



**DV01 MECHELLE LIMITED**  
**ABN 95 061 343 959**

**Interim Financial Report**  
**31 December 2010**

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## **DV01 MECHELLE LIMITED**

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### **DIRECTORS' REPORT**

The directors present their report together with the interim financial report for the half-year ended 31 December 2010 and the review report thereon.

### **DIRECTORS**

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

<b>Name</b>	<b>Position</b>	<b>Period of directorship</b>
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

### **COMPANY PARTICULARS**

DV01 Mechelle Limited was incorporated in Australia.

The principal place of business of the Company is:

Ground Floor  
89 St Georges Terrace  
Perth Western Australia

### **PRINCIPAL 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.

### **REVIEW OF OPERATIONS**

The Company made a profit after income tax of \$1,362,090, (2009: loss of \$371,213).

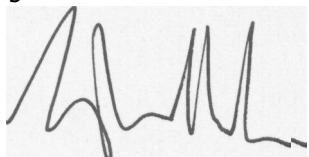
**DIRECTORS' REPORT**

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

The lead auditor's independence declaration is set out on page 14 and forms part of the directors' report for the half-year ended 31 December 2010.

Dated at Perth this 17th day of February 2011.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'G R Madden', is written over a light grey rectangular background.

Gregory R Madden  
Director

**DV01 MECHELLE LIMITED****CONDENSED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

	Note	Half-year 31 Dec 2010 \$	Half-year 31 Dec 2009 \$
<b>Revenue – Investment Income</b>			
Gain/(Loss) on equity & debt investments – available for sale sold		3,428,856	1,213,013
Realised gain/(loss) on short sales		(72,640)	(283,480)
Realised gain/(loss) on derivatives		(134,705)	(389,642)
Unrealised gain/(loss) on derivatives		(285,149)	(239,893)
Unrealised short sales gain/(loss)		19,181	(143,346)
Net foreign exchange gain/(loss)		23,019	21,729
Dividend and trust distributions		388,419	171,799
Other income		5,297	21,616
		<b>3,372,278</b>	<b>371,796</b>
<b>Expenses</b>			
Administration expense		(1,054,390)	(556,250)
Unrealised losses on equity & debt investments transferred from Reserves – Available for sale		(20,509)	(263,497)
Other expenses		-	(26,222)
		<b>2,297,379</b>	<b>(474,173)</b>
<b>Results from Operating Activities</b>			
Financial income		70,936	44,428
Financial expenses		(69,764)	(188,781)
		<b>1,172</b>	<b>(144,353)</b>
Share of profit of the Manager		113,297	46,105
		<b>2,411,848</b>	<b>(572,421)</b>
<b>Profit before income tax</b>			
Income tax expense		1,049,758	201,208
		<b>1,362,090</b>	<b>(371,213)</b>
<b>Other comprehensive income</b>			
Changes to fair value of equity & debt investments – available for sale		1,721,338	2,872,166
Income tax expense/(benefit) on other comprehensive income		(516,401)	(861,650)
		<b>1,204,937</b>	<b>2,010,516</b>
<b>Total comprehensive income for the period</b>			
		<b>2,567,027</b>	<b>1,639,303</b>

**DV01 MECHELLE LIMITED****CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

		<b>Half-year 31 Dec 2010 \$</b>	<b>Half-year 31 Dec 2009 \$</b>
<b>Equity Holders</b>			
<b>Share Capital</b>			
Balance at start of period		8,409,776	8,410,830
Share buy-back	5	(1,052)	(1,054)
		<hr/>	<hr/>
<b>Total Share Capital</b>		<b>8,408,724</b>	<b>8,409,776</b>
		<hr/>	<hr/>
<b>Fair Value Reserve</b>			
Balance at start of period		1,593,859	1,416,316
Change to fair value of equity & debt investments – available for sale		1,478,452	2,028,960
Fair value of securities sold transferred to profit & loss		(294,024)	(281,941)
Reserves available for sale		20,509	263,497
		<hr/>	<hr/>
<b>Fair Value Reserve at end of period</b>		<b>2,798,796</b>	<b>3,426,832</b>
		<hr/>	<hr/>
<b>Retained Earnings</b>			
Balance at start of period		734,171	149,549
Profit for the period		1,362,090	(371,212)
		<hr/>	<hr/>
Total for the period		2,096,261	(221,663)
Dividends	5	(417)	(372)
		<hr/>	<hr/>
<b>Retained Earnings at end of period</b>		<b>2,095,844</b>	<b>(222,035)</b>
		<hr/>	<hr/>
<b>Total Equity</b>		<b>13,303,364</b>	<b>11,614,573</b>
		<hr/>	<hr/>

