

# DV01 MECHELLE PTY LTD

ABN 95 061 343 959

## INFORMATION MEMORANDUM

For the offer of 3,448,300 Shares at an issue price of \$1.45 each to raise \$5,000,000.

### Manager



DV01 Funds Management Pty Ltd  
AFSL 308697  
Ground Floor  
89 St Georges Terrace  
Telephone + 61 8 9483 5200  
Facsimile + 61 8 9483 5222

General Warning – Available to Sophisticated and Professional Investors Only:

Nothing in this Information Memorandum should be considered as financial product advice, whether personal or general, for the purposes of Section 766B of the Corporations Act. This Information Memorandum is for informational purposes only and does not involve or imply a recommendation or a statement of opinion in respect of whether to buy, sell or hold a financial product.

## **IMPORTANT NOTICE**

### **Issue of Information Memorandum**

This Information Memorandum is issued by DV01 Mechelle Pty Ltd (**Mechelle** or the **Company**). The Information Memorandum is being delivered to a restricted number of parties (**Recipients** or **Recipient**). By retaining this Information Memorandum, the Recipient acknowledges and represents to Mechelle that it has read, understood and accepted the terms of this Important Notices section. If the Recipient does not accept these terms, it must immediately return this Information Memorandum to Mechelle.

### **Purpose**

This Information Memorandum has been prepared solely for the purpose of assisting Recipients in deciding whether to investigate further a possible acquisition of Shares in Mechelle and may only be used for that purpose.

This Information Memorandum is not intended to provide the sole or principal basis of any investment or credit decision or any other risk evaluation and may not be considered as a recommendation by Mechelle or any other person in connection with an investment in Mechelle. Any Recipient should determine its interest in acquiring securities in Mechelle on the basis of independent investigations that it considers necessary or desirable.

This Information Memorandum has not been, and will not be, lodged with Australian Securities and Investment Commission. Any invitation to purchase or subscribe for the securities will be an offer that does not need disclosure for the purposes of Section 708 of the Corporations Act 2001. By retaining this Information Memorandum, the Recipients represents to Mechelle that it is a sophisticated investor under Section 708(8)(a) of the Corporations Act 2001 or a professional investor under Section 708(11) of the Corporations Act 2001 or both. If that is not the case and in the alternative, Mechelle may issue Shares to the Recipient in reliance on certain other categories in Section 708.

Offers under this Information Memorandum are made by DV01 Funds Management Pty Ltd ACN 114 422 758 AFSL 308697 (**Manager**) for and on behalf of Mechelle pursuant to Section 911A(2)(b) of the Corporations Act. The Manager will arrange for the issue of the Shares by Mechelle under this Information Memorandum and Mechelle will only issue Shares in accordance with such offers if they are accepted.

### **Confidentiality**

By accepting this Information Memorandum, the Recipient acknowledges and agrees that:

- this Information Memorandum and all of the information contained in it is confidential and it will keep strictly confidential the Information Memorandum and all of such information, and all other information made available to the Recipient in connection with it;
- neither the Information Memorandum nor any such information will be used, in whole or in part, by the Recipient or any of its officers, employees, servants or agents for any purpose other than deciding whether to investigate further a possible acquisition of Shares in Mechelle;
- it will not be reproduced, either in whole or part or in any part or parts, without prior written consent of Mechelle;
- upon request it will return promptly this Information Memorandum, together with any other material received in connection with it, to Mechelle without retaining any copies; and
- upon request it will enter into a separate confidentiality undertaking substantially on these terms with Mechelle.

## **Exclusion of Liability**

Mechelle does not accept any liability for any loss or damage suffered or incurred by the Recipient or any other person or entity however caused (including negligence) relating in any way to this Information Memorandum including, without limitation, the information contained in it, any errors or omissions however caused by the Recipient or any other person or entity placing any reliance on this Information Memorandum, its accuracy or reliability.

## **Disclaimer by Mechelle**

This Information Memorandum is presented for informational purposes only. It is not intended to be, and is not, a prospectus, offering memorandum or private placement memorandum. The information in this Information Memorandum may not be complete and may be changed, modified or amended at any time by the Company, and is not intended to, and does not, constitute representations and warranties of the Company.

The Company does not have a significant operating history on which to base an evaluation of its business and prospects. Therefore, the information contained herein is inherently speculative.

All enquiries regarding this document should in the first instance be directed to:

<b>Gregory Madden, Managing Director,</b>	
<b>DV01 Funds Management Pty Ltd</b>	
E-mail:	<a href="mailto:Greg.madden@dvo1.com">Greg.madden@dvo1.com</a>
Mobile:	+61 439789061

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## 1. CORPORATE DIRECTORY

<b>Directors *</b> Gregory Robert Madden Craig Evan Hughes <b>* Mr Madden and Mr Hughes are also Directors of the Manager</b>	<b>Manager</b> DV01 Funds Management Pty Ltd AFSL 308697 Ground Floor, 89 St Georges Terrace Perth WA 6000 Telephone: (08) 9483 5200 Facsimile: (08) 9483 5222
<b>Company Secretary</b> Mr Dean Calder	<b>Solicitors to the Company</b> Steinepreis Paganin Lawyers and Consultants Level 4, Next Building 16 Milligan Street PERTH WA 6000  DLA Phillips Fox 201 Elizabeth Street SYDNEY NSW 2000
<b>Registered Office</b> Level 2, 10 Outram Street West Perth WA 6005 Australia Telephone: (08) 9321 7277	<b>Auditors</b> KPMG Central Park 152-158 St Georges Terrace Perth WA 6001

## 2. DV01 MECHELLE PTY LTD AT A GLANCE

### Investment Objective

DV01 Funds Management Pty Ltd (DV01 FM) has a broad mandate in managing Mechelle's portfolio and can alter the strategies currently employed in order to meet the return objective which is an annual return of 15% pa measured over a rolling 3 year period regardless of traditional investment benchmarks.

