive income | | | | |
| Changes in fair value of equity & debt Investments – available for sale | - | - | 263,523 | 263,523 |
| Income tax benefit on other comprehensive income | - | - | (79,057) | (79,057) |
| Total comprehensive income for the year | - | 412,963 | 184,466 | 597,429 |
| **Transactions with owners, recorded directly in equity** | | | | |
| Contribution by and distributions to owners | | | | |
| Dividends paid | - | (319,798) | - | (319,798) |
| Share buy-back dividend component | - | (417) | - | (417) |
| Share buy-back capital component | (1,052) | - | - | (1,052) |
| Balance as at 30 June 2011 | 8,408,724 | 826,919 | 1,778,325 | 11,013,968 |

| | Share Capital $ | Retained Earnings $ | Fair Value Reserve $ | Total $ |
|---|---|---|---|---|
| **30 June 2010** | | | | |
| **Comprehensive income for the year** | | | | |
| Balance at start of period | 8,410,830 | 149,549 | 1,593,859 | 9,976,695 |
| Profit or loss | - | 874,847 | - | 874,847 |
| Other comprehensive income | | | | |
| Changes in fair value of equity & debt Investments – available for sale | - | - | 239,600 | 239,600 |
| Tax deferred amounts on trust distributions | - | - | 10,002 | 10,002 |
| Income tax benefit on other comprehensive income | - | - | (72,059) | (72,059) |
| 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 |

## STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2011

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | | 4,051,543 | 645,597 |
| Trade and other receivables | 5 | 1,999,338 | 2,353,295 |
| Current tax asset | 4 | 3,856 | - |
| Other assets | | 6,403 | 6,524 |
| **Total Current Assets** | | **6,061,140** | **3,005,416** |
| **Non-current Assets** | | | |
| Equity & Debt Investments – Available for sale | 6 | 12,634,303 | 13,385,608 |
| Derivatives at fair value | | 284,179 | 64,650 |
| Investment in the Manager – Equity Accounted | 7 | 334,301 | 291,970 |
| Convertible note | 18(c) | 140,000 | - |
| **Total Non-current Assets** | | **13,392,783** | **13,742,228** |
| **Total Assets** | | **19,453,923** | **16,747,644** |
| **Current Liabilities** | | | |
| Loans and borrowings | 8 | 216,694 | 1,316,439 |
| Trade and other payables | 9 | 6,343,711 | 122,798 |
| Current tax liability | 4 | - | 203,890 |
| Short sold investments | 10 | 1,368,186 | 3,941,750 |
| **Total Current Liabilities** | | **7,928,591** | **5,584,877** |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | 4 | 511,364 | 424,961 |
| **Total Non-Current Liabilities** | | **511,364** | **424,961** |
| **Total Liabilities** | | **8,439,955** | **6,009,838** |
| **Net Assets** | | **11,013,968** | **10,737,806** |
| **Equity** | | | |
| Issued capital | 11 | 8,408,724 | 8,409,776 |
| Fair Value Reserve | 12 | 1,778,325 | 1,593,859 |
| Retained earnings | 13 | 826,919 | 734,171 |
| **Total Equity** | | **11,013,968** | **10,737,806** |
| NAV per share (dollars) | 17 | **$1.37762** | **$1.3429** |

## STATEMENT OF CASH FLOWS
## YEAR ENDED 30 JUNE 2011

| | Note | 2011<br>$ | 2010<br>$ |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Dividends and trust distributions | | 434,533 | 285,471 |
| Other income | | 11,938 | 6,496 |
| Interest received | | 100,418 | 15,610 |
| Borrowing costs | | (115,758) | (51,723) |
| Expenses | | (1,476,826) | (1,051,712) |
| Income taxes paid | | (362,206) | (270,707) |
| **Net Cash used in Operating Activities** | 19(a) | **(1,407,901)** | **(1,066,565)** |
| **Cash Flows from Investing Activities** | | | |
| Proceeds from sales of equity and debt investments – available for sale | | 26,693,925 | 11,389,619 |
| Proceeds from short sales | | 8,578,210 | 7,981,870 |
| Purchase of equity and debt investments - available for sale | | (21,173,972) | (15,608,371) |
| Purchase of short investments | | (11,136,127) | (6,259,342) |
| Proceeds from derivatives trading | | (766,812) | (464,662) |
| Issue of convertible note | 18(c) | (140,000) | - |
| **Net Cash provided by/(used in) Investing Activities** | | **2,055,224** | **(2,960,886)** |
| **Cash flows from Financing Activities** | | | |
| Share buy-back | | (1,469) | (1,425) |
| Dividends paid | | (319,798) | (289,854) |
| UBS loan advanced/(repaid) | | (3,020,110) | 1,316,439 |
| Proceeds from fundraising | | 6,100,000 | - |
| **Net cash provided by Financing Activities** | | **2,758,623** | **1,025,160** |
| **Net Increase/(Decrease) in Cash and Cash Equivalents** | | **3,405,946** | **(3,002,291)** |
| Cash and cash equivalents at 1 July | | 645,597 | 3,647,888 |
| **Cash and cash equivalents at 30 June** | 19(b) | **4,051,543** | **645,597** |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