**DV01 MECHELLE LIMITED****CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2010**

	Note	31 Dec 2010 \$	30 Jun 2010 \$
<b>Current Assets</b>			
Cash and cash equivalents		958,436	645,597
Trade and other receivables		284,290	2,353,565
Other assets		13,978	6,254
<b>Total Current Assets</b>		<b>1,256,704</b>	<b>3,005,416</b>
<b>Non-current Assets</b>			
Equity & Debt Investments – Available for sale	7	14,944,462	13,385,608
Derivatives at fair value		-	64,650
Investment in the Manager – Equity Accounted Convertible note	8	405,267 140,000	291,970 -
<b>Total Non-current Assets</b>		<b>15,489,729</b>	<b>13,742,228</b>
<b>Total Assets</b>		<b>16,746,433</b>	<b>16,747,644</b>
<b>Current Liabilities</b>			
Loans and borrowings		-	1,316,439
Trade and other payables		727,406	122,798
Current tax payable		542,678	203,890
Derivatives at fair value		220,499	-
Short sold investments	9	1,080,416	3,941,750
<b>Total Current Liabilities</b>		<b>2,570,999</b>	<b>5,584,877</b>
<b>Non-current Liabilities</b>			
Deferred tax liabilities		872,070	424,961
<b>Total Non-Current Liabilities</b>		<b>872,070</b>	<b>424,961</b>
<b>Total Liabilities</b>		<b>3,443,069</b>	<b>6,009,838</b>
<b>Net Assets</b>		<b>13,303,364</b>	<b>10,737,806</b>
<b>Equity</b>			
Share capital		8,408,724	8,409,776
Reserves		2,798,796	1,593,859
Retained earnings		2,095,844	734,171
<b>Total Equity</b>		<b>13,303,364</b>	<b>10,737,806</b>
NAV per share (dollars)	10	\$1.6639	\$1.3429

**DV01 MECHELLE LIMITED****CONDENSED INTERIM STATEMENT OF CASH FLOWS  
HALF-YEAR ENDED 31 DECEMBER 2010**

	Note	Half-year 31 Dec 2010 \$	Half-year 31 Dec 2009 \$
<b>Cash Flows from Operating Activities</b>			
Dividends and trust distributions		391,793	175,998
Other income		(22,047)	3,250
Interest received		70,526	40,332
Borrowing costs		(60,919)	(38,396)
Expenses		(466,081)	(372,372)
Income taxes paid		(263,861)	(305,042)
		<hr/>	<hr/>
<b>Net Cash provided by/(used in) Operating Activities</b>		<b>(350,589)</b>	<b>(496,230)</b>
		<hr/>	<hr/>
<b>Cash Flows from Investing Activities</b>			
Proceeds from sales of equity and debt investments – available for sale		16,548,484	3,582,419
Proceeds from short sales		5,555,367	5,522,221
Purchase of equity and debt investments available for sale		(11,377,649)	(9,205,937)
Purchase of short investments		(8,470,161)	(3,204,669)
Proceeds from derivatives trading		(134,705)	(389,642)
Issue of convertible note	11(c)	(140,000)	-
		<hr/>	<hr/>
<b>Net Cash provided by/(used in) Investing Activities</b>		<b>1,981,336</b>	<b>(3,695,608)</b>
		<hr/>	<hr/>
<b>Cash flows from Financing Activities</b>			
Share buy-back		(1,469)	(1,425)
UBS loan repaid		(1,316,439)	-
		<hr/>	<hr/>
<b>Net cash provided by/(used in) Financing Activities</b>		<b>(1,317,908)</b>	<b>(1,425)</b>
		<hr/>	<hr/>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>312,839</b>	<b>(4,193,263)</b>
Cash and cash equivalents at 1 July		645,597	3,396,930
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	<b>6</b>	<b>958,436</b>	<b>(796,333)</b>
		<hr/>	<hr/>

## DV01 MECHELLE LIMITED

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### CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT HALF-YEAR ENDED 31 DECEMBER 2010

#### NOTE 1. GENERAL INFORMATION

DV01 Mechelle Limited (the "Company") is a company domiciled in Australia.