### Investment Strategy

DV01 FM invests in a combination of value and growth (often resource) stocks and then manages the market risk and tax on those investments by hedging some of the market and commodity exposures in the portfolio. DV01 FM focuses on 3 strategies:

- Discretionary Futures overlay
- Capital Markets Commodity Price Arbitrage
- Special Opportunities such as rights issues, private placements, private equity and convertible notes

### Corporate Objective

It is the intention of the Directors of Mechelle to investigate a potential ASX listing after June 2008. Investors in Mechelle will benefit from a proposed demerger of its 40% owned subsidiary DV01 FM (at an approximate percentage of 1% of DV01 FM for every 186,207 shares owned in Mechelle). The demerger (subject to Shareholder approval and a taxation opinion) proposed for the last quarter of the June 2008 fiscal year will see Shareholders at that time own a direct private equity investment in DV01 FM and benefit from future funds and businesses created. It is the intention for DV01 FM to launch a Cayman based investment fund focused solely on multi-strategy resources in the next calendar year.

### About the Manager

Mr. Greg Madden has 18 years of international investment banking experience and has worked for extended periods in the world financial centres of London and New York where held senior positions in investment banking, derivatives and commodities with Credit Suisse. Mr. Madden has a Bachelor of Economics (UWA) a Grad Dip. in Finance and Investment (FINSIA) and Master of Applied Finance (Macquarie). Mr. Madden and his family have over \$4 million invested in Mechelle on the same terms as other shareholders.

### Investment Details:

Type of Fund:  
Alternative Investment Company

Target Pre-IPO Asset Value

A\$10 million

Dividend Objective: 2.5% p.a.

Initial Investment Requirements:

A\$ 100,000

Front End Fee:

5.00% fee payable to introducing AFSL holder

Management Fees

- 1) 1% p.a.
- 2) 20% performance fee above a quarterly pre-tax high water mark per share.

Valuations: Monthly

Minimum Investment Term:

- 1) Dec 2008 Lock-up, and subsequently
- 2) 12.5% Gate per quarter as per Redemption Facility

Proposed Prime Broker:  
UBS

Administrator:  
Kingsway Taitz

Auditor:  
KPMG

### **3. INVESTMENT OVERVIEW**

#### **3.1 Important Notice**

This section is not intended to provide full information for investors intending to apply for Shares offered pursuant to this Information Memorandum. This Information Memorandum should be read and considered in its entirety.

#### **3.2 Purpose of the Offer**

The amount raised under the Offer will be invested in a portfolio (comprising shares, futures, commodities and options) managed to seek a return objective of 15% pa measured over a rolling 3 year period regardless of traditional investment benchmarks. All Shareholders will benefit from the Offer as direct fixed costs such as audit, administration and insurance can be applied against a wider Shareholder base.

The Company will also use \$100,000 of the proceeds to invest in its 40% owned subsidiary, DV01 Funds Management (the Manager). The directors of the Manager (or their designated nominees), also intend to invest approximately \$150,000 in DV01 FM to maintain a 60% interest in the Manager.

Shareholders in the Company will be beneficiaries of future funds and businesses created by the Manager. It is the intention for DV01 FM to launch a Cayman based fund focused solely on multi-strategy resources in the next calendar year. Refer to Section 4.3 for further details.

#### **3.3 Details of the Offer**

By this Information Memorandum, the Company offers for subscription up to 3,448,300 Shares at \$1.45 each to raise up to \$5,000,000. The minimum investment is for 68,966 shares or approximately \$100,000. Oversubscriptions of up to a further 344,830 Shares at an issue price of \$1.45 each to raise a further \$500,000 may be accepted.

The issue price of \$1.45 represents a 5% premium to the After - Tax NTA per Share of the Company as calculated by the Manager (in its absolute discretion) at the close of ASX trading on the last Business Day in November 2007.

The Shares offered under this Information Memorandum will rank equally with the existing Shares on issue.

#### **3.4 Indicative Timetable**

Opening Date	1 December 2007
Closing Date	31 December 2007
Dispatch of Share Certificates	7 January 2008

### 3.5 Fees

The Manager will receive a commission of 5% of the amount subscribed and will pay the same commission to any applications bearing the stamp of a Australian Financial Services License holder who introduces Shareholders.

The Manager will also receive ongoing management and performance fees detailed in Section 8.1 of this Information Memorandum.

### 3.6 Purpose of the Offer and Use of Proceeds

It is intended to apply funds raised from the Offer as follows

	<b>Full Subscription</b>	<b>Minimum Subscription</b>
New Investments*	4,650,000	3,199,500
Legal Fees	4,000	4,000
Company Secretarial	3,000	3,000
Printing	1,000	1,000
Manager Capital Raising Fees (inclusive of GST)	275,000	192,500
Investment in 40% owned subsidiary DV01 FM	100,000	100,000
<b>Total</b>	<b>5,000,000</b>	<b>3,500,000</b>

### 3.7 Capital Structure

The capital structure of the Company following completion of the Offer is summarised below:

<b>Shares</b>	<b>Number</b>
Shares on issue at date of Information Memorandum	4,000,000
Shares now offered*	3,448,300
Total Shares on issue at completion of the Offer	7,448,300
<b>No Options outstanding or on issue</b>	

\* The Company may accept oversubscriptions of up to a further 344,830 Shares which may be applied to new investments.



### **3.8 Extension of Offer Period**

The Manager reserves the right to extend the period of the Offer until 28 February 2008. In such a case, the issue price of shares applied for in the extended offer period will be determined by the Manager with reference to the After - Tax NTA per share of all shareholders at that time.

### **3.9 Dividends**

Qualifying applicants for shares prior to 30 December 2007 will be eligible for a 1.45 cent dividend (\$1.45 issue price x 1%) per share to be payable by the Directors of the Company on 17 January 2008.