## NOTE 1. GENERAL INFORMATION

DV01 Mechelle Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Ground Floor, 89 St Georges Terrace, Perth, WA. The financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and the Company's interest in associates. The Company is involved in investment activities.

## NOTE 2. BASIS OF PREPARATION

**Statement of Compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Company also comply with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Board of the Directors on 14th September 2011.

**Basis of Measurement**
The financial report has been prepared on the historical cost basis, except for the following material items in the statement of financial position 1) the revaluation of "financial assets held at fair value through profit or loss" 2) available for sale investments measured at fair value through equity and 3) loans and financial liabilities carried at amortised cost.

**Functional and Presentation Currency**
The financial statement is presented in Australian dollars, which is the Company's functional currency.

**Use of Estimates and Judgements**
The preparation of a financial report in conformity with Australian Accounting Standards and IFRS's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis and based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following note:
Note 20 - market risk

## NOTE 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 2011

### NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Investment in the Manager (Associate)**
The Manager is an entity in which the company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company hold between 20 and 50 percent of the voting power of another entity. The investment in the Manager is accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The financial statements include the Company's share of Net Profit (or loss) of the Manager and other comprehensive income, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence 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 the extent that the Company has an obligation or has made payments on behalf of the investee.

**Income Tax**
Income tax expense comprises current and deferred tax. Income tax is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same authority on the same taxable entity, or on a different tax entity, but they intend to settle current tax liability or assets on a net basis or their tax assets and liabilities will be realised simultaneously.

**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 Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

## NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**(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. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses. Interest income on loans and receivables is recognised on a proportional basis taking into account the effective interest rates applicable to the financial asset.

Loans and receivables comprise cash and cash equivalents and trade and other receivables.

**(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 recognised in other comprehensive income and presented in the fair value reserve in 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. When an investment is derecognised, the cumulative gain or loss is transferred to profit or loss.

**(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 are 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 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.

Other financial liabilities comprise loans and borrowings and trade and other payables.

Financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

**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 or 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 assets' 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 2011

### NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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-ended exchange rate. Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income.

**Investment income**

Investment Income comprises of:
(i) Realised gains/(losses) on Equity an Debt Investments- available for sale
(ii) Dividends and trust distribution 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

Interest
Interest income is recognised when the Company has established that it has a right to receive the interest.

Dividends and distributions
Dividend and trust distribution income is recognised when the Company has established that it has a right to receive the dividend or distribution. The Company incurs expenses on short positions in equity securities equal to the dividends due on these securities. Such dividend expense is recognised in the statement of comprehensive income as operating expense when the shareholder's right to receive payment is established.

Net gain from financial instruments at fair value through profit or loss
Net gain from financial instruments at fair value through profit or loss includes all realised and unrealised fair value changes and foreign exchange differences, but excludes interest and dividend income, and dividend expense on securities short sold.

Net realised gain from financial instruments at fair value through profit or loss is calculated using the cost method.

**Financing expenses**

Financing expenses recognised in profit and loss comprises:
(i) Transaction costs on Equity & Debt Investments- Available for sale
(ii) Transaction costs on Derivative and Short Sold investments
(iii) Interest expense & bank charges

The expenses are recognised when a liability for payment arises.

**Cash and Cash Equivalents**

Cash and Cash equivalents include 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 derivative.

**Good and Services Tax (GST)**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**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 uncollectable are written off. A provision for impairment loss is raised when some doubt as to collection exists and in any event when the debt is more than 60 days overdue.

