



DV01 MECHELLE LIMITED
ABN 95 061 343 959

Financial Report
30 June 2012

Content	Page No
Corporate Directory	
Directors' Report	1 - 8
Statement of Comprehensive Income	9 - 10
Statement of Changes in Equity	11
Statement of Financial Position	12
Statement of Cash Flows	13
Notes to the Financial Statements	14 - 36
Directors' Declaration	37
Lead Auditor's Independence Declaration	38
Independent Auditor's Report	39 - 40

DV01 MECHELLE LIMITED

CORPORATE DIRECTORY

Directors

Greg Madden
Craig Hughes
Stephen Robinson
Curtis Larson

Secretary

Tanya Channell

**Registered Office &
Business Address**

Suite 3
29 Ord Street
West Perth WA 6005

Telephone : + 61 8 9483 5200
Facsimile : + 61 8 9483 5222
Website : www.dvo1.com

Auditor

KPMG
235 St Georges Terrace
Perth WA 6000

Custodian & Prime Broker

UBS AG, Australia Branch
Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

**Registrar & Fund
Administrator**

TMF Fund Administrators (Australia) Pty Ltd
Level 16
201 Elizabeth Street
Sydney NSW 2000

DIRECTORS REPORT

The directors present their report together with the financial report for the year ended 30 June 2012 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 Managing Director of Manager	Director since 16 July 2002
Curtis Larson	Non-executive Executive & CIO of the Manager	Director since 5 August 2010
Craig Hughes	Non-executive 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 placed 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 moved 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.

Prior to moving to Macau, SAR, PRC, Craig held the position of Assistant Treasurer at Qantas Airways Ltd, where he managed that company's foreign exchange and jet fuels exposure. Craig also has extensive experience involving 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.

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 a 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:

Suite 3
29 Ord Street
West 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 \$60,681 (2011: profit of \$412,963). 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 2012 of 2.4 cents per share fully franked paid on 29 June 2012	267,714
Final dividend for the year ending 30 June 2011 of 1.6 cents per share fully franked paid on 20 January 2012	177,414

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:

	2012	2011
	\$	\$
1,016,340 (2011 1,000) shares bought back at \$1.2736 per share (2011 \$1.4694)		
Capital component	1,194,417	1,052
Dividend component	99,994	417
Depreciation deposit	5,073	-
	<hr/>	<hr/>
Total buy-back amount	1,299,484	1,469
	<hr/>	<hr/>

DIRECTORS REPORT

Events Subsequent to Reporting Date

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 4 meetings of directors were held. Attendances were as follows:

	Number eligible to attend	Number Attended
Greg Madden	4	4
Craig Hughes	4	4
Curtis Larson	4	4
Steve Robinson	4	4
Tanya Channell	4	4

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.

DIRECTORS REPORT

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 success. 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 Shareholders 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 Board's 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.

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 Greg 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.

DIRECTORS REPORT

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 the 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 Shareholders 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

Directors 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.

b. Board Committees

The Board may establish committees to assist in the execution of its duties and to allow 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 operational 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.

DIRECTORS REPORT

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 to determine 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 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.

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 Shareholders, other important information is also made available to Shareholders on the website including the investment strategy, governance practices, audited accounts for the Company and contact details.

DIRECTORS REPORT

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

The Lead auditor's independence declaration is set out on page 38 and forms part of the directors' report for the financial year ended 30 June 2012.

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

Dated at Perth this the 28th day of September 2012.