The annual financial report of the Company as at and for the year ended 30 June 2010 is available upon request from the Company's principal place of business at Ground Floor, 89 St Georges Terrace, Perth.

#### NOTE 2. STATEMENT OF COMPLIANCE

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the annual financial report of the Company as at and for the year ended 30 June 2010.

This interim financial report was approved for issue by the Board of Directors on 16 February 2011.

#### NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in this interim financial report are the same as those applied by the Company in its financial report as at and for the year ended 30 June 2010.

#### NOTE 4. ESTIMATES

The preparation of an interim financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this interim financial report the significant judgements made by management in applying the entity's accounting policies and the key sources of estimate uncertainty were the same as those applied to the financial report as at and for the year ended 30 June 2010.

#### NOTE 5. DIVIDENDS AND 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 half year ended were:

	<b>Half-year 31 Dec 2010</b>	<b>Half-year 31 Dec 2009</b>
	\$	\$
1,000 shares bought back at \$1.4694 per share (2009 \$1.4237)		
Capital component	1,052	1,054
Dividend component	417	371
	<hr/>	<hr/>
Total buy-back amount	1,469	1,425
	<hr/>	<hr/>



## DV01 MECHELLE LIMITED

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### CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT HALF-YEAR ENDED 31 DECEMBER 2010

#### NOTE 6. NOTES TO THE STATEMENT OF CASH FLOWS

##### Non-cash financing and investing activities

There were no non-cash financing or investment activities during the period ended 31 December 2010.

#### NOTE 7. EQUITY AND DEBT INVESTMENTS – AVAILABLE FOR SALE

	31 Dec 2010	30 Jun 2010
	\$	\$
Shares in listed entities	14,944,462	13,385,608
	<hr/>	<hr/>

31 December 2010

Opening Balance	Additions	Disposals	Change in Fair Value	Closing Balance
13,385,608	11,377,649	(14,691,768)	4,872,973	14,944,462

30 June 2010

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

## DV01 MECHELLE LIMITED

### CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT HALF-YEAR ENDED 31 DECEMBER 2010

#### NOTE 8. INVESTMENT IN THE MANAGER

##### (a) Carrying amounts

Name of Company	Principal Activity	Ownership interest			
		31 Dec 2010	30 Jun 2010	31 Dec 2010	30 Jun 2010
		%	%	\$	\$
DV01 Funds Management Pty Ltd	Funds management and corporate advisory	40%	40%	405,267	291,970

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

##### (b) Movement in Carrying amounts

	<b>31 Dec 2010</b>	<b>30 Jun 2010</b>
	\$	\$
Carrying amount at beginning of the financial year	291,970	300,000
Share of profits/(loss) after income tax	113,297	(8,030)
	<hr/>	<hr/>
Carrying amount at the end of the financial year	405,267	291,970
	<hr/>	<hr/>

#### NOTE 9. SHORT SOLD INVESTMENTS

	<b>31 Dec 2010</b>	<b>30 Jun 2010</b>
	\$	\$
At cost	1,099,598	4,199,337
Fair value adjustment	(19,182)	(257,587)
	<hr/>	<hr/>
	1,080,416	3,941,750
	<hr/>	<hr/>

**CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT  
HALF-YEAR ENDED 31 DECEMBER 2010****NOTE 10. 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 \$103,711 (30 June 2010 \$292,067) was recognised in equity.