**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.

**Comparative figures**

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

**Share capital**

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

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

**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 2011, but have not been applied in preparing this financial report.

- 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 standard.
- AASB 10 *Consolidated Financial Statements* introduces a new approach to determining which investees should be consolidated. Retrospective application will be required where there is a change in the control conclusion but the standard is still waiting on approval by the AASB but is not expected to have a significant impact on the financial statements.
- AASB 101 *Presentation of Financial Statement* makes a number of changes to the presentation of Other Comprehensive income including presenting those items that would be reclassified to profit and loss in the future and those that would never be reclassified to profit and loss and the impact of tax on those items. Retrospective application is generally required but the standard is still waiting on approval by the AASB and therefore the Company has not yet determined the potential effect on disclosures by this standard.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory from the Company's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 12 *Disclosures of Interests in Other Entities* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associated and/or unconsolidated entities. The amendments will require additional disclosure but are not expected to have a significant impact on the financial statements.
- AASB 13 *Fair Value Measurement* explains how to measure fair value when required to by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value that currently exist in certain standards. The Company has not yet determined the potential effect of the standard.

### NOTE 4. INCOME TAX

#### a) Income tax expense

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Profit before income tax | 653,826 | 1,438,796 |
| Tax payable on operating profit at 30 % | 196,148 | 431,639 |
| Add/deduct tax effect of: | | |
| Non deductible expenses | - | 56,421 |
| Associate equity accounted income | (12,699) | 2,410 |
| Movement in temporary differences | 183,112 | 157,429 |
| Franking credits on dividends received | (179,568) | (119,930) |
| Imputation gross-up of dividends received | 53,870 | 35,980 |
| Income Tax (benefit)/ expense | 240,863 | 563,949 |
| Income tax expense attributable to operating profit made up of: | | |
| -Current tax expense | 154,461 | 203,890 |
| -Deferred tax expense | 86,402 | 360,059 |
| | 240,863 | 563,949 |

#### b) Recognised temporary difference

| | | |
|---|---|---|
| Deferred Tax Assets | | |
| Black hole expenditure | 127,174 | 82,471 |
| Accrued expenses | 26,400 | 10,629 |
| Equity accounted investments | 55,711 | - |
| | 209,285 | 93,100 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 4. INCOME TAX (Continued)

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Deferred Tax Liabilities | | |
| Tax deferred trust distributions | 3,000 | 3,000 |
| Revaluation of Equity & Debt Investments- Available for sale | 619,708 | 415,138 |
| Interest receivable | 971 | 1,072 |
| Dividends receivable | 19,466 | 2,180 |
| Revaluation of short sold investments | (7,750) | 77,276 |
| Revaluation of derivatives | 85,254 | 19,395 |
| | 720,649 | 518,061 |
| Net Deferred Tax Liability | 511,364 | 424,961 |
| **Income tax expense/(benefit)** | | |
| **Recognised directly in other comprehensive income/equity** | | |
| Equity & Debt Investments- Available for sale | 79,057 | 69,059 |
| Trust distributions tax deferred amount | - | 3,000 |
| | 79,057 | 72,059 |

**c) Income tax payable**

| | | |
|---|---|---|
| Current tax asset/(liability) | 3,856 | (203,890) |

### NOTE 5. TRADE AND OTHER RECEIVABLES

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Dividend receivable | 64,885 | 7,365 |
| Interest receivable | 3,236 | 7,266 |
| GST refund receivable | 10,852 | 17,493 |
| Unsettled trades | 1,920,365 | 2,321,171 |
| | 1,999,338 | 2,353,295 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 6. EQUITY AND DEBT INVESTMENTS – AVAILABLE FOR SALE

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Shares in listed entities | 12,634,303 | 13,385,608 |

30 June 2011

| Opening Balance | Additions | Disposals | Change in Fair Value | Closing Balance |
|---|---|---|---|---|
| 13,385,608 | 21,173,972 | (24,681,186) | 2,755,909 | 12,634,303 |

30 June 2010

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

### NOTE 7. INVESTMENT IN THE MANAGER

**(a) Carrying amounts**

| Name of Company | Principal Activity | Ownership interest | | Value | |
|---|---|---|---|---|---|
| | | 30 Jun 2011 | 30 Jun 2010 | 30 Jun 2011 | 30 Jun 2010 |
| | | % | % | $ | $ |
| DV01 Funds Management Pty Ltd | Funds management and corporate advisory | 40% | 40% | 334,301 | 291,970 |

The above associated company is incorporated in Australia. The Company owns 40% of the share capital of DV01 Funds Management Pty Ltd (the "Manager" AFSL 308697) equating to 750,000 ordinary shares. The Manager provides investment management services to the Company.