Greg Madden
Director

DV01 MECHELLE LIMITED**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 \$	2011 \$
Revenue – Investment Income			
Gain/(Loss) on equity & debt investments – available for sale sold		1,061,590	2,749,774
Gain/(Loss) on short sold investments		1,313,985	(10,185)
Gain/(Loss) on derivatives		(156,579)	(547,283)
Net foreign exchange gain/(loss)		(8,148)	23,633
Interest income		183,650	96,388
Dividend and trust distributions		539,401	492,053
Other income		52,880	5,297
		<hr/>	<hr/>
Total Revenue		2,986,779	2,809,677
Expenses			
Accounting & legal expenses		(141,625)	(321,914)
Audit fees		(69,868)	(41,887)
Administration fees		(48,560)	(49,713)
Management & performance fees		(242,527)	(844,565)
Directors fees		(40,000)	(40,001)
Financial expenses		(283,736)	(113,440)
Unrealised losses on equity & debt investments available for sale		(1,791,372)	(484,564)
Other expenses		(224,880)	(302,098)
Provision for impairment	5	(68,431)	-
		<hr/>	<hr/>
Total Expenses		(2,910,999)	(2,198,182)
		<hr/>	<hr/>
Results from Operating Activities		75,780	611,495
		<hr/>	<hr/>
Equity accounted share of profit/(loss) of the Manager		(129,846)	42,331
		<hr/>	<hr/>
Profit/(loss) before income tax		(54,066)	653,826
		<hr/>	<hr/>
Income tax expense/(benefit)	4	(114,747)	240,863
		<hr/>	<hr/>
Profit for the year		60,681	412,963
		<hr/>	<hr/>

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 \$	2011 \$
Profit for the year (carried forward)		60,681	412,963
Other comprehensive income			
Net change in fair value of available for sale financial assets		(314,416)	263,523
Net change in fair value of available for sale financial assets reclassified to profit and loss		(640,974)	-
Income tax expense/(benefit) on other comprehensive income	286,617	(79,057)	
		<hr/>	<hr/>
Other comprehensive income/(loss) for the year, net of income tax		(668,773)	184,466
		<hr/>	<hr/>
Total comprehensive income/(loss) for the year		(608,092)	597,429
		<hr/>	<hr/>

DV01 MECHELLE LIMITED**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012**

	Share Capital	Retained Earnings	Fair Value Reserve	Total
	\$	\$	\$	\$
30 June 2012				
Comprehensive income for the year				
Balance at start of period	8,408,724	826,919	1,778,325	11,013,968
Profit or loss	-	60,681	-	60,681
<u>Other comprehensive income</u>				
Net change in fair value of available for sale financial assets	-	-	(314,416)	(314,416)
Net change in fair value of available for sale financial assets reclassified to profit and loss	-	-	(640,974)	(640,974)
Income tax benefit on other comprehensive income	-	-	286,617	286,617
Total comprehensive income/(loss) for the year	-	60,681	(668,773)	(608,092)
Transactions with owners, recorded directly in equity				
<u>Contribution by and distributions to owners</u>				
Dividends paid	-	(445,128)	-	(445,128)
Shares issued through Dividend Reinvestment Plan (DRP)	80,452	-	-	80,452
Share buy-back dividend component	-	(99,994)	-	(99,994)
Share buy-back capital component	(1,194,417)	-	-	(1,194,417)
Bonus shares from equalisation	9,665	-	-	9,665
Issue of shares	5,816,929	-	-	5,816,929
Balance as at 30 June 2012	13,121,353	342,478	1,109,552	14,573,383
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
<u>Other comprehensive income</u>				
Net change in fair value of available for sale financial assets	-	-	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				
<u>Contribution by and distributions to owners</u>				
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

DV01 MECHELLE LIMITED**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012**

	Note	2012	2011
		\$	\$
Current Assets			
Cash and cash equivalents		839,542	4,051,543
Restricted cash	5	194,766	-
Trade and other receivables	6	846,712	1,999,338
Current tax asset	4(c)	-	3,856
Derivatives at fair value	12	7,340	284,179
Other assets		4,903	6,403
		<hr/>	<hr/>
Total Current Assets		1,893,263	6,345,319
Non-current Assets			
Equity & Debt Investments – Available for sale	7	19,598,675	12,634,303
Investment in the Manager – Equity Accounted	8(a)	344,455	334,301
Convertible note		-	140,000
		<hr/>	<hr/>
Total Non-current Assets		19,943,130	13,108,604
		<hr/>	<hr/>
Total Assets		21,836,393	19,453,923
Current Liabilities			
Loans and borrowings	9	27,791	216,694
Trade and other payables	10	325,315	6,343,711
Provisions		-	-
Short sold investments	11	6,549,546	1,368,186
Derivatives at fair value	12	117,585	-
		<hr/>	<hr/>
Total Current Liabilities		7,020,237	7,928,591
Non-current Liabilities			
Equalisation		115,509	-
Deferred tax liabilities	4(b)	127,264	511,364
		<hr/>	<hr/>
Total Non-Current Liabilities		242,773	511,364
		<hr/>	<hr/>
Total Liabilities		7,263,010	8,439,955
		<hr/>	<hr/>
Net Assets		14,573,383	11,013,968
Equity			
Share capital	13	13,121,353	8,408,724
Reserves	14	1,109,552	1,778,325
Retained earnings	15	342,478	826,919
		<hr/>	<hr/>
Total Equity		14,573,383	11,013,968
		<hr/>	<hr/>
NAV per share (dollars)	19	\$1.30647	\$1.37761