31 December 2010

NAV Based on Last Price	\$13,375,962 / 7,994,938 shares	\$1.6730 per share
NAV Based on Bid Prices	\$13,303,364 / 7,994,938 shares	\$1.6639 per share

30 June 2010

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

	<b>31 Dec 2010</b>	<b>30 Jun 2010</b>
	\$	\$
Equity at last prices	13,375,962	10,942,253
Adjustment for deferred tax liability recognised	31,113	87,620
Adjustment required to value equity and debt investments - available for sale bid price	(103,711)	(292,067)
	<hr/>	<hr/>
Equity at bid prices	13,303,364	10,737,806
	<hr/>	<hr/>

**NOTE 11. RELATED PARTY TRANSACTIONS****(a) Directors**

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

However, Mr Stephen Robinson and Mr Craig Hughes are not executives of the Manager and are entitled to receive compensation for their Director services. As at the balance date the Company had \$10,000 in Directors fees payable (30 June 2010: \$5,000)

The directors fees paid and payable for the period ended 31 December 2010 were \$22,949 (year ended 30 June 2010 \$5,000).

## DV01 MECHELLE LIMITED

### CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT HALF-YEAR ENDED 31 DECEMBER 2010

#### NOTE 11. RELATED PARTY TRANSACTIONS (Continued)

As at 31 December 2010, the number of shares held in the Company by each director of DV01 Mechelle Ltd, including their personally-related entities, is set out below:

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

#### (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 period ended 31 December 2010:

During the period the Company paid performance and management fees of \$772,165 (Year ended 30 June 2010: \$482,044).

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

	31 Dec 2010	30 Jun 2010
	\$	\$
Trade payables	584,064	31,603

#### (c) Convertible Notes

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

- the provision of unsecured convertible loan note funding by the Existing Shareholder and Incoming Shareholder to the agreement. The Company invested \$140,000 in the loan notes which are convertible into ordinary shares in the Manager at the price of 50 cents per share subject to the satisfaction of certain business conditions;
- the grant of an option by the Existing Shareholders in favour of the Incoming Shareholder for the Incoming Shareholder to acquire a further 200,000 shares in the Manager (7.77% of the Manager) at the price of 50 cents per share, of which the Company has granted the Incoming Shareholder an option over 112,000 shares (4.34% of the Manager) subject to conversion of the convertible loan notes into equity and the satisfaction of certain business and employment conditions;

**CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT  
HALF-YEAR ENDED 31 DECEMBER 2010**

**NOTE 11. RELATED PARTY TRANSACTIONS (Continued)**

- (c) the sale of an additional 115,000 shares in the Manager (4.42% of the Manager) by existing shareholders personally related to Mr Gregory Madden, to the Incoming Shareholder in two tranches, at the price of 1 cent per share, subject to conversion of the convertible loan notes into equity subject to the satisfaction of certain business and employment conditions; and
- (d) to determine their relationship as shareholders and aspects of the operation and management of the Manager upon the Incoming Shareholder converting their notes into equity and becoming a shareholder in the Manager.

**NOTE 12. SEGMENT INFORMATION**

The Company operates solely as an investment company and operates in Australia only.

**NOTE 13. SUBSEQUENT EVENTS**

There were no subsequent events after reporting date.

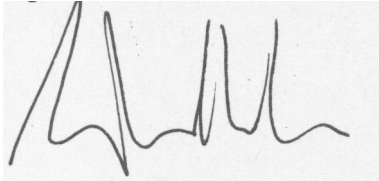
**DIRECTORS' DECLARATION**

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

1. the financial statements and notes thereto set out on pages 3 to 12 are in accordance with the Corporations Act 2001 including:
  - (a) giving a true and fair view of the Company's financial position as at 31 December 2010 and of its performance for the six month period ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 17th day of February 2011.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'G R Madden', is written over a light grey rectangular background.

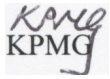
Gregory R Madden  
Director



*Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 To:*  
the directors of DV01 Mechelle Limited,

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



  
Grant Robinson  
Partner

Perth

17 February 2011



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

### **Report on the financial report**

We have reviewed the accompanying interim financial report of DV01 Mechelle Limited, which comprises the condensed statement of financial position as at 31 December 2010, condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, a description of accounting policies and other explanatory notes 1 to 13 and the directors' declaration for the Company.

#### *Directors' responsibility for the interim financial report*

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of DV01 Mechelle Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Independence*

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



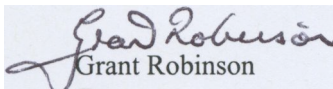


*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of DV01 Mechelle Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



  
Grant Robinson  
Partner

Perth

17 February 2011