**(b) Movement in Carrying amounts**

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Carrying amount at beginning of the financial year | 291,970 | 300,000 |
| Share of profits/(loss) after income tax | 42,331 | (8,030) |
| Carrying amount at the end of the financial year | 334,301 | 291,970 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 7. INVESTMENT IN THE MANAGER (Continued)

#### (c) Summary financial information

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Ownership | 40% | 40% |
| Current assets | 1,304,491 | 482,802 |
| Non-current assets | 83,979 | 186,405 |
| Total assets | 1,388,470 | 669,207 |
| Current liabilities | 290,180 | 30,630 |
| Non-current liabilities | 353,886 | - |
| Total liabilities | 644,066 | 30,630 |
| Income | 1,137,524 | 550,167 |
| Expenses | (1,031,697) | (570,233) |
| Profit/(loss) | 105,827 | (20,066) |

### NOTE 8. LOANS & BORROWINGS

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| UBS | 216,694 | 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.

### NOTE 9. TRADE AND OTHER PAYABLES

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Trade creditors | 390,561 | 87,368 |
| Accrued expenses | 88,000 | 35,430 |
| Subscriptions pending | 5,865,150 | - |
| | 6,343,711 | 122,798 |

The subscriptions pending relates to the monies received from the release of the Prospectus that resulted in the issue of shares in July 2011. The total amount collected at 30 June 2011 of $6,100,000 less the 3.5% front end fee of $234,850 was applied to the purchase of these shares on 12 July 2011. The front end fee is included in the balance for trade creditors.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 10. SHORT SOLD INVESTMENTS

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| At cost | 1,342,354 | 4,199,337 |
| Fair value adjustment | 25,832 | (257,587) |
| | 1,368,186 | 3,941,750 |

### NOTE 11. ISSUED CAPITAL

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Issued Capital | | |
| 7,994,938 fully paid ordinary shares (2010: 7,995,938) | 8,408,724 | 8,409,776 |

| | 2011 | 2010 |
|---|---|---|
| Movement in issued capital: | | |
| On issue at 1 July | 7,995,938 | 7,996,938 |
| Redeemed in buy-back | (1,000) | (1,000) |
| On issue at 30 June | 7,994,938 | 7,995,938 |

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

**(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 entitle to one vote, and upon a poll each share is entitle to one vote.

**(ii) Options**
At 30 June 2011, the Company had no options to purchase shares in the Company on issue.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 12. RESERVES

| | 2011 $ | 2010 $ |
|---|---|---|
| **Fair Value Reserve** | | |
| Balance at the beginning of the financial year | 1,593,859 | 1,416,316 |
| Reverse out prior year revaluations (net of tax) | (1,583,858) | (1,416,316) |
| Current year revaluations (net of tax) | 1,768,324 | 1,586,859 |
| Tax deferred amounts on trust distributions (net of tax) | - | 7,000 |
| Prior year adjustment to reserve | - | - |
| Carrying amount at the end of the financial year | 1,778,325 | 1,593,859 |

**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.

### NOTE 13. RETAINED EARNINGS

| | 2011 $ | 2010 $ |
|---|---|---|
| Balance at the beginning of the financial year | 734,171 | 149,549 |
| Net profit after tax attributable to members | 412,963 | 874,847 |
| Dividends paid | (319,798) | (289,854) |
| Share buy-back dividend component | (417) | (371) |
| Balance at the end of the financial year | 826,919 | 734,171 |

### NOTE 14. DIVIDENDS PAID

The following dividends were paid during the year:

| | 2011 $ | 2010 $ |
|---|---|---|
| Fully franked Interim dividend for the year ending 30 June 2011 of 2.4 cents per share (2010: 2.175) paid on 15 June 2011 | 191,879 | 173,912 |
| Fully franked Final dividend for the year ended 30 June 2010 of 1.6 cents per share (2010:1.45) paid on 17 January 2011 | 115,942 | 127,919 |
| | 319,798 | 289,854 |

<u>Dividend franking account</u>
The amounts of franking credits available for the subsequent financial year are:

| | | |
|---|---|---|
| 30% franking credit available to shareholders | 711,536 | 307,045 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 15. BUY BACKS

The Manager operates a Buy-Back facility for the Company, where the Company can buy-back shares from its shareholders at the after-tax NAV per share calculated by the Company's administrator TMF Services (Australia) Pty Ltd as the end of each quarter.