DV01 MECHELLE LIMITED**STATEMENT OF CASH FLOWS
YEAR ENDED 30 JUNE 2012**

	Note	2012 \$	2011 \$
Cash Flows from Operating Activities			
Dividends and trust distributions		423,064	434,533
Other income		4,500	11,938
Interest received		159,388	100,418
Borrowing costs		(283,736)	(115,758)
Expenses		(1,034,103)	(1,476,826)
Income taxes paid, net tax refund		87,309	(362,206)
		<hr/>	<hr/>
Net Cash used in Operating Activities	21(a)	(643,578)	(1,407,901)
		<hr/>	<hr/>
Cash Flows from Investing Activities			
Proceeds from sales of equity and debt investments – available for sale		12,641,467	26,693,925
Proceeds from short sales		11,441,807	8,578,210
Purchase of equity and debt investments - available for sale		(21,428,830)	(21,173,972)
Purchase of short investments		(3,719,299)	(11,136,127)
Proceeds from derivatives trading		237,845	(766,812)
Issue of convertible note		-	(140,000)
		<hr/>	<hr/>
Net Cash provided by/(used in) Investing Activities		(827,010)	2,055,224
		<hr/>	<hr/>
Cash flows from Financing Activities			
Share buy-back		(1,199,490)	(1,469)
Dividends paid		(328,725)	(319,798)
UBS loan advanced/(repaid)		-	(3,020,110)
Proceeds from fundraising		50,000	6,100,000
		<hr/>	<hr/>
Net cash provided by Financing Activities		(1,478,215)	2,758,623
		<hr/>	<hr/>
Net Increase/(Decrease) in Cash and Cash Equivalents			
		(2,948,803)	3,405,946
		<hr/>	<hr/>
Cash and cash equivalents at 1 July		4,051,543	645,597
Reclassification of restricted cash	5	(263,198)	-
		<hr/>	<hr/>
Cash and cash equivalents at 30 June	21(b)	839,542	4,051,543
		<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 1. GENERAL INFORMATION

DV01 Mechelle Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Suite 3, 29 Ord Street, West Perth, WA. The financial statements of the Company as at and for the year ended 30 June 2012 comprise the Company and the Company's interest in associates. The Company is a for-profit entity and 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) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Company comply with the International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The financial statements were authorised for issue by the Board of the Directors on 22 August 2012.

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:

- the revaluation of "financial assets held at fair value through profit or loss"
- available for sale investments measured at fair value and
- 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 IFRSs 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 estimates are revised and in any future periods affected.

In particular, information about critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the note 22 - 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.

The Company has not early adopted any accounting standard.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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 holds 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 was 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 to 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 2012

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 Investments - 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 and Short Sold Investments are taken to Profit and Loss as an Operating 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 is 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, 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 of that asset.

The Company consider the particular circumstances and nature of the entity's portfolio in determining whether the financial instrument is impaired. A significant or prolonged decline in fair value of the instrument below its cost is considered as objective evidence of impairment. The Company considers a decline in value as significant if it is more than 20% and a prolonged decline in value if the decline in quoted market price below cost persists for more than 9 months.

This is assessed at the end of each reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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 and Debt Investments - Available for sale
- (ii) Dividends and trust distribution income on Equity and 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 in the statement of comprehensive income as it accrues, using the effective interest method of the instrument calculated at the acquisition or origination date. Interest income is recognised on a gross basis, including withholding tax, if any.

Dividends and distributions

Dividend income is recognised in the statement of comprehensive income on the ex-dividend date.

In some cases, the Company may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Company recognises the dividend income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

Income distributions from private equity investments and other managed investment schemes are recognised in the profit or loss as dividend income when declared.

Dividends declared on securities sold short is accrued on ex-dividend date and recognised as an operating expense in the profit or loss.

