

MEHELLE SECURITIES PTY LTD
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Information Memorandum
August 18, 2006

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Introduction

This document describes the proposal to raise money for an existing investment vehicle Mechelle Securities Pty Ltd (**Mechelle Securities** or **Company**) which operates as an “alternative investment” vehicle or “hedge fund”.

Mechelle Securities is the wholly owned investment company of Mr Greg Madden and his wife (Sonja Madden). Mr Madden has over 15 years of international investment banking experience and has worked for extended periods in the world’s financial centres of London, New York, Sydney and Melbourne.

There are currently approximately AUD\$ 15–20 billion invested in hedge funds by the Australian investment community. This represents just under 2% of the total pool of managed funds in Australia. Total funds invested in the assets of hedge funds has been growing globally at a rate of 20% per annum, and it is likely that over the next 5-10 years hedge fund investments will be made up anywhere from 10 to 15% of a “typically” well balanced and diversified investment portfolio.

These hedge fund businesses are highly profitable and their investment base is growing at very high rates within Australia. The time to get into this new investment business is now, before the mainstream Fund Managers and major Four banks establish their own Hedge Fund brands, as has already occurred overseas.

Seed Capital Raising

The proposal is to raise AUD\$4 million in an established investment vehicle – Mechelle Securities.

Mr Madden and his family will underwrite a minimum of AUD\$3 million or 75% of the minimum AUD\$4 million required.

From this initial pool of funds, AUD\$ 3.68 million will be retained in Mechelle Securities and invested in an investment portfolio (comprising Shares, Futures, Commodities and Options) designed, tailored and managed to meet the required market return. The remaining AUD\$0.32 million will be used as initial working capital for the establishment of a new entity to act as the Manager of the Fund's investment portfolio.

For every \$250,000 of initial seed capital invested (**Minimum Investment**), the seed investor will receive \$230,000 of Shares in the Company and a \$20,000 indirect interest in the Manager. 60% of the Manager will be owned by Mr Madden. And 40% will be retained by the Company

The \$320,000 of working capital in the Manager would also be used mainly to develop an appropriate Prospectus for the Company for a broader based public capital raising.

The Manager will also obtain an Australian Financial Services License and will review the possibility of Mechelle Securities listing on the ASX to take advantage of the concessional capital gains treatment for Listed Investment Companies.

Mechelle Securities Strategy

The Company can be broadly described as a Global Macro investment company. The Company invests in portfolio of Shares, Futures, Currencies and Options. The Company also employs leverage through the use of Futures, Options and Debt (traditional borrowing).

The Company typically allocates 50% of its investable assets to growth stocks and a further 50% to value stocks.

Due to the Company's base being located in Perth, Western Australia, it has a bias towards resource growth stock, many of which are operated out of Perth. Mechelle Securities has on a number of occasions been an early investor (pre-feasibility and often pre-IPO) in companies such as Mincor, Sally Malay, Westonia and Atlas Iron.

The following are examples of some recent trades that have been executed by Mechelle Securities:

Example 1:

In early April 2006, Mechelle Securities had a share portfolio totalling approximately AUD\$3 million and unrealised gains of approximately AUD\$1.5 million, the annualised return of this portfolio from 30 June 2005 to that that time was in the order of 85% p.a.

Over the course of the subsequent month Mechelle Securities sold up to AUD\$1 million ASX 200 futures on the Sydney Futures Exchange "SFE" to hedge against a potential decline in the Australian share market. By 30 June 2006 the share market (as represented by the ASX/S&P 200) had declined some 12% from its highs in May 2006.

The capital gains on the ASX futures were used to offset the losses on the share portfolio and thus preserve the value of portfolio in a retreating market.

Strategy Advantages:

1. The Company pays tax on a smaller capital gain from the expiry of the futures contract.
2. The total brokerage on the futures is less than the alternative of selling the shares outright.
3. The transaction costs in terms of bid offer spread was significantly reduced.