### **3.10 Minimum Subscription**

In the event that the Minimum Subscription is not met by the end of the offer period applicants will have the option of requesting their Application money be refunded instead of shares being issued.

## 4. COMPANY STRUCTURE & OVERVIEW

### 4.1 Background

The Company is a private investment company focused on alternative investment techniques.

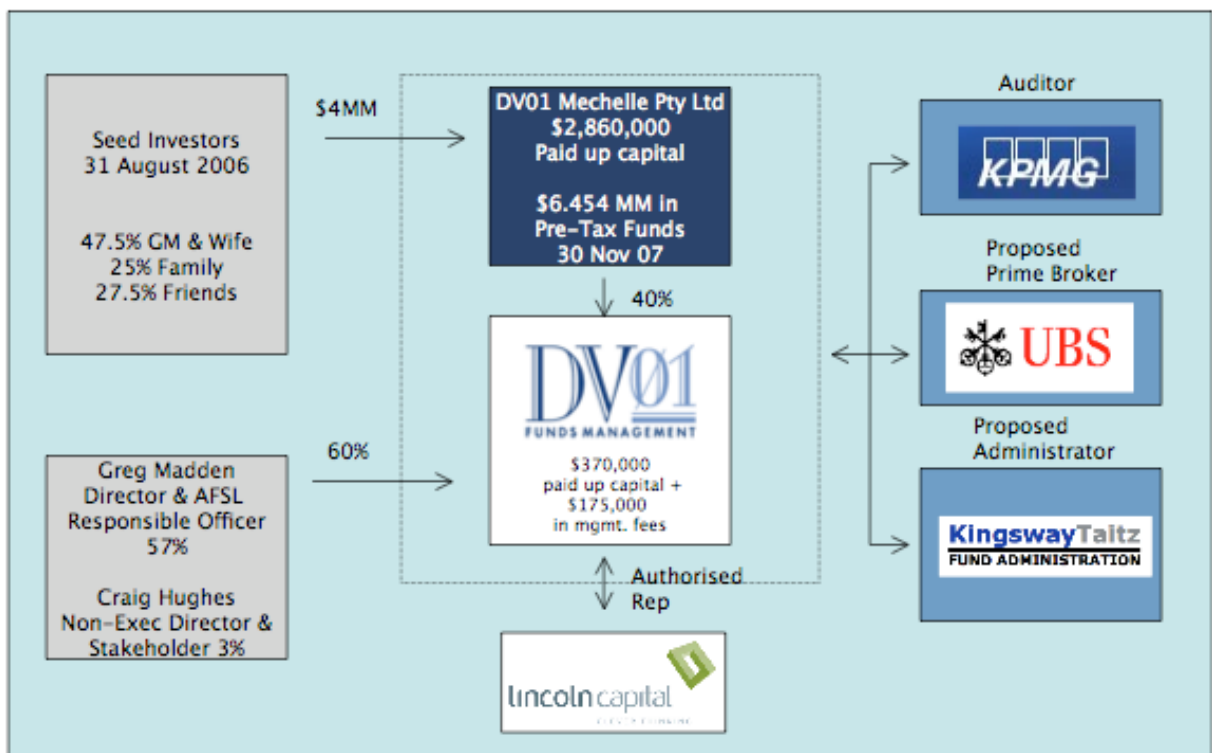
Until late 2006, the entire issued capital of the Company was held by Mr. Madden and his wife. In December 2006 the Company issued Shares, to a small group of predominantly family and friends, to raise \$4 million pursuant to an information memorandum dated 31 August 2006.

In December 2006, Mr. Madden and a 40% subsidiary of the Company (DV01 Funds Management Pty Ltd and the Manager) lodged an application for an Australian Financial Services License with the ASIC. The AFS License (AFSL No. 308697) was granted in April 2007.

At a General Meeting on 4 May 2007 Shareholders resolved:

- 1) to change the name of the Company from Mechelle Securities Pty Ltd to DV01 Mechelle Pty Ltd, reflecting the role of DV01 Funds Management Pty Ltd as the Manager of Company's portfolio;
- 2) to change the Company's Constitution to reflect its role as an investment company; and
- 3) to approve an equal access Redemption Facility inclusive of a Gate equal to 12.50% of the issued capital of the Company at the end of each quarter.

### 4.2 Graphic of Company Structure



#### **4.3 About DV01 Funds Management Pty Ltd (the “Manager”)**

DV01 Funds Management Pty Ltd is the Manager of the Company’s portfolio. Mechelle owns 40% of the paid up capital in DV01 FM and the remainder is owned by the directors (57% by Mr Greg Madden and 3% by Mr Craig Hughes).

Investors in Mechelle will benefit from the proposed demerger of its 40% owned subsidiary DV01 FM. (At an approximate percentage of 1% of DV01 FM for every 186,207 shares owned in Mechelle). The demerger (subject to Shareholder approval and tax opinion) is proposed for the last quarter of the June 2008 fiscal year and will see Shareholders at that time own a direct private equity investment in DV01 FM and benefit from future funds and businesses created.

It is the intention of DV01 FM to raise \$250,000 by issuing shares at \$1.00 per share to existing shareholders (or their nominees). This \$250,000 will provide capital to establish other investment entities and to hire an analyst focused solely on resources.

It is the intention of DV01 FM to establish a Cayman Islands investment entity focused on resources investment in 2008. It is important to clarify that the Cayman entity will not be marketed to Australian domiciled entities. The Manager has met with 15 overseas wholesale managers that invest directly in such funds and interest in the “offshore” based strategy appears strong. It is expected that total costs of establishing the Cayman entity will be approximately \$120,000. It is also likely that marketing will require 3 to 4 visits overseas to major wholesale fund managers in the first 12 months. The \$120,000 establishment costs will be lent to the Cayman based entity and repaid with interest.