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 operating profit and loss comprise:

- (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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 derivatives.

Restricted Cash

Restricted cash includes cash held with entities that require certain conditions to be met before they are available to the Company.

Good and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit (RITC).

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.

Cash flows are included in the statement of cash flows on a gross basis.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equalisation

Equalisation is a method used to fairly allocate the effect of the Manager's Performance Fees across Shareholders in the Company due to inequities in attribution caused when new shareholders subscribe for Shares at different periods of time and price.

The Board has determined that the Equalisation Credit and Depreciation Deposit approach is the most suitable method of equalisation for the Company. The Company's approach to equalisation allows it to firstly equalise all Shareholder performance fees, and secondly quote a single set of net asset values (NAV's, both Pre-Tax and After-Tax) per share for all Shareholders.

The calculation of the number of shares to be allotted and issued pursuant to applications under the Offer will be subject to an Equalisation Adjustment which will be either a Depreciation Deposit or an Equalisation Credit.

A Depreciation Deposit is issued concurrently with the issue of the relevant shares and is a liability owed by the Company to the new shareholder. It is lodged at risk with the Company and therefore will change in value with the Company's performance. The depreciation deposit has a floating value, which will increase or decrease inversely with the Company's performance. The Depreciation deposit decreases in value towards zero on a pro-rata basis with an increase in the Pre-tax NAV high water mark.

The depreciation deposit is convertible into additional shares under certain circumstances (Depreciation Deposit Crystallisation). Depreciation deposit crystallisation occurs when fees are payable by the Shareholder at the end of a Performance Calculation Period due to growth in the Company. The excess in value of the Depreciation Deposit over the new Maximum Depreciation Deposit (after reduction for fees payable above) will be applied to the issue of bonus shares for the Shareholder at the prevailing After-Tax NAV per Share. Additional bonus shares will be issued on increases in the Pre-Tax NAV after fees are paid, at the end of subsequent performance calculation periods until the maximum Depreciation Deposit and the Depreciation Deposit have been reduced to zero.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the measurement of the amounts recognised in the financial statements of the Company. However, AASB 9 *Financial Instruments* will change the classification of financial assets.

AASB 9 deals with the recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in AASB 139 in respect of financial assets. The standard contains two primary measurement categories for financial assets: at amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the assets contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing AASB 139 categories of held to maturity, available for sale and loans and receivables.

Investments in equity instruments will be measured at fair value with changes in fair value recognised in profit or loss, this is a change from the current policy for available for sale assets, where unrealised gains and losses arising from changes in the fair values 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.

AASB 9 requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated, instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

AASB 9 requires that the changes in credit risk of liabilities designated as at fair value through profit and loss are presented in other comprehensive income unless such treatment would create or enlarge an accounting mismatch in profit or loss. Other requirements of AASB 9 relating to classification and measurement of financial liabilities are unchanged from AASB 139.

The requirements of AASB 9 relating to derecognition are unchanged from AASB 139.

The standard is effective from annual periods beginning on or after 1 January 2015. Earlier adoption is permitted. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

The other standards that have been identified as those which may impact the Company in the period of initial application but have not been applied in preparing this financial report are as follows:

- 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**

	2012	2011
	\$	\$
Profit/(loss) before income tax	(54,066)	653,826
Tax payable on operating profit at 30 %	(16,220)	196,148
Add/deduct tax effect of:		
Non assessable income	8,815	-
Non deductible expenses	768	-
Movement in temporary differences	-	170,413
Franking credits on dividends received	(55,719)	(179,568)
Imputation gross-up of dividends received	39,724	53,870
Prior year adjustment	(92,115)	-
Income Tax (benefit)/ expense	(114,747)	240,863
Income tax expense attributable to operating profit made up of:		
-Current tax expense	-	154,461
-Deferred tax expense	(31,294)	86,402
-Prior year adjustment	(83,453)	-
	(114,747)	240,863

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4. INCOME TAX (Continued)