Example 2:

In late May 2006, St Barbara Mines Ltd, a mid-cap gold miner that is listed on the ASX (SBM.AX), wanted to raise AUD\$70 million to fund the capital expenditure required to develop a new mine that would raise its annual gold production by 300,000 ounces per annum to 450,000 ounces by the end of 2007.

The placement had been soft circled at 70 cents per share compared to the prevailing ASX price of 73 cents per share. Overnight the gold price dropped from USD\$720 to USD\$685 per ounce. The new issue was re-priced and subsequently set at \$0.60 per share.

Mechelle Securities committed to take AUD\$100,000 of this share placement. As a hedge against any further unfavourable movements in the gold price, Mechelle sold 200 ounces of August Gold futures. By mid-June 2006 the gold price had dropped to USD\$585 and listed value Saint Barbara's shares had dropped to 52 cents. The gains on the sale of the August gold futures offset the losses in the price of the Saint Barbara shares.

Strategy Advantages:

- 1) The St Barbara shares could have been sold prior to the end of the financial year and the realised losses offset against previous realised capital gains.
- 2) The gold futures contract can be unwound for a profit in July 2006. The tax saving alone accounts for an additional 2% to the 10% return on the two transactions combined.

Potential Future Strategies:

Independence Group, Sally Malay, and Mincor are three emerging junior Nickel companies trading on the ASX. All three companies trade at approximately 4 times their 2008 forecast earning level. As Nickel is currently at an all time high, one strategy that takes advantage of a potential re-rating in these companies is to Sell Nickel futures on the London Metal Exchange (LME) and buy a weighted basket of these companies shares (IGO.AX, SMY.AX & MCR.AX) which are listed on the ASX.

Mechelle Securities Pty Ltd Unlevered Historical Returns				
Fiscal Year	% Returns p.a	Portfolio Size (MM beg. Fin Yr)	ASX 200 TR (Include div)	Outperf.
2005/06	55.63%	1.562	21.60%	34.04%
2004/05	41.52%	1.569	26.06%	15.46%
2003/04	45.52%	1.010	19.30%	26.23%
2002/03	1.09%	0.429	-1.71%	2.80%
2001/02	12.95%	0.291	-2.95%	15.89%
Median	29.62%	Median	11.77%	18.41%
Average	31.34%	Average	12.46%	18.88%
Volatility	20.19%	Volatility	13.29%	10.59%
Sharpe Ratio:	1.17	Sharpe Ratio	0.43	1.74
Risk Adjusted Outperform:	15.38%			
3 year TR:	220.52%	3 year TR	82.86%	95.36%
\$100k inv 3 yrs ago:	320,524.50	\$100k inv 3 yrs ago	182,858.76	

AFR Smart Money – Top of Class

Platinum Japan	3 year TR \$100k inv 3 yrs ago	122.50% 222,500.31	Platinum ASIA	3 year TR \$100k inv 3 yrs ago	188.76% 288,755.30
Smallco Invest	3 year TR \$100k inv 3 yrs ago	213.52% 313,521.41	Prime Value Imputatn	3 year TR \$100k inv 3 yrs ago	135.90% 235,901.08
MLC - Plat Global	3 year TR \$100k inv 3 yrs ago	90.89% 190,893.13	ML - Global Small Cap	3 year TR \$100k inv 3 yrs ago	134.52% 234,521.54

Converting Mechelle Securities into a Public Investment Company.

There would be significant amount of work required to convert Mechelle Securities into a public company. Set out below is a tentative 6 month agenda to achieving this conversion.

- Engage Lawyers and Accountants – Clarify Tax consequences.
- Review and Audit Accounts – for past years.
- Establish Manager.
- Appoint Board of Directors.
- Obtain AFSL for Manager – including authorisation for derivatives.
- Establish Prime Broker relationship.
- Convert Mechelle Securities from private company to public company.
- Put together Prospectus to raise public issue funds and investigate listing on ASX.

Proforma Returns & Risks to the Seed Investor

Returns to the Seed Investor would be two fold, firstly from the Company and secondly from the Manager.