Buy-backs during the year ended were:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| 1,000 shares bought back at $1.4694 per share (2010 $1.4237) | | |
| Capital component | 1,052 | 1,053 |
| Dividend component | 417 | 371 |
| Total buy-back amount | 1,469 | 1,424 |

### NOTE 16. REMUNERATION OF AUDITORS

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| **KPMG Australia** | | |
| Remuneration for audit and review of the financial reports of the Company: | 41,887 | 29,480 |
| **KPMG Australia** | | |
| Transaction services-proposed prospectus | - | 63,250 |
| Total for the financial year | 41,887 | 92,730 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

## NOTE 17. 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 at period end on the last sale price (for management reporting purposes) a downward adjustment before tax of $280,914 (30 June 2010 $292,067) was recognised in equity.

30 June 2011

| | | |
|---|---|---|
| NAV Based on Last Price | $11,210,608 / 7,994,938 shares | $1.4022 per share |
| NAV Based on Bid Prices | $11,013,968 / 7,994,938 shares | $1.3776 per share |

30 June 2010

| | | |
|---|---|---|
| NAV Based on Last Price | $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 |

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Equity at last prices | 11,210,608 | 10,942,253 |
| Adjustment for deferred tax liability recognised | 84,274 | 87,620 |
| Adjustment required to value equity and debt investments - available for sale bid price | (280,914) | (292,067) |
| Equity at bid prices | 11,013,968 | 10,737,806 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 18. RELATED PARTY TRANSACTIONS

#### (a) Directors

Greg Madden and Curtis Larson are also directors of the Manager and accordingly have an economic interest in a portion of the management fee and do not receive any remuneration from the Company. The directors of the Manager also receive a salary paid by DV01 Funds Management Pty Ltd.

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 had no Directors fees payable (30 June 2010: $5,000)

The directors fees paid and payable for the year ended 30 June 2011 were $40,000 (30 June 2010: $5,000).

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

30 June 2011

| Name | Balance at start of the Year | Purchase/Sale of shares | Other changes during the year | Balance at end of the year |
|---|---|---|---|---|
| G R Madden | 1,892,000 | (70,175) | - | 1,821,825 |
| C J Larson | 68,966 | 67,966 | - | 136,932 |
| C E Hughes | 50,000 | 33,983 | - | 83,983 |
| S R Robinson | - | 33,983 | - | 33,893 |

As part of the prospectus additional shares were purchased by C E Hughes (33,395) and C J Larson (200,369) respectively. These shares were issued on 12 July 2011 as detailed in Note 9.

30 June 2010

| 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 the year ended 30 June 2011:

During the year the Company paid performance and management fees of $844,565 (30 June 2010: $482,044).

The amount payable to related parties at balance date was as follows:

| | 2011<br>$ | 2010<br>$ |
|---|---|---|
| Trade payables | 272,209 | 31,603 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 18. RELATED PARTY TRANSACTIONS (Continued)

#### (c) Convertible Notes

On 25th August 2010, the Manager, and a personally related entity of Mr Curtis Larson (the Incoming Shareholder of the Manager) and certain of the existing shareholders of the Manager, including the Company and the Manager's directors (the Existing Shareholders) entered into a Shareholders and Noteholders Agreement to provide $350,000 of working capital to the Manager in order to establish a Sydney office and to give effect to:

(a) the provision of unsecured convertible loan note funding by the Existing Shareholder and Incoming Shareholder to the agreement. The Company invested $140,000 in the loan notes which are convertible into ordinary shares in the Manager at the price of 50 cents per share subject to the satisfaction of certain business conditions;

(b) the grant of an option by the Existing Shareholders in favour of the Incoming Shareholder for the Incoming Shareholder to acquire a further 200,000 shares in the Manager (7.77% of the Manager) at the price of 50 cents per share, of which the Company has granted the Incoming Shareholder an option over 112,000 shares (4.34% of the Manager) subject to conversion of the convertible loan notes into equity and the satisfaction of certain business and employment conditions;