	2012	2011
	\$	\$
b) Recognised temporary difference		
<u>Deferred Tax Assets</u>		
Black hole expenditure	157,377	127,174
Accrued expenses	31,937	26,400
Equity accounted investments	94,664	55,711
Impairment on MF Global	20,529	-
Capital loss carried forward	2,585	-
	<hr/>	<hr/>
	307,092	209,285
	<hr/>	<hr/>
 <u>Deferred Tax Liabilities</u>		
Tax deferred trust distributions	3,000	3,000
Revaluation of Equity & Debt Investments- Available for sale	35,853	619,708
Interest receivable	8,249	971
Dividends receivable	36,053	19,466
Revaluation of short sold investments	336,133	(7,750)
Revaluation of derivatives	554	85,254
Equalisation	14,514	-
	<hr/>	<hr/>
	434,356	720,649
	<hr/>	<hr/>
Net Deferred Tax Liability	127,264	511,364
	<hr/>	<hr/>
Income tax expense/(benefit)		
Recognised directly in other comprehensive income/equity		
Equity & Debt Investments- Available for sale	286,617	(79,057)
	<hr/>	<hr/>
	286,617	(79,057)
	<hr/>	<hr/>
c) Income tax refundable		
Current tax asset	-	3,856
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**NOTE 5. RESTRICTED CASH**

	2012	2011
	\$	\$
Net cash held MF Global	263,197	-
Provision for impairment	(68,431)	-
	<hr/>	<hr/>
	194,766	-
	<hr/>	<hr/>

The cash held by MF Global has been discounted due to the appointment of voluntary administrators as at 1 November 2011. A provision for impairment of 26% has been estimated based on the trading value of the claim as at 30 June 2012. This represents the expected loss as a result of available information.

A claim has been lodged with the administrators at MF Global, and is in progress, the Company is unsure when the claim will be paid out, but expects to recover at least the market value at 30 June 2012.

NOTE 6. TRADE AND OTHER RECEIVABLES

	2012	2011
	\$	\$
Dividend receivable	120,178	64,885
Interest receivable	27,498	3,236
GST refund receivable	4,020	10,852
Unsettled trades	695,016	1,920,365
	<hr/>	<hr/>
	846,712	1,999,338
	<hr/>	<hr/>

NOTE 7. EQUITY AND DEBT INVESTMENTS – AVAILABLE FOR SALE

	2012	2011
	\$	\$
Shares in listed entities	19,598,675	12,634,303
	<hr/>	<hr/>

30 June 2012

Opening Balance	Additions	Disposals	Change in Fair Value	Closing Balance
12,634,303	21,221,085	(12,641,467)	(1,615,246)	19,598,675

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

DV01 MECHELLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 8. INVESTMENT IN THE MANAGER

(a) Carrying amounts

Name of Company	Principal Activity	Ownership interest		Value	
		30 Jun 2012	30 Jun 2011	30 Jun 2012	30 Jun 2011
		%	%	\$	\$
DV01 Funds Management Pty Ltd	Funds management and corporate advisory	40%	40%	344,455	334,301

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

	2012 \$	2011 \$
Carrying amount at beginning of the financial year	334,301	291,970
Share of profits/(loss) after income tax	(129,846)	42,331
Conversion of convertible notes to equity	140,000	-
	-----	-----
Carrying amount at the end of the financial year	344,455	334,301

(c) Summary financial information

	2012 \$	2011 \$
Ownership	40%	40%
Current assets	630,139	1,304,491
Non-current assets	222,599	83,100
	-----	-----
Total assets	852,738	1,387,591
	-----	-----
Current liabilities	72,851	290,180
Non-current liabilities	10,979	353,886
	-----	-----
Total liabilities	83,830	644,066
	-----	-----
Income	284,576	1,137,524
Expenses	(609,193)	(1,032,576)
	-----	-----
Profit/(loss)	(324,617)	104,948

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**NOTE 9. LOANS & BORROWINGS**

	2012	2011
	\$	\$
UBS	27,791	216,694
	<hr/>	<hr/>

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 10. TRADE AND OTHER PAYABLES

	2012	2011
	\$	\$
Trade creditors	82,912	390,561
Accrued expenses	106,458	88,000
Subscriptions pending	-	5,865,150
Dividends payable	135,945	-
	<hr/>	<hr/>
	325,315	6,343,711
	<hr/>	<hr/>

The dividends payable relate to the shares due to be issued under the dividend reinvestment plan. The dividend was paid on 29 June 2012 but the shares not reinvested until 11 July 2012, once the price for June was struck in accordance with the rules of the dividend reinvestment plan.

