DV01 Mechelle Limited

ACN 061 343 959

Valuation Policy Statement

Issue Date: May 17, 2011

The Board of DV01 Mechelle Ltd (**Company**) has designed the following statement to adopt responsible valuation and pricing of the Company's investments in order to accurately reflect the market value of such investments in reporting to existing shareholders, service providers and financial counterparties as well as potential new shareholders.

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

Whilst the Management Agreement aligns the Manager to provide positive investment performance for the Company's assets, it also means that the Manager is likely to receive the majority of its fee income in performance fees calculated on the basis of the **Pre-Tax Net Asset Value** (**Pre-Tax NAV**) of the Company. Much of this performance can include both realised and unrealised returns and the Manager has a wide mandate that can direct the Company to invest in **Hard-to-Value Assets** including derivatives and private, unlisted or illiquid investments. This policy is intended to provide a framework to reduce any conflict of interest in calculating the fair value of the Company's assets and is based on industry best practice as described in AIMA's Guide to Sound Practices for Hedge Fund Valuation (2007) with modifications to reflect the size of the Company.

This Valuation Policy Statement has been adopted by the Board of the Company (**Board**) and sets out the main valuation practices. The Statement has been posted on the Company's website: http://www.dvo1.com.

1.0 The Role and Responsibilities of the Board in Valuation of the Company.

The Board has ultimate responsibility for the valuation of the Company and is the ultimate governing body of the Company. A further discussion of the Board's corporate governance policies can be found on the Company's website.

The Board meets regularly and receives a detailed breakdown of the Company's NAV calculations as calculated on the last Business Day of the month by the Company's administrator TMF FundAdministration (Australia) Pty Limited (TMF). These reports are also internally reviewed and verified by the Company's Manager.

Given the Company's size, the Board has not found the need to establish a formal valuation committee to assist in the execution of its duties.

1.1 The Role and Responsibilities of the Manager in the Valuation of the Company.

The Manager's role in Valuation is governed by the Management Agreement and authorities provided to it by the Board.

The majority of the Company's investments are **Easy to Value Assets** that can be valued by reference to listed valuations provided by financial market information services providers. Where such listed valuations are unlikely to represent fair-value because of illiquidity, stale prices or no prices, the Manager may over-ride the prices, provided that the over-ride would not result in a more favourable valuation of the asset to the Company. Such overridden prices must be notified to the Board on a monthly basis.

The Manager must maintain the ability to monitor on a continuous and real-time basis the portfolio assets and the Pre-Tax NAV of the Company. The Manager subscribes to Bloomberg Professional terminal to provide real-time streaming financial market data.

In addition Bloomberg has a suite of off the shelf valuation models, which have been independently verified, are subject to peer review and have been benchmarked to industry standards. The models can be used to value **Hard to Value Assets** on a continuous and real-time basis. Wherever possible the Manager and Administrator must use these models to value Hard to Value Assets.

In the case where Bloomberg's off the shelf valuation models are not suitable for valuing the investments of the Company, the Manager must submit to the Board, for its approval, a formal valuation methodology for the particular Hard to Value Asset, taking into account a preference to conform to approved Australian Accounting Standards Board (**AASB**) practices, simplicity, market convention and potential likelihood that such modelling is likely to reflect the tradeable market value of the relevant assets. Members of the Board may seek outside advice, if necessary, on the suitability of the recommendation.

1.2 TMF has been appointed as the Administrator

The Company has appointed TMF as its **Administrator**, which in addition to acting as a Company Valuation Service Provider, also provides month end account reconciliations, maintains the Company's shareholder registry, sends monthly valuation reports to Directors, shareholders and service providers, records shareholders Subscriptions and Redemptions.

TMF is a fund administration company fully owned by the global TMF Group. The TMF Group is globally headquartered in Amsterdam and is a leading independent provider of accounting and corporate secretarial services. TMF has been reviewed by the Manager and has a robust control environment, **GS007/SAS70** and experience in valuing the Company's financial instruments. TMF is able to independently determine the value of the Company's net assets through its own subscriptions to market information vendors including Reuters and Bloomberg. TMF has systems and infrastructure to receive direct trade data and valuation statements from the Company's **Clearing Brokers**.

TMF independently calculates the month-end Pre-Tax Net Asset Value of the Company for the purpose of determining the Manager's performance and management fees.

TMF also provides an estimate of the after tax value of the Company to shareholders, directors and other stakeholders on a monthly basis. This estimate allows for the impact of taxation calculated at the current statutory corporate tax rate on both realised and unrealised gains (or losses) in the Company's assets.

This valuation statement to shareholders may differ to the financial reports provided by the Company due to several reasons including 1) the tax deductibility of certain expenditures such as but not limited to the deductibility of Accruals or 2) The taxation of certain income such as but not limited to capital distribution, trust distributions and franked dividends. The After Tax NAV calculated monthly based off of the estimated tax liability is reconciled semi-annually prior to the preparation of annual or semi-annual audited or reviewed accounts.

1.3 The Company's Accounting Standards

The Company's financial statements are prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (**AASB**), and the Corporations Act 2001. The financial statements also comply with International Financial Reporting and interpretations adopted by the International Accounting Standards Board (**IASB**)

The Company's currency of record is Australian Dollars and despite the Company's ability to invest in financial instruments denominated in currencies other than Australian Dollars, it is the objective of the Manager to maximise returns in Australian Dollars.