#### **4.4 About Lincoln Capital Pty Ltd (the “Authorised Representative”)**

DV01 FM has appointed Lincoln Capital Pty Ltd (**Lincoln Capital**) and its sole director Mr Stephen Robinson as an Authorised Representative under its AFS License. Under the terms of an Authorised Representative Agreement, DV01 FM receives a share of all revenue earned by Lincoln Capital. In addition, it is the intention of DV01 to use Lincoln Capital and Mr Robinson’s considerable corporate experience, to provide research and market insight into potential investment strategies that require a high degree of technical insight.

Pursuant to the Authorised Representative Agreement, Lincoln Capital provides corporate and financial advisory services predominantly to the mining industry. DV01 FM, Mechelle and Lincoln Capital are all co-insured under policies covering directors, officers and professional indemnity insurance. Lincoln Capital co-tenants the offices of DV01 FM.

As part of the policies of an Australian Financial Services Licensee, DV01 Funds Management tries to avoid conflicts of interest. However, it is possible that such conflicts can occur particularly where Lincoln Capital advises investee companies of a DV01 FM investment vehicle. In this case DV01 has policies in place prohibiting trading whilst it acts a confidant of such companies. In other circumstances DV01 can have opportunities to invest, where Lincoln has been asked to raise money for companies it advises. In this situation DV01 Funds Management will pro-rata rebate (as a percentage of DV01’s investment relative to total funds raised) any fees it receives from Lincoln’s funds raising activities back to the relevant DV01 investment vehicle.

## 5. PAST PERFORMANCE, STRATEGY AND OPERATIONS

### 5.1 Performance\*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Since Aug
2007	1.4	(1.1)	5.0	3.7	4.5	2.2	3.7	(9.6)	10.0	19.8	(7.9)		69.1%
2006									(3.0)	8.0	7.0	13.8	

\*Gross Returns (before management fees, performance fees and tax) calculated after audit, accounting and administration. Past performance is not an indication of a Company's performance in the future.

### 5.2 Strategy

The Company will invest in a combination of long term growth and value equity investments with an objective to outperform the market. DV01 FM will generally look for companies that have expected growth in earnings at reasonable value. These investments will make up a long term (expected to be held for greater than 12 months) and low turnover (less than 35% of portfolio per annum) equity investment portfolio (the **Portfolio**).

Due to the Company's base being located in Perth, Western Australia, it has a bias towards resource growth stocks, many of which are operated out of Perth. Mechelle has on a number of occasions been an early investor (pre-feasibility and often pre-IPO) through opportunities such as rights issues, private placements, private equity and convertible notes in companies such as Mincor, Redbank Mines, Sally Malay, Westonia Atlas Iron and Magma.

DV01 FM will classify derivatives transactions into "right way" derivatives (derivatives that are negatively correlated to either the Portfolio, or individual investments in the Portfolio) and "wrong way" derivatives (derivatives that are positively correlated to the Portfolio). DV01 FM will then employ 1 of 2 investment strategies using "right way" derivatives:

(a) Discretionary Futures Overlay: DV01 FM believes that the overall market or price of a single stock in the Portfolio is overvalued. DV01 FM will prefer to sell futures or options on that investment rather than sell the equity investment itself. The advantage of this strategy is threefold: (i) DV01 FM does not realise significant capital gains on the investment; (ii) brokerage and transaction costs associated with futures or options are less than the cash market; and (iii) the strategy preserves the value of the overall Portfolio in a retreating market whilst continuing to earn dividends from companies within the Portfolio.

(b) Capital Market Arbitrage: such opportunities occur where there is a significant pricing anomaly that cannot be easily explained by an efficient market. An example of capital market arbitrage opportunity would occur where BHP shares are trading on an 8 times Price / Earnings ratio versus the broader market trading 16 times Price / Earnings ratio. The price of BHP is trading systematically below the general market because investors are inefficiently pricing the risk of depreciation in the level of commodity prices that BHP produces. DV01 can arrange hedges against the risk of a depreciation in oil, copper and nickel and maintain an overweight equity investment in BHP.

### **5.3 Operations**

Prior to executing transactions, Mr Madden will verify that that the transaction fits within the pre-defined investment mandate as set out in Section 6.

DV01 FM will outsource settlements and clearing to its Prime Broker (proposed to be appointed) and accounting and reporting to its Administrator instead of employing its own personnel to do so.

The broker executing the trade will settle the trade with the Prime Broker who clears the transaction. The Prime Broker will independently confirm the transaction to an Administrator that will provide independent accounting and reporting services. The Prime Broker and the executing broker will send confirmations to DV01 FM's Compliance Officer. DV01 FM's Compliance Officer will confirm the transaction matches in house records and independently monitor transaction within pre-defined limits.

### **5.4 About the Prime Broker**

The Manager is in advanced discussions with UBS AG. to act as its Prime Broker. It is intended that the prime broker of Mechelle will perform the following functions:

- (a) lending against the Portfolio within the confines of the Investment Mandate;
- (b) custodial and clearing; and
- (c) record keeping.

DV01 FM intends to engage the Prime Broker to clear foreign exchange, futures and derivatives transactions. Custodial and clearing fees per annum are estimated to be approximately \$30,000.

### **5.5 About the Administrator**

The Manager has finalised negotiations for an Administration Agreement with Kingsway Taitz as its Administrator. It is intended that the Administrator of Mechelle will perform the following functions (subject to finalising a Prime Broking Agreement with UBS AG. (or a similar party) :

- (a) calculating NAV per share;
- (b) record keeping including accounting;
- (c) calculating performance and management fees;
- (d) share registrar, including reporting receiving and processing subscription and redemption notifications; and
- (e) organising audits.

Administration Fees with Kingsway Taitz will be on standard commercial terms.