The 2011 subscriptions pending relate 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.

NOTE 11. SHORT SOLD INVESTMENTS

	2012	2011
	\$	\$
At cost	7,669,989	1,342,354
Fair value adjustment	(1,120,443)	25,832
	<hr/>	<hr/>
	6,549,546	1,368,186
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**NOTE 12. DERIVATIVES AT FAIR VALUE**

	2012	2011
	\$	\$
Derivatives at fair value – asset	7,340	284,179
Derivatives at fair value – liability	(117,585)	-
	<hr/>	<hr/>
	(110,245)	284,179
	<hr/>	<hr/>

NOTE 13. ISSUED CAPITAL

	2012	2011
	\$	\$
Issued Capital		
11,154,743 fully paid ordinary shares (2011: 7,994,938)	13,121,353	8,408,724
	<hr/>	<hr/>
	2012	2011
	No of shares	No of shares
Movement in issued capital:		
On issue at 1 July	7,994,938	7,995,938
Redeemed in buy-back	(1,016,340)	(1,000)
Issued under DRP	59,641	-
Issued under prospectus	4,109,797	-
Issued from equalisation	6,707	-
	<hr/>	<hr/>
On issue at 30 June	11,154,743	7,994,938
	<hr/>	<hr/>

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 entitled to one vote, and upon a poll each share is entitled to one vote.

(ii) Options

At 30 June 2012, the Company had no options to purchase shares in the Company on issue.

DV01 MECHELLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 14. RESERVES

	2012 \$	2011 \$
Fair Value Reserve		
Balance at the beginning of the financial year	1,778,325	1,593,859
Movement in available for sale	(668,773)	184,466
	<hr/>	<hr/>
Carrying amount at the end of the financial year	1,109,552	1,778,325
	<hr/>	<hr/>

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 15. RETAINED EARNINGS

	2012 \$	2011 \$
Balance at the beginning of the financial year	826,919	734,171
Net profit after tax attributable to members	60,681	412,963
Dividends paid	(445,128)	(319,798)
Share buy-back dividend component	(99,994)	(417)
	<hr/>	<hr/>
Balance at the end of the financial year	342,478	826,919
	<hr/>	<hr/>

NOTE 16. DIVIDENDS PAID

The following dividends were paid during the year:

	2012 \$	2011 \$
Fully franked Interim dividend for the year ending 30 June 2012 of 2.4 cents per share (2011: 2.4) paid on 29 June 2012	267,714	191,879
Fully franked Final dividend for the year ended 30 June 2011 of 1.6 cents per share (2011: 1.6) paid on 20 January 2012	177,414	
Fully franked dividend paid due to buy-back	99,994	-
	<hr/>	<hr/>
	545,122	319,798
	<hr/>	<hr/>

Dividend franking account

The amounts of franking credits available for the subsequent financial year are:

30% franking credit available to shareholders	527,256	711,536
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**NOTE 17. 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:

	2012	2011
	\$	\$
1,016,340 (2011 1,000) shares bought back at \$1.2736 per share (2011 \$1.4694)		
Capital component	1,194,416	1,052
Dividend component	99,994	417
Depreciation deposit	5,074	-
	<hr/>	<hr/>
Total buy-back amount	1,299,484	1,469
	<hr/>	<hr/>

NOTE 18. REMUNERATION OF AUDITORS

	2012	2011
	\$	\$
KPMG Australia		
Remuneration for audit and review of the financial reports of the Company:	51,156	41,887
	<hr/>	<hr/>
KPMG Australia		
Transaction services-proposed prospectus	16,500	-
	<hr/>	<hr/>
Total for the financial year	67,656	41,887
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**NOTE 19. RECONCILIATION OF NAV FROM BID TO MID PRICES**

AASB 139 requires that in revaluing financial assets and liabilities to market, the current bid price must be used. As the Company valued its 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 \$330,332 (30 June 2011 \$280,914) was recognised in equity.