Company Returns:

The seed investor would have 92% of their investment in an actively managed investment portfolio comprising Equities, Commodities and Futures. The Company would target minimum gross returns (i.e. Pre the Manager fees) of 15% p.a. and the Company would employ strategies of financial leverage to help achieve these returns. Gross returns would be measured prior to tax, administration charges and auditing fees. However these charges will be substantially diluted after the second round of equity has been raised.

The Manager will charge two quarterly fees:

- 1) A flat 1% p.a. fee on total funds under management (0.25% per quarter).
- 2) A performance fee of 20% of the returns and subject to such returns exceeding a high water mark, to be calculated and paid quarterly.

As an example, if the Company makes gross returns of 15% p.a. the net returns to a shareholder in the Company would be $(15\% - 1\%) * (1 - 20\%)$ or approximately 11.2%. Pre Tax, Auditing and Admin.

Manager Returns:

The other way a seed investor can make returns is from dividend income of the Manager. The Manager's income is dependant of two factors, the size of assets under its management and the actual performance of the Company. A successful Manager would need to have a minimum of AUD\$100 million under management within a 2-3 year period. Under this scenario the seed capitalist is expected to have high annual returns of 32% p.a. fully franked.

Risks

Risks specific to seed investment in Mechelle Securities would include:

2 year Lock-Up:

The proposal would be for seed investors to lock up their money in the Company for 2 years. It is likely that similar lock ups will be imposed by start up Hedge Funds that want to minimise the risk of investing in illiquid high returning assets such as private equity.

12.50% Gate:

Redemptions can occur after 2 years, however total redemptions in any given quarter, cannot exceed 12.5% of the total funds under management.

Leverage:

It is proposed that Mechelle Securities will have the capacity to borrow against its investments.

Currency Risk:

If Mechelle Securities invests in offshore shares. The currency of record for such funds will often be in USD or some other currency. It is proposed that the company will hedge the majority (in excess of 70%) of such currency risks back into AUD and at all time attempt to maximize returns in Australian Dollars.

Key Man Risk:

The Company is reliant on the skill and expertise of Mr Madden.

AN EXAMPLE OF HOW A SEED INVESTOR MAKES MONEY 1) THE COMPANY + 2) FEE INCOME FROM MANAGER

IRR = 32% P.A. Assuming Manager trades 3 x PE in JUN 09

Seed Investor Total Proforma Returns From Fund and Manager	Jun-08	Jun-09	Jun-10
Annual Net Returns Taxed & Fully Franked	(4.60%)	18.54%	28.97%
			36.35%

Mechelle Securities Fund Returns	Jun-07	Jun-08	Jun-09	Jun-10
Assets Under Management (MM)	3.68	30.46	102.85	181
Unit Price	1	1.16	1.25	1.35
Gross Returns	15%	15%	15%	15%
Net Returns	11.2%	11.2%	11.2%	11.2%

Manager Returns (\$1,000's)	Jun-07	Jun-08	Jun-09	Jun-10
Management Fees	\$150	\$1,157	\$3,908	\$6,874
Less				
Professional Head Count	2	4	6	7
Salary	\$350	\$500	\$945	\$1,601
IT/Dealing Systems	\$25	\$50	\$100	\$150
Travel/Accommodation	\$30	\$60	\$90	\$105
Advertising /Marketing	\$20	\$20	\$40	\$60
Fax/Internet	\$6	\$8	\$8	\$8
Rent	\$25	\$50	\$75	\$75
Accounting/Licensing	\$120	\$65	\$97.5	\$113
Profit Before Tax	(\$326)	\$454	\$2,652	\$4,911
Profit after Tax		\$416	\$1,720	\$2,642
NPAT Distributable to each Seed Capitalist	0	8.32	34.41	52.85

About Greg Madden & Mechelle Securities

Mechelle Securities is the wholly owned investment company of Mr Greg Madden and his wife (Sonja Madden). Mr Madden has over 15 years of international investment banking experience and has worked for extended periods in the world's financial centres of London, New York, Sydney and Melbourne.