## 6. MANDATE

### Investment Objectives

The Portfolio will be managed with the objective of achieving a pre tax absolute return of at least 15% per annum over rolling three year period regardless of traditional equity benchmarks.

### Permitted Investments

The permitted investment transactions are:

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

### Risk Control

Performance of the Portfolio will be generated from investment in suitable stocks. However, diversification of holdings will be used to limit the risk where the actual performance of individual stocks does not meet expectations. Risk control features of the Portfolio will include:

- (a) no one investment transaction will represent more than 20% of the total Portfolio value at the time of acquisition;
- (b) no investment will represent more than a 20% stake in the issued securities of a company;
- (c) total unlisted investment transactions cannot exceed 50% of the Portfolio value as measured by cost / Portfolio value;
- (d) it is anticipated that the Portfolio will 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;
- (e) where suitable investments can not be identified, the Portfolio may be invested in cash. Whilst unlikely over the medium term, the Portfolio may consist from time to time of significant cash deposits;
- (f) there are no limitations on short positions; and

- (g) gearing may be employed in the Portfolio, but total exposure will not exceed 75% as measured by debt/(debt + Portfolio value).

Any breach of these risk control measures will be reported to the Company by the Manager and the Company will determine the appropriate action to remedy the breach.

## 7. DIRECTORS

### **GREGORY MADDEN BEc MAppFin FFin – DIRECTOR**

Mr Greg Madden has 18 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 2005, Mr Madden worked in London for the international investment bank Credit Suisse First Boston (CSFB) where he was Country 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 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 and Credit Suisse Financial Products

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 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.



**CRAIG HUGHES MappFin – DIRECTOR**

Mr Craig Hughes currently manages the foreign exchange and jet fuel exposures for an ASX 200 listed company and has been extensively involved in cash flow forecasting, debt and liquidity management. Prior to this he worked for Oakvale Capital, a financial risk management consulting and treasury outsourcing firm, and as a foreign exchange dealer of National Australia Bank. Mr Hughes holds a Masters Degree in Applied Finance from Macquarie University.

**DEAN CALDER B.BUS ACA – COMPANY SECRETARY**

Mr Dean Calder holds a Bachelor of Business with a double major in Accounting and Business Law. He qualified as a Chartered Accountant with an international Chartered Accounting firm. He has had many years of experience in attending to the taxation, accounting and company secretarial requirements of mineral exploration companies, and is currently a Principal of the firm Calder Roth & Co, Chartered Accountants and is the Company Secretary of ASX listed mineral companies Oropa Limited and Falcon Minerals Ltd.

## 8. INVESTOR RETURNS

Returns to an investor in the Company would be two fold, firstly from the Company and secondly from the Manager.

### 8.1 Company Returns

The investor would have 98% of their investment in an actively managed investment portfolio comprising equities, commodities and futures. The Company would target gross returns (i.e. pre 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 and include franking credits but after company administration charges, auditing and company secretarial fees and insurance. These charges will be substantially diluted after additional equity has been raised.

The Manager will charge two quarterly fees:

1. A flat 1% p.a. fee on total pre tax funds in the company (0.25% per quarter).
2. A performance fee of 20% of the pre-tax total returns and subject to the exceeding of a previous high water mark per share.

The high water mark is calculated based on pre-tax cash-flows inclusive of franking credits and by subtracting any dividends and franking credits (i.e. gross dividends) paid by the Company.

As an example, if the Company makes gross returns of 15% p.a. the net returns to a Shareholder in the Company would be  $(15\% - 1\%) \times (1 - 20\%)$  or approximately 11.2% pre tax, and post auditing and administration.

### 8.2 Manager Returns

The other way an 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 A\$100 million under management within a 2 to 3 year period. The Manager intends to create further funds focused on alternative investment in the future.

## **9. RISK FACTORS**

### **9.1 Introduction**

An investment in the Company is not risk free and prospective new investors should consider the risk factors described below, together with information contained elsewhere in this Information Memorandum, before deciding whether to apply for Shares.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

### **9.2 Economic Risks**

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's investment activities and the ability to raise further assets under management.

Further, share market conditions may affect the value of the Company's investment portfolio. Share market conditions are affected by many factors such as:

- (a) general economic outlook;
- (b) interest rates and inflation rates;
- (c) currency fluctuations;
- (d) changes in investor sentiment toward particular market sectors;
- (e) the demand for, and supply of, capital; and
- (f) terrorism or other hostilities.

### **9.3 Lock-Up**

An investment in the Company is subject to a condition restricting the sale of any shares until 27 December 2008

### **9.4 12.50% Gate**

The Company may buy back shares from Shareholders under a redemption facility after December 2008, however total redemptions in any given calendar quarter cannot exceed 12.5% of the issued capital of the Company. Any redemptions by the Company are subject to necessary Shareholder approvals.

### **9.5 Leverage**

It is proposed that Mechelle will have the capacity to borrow against its investments which would increase volatility. A company that gears its investments may in extreme circumstances potentially lose all of its capital.

### **9.6 Currency Risk**

If Mechelle invests in offshore shares the currency of record for such investments will often be in United States Dollars or some other currency. It is proposed that the Company will hedge such currency risks back into Australian dollars and at all time attempt to maximize returns in Australian Dollars.

## **9.7 Key Man Risk**

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

In circumstances when Mr Madden is not available to manage the business for periods of greater than 5 days, the Company will implement specified backup procedures. Mr Craig Hughes, a Director of the Company, who has the requisite experience and knowledge of the relevant Australian Financial Services License compliance obligations, will be able to assist in managing the investments of Mechelle and if Mr Madden is severely incapacitated, Mr Hughes will have the authority and experience to engage another AFSL holder to manage the Portfolio.

## **9.8 Market Risk**

Market risk is the risk that exchange rates, share prices, or futures prices move in an adverse manner resulting in a loss or potential unrealised loss.