30 June 2012

NAV Based on Last Price	\$14,804,615 / 11,154,743 shares	\$1.32719 per share
NAV Based on Bid Prices	\$14,573,383 / 11,154,743 shares	\$1.30647 per share

30 June 2011

NAV Based on Last Price	\$11,210,608 / 7,994,938 shares	\$1.40221 per share
NAV Based on Bid Prices	\$11,013,968 / 7,994,938 shares	\$1.37761 per share

	2012	2011
	\$	\$
Equity at last prices	14,804,615	11,210,608
Adjustment required to value equity and debt investments - available for sale bid price	(330,332)	(280,914)
Adjustment for deferred tax liability recognised	99,100	84,274
	<hr/>	<hr/>
Equity at bid prices	14,573,383	11,013,968
	<hr/>	<hr/>

NOTE 20. RELATED PARTY TRANSACTIONS**(a) Directors**

Greg Madden and Curtis Larson are also executive 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 from the Manager.

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.

The directors fees paid and payable for the year ended 30 June 2012 were \$40,000 (30 June 2011: \$40,000).

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

DV01 MECHELLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 20. RELATED PARTY TRANSACTIONS

30 June 2012

Name	Balance at start of the Year	Purchase/DRP/ Sale of shares	Other changes during the year	Balance at end of the year
G R Madden	1,821,825	21,609	-	1,843,434
C J Larson	136,932	204,370	325	341,627
C E Hughes	83,983	33,395	54	117,432
S R Robinson	33,983	36,435	317	70,735

The purchase of the shares during the year includes dividends reinvested under the dividend reinvestment plan. Other changes relate to distributions reinvested from the equalisation deposit as detailed in the prospectus.

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	-	33,983

The Company and following directors also own shares in DV01 Funds Management Pty Ltd:

Name	No of shares	Percentage of Manager
G R Madden *	1,103,940	42.87%
CJ Larson *	257,500	10.00%
C E Hughes	58,560	2.27%
DV01 Mechelle Ltd	1,030,000	40.00%
Other	125,000	4.85%
Total	2,575,000	100.00%

* Includes holdings of personally related entities.

Through his shareholding in the manager and significant interest in the Company, Greg Madden has control over the Manager.

(b) The Manager

The Company has a management agreement with DV01 Funds Management Pty Ltd, the "Manager", to provide it with fund management and administration services. The following transactions occurred with the related party – DV01 Funds Management Pty Ltd during the year ended 30 June 2012:

During the year the Company paid performance and management fees of \$242,527 (30 June 2011: \$844,565).

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

	2012	2011
	\$	\$
Trade payables	45,944	272,209
	_____	_____

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**NOTE 21. NOTES TO THE STATEMENT OF CASH FLOWS**

	2012	2011
	\$	\$
(a) Reconciliation of profit after income tax To net cash flow from operating activities		
Operating profit after income tax	60,681	412,963
<u>Non Cash Items</u>		
Net gain on disposal of available for sale	(1,061,590)	(2,749,774)
Short sold investments (gain)/ loss	(1,313,985)	10,185
Share of profit/ (loss) of the Manager	129,846	(42,331)
Unrealised losses on equity & debt investments-Available for sale	1,791,372	484,564
Net loss on futures	156,579	547,283
Foreign exchange gain/ (loss)	8,148	(23,633)
<u>Change in operating assets and liabilities</u>		
Decrease/(Increase) in receivables	(72,723)	(46,849)
Decrease/(Increase) in prepayments	1,500	121
Increase/(Decrease) in trade creditors	36,838	120,913
(Decrease)/ increase in tax obligations	(380,244)	(121,343)
Net cash used in operating activities	<u>(643,578)</u>	<u>(1,407,901)</u>

(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:

	2012	2011
	\$	\$
Cash at bank	<u>839,542</u>	<u>4,051,543</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**NOTE 22. 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.

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.

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 A2 (stable) by Moody's and was recently positively revised by Standard and Poors to A (stable) on the view that the group would continue to reduce risk exposures, amid continued strained economic and market conditions.

The Company's maximum exposure to UBS with respect to credit risk at the reporting date was \$14,003,139 (2011: \$11,266,117) 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 2012 \$	Carrying Amount 2011 \$
Equity and debt investments -		
Available for sale	19,598,675	12,634,303
Less short sale investments	(6,549,546)	(1,368,186)
Receivables	151,696	78,973
Cash and cash equivalents	839,542	4,051,543
Restricted cash	194,766	-
	<hr/>	<hr/>
Maximum Credit Exposure	14,235,133	15,396,633
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 22. 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. The Manager 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.