Immediately prior to returning to Perth in December 2004, Mr Madden worked in London for the international investment bank Credit Suisse First Boston (**CSFB**) where he was Head of Africa. Mr Madden had moved to London initially in 2003 where he was responsible for credit derivative structuring for Eastern Europe, the Middle East and African customers. Prior to 2003, Mr Madden worked in New York where he focused on structured finance and credit products for the Latin America market.

Mr Madden started his career as a graduate trainee in Perth in 1988 in the corporate finance division of the Bank of New Zealand. He later joined a local foreign exchange dealer, before moving to local Perth consultant company Oakvale Capital, where he was ultimately responsible for their Resources Risk Advisory business.

In 1995, he joined CSFB, Melbourne as their senior marketer of bullion banking products. Whilst at CSFB Melbourne he established their commodity hedges and mine finance facilities, securing as customers the majority of Australia's top 50 gold producers.

In 1997 he joined the Commonwealth Bank in Sydney as Head of Commodities where he established the Bank's first Precious Metals trading desk before being recruited back to the Credit Suisse Group in New York as Vice President of Commodities Derivative Marketing for the North American market.

In 2000 Mr Madden was promoted to Director and was subsequently placed in charge of the bank's Precious Metals desk for the Region (North & South America). During his time in this role Mr Madden was instrumental in producing a fourfold increase in both profitability and the bank's market share of the lucrative jeweller, producer and Central Bank Finance and Hedging activities.

Mr Madden has a Bachelor of Economics Degree from the University of Western Australia, a Graduate Diploma from the Securities Institute of Australia, and a Master of Applied Finance from Macquarie University in Sydney, where he won the 2003 prize for Applied Portfolio Management.

**APPLICATION FOR SHARES
MEHELLE SECURITIES PTY LTD
ABN 95 061 343 959**

The Directors
Mechelle Securities Pty Ltd
682 Murray Street
WEST PERTH WA 6005

_____ (**Applicant**) hereby applies for _____ fully paid ordinary shares in the capital of Mechelle Securities Pty Ltd (**Company**) at a price of \$1 per Share. I/We attach a cheque for \$_____ for the application monies.

The Applicant confirms that it agrees to be bound by the Constitution of the Company. The Applicant acknowledges and agrees to the additional terms attaching to the Shares specified in Annexure A.

To be completed by the Applicant

Applicant Full Name	
Applicant ACN or ABN if company	
Applicant Street Address	
Applicant Suburb	
Number of Shares	
Application Amount \$	
Tax File Number (TFN)	

Note: Cheques should be expressed in Australian dollars made payable to “**Mechelle Securities Pty Ltd**” and crossed “**Not Negotiable**”.

If Applicant is an individual:

SIGNED by _____)
)
 in the presence of: _____) _____ (Signature)
 Signature of Witness

 Full Name of Witness
 (BLOCK LETTERS)

 Address:

 Occupation:

If Applicant is a corporation:

EXECUTED BY)

ACN)

in accordance with the Corporations Act:)

Director

Director/Secretary

ANNEXURE A

1. The Applicant shall not be able to transfer any Shares for a period of 24 months from their date of issue. (the "2 year lock-up")
2. The Applicant acknowledges that after the "2 year lock-up" the Company will, with the approval of shareholders, implement a buy-back facility under which the Applicant will be entitled to request the Company to buy-back some or all of its Shares. The total amount of the Shares to be bought back by the Company in any quarter shall not exceed 12.5% of the issued capital of the Company. Where the Company receives written requests from shareholders to buy back a greater number of Shares than the 12.5% limit, requests will be satisfied on first in basis, with the excess carried over to the subsequent quarter in the priority with which such requests are received.
3. If the Company elects to implement a buy-back facility, the Applicant irrevocably agrees to vote in favour of any shareholder approvals required for the buy-back.