DV01 FM intends to manage market risk by ensuring that any exposure will be established within predefined trading limits and marked to market with a full revaluation on a daily basis. Overall market risk limits will be determined by reference to Value at Risk (VAR) based calculations taking into account either historical or implied volatility, using either Historical estimation, Variance - CoVariance methods of estimation or a Monte Carlo simulation on the portfolio.

## **9.9 Credit Risk**

Credit risk is the risk that a counterparty defaults on a foreign exchange or derivative contract. Credit risk for spot transactions is often negligible due to real time payment settlement methods.

As a general rule, DV01 FM will transact forwards and derivatives with counterparties that have long term Standard & Poors (or Moody's equivalent) rating of A+ or better. In the case where a counterparty is unrated, the decision to transact will be subject to a formal credit analysis and approval taking into account the creditworthiness of the counterparty, the type of transaction, the overall exposure to the counterparty and any mitigating circumstances such as Collateral Service Agreements and rights of offset.

## **9.10 Operational Risk**

DV01 FM intends to establish a Prime Broker relationship for clearing and custody of all of its investment transactions. The Prime Broker counterparties will clear transactions on behalf of associated DV01 FM investment vehicles. This will minimize the risk of operational faults from manual transaction processing and other clerical errors.

## 10. MATERIAL DOCUMENTS

Complete copies of the following documents are available for potential investors to review during normal business hours at the offices of the Manager.

### 10.1 The Management Agreement

Mechelle has entered into a Management Agreement with the Manager to manage the Portfolio on the following material terms and conditions:

#### Term

The Management Agreement is for a period of 25 years. On each anniversary of the commencement date the (25 June 2007), the term automatically extends for 1 year unless either the Company or the Manager provides written notice prior to the contrary.

#### Powers of Manager

Subject to the further terms set out in the Management Agreement, the Manager may manage the Portfolio in its absolute discretion and do all things considered necessary or desirable in relation to the management of the Portfolio, including, without limitation:

- (a) investigation of, negotiation for, acquisition of, or disposal of any investment or proposed investment;
- (b) to buy, sell, realise or deal with all or any investments or to vary, convert, exchange or add other investments in lieu of those investments;
- (c) if any investment is redeemed or the capital paid on it is wholly or partly repaid by the entity by which that investment was created or issued, to convert that investment into some other investment or accept repayment of the capital paid or advanced on the investment and any other monies payable in connection with that redemption or repayment and to invest any of those monies;
- (d) retain or sell any securities or other property received on behalf of the Company by way of bonus, or in lieu of, or in satisfaction of, a dividend in respect of any investments or from the amalgamation or reconstruction of any company;
- (e) to sell all or some of the rights to subscribe for new securities in an investment, to use all or part of the proceeds of sale of such rights for the subscription for securities or to subscribe for securities pursuant to those rights; and
- (f) to make or redeem any mortgage, loan or other security.

#### Permitted Investments as defined by the Mandate

Permitted Investments are detailed in Section 6 of this Information Memorandum.

#### Termination

The Company may terminate the Management Agreement at any time if:

- (a) the Manager or any of its directors or servants are found guilty of grave misconduct in relation to the affairs of the Company;
- (b) the Manager's Australian financial services (AFS) License is suspended or cancelled at any time for any reason;

- (c) the Manager commits a fundamental default or breach of its obligations under the Management Agreement or is in breach of any conditions of its AFS License and such default or breach is not remedied within thirty (30) days after the Company has notified the Manager in writing to remedy that default or breach;
- (d) the Manager enters into liquidation (except voluntary liquidation for the purpose of reconstruction);
- (e) a receiver or receiver and manager is appointed to the whole or part of the undertaking of the Manager;
- (f) the Manager is guilty of any gross default, breach, non-observance or non-performance of any of the terms and conditions contained in the Management Agreement; or
- (g) the Manager is not lawfully able to continue to provide services to the Company pursuant to the terms of the Management Agreement.

The Manager may terminate the Management Agreement at any time if:

- (a) the Company fails to make payment of any fees due under the Management Agreement and the failure continues for twenty one (21) days from the delivery of a written notice by the Manager to the Company requesting payment;
- (b) the Company enters into liquidation (except voluntary liquidation for the purpose of reconstruction);
- (c) the Company is guilty of any gross default, breach, non-observance or non-performance of any of the terms and conditions contained in the Management Agreement;
- (d) a receiver or receiver and manager is appointed to the whole or part of the undertakings of the Company; or
- (e) the Manager has given three (3) months written notice to the Company of its intention to terminate, such notice not being given within three (3) years of the commencement date of the Management Agreement.

#### **Termination by Notice and Termination Fee**

The Company may terminate the Management Agreement by giving three (3) months written notice to the Manager if at any time during the term the shareholders of the Company pass a special resolution approving the termination of the Management Agreement at a general meeting. If the Company terminates the Management Agreement, the Company must pay the Manager a Termination Fee equal to the aggregate Performance Fees and Management Fees for the three years immediately prior to Termination.

#### **Company Indemnity**

The Company must indemnify the Manager against any losses or liabilities reasonably incurred by the Manager arising out of, or in connection with, and any costs, charges and expenses incurred in connection with the Manager or any of its officers, employees or agents acting under the Management Agreement or on account of any bona fide investment decision made by the Manager or its officers or agents except insofar as any loss, liability, cost, charge or expense is caused by the negligence, default, fraud or dishonesty of the Manager or its officers or employees.

## **Manager Indemnity**

The Manager must indemnify the Company against any losses or liabilities reasonably incurred by the Company arising out of, or in connection with, and any costs, charges and expenses incurred in connection with, any negligence, default, fraud or dishonesty of the Manager or its officers or supervised agents.

