

DV01 Mechelle Limited

ACN 061 343 959



Corporate Governance Statement

Issue Date: May 17, 2011

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

The Company's principal activity is the purchase of listed and unlisted securities and derivatives for investment purposes. The Company has no employees. It has no premises, plant or equipment or other physical assets. The sole purpose of the Company is as an investment company. The objective of the Company is to seek long term capital growth through utilising the skills of its associate DV01 Funds Management Pty Ltd (the "Manager"). The Company's day-to-day affairs are undertaken by the Manager in accordance with a Management Agreement (as amended, novated, supplemented or replaced from time to time).

The Company and the Board are committed to establishing an effective governance framework which promotes a sound and prudent management in the interests of all stakeholders. The Board has ultimate responsibility to the Shareholders for the overall performance of the Company including responsibility for its corporate governance. The Company's corporate governance framework has been based on the ASX Principles of Corporate Governance and Best Practice 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.

This Corporate Governance Statement ("Statement") has been adopted by the Board of the Company and sets out its main corporate governance practices. The Statement has been posted on the Company's website: www.dvo1.com.

1.0 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 Shareholders with a view to enhancing growth and returns 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 of 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 interest of its Shareholders and relationships with significant stakeholders and the communities and environment in which it operates.

1.1 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 the Company the Board has determined that 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 Administrator comply with the terms of the Management Agreement and Administrative Agreement respectively.

1.2 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.

Non-executive Directors will be engaged through a letter of appointment.

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 backgrounds 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.

The existing Board comprises:

- Gregory Madden - Non-executive Chair of the Company and Chair and managing director of the Manager;
- Curtis Larson - Non-executive Director of the Company and executive director and Chief Investment Officer of the Manager; and
- Craig Hughes - Non-executive Director of the Company and non-executive director of the Manager; and
- Stephen Robinson - Independent non-executive Director of the Company.

1.3 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;
- Review 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 any discretions permissible under the valuation policy.

All Directors have:

- common law fiduciary obligations to the Company;
- obligations imposed by the Corporations Act; and
- obligations imposed by the Constitution of the Company.

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 regard for the interests of all stakeholders of the Company; and
- properly manage any conflict with the interests of the Company and comply with the Director's Conflicts of Interest Policy and the Company Code of Ethics Policy;.

1.4 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 reasonableness, but will not impede the seeking of advice.

2.0 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.

3.0 External Auditors

The functions normally the responsibility of a separate audit committee such as ensuring that appropriate procedures are in place to identify and report on financial and operational risk associated with the 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.

4.0 Remuneration Policies

Gregory Madden, Curtis Larson and Craig Hughes, all being directors of the Company, all have direct or indirect equity interests in the Manager.

The Board reviews and seeks approval from Shareholders 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.

Mr Madden who is the Chair and the managing director of the Manager is remunerated by the Manager and is not paid directors fees by the Company.

Mr Larson is an executive director and the Chief Investment Officer of the Manager. He is remunerated by the Manager and is not paid directors fees by the Company.

Craig Hughes and Stephen Robinson receive directors fees from the Company.

Directors do not receive options or bonus payments by 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.

5.0 Role and Responsibility of the Manager

The Company has a management agreement with the Manager to provide it with investment management services. The current Management Agreement commenced on 17 May 2011 (**Commencement Date**). It is for an initial period of 5 years. On each anniversary of the Commencement Date, the term automatically extends for 1 year unless either the Company or the Manager provides written notice prior to the contrary.

The directors of the Manager are Gregory Madden, Curtis Larson and Craig Hughes, all of whom are directors of the Company. The Manager has discretion for day-to-day investment activity, dealing, portfolio construction and risk management control of the Company.

The Manager is responsible for:

- setting investment strategy and objectives within the terms defined in the Management Agreement;
- ensuring that it has adequate and suitably qualified professional staff to discharge its obligations to administer the Company's affairs and investment activities in accordance with the Management Agreement;
- negotiating commercial arrangements with the Company's external service providers such as Prime Broker, Administrator, Accountants and Auditors;
- managing the Company's financial position;
- managing of portfolio performance and reporting to the Shareholders on a monthly basis;
- providing financial and operational reporting to the Board on a monthly basis;
- ensuring that satisfactory arrangements are in place for auditing the Company's financial statements;

- ensuring that all statutory registers and registers required to be maintained by the Company are accurate;
- reviewing the level and adequacy of services provided by external service providers, in particular the prime broking relationships, the arrangements with the Administrator, and the Company's accountants to ensure they are adequate to meet the Company's investment objectives;
- arranging appropriate Directors' and Officers' liability insurance for the Company's Directors;
- ensuring that the Manager has in place appropriate insurance including Directors' and Officers' liability insurance;
- ensuring appropriate policies and compliance systems are in place to ensure that the Manager's officers act legally and responsibly on all matters to do with the Company's affairs;
- complying with the statutory duties and obligations imposed by law on both the Manager and the Company;
- oversight of the administration of new subscriptions under offering documents and buy backs under the Buy Back Facility (if one has been approved by Shareholders) and reports to the Company as warranted; and
- keeping the Company informed in relation to future prospects and business development strategies.

5.1 Investment Mandate given to Manager

The Company and the Manager have agreed to an investment mandate permitting the Manager to trade in:

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

5.2 Risk control features of the Portfolio include:

- no one investment transaction will represent more than 20% of the total Pre-Tax NAV at the time of acquisition;

- no investment will represent more than a 20% stake in the issued securities of a company;
- total unlisted investment transactions cannot exceed 50% of the Pre-Tax NAV as measured by cost / Pre-Tax NAV;
- the Portfolio is to consist of between 20 and 70 investments, although more or less may be held depending on the number of securities identified that are expected to meet the performance expectations;
- where suitable investments cannot be identified, the Portfolio may be invested in cash;
- there are no limitations on short positions; and
- gearing may be employed in the Portfolio, but total exposure will not exceed 3 times as measured by aggregate absolute mark-to-mark value of all open investment transactions divided by the Pre-Tax NAV.

6.0 Compliance

The Manager is required to operate within the conditions of its AFS licence and the financial services laws when providing financial services for the Company as well as within the provisions of the investment mandate given to it by the Company.

It is a requirement of the Management Agreement that the Manager maintains its AFS licence and operates in accordance with the conditions of its licence and the financial services laws including the Corporations Act and the Australian Securities and Investments Commission Act.

7.0 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.

8.0 Financial Reporting – Declarations from the Manager, Administrator and Custodian

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

- That the Company's financial reports are complete and present 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 statements are 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 Implications of the Use of Service 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 organization has been through an in-depth audit of their control objectives and control activities, which often include controls over information technology and related processes.

9.0 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 communications with Shareholders, 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.