(c) the sale of an additional 115,000 shares in the Manager (4.42% of the Manager) by existing shareholders personally related to Mr Gregory Madden, to the Incoming Shareholder in two tranches, at the price of 1 cent per share, subject to conversion of the convertible loan notes into equity subject to the satisfaction of certain business and employment conditions; and

(d) to determine their relationship as shareholders and aspects of the operation and management of the Manager upon the Incoming Shareholder converting their notes into equity and becoming a shareholder in the Manager.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 19. NOTES TO THE STATEMENT OF CASH FLOWS

| | 2011 $ | 2010 $ |
|---|---|---|
| (a) Reconciliation of profit after income tax To net cash flow from operating activities | | |
| Operating profit after income tax | 412,963 | 874,847 |
| Non Cash Items | | |
| Net gain on disposal of available for sale | (2,749,774) | (2,322,663) |
| Short sold investments (gain)/ loss | 10,185 | (714,406) |
| Share of profit/ (loss) of the Manager | (42,331) | 8,030 |
| Unrealised losses on equity & debt investments- Available for sale transferred from reserves | 484,564 | 476,260 |
| Net loss on futures | 547,283 | 295,059 |
| Foreign exchange gain/ (loss) | (23,633) | 7,248 |
| Change in operating assets and liabilities | | |
| Increase in receivables | (46,849) | (11,971) |
| Decrease in prepayments | 121 | 1,535 |
| Increase in trade creditors | 120,913 | 26,254 |
| (Decrease)/ increase in tax obligations | (121,343) | 293,242 |
| Net cash used in operating activities | (1,407,901) | (1,066,565) |

(b) Reconciliation of Cash and Cash Equivalents

For the purpose 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:

| | 2011 $ | 2010 $ |
|---|---|---|
| Cash at bank | 4,051,543 | 645,597 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 20. 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 18.

Other risks the company is exposed to in investing in financial investments 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. Generally, 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 $11,266,117 (2010: $10,390,726) 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 2011 | Carrying Amount 2010 |
|---|---|---|
| Equity and debt investments - | | |
| Available for sale | 12,634,303 | 13,385,608 |
| Less short sale investments | (1,368,186) | (3,941,750) |
| Receivables | 78,973 | 2,359,819 |
| Cash and cash equivalents | 4,051,543 | 645,597 |
| Loans and borrowings | - | (1,316,439) |
| **Maximum Credit Exposure** | 15,396,633 | 11,132,835 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 20. FINANCIAL INSTRUMENTS (Continued)

**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, TMF has been employed since April 2008 and provides the following services but not limited to:

- Perform 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-test 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 to 100 trading days. This 99 % VAR interval is then converted into the 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 2010.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 20. FINANCIAL INSTRUMENTS (Continued)

| **Monthly VAR Analysis** | **2011 $** | **2010 $** |
|---|---|---|
| Income statement – Derivatives & Short Sold investments decrease/(increase) | 167,400 | (233,522) |
| Income Statement – unrealised loss on Available for sale assets transferred from revaluation reserve decrease/(increase) | 897,294 | 1,241,179 |
| Balance sheet – available-for-sale investment decrease/(increase) | 939,154 | 600,147 |
| Total Loss VAR (99%) Month | 2,003,838 | 1,607,804 |

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

| **30 June 2011** | **Weighted to Total Var** | **Number of Shares** | **Fair Value ($)** | **Percentage of Portfolio Equity** |
|---|---|---|---|---|
| ASX 200 Futures | 26.95% | 44 | 5,061,100 | 27.14% |
| CPB.AX | 22.02% | 68,094 | 3,115,981 | 16.71% |
| CDT.AX | 12.18% | 2,552,000 | 893,200 | 4.79% |
| YTC.AX | 11.30% | 1,440,000 | 813,600 | 4.36% |
| MMW.AX | 8.25% | 1,549,693 | 364,178 | 1.95% |
| **Total** | **80.80%** | | | **54.95%** |

| **30 June 2010** | **Weighted to Total Var** | **Number of Shares** | **Fair Value ($)** | **Percentage of Portfolio Equity** |
|---|---|---|---|---|
| AXO.AX | 19.58% | 2,175,000 | 1,511,625 | 12.7% |
| AEC.AX | 17.42% | 855,233 | 3,001,868 | 25.23% |
| VMG.AX | 12.11% | 2,098,377 | 734,432 | 6.17% |
| WPL.AX | 11.20% | 31,436 | 1,315,282 | 11.05% |
| MMW.AX | 9.39% | 1,701,500 | 714,630 | 6.01% |
| | **69.7%** | | | **61.16%** |

**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 requirement 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 20. FINANCIAL INSTRUMENTS (Continued)

Borrowings incorporating Short Sales were $1,368,186 at the end of the financial year (2010: $3,941,750) representing approximately 7.03% (2010: 23.53%) 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 26 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.