## **10.2 Redemption Facility**

The material terms and conditions of the Redemption Facility approved by Shareholders at a general meeting in May 2007 are as follows:

(a) (**Eligible Shareholders**): all Shareholders are eligible to participate in the Redemption Facility, subject to the right of the Directors to determine that a Shareholder may not participate in the Redemption Facility where the law of Australia, or some other country, makes that Shareholder's participation illegal, impossible or impractical;

(b) (**Request for buy back**): a Shareholder may request the Company to buy back some or all of the Shares registered in his or her name by lodging an election form with the Company;

(c) (**Buy back period**): each buy back period is a period of three months commencing on the first date of each calendar quarter;

(d) (**Price of Share buy-back**): the Company will buy back Shares under the Redemption Facility at a price equal to the After-Tax NTA per share.

(e) (**Minimum buy back**): the Company may disregard a request for a buy back for less than 1,000 Shares;

(f) (**Maximum buy back**): the maximum number of Shares which may be bought back by the Company in each buy back period is capped at an amount equal to 12.5% of the issued capital of the Company at the end of the relevant buy back period. Where requests for buy backs exceed this limit, the Company will scale back Shareholders' requests on a pro rata basis;

(f) (**Costs to participants**): no brokerage, commission, stamp duty or other transaction costs will be payable by Shareholders in respect of any buy back of Shares; and

(g) (**Modification and termination**): the Redemption Facility may be modified, suspended or terminated by the Directors at any time by an instrument in writing, and the Directors may settle any disputes in relation to the Redemption Facility in any manner they deem fit.

Any redemption by the Company is subject to necessary Shareholder approvals in accordance with the Corporations Act.

### **10.3 Constitution**

DV01 FM is prescribed in the Company's Constitution as the Manager of the Company. A special resolution requiring 75% Shareholder approval is required to alter the investment manager.

### **10.4 The Company's 2007 Annual Report**

The Company's 2006 financial audit by KPMG has been completed and the Company is in the process of completing its 2007 Annual Report. The Company's accounts are available to potential investors in draft form and will be sent to Shareholders following finalisation of the audit which is expected to be finished by 15th of December.

### **10.5 The Manager's 2007 Annual Report**

The Manager is obliged to lodge audited accounts with the ASIC by the end of October each year. In addition, the Manager is required to maintain minimum liquidity standards, to meet the next 3 months of operating activities. These forecasts are reviewed on a regular basis and are available to potential investors subject to signing a confidentiality agreement



## 11. ADDITIONAL INFORMATION

### 11.1 Rights Attaching to Shares

#### Ordinary Shares

The rights, privileges and restrictions attaching to Shares can be summarised as follows:

#### (a) General Meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Constitution of the Company.

#### (b) Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at general meetings of shareholders or classes of shareholders:

- (i) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and
- (iii) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid shares shall have such number of votes as bears the same proportion to the total of such shares registered in the shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

#### (c) Dividend Rights

Subject to the rights of persons (if any) entitled to shares with special rights to dividend the Directors may declare a final dividend out of profits in accordance with the Corporations Act and may authorise the payment or crediting by the Company to the shareholders of such a dividend. The Directors may authorise the payment or crediting by the Company to the shareholders of such interim dividends as appear to the Directors to be justified by the profits of the Company. Subject to the rights of persons (if any) entitled to shares with special rights as to dividend all dividends are to be declared and paid according to the amounts paid or credited as paid on the shares in respect of which the dividend is paid. Interest may not be paid by the Company in respect of any dividend, whether final or interim.

#### (d) Winding-Up

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such

trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities in respect of which there is any liability. Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to members, shares classified by ASX as restricted securities at the time of the commencement of the winding up shall rank in priority after all other shares.

(e) **Transfer of Shares**

An investment in the Company is subject to a condition restricting the sale of any Shares until 27 December 2008 (the "Lock-up"). Generally, shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the Listing Rules.

(f) **Variation of Rights**

Pursuant to Section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of shareholders vary or abrogate the rights attaching to shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

## 11.2 Disclosure of Interests

Directors are not required under the Company's Constitution to hold any Shares. As at the date of this Information Memorandum, the Directors have relevant interests in Shares either directly or via Related Parties as set out in the table below:

Director	Shares
Gregory Robert Madden	3,450,000
Craig Evan Hughes	50,000

## 11.3 Taxation

The acquisition and disposal of Shares in the Company will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Shares under this Information Memorandum.

## 12. GLOSSARY

Where the following terms are used in this Information Memorandum they have the following meanings:

**A\$ or \$** means an Australian dollar.

**AFS License** means Australian Financial Services License 308697.

**After – Tax NTA per Share** means the net tangible assets of the Company, less any Provision for Tax, divided by the number of Shares on issue, as calculated on the last Business Day of the relevant period by the Manager

**Application Form** means the application form accompanying this Information Memorandum relating to the Offer.

**ASIC** means Australian Shares & Investments Commission.

**ASX** means ASX Limited (ABN 98 008 624 691).

**Board** means the board of Directors as constituted from time to time.

**Business Day** means a week day when trading banks are ordinarily open for business in Perth, Western Australia.

**Company or Mechelle** means DV01 Mechelle Pty Ltd (ABN 95 061 343 959).

**Closing Date** means the closing date of the Offer as set out in Section 3.3.

**Constitution** means the constitution of the Company.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Directors** means the directors of the Company at the date of this Information Memorandum.

**Information Memorandum** means this Information Memorandum.

**Offer** means the offer to sophisticated and professional investors to apply for Shares pursuant to this Information Memorandum.

**Manager or DV01 FM** means DV01 Finds Management Pty Ltd, AFSL 308697.

**Related Parties** means any related party with in the meaning of section 228 of the Corporation Act.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a holder of Shares.