The Company also maintains a buy-back limit to protect the Company from huge redemptions which could lead to the unplanned sale of investments resulting in a loss or unfavourable outcome.

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-tests 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.

DV01 MECHELLE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 22. FINANCIAL INSTRUMENTS (Continued)

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 2011.

Monthly VAR Analysis	2012 \$	2011 \$
Income statement – Short Sold and derivatives investments decrease/(increase)	(729,406)	167,400
Income Statement – unrealised loss on Available for sale assets transferred from revaluation reserve decrease/(increase)	1,565,020	897,294
Balance sheet – available-for-sale investment decrease/(increase)	1,202,444	939,154
Total Loss VAR (99%) Month	2,038,058	2,003,848

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

30 June 2012

	Weighted to Total VAR (Note 1)	Number of Shares	Fair Value (\$)	Percentage of Portfolio (Note 2)
CPB.AX	35.36%	59,207	3,211,980	20.31%
SDL.AX	22.30%	5,000,000	1,650,000	10.43%
RIO.LN	15.17%	51,692	2,393,567	15.14%
FMG.AX	14.71%	358,500	1,756,650	11.11%
CDT.AX	8.95%	2,552,000	663,520	4.20%
Total	96.49%			61.19%

30 June 2011

	Weighted to Total VAR (Note 1)	Number of Shares	Fair Value (\$)	Percentage of Portfolio (Note 2)
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	80.70%			54.95%

Note 1: Weighted to total VAR is the VAR for each of the disclosed investments divided by the total VAR.

Note 2: Percentage of portfolio is the fair value of investment divided by the last price pre-tax net asset value of the Company at 30 June, assuming dividends are reinvested

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 2012**NOTE 22. FINANCIAL INSTRUMENTS (Continued)**

Borrowings incorporating Short Sales were \$6,577,337 at the end of the financial year (2011: \$1,584,880) representing approximately 44.9% (2011: 14.39%) of the net 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 11 (2011: 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:

<u>30 June 2012</u>	Carrying Amount	6 months or less	More than 6 months
Non Derivative Financial Liabilities			
Loans and Borrowings - UBS	27,791	27,791	-
Trade and other payables	325,315	325,315	-
Derivative Financial Liabilities			
Short sold investments	6,549,546	6,549,546	-
Derivatives	117,585	117,585	-
	<u>7,020,237</u>	<u>7,020,237</u>	<u>-</u>

<u>30 June 2011</u>	Carrying Amount	6 months 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	-
	<u>7,928,591</u>	<u>7,928,591</u>	<u>-</u>

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 2012**NOTE 22. FINANCIAL INSTRUMENTS (Continued)**

	Level 1	Level 2	Level 3	Total
<u>30 June 2012</u>				
Available-for-sale financial assets	19,575,865	-	22,810	19,598,675
Derivative financial assets	7,340	-	-	7,340
	<u>19,583,205</u>	<u>-</u>	<u>22,810</u>	<u>19,606,015</u>
Short sold investments	(6,549,546)	-	-	(6,549,546)
Derivative financial liabilities	(117,585)	-	-	(117,585)
	<u>12,916,074</u>	<u>-</u>	<u>22,810</u>	<u>12,938,884</u>

The available for sale investments held under Level 3 represent unlisted investments. These investments have been valued in the financial statements at cost.

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

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:

	2012	2011
Opening balance	155,000	300,000
Total gains and losses	(132,190)	(45,000)
Transfer to Level 1 (listed and sold)	-	(100,000)
Closing balance	<u>22,810</u>	<u>155,000</u>

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	(132,190)
Total loss included in comprehensive income for the period for assets held at the end of the reporting period	<u>(132,190)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

NOTE 23. EVENTS AFTER BALANCE DATE

Other than as detailed in Note 10, we are not aware of any matters or circumstances that have occurred since 30 June 2012 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 that are set out on pages 9 to 37 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 2012 and of its performance for the financial year ended on that date; and
 - (b) Complying with Australian Accounting Standards and the Corporations Regulation 2001; and
3. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
4. The directors draw attention to Note 2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Perth this 28th day of September 2012.



Greg 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 2012 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

28 September 2012



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 2012, 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 23 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 2012 and of its performance for the year ended on that date; and

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

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



Grant Robinson
Grant Robinson
Partner

Perth

28 September 2012