### Maturity Analysis

The following are the contractual maturities of financial liabilities:

| 30 June 2011 | Carrying Amount | 6mths or less | More than 6 months |
|---|---|---|---|
| **Non Derivative Financial Liabilities** | | | |
| Loans and Borrowings- UBS | 216,694 | 216,694 | - |
| Trade and other payables | 6,343,711 | 6,343,711 | |
| **Derivative Financial Liabilities** | | | |
| Short sold investments | 1,368,186 | 1,368,186 | - |
| | 7,928,591 | 7,928,591 | |

| 30 June 2010 | Carrying Amount | 6mths or less | More than 6 months |
|---|---|---|---|
| **Non Derivative Financial Liabilities** | | | |
| Loans and Borrowings- UBS | 1,316,589 | 1,316,589 | - |
| Trade and other payables | 122,798 | 122,798 | |
| **Derivative Financial Liabilities** | | | |
| Short sold investments | 3,941,750 | 3,941,750 | - |
| | 5,381,137 | 5,381,137 | - |

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 2011

### NOTE 20. FINANCIAL INSTRUMENTS (Continued)

| 30 June 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale financial assets | 12,479,303 | - | 155,000 | 12,634,303 |
| Derivative financial liabilities | 284,179 | - | - | 284,179 |
| | | - | | |
| | 12,763,482 | - | 155,000 | 12,918,482 |
| Short sold investments | (1,368,186) | - | - | (1,368,186) |
| | 11,395,296 | - | 155,000 | 11,550,296 |

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 2011.

| 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 liabilities | 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 following table shows a reconciliation of the movement in the fair value instruments categorised within Level 3 between the beginning and the end of the reporting period:

| | **2011** | **2010** |
|---|---|---|
| Opening balance | 300,000 | - |
| Total gains and losses | (45,000) | - |
| Purchases | - | 300,000 |
| Transfer to Level 1 (listed and sold) | (100,000) | - |
| **Closing balance** | 155,000 | 300,000 |

Gains or losses included in comprehensive income are presented in change in fair value of financial assets and liabilities at fair value through comprehensive income as follows:

| | |
|---|---|
| Total loss included in comprehensive income for the period | (45,000) |
| Total loss included in comprehensive income for the period for assets held at the end of the reporting period | (45,000) |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### NOTE 21. EVENTS AFTER BALANCE DATE

Other than as detailed in Note 9, we are not aware of any matters or circumstances that have occurred since 30 June 2011 that in our opinion has significantly affected or may affect in future years:

- our operators;
- the results of those operations; or
- the state of our affairs.

## DIRECTORS' DECLARATION

In the opinion of the directors of DV01 Mechelle Limited ("the Company"):

1. the financial statements and notes thereto set out on pages 13 to 34 are in accordance with the Corporations Act 2001 including:

    (a) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

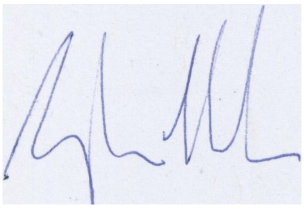
    (b) Complying with Australian Accounting Standards understanding Australian Accounting Interpretations and the Corporations Regulation 2001; and

    (c) The directors draw attention to note 2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

Dated at Perth this the 19th day of September 2011.



Gregory R Madden
Director

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

To: the Directors of DV01 Mechelle Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 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

Grant Robinson
*Partner*

Perth

19 September 2011

## Independent auditor's report to the members of DV01 Mechelle Limited

### Report on the financial report

We have audited the accompanying financial report of DV01 Mechelle Limited (the Company), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 21 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply 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 of the financial report that gives a true and fair view 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, a true and fair 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 Limited 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 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 200 I.

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

KPMG

Grant Robinson
*Partner*

Perth

19 September 2011