**WST** means Western Standard Time, Perth, Western Australia.

DV01 Mechelle Pty Ltd  
**APPLICATION FOR SHARES**  
**ABN 95 061 343 959**

Broker/AFSL Holder stamp
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The Directors  
 DV01 Mechelle Pty Ltd

The party set out below hereby applies for the number of fully paid ordinary shares in the capital of DV01 Mechelle Pty Ltd (**Company**) at a price of \$1.45 per share set out in the table below. I/We have instructed \_\_\_\_\_(**my/our bank**) to telegraphically transfer application monies of \$\_\_\_\_\_ for the credit of the Company's account with Westpac Banking Corp, 109 St.Georges Terrace, Perth. BSB 036-000 A/c 520385 value\_\_\_\_\_ (**date**)

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**

**Registration details:**

<b>Applicant Full Name</b>	
<b>Applicant ACN or ABN if company</b>	
<b>Applicant Street Address</b>	
<b>Applicant Suburb, State &amp; Postcode</b>	
<b>Number of Shares</b>	
<b>Application Amount \$</b>	
<b>Tax File Number (TFN)</b>	

**Direct Credit of Dividends Account details**

The Applicant agrees to have the have dividends paid direct to the following Account. (Account Name - Applicant only i.e. no third party payments)

<b>Institution &amp; Branch</b>	
<b>BSB</b>	-
<b>Account No</b>	
<b>Branch Street Address</b>	
<b>Branch Suburb State &amp; Postcode</b>	

## **Investor Identification Documents**

Copies of identification documentation must be provided for every Applicant

<p><b>* Individual Identification</b> (for joint Accounts, provide the same information for each joint holder)</p>	<p><input type="checkbox"/> an unexpired government issued form of picture identification (e.g. passport or driver license)</p> <p><input type="checkbox"/> Evidence of residential address issued within the preceding 3 month (e.g. utility bill)</p>
<p><b>For General Partnerships</b></p>	<p><input type="checkbox"/> Copy of signed Partnership Agreement</p> <p><input type="checkbox"/> A resolution Letter of Authority stating who is authorised to act on behalf of the partnership.</p> <p><input type="checkbox"/> * Individual identification documents (as per above)</p>
<p><b># Corporations Identification</b></p>	<p><input type="checkbox"/> Copy of Certificate of Incorporation</p> <p><input type="checkbox"/> * Individual identification documents of Directors (as per above)</p>
<p><b>For Superannuation Funds</b></p>	<p><input type="checkbox"/> A copy of an ASIC/ATO registration acknowledgment or Trust deed</p> <p><input type="checkbox"/> * Individual Identification documents of Trustees (as per above)</p> <p><input type="checkbox"/> # Corporate identification documents of Corporate Trustees (as per above)</p>
<p><b>For Trusts</b></p>	<p><input type="checkbox"/> A copy of the trust deed</p> <p><input type="checkbox"/> * Individual Identification documents of Trustees (as per above)</p> <p><input type="checkbox"/> # Corporate identification documents of Corporate Trustees (as per above)</p>

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 –ACKNOWLEDGEMENTS

- 1) The Applicant is not acquiring those Shares with the purpose of selling or transferring the Shares, or granting, issuing or transferring interests in, or options over, prior to the 27 December 2008 (the “Lock-Up”). Other than in accordance with the requirements of the Corporations Act. it is a term of the issue that the Company will not register any transfer of Shares which are sold or transferred by The Applicant prior to December 27 2008 and
- 2) The Applicant acknowledges that after the “Lock-up” the Company will, with the approval of shareholders implement an equal access buy-back facility, similar in terms, to the Redemption Facility approved at the 4 May 2007 General Meeting. The total amount of Shares to be bought back by the Company in any quarter shall not exceed 12.5% of the issued shares of the Company. (the “12.5% Gate”) When the company re-elects to implement an equal access buy-back facility, substantially on the same terms as the Redemption Facility, the Applicant irrevocably agrees to vote in favour of any shareholder approvals required, and
- 3) Where the amount payable for any shares to be issued by the Company pursuant to this application is less than \$500,000, either (the applicant must satisfy one of the requirements in (a),(b) (c) or (d) below):
  - (a) warrants to the Company that the applicant is a “Professional Investor” as that term is defined in the Corporations Act; OR
  - (b) attaches an original certificate in the form of Annexure “B” given by a qualified accountant no more than six months before the date of this application, certifying that the applicant:
    - 1) has net assets of at least \$2.5 million; or
    - 2) has a gross income for each of the last two financial years of at least \$250,000 per year; OR
  - (c) warrants that the offer of shares was received through a financial services licensee in accordance with Section 708(10) of the Corporations Act. (If this category applies, the Company will require certain matters to be certified by the financial services licensee before the application is accepted and any issue of shares is made); OR
  - (d) none of the above (a), (b), or (c) apply. If none of the above apply the Manager will need to determine if you fall under any of the other wholesale exemptions of the Corporations Act.

# CERTIFICATE

## PURSUANT TO SECTION 708(8)(C) OF THE CORPORATIONS ACT

I, \_\_\_\_\_

am a "qualified accountant" for the purposes of Section 708(8)(c) of the Corporations Act, being a member of the following professional body:

\_\_\_\_\_ ("**Body**")

and am subject to and in compliance with the Body's continuing professional development requirements.

I CERTIFY that the following investor has net assets of at least \$2.5 million **or** has a gross income for each of the last two (2) financial years\* specified below of at least A\$250,000 a year.

Name of investor: \_\_\_\_\_

The last two financial years for which this certificate applies are 30 June 2006 and 30 June 2007.

Signed: \_\_\_\_\_

Print Name: \_\_\_\_\_

Date: \_\_\_\_\_

as defined in the Income Tax Assessment Act 1997

NOTE: This Certificate is confidential and may only be provided to the individual, the company seeking to rely upon Section 708(8)(c), any employer of the individual and the Australian Securities & Investments Commission or their duly appointed agents.