In addition the Company values specific assets as per the following policy

1.3.1 The Company's Equity & Debt Instruments – Available for Sale

Some of the Company's investments in listed equity and debt securities may be held as Available for Sale investments in the Company's Financial report, thus reflecting the longer term nature of the Company's investment portfolio. This means that changes in the valuation of the assets are taken direct to Equity within the Balance Sheet rather than to Profit and Loss. In cases where the assets are impaired, the cumulative fair value losses are transferred to profit and loss. Any subsequent reversal of an impairment loss is not reversed through profit or loss.

1.3.2 The Company's investment in the Manager

The Company values its holding in its associate, DV01 Funds Management Pty Ltd, using the equity method in the consolidated financial statement. When the Manager incurs a loss, the carrying amount of the Company's losses are reduced by the pro-rated share of the loss.

1.4 The Company's Valuation Standard differs from Accounting Standards and policies adopted in Audited Financial Reports

The Company values Easy to Value Assets at the last price traded on the last Business Day of the month of the primary exchange that the investment is principally traded on. Such prices form the basis for calculating the manager fees, shareholders month-end valuation statements and any prices determined under a Company approved Buy-Back facility. This methodology does differ from the Company's audited financials, which require available for sale assets to be valued at the last bid price of the primary exchange that the investment is principally traded on.

1.5 Reconciliation of Company accounts

Where the Company values its assets on a monthly basis according to a method other than that provided for in its Financial Reports, the Company will include a reconciliation in its accounts such as listing the differences of valuing the Company's available for sale assets at last sale price rather than last bid price.

1.6 Accrual of certain Expenses on a monthly basis

The Manager provides estimates to the Board for the annual cost of certain expenses that are likely to be payable over the financial year and accrues an estimated monthly cost to the Company and shareholders in a way that may not reflect the amount of or timing of actual costs.

Such Accruals are currently made for

- Audit Fees
- Accounting, Tax preparation and Company Secretarial fees
- Professional Indemnity & Directors & Officers Insurance
- Legal Fees
- Directors Fees
- Performance Fees (at Risk of falling below the Pre-Tax High Water mark)

These accruals have the effect of expensing on a monthly pro-rata basis the Directors' reasonable provisional expectations of such costs over the course of the year.

1.7 Materiality of the Company NAV Valuation

In practice the Company may make several estimates in calculating its Net Asset Value each month by estimating future tax liabilities and provisions for accrued expenses. The regular reporting to stakeholders and shareholders of Net Asset Value means that a highly accurate error-free reporting truly reflecting the liquidation value of the Company cannot practically be calculated on a timely and regular basis. The Board considers any report would not be a material misstatement of the value of the Company provided it is within a threshold 0.75% of the true value. The Manager and the Company only reconcile such valuations (including full tax workings) every half year and it would be likely that such errors within thresholds calculated on a monthly basis could compound up to be a larger percentage on a semi-annual basis without requiring specific reissue or restatement of NAV statements or accounts.

Glossary

Administrator means TMF FundAdministrators (Australia) Pty Limited (ABN 96 131 370 824).

After-Tax Net Asset Value means the total value of assets of the Company (including but not limited to, estimated Deferred Tax Assets, available for sale assets held at fair value, cash, deposit accounts and instruments, securities and the aggregate mark-to-market value of all investment positions constituting assets) less the total value of all liabilities of the Company (including but not limited to the aggregate mark-to-market value of all investment positions constituting liabilities, provisions for payables, Current Tax Payables and estimated Deferred Tax Liabilities) calculated by the Administrator, in Australian Dollars and in accordance with Australian Accounting Standards.

Business Day means a day that is not a Saturday or Sunday and on which the Australian Securities Exchange is open for normal trading.

Board means the board of directors of the Company from time to time.

Company means DV01 Mechelle Limited (ABN 95 061 343 959).

Clearing Broker means any custodian, prime broker, external broker or banking counterparty that provides a facility to the Company to hold the Company's securities, derivatives, cash, foreign exchange, derivative transactions and margin financing on its behalf.

Current Tax Payable means a provision for any tax payable by the Company in respect of an immediately prior or current incomplete financial year.

Current Tax Receivable means a provision for any tax benefits receivable by the Company in respect of an immediately prior or current incomplete financial year.

Deferred Tax Liabilities means a provision for any potential future tax payable by the Company that excludes Current Tax Payable

Deferred Tax Asset means a provision for any potential future tax benefits receivable by the Company that excludes Current Tax Receivable.

Easy to Value Assets liquid financial instruments currently listed or traded on an official exchange.

Equalisation Liabilities means the aggregate value of all Depreciation Deposit liabilities and Equalisation Credit liabilities owed by the Company.

GS007/SAS 70 an auditing and assurance standard for third party reporting.

Franking Credit balance means the net balance of any franking debits and credits in the Company's franking account that remains to be imputed to its Shareholders.

Hard to Value Assets includes derivatives and private, unlisted or illiquid investments, financial instruments or holdings of the fund that are not recognisable by a market accepted identifier, or are not currently or actively listed or traded on an official exchange.

Manager means DV01 Funds Management Pty Ltd (ABN 82 114 422 758), AFSL number 308697.

Management Agreement means the management agreement entered into between the Company and the Manager dated the 17th May 2011 amending and replacing, the original agreement dated 15th June 2007.

Pre-Tax Net Asset Value (Pre-Tax NAV) means the Company's After-Tax Net Asset Value plus Deferred Tax Liabilities (if any), less Deferred Tax Asset (if any), plus Current Tax Payable (if any), less Current Tax Receivable (if any), plus Equalisation Liabilities (if any), plus Franking Credits (if any), as calculated at the close of the last Business Day of each month and such other times as the Board may determine.