



ANNUAL REPORT 2012

ANNUAL REPORT **FOR THE YEAR ENDED 30 JUNE 2012**



**AUSTRALIAN
MASTERS
YIELD**

FUND No 2 LIMITED

ABN 48 144 883 509

DIRECTORY

DIRECTORS

Mr Maximilian Walsh (Non-Executive Chairman)

Mr Daryl Dixon (Non-Executive Director)

Mr Alan Dixon (Non-Executive Director)

Mr Christopher Brown (Non-Executive Director)

Mr Alexander MacLachlan (Non-Executive Director)

COMPANY SECRETARIES

Ms Hannah Chan

Ms Karen Luu

REGISTERED OFFICE

Level 15, 100 Pacific Highway
North Sydney NSW 2060

T 1300 454 801

F 1300 883 159

PRINCIPAL OFFICE

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North Sydney NSW 2060

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AUDITOR

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SOLICITOR

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BANKS

Macquarie Bank

ANZ Bank

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

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AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

CHAIRMAN'S LETTER

Welcome to the Annual Report for the Australian Masters Yield Fund No 2 Limited ('AMYF2' or the 'Company') for the financial year ended 30 June 2012 (FY12). The Company is part of the Australian Masters Yield Fund Series ('AMYF Series' or 'the Funds').

OVERVIEW

At 30 June 2012, the Company was invested in six different fixed income securities issued by Australian and international companies totalling \$39.9 million at face value. At the time of purchase, the fixed income securities had gross yields to maturity (YTM) of between 9.1% and 11.0%.

During the year, the Company paid two fully franked dividends of \$2.60 and \$1.44 in December 2011 and April 2012, respectively.

The table below outlines the holdings of the Company at 30 June 2012. All fixed income securities continue to perform in line with expectations.

ISSUER	CALL DATE	MATURITY	FACE VALUE
IMB LIMITED	16-Sep-16	16-Sep-21	\$10,000,000
GENWORTH FINANCIAL INC	30-Jun-16	30-Jun-21	\$6,000,000
BANK OF QUEENSLAND	10-May-16	10-May-21	\$10,000,000
BANK OF SCOTLAND		1-May-17	\$2,000,000
BANK OF AMERICA		14-Feb-17	\$6,900,000
ROYAL BANK OF SCOTLAND		27-Oct-14	\$5,000,000

The expected maturity of the Company is no later than 30 June 2022, after which it is anticipated the Company will be wound up, with all capital returned to shareholders.

AMYF SERIES ACTIVITY

Over FY12, AMYF3 and AMYF4 were launched. AMYF3 was launched in November 2011, raising approximately \$97.6 million from shareholders while AMYF4 was launched in June 2012 raising approximately \$99.5 million.

Over the year, AMYF2 became fully invested. AMYF2 spent approximately \$29 million across eight different issuers with gross yields to maturity on underlying investments ranging from 9.1% to 20.7% at the time of investment.

AMYF3 made a number of attractive purchases in both the primary and secondary market over the year to June. AMYF3 is now approximately 76% invested having spent approximately \$72 million across eight different issuers with gross yields to maturity on underlying investments ranging from 8.0% to 13.1% at the time of investment. The manager is currently in negotiations in regards to securing a number of attractive primary and secondary market investments for the remainder of the portfolio.

To 30 June 2012, AMYF4 had made investments in two attractively priced issues from IMB and Morgan Stanley. The issue from IMB is a subordinated floating rate note with a call date on 22 June 2017 and a final maturity on 22 June 2022. The Morgan Stanley issue is a fixed rate senior unsecured bond maturing on 29 September 2016. At the time of purchase, the issues had gross yields to maturity of 8.5% and 7.6%, respectively.

During the December quarter, two securities held by AMYF1 and AMYF2 matured in accordance with their terms. The Generator Income Notes matured on 8 October 2011 returning approximately \$1.6 million and \$1.8 million in redemption proceeds to AMYF1 and AMYF2 respectively.

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CHAIRMAN'S LETTER

The Southern Cross Airports Notes also matured in accordance with their terms on 3 January 2012. AMYF1 and AMYF2 received \$2.2 million and \$800,000 respectively, from the redemption of this issue.

All existing fixed income securities held within the portfolios of the AMYF Series continue to perform as expected.

ECONOMIC OVERVIEW

Financial markets in FY12 were weighed down by continued uncertainty in the global macroeconomic environment. Markets seemed to hang on the political impasse in Europe, reflecting the difficulty European policymakers were having in dealing with the sovereign debt crisis. The fragility of the US economic recovery, as well as global growth prospects more generally, were also a key source of financial market volatility and heightened investor concern over the year.

Growth in the world economy slowed in the second half of calendar 2011, and more recent indicators suggest further weakening in Europe as well as slowing growth in China. Growth in the US also remained subdued over FY12. Second quarter gross domestic product (GDP) figures showed that the US economy grew by only 1.5% over the year to June, prompting the Federal Reserve to announce the extension of its US\$400 billion Operation Twist Program to stimulate growth.

Consistent with the economic backdrop, sovereign yields on all the major safe-haven currencies fell significantly over the year. Yields on 10-year Australian Commonwealth Government Securities (CGS) reached an all-time low of 2.8% in early June, falling approximately 42% over the year. Falls of similar magnitude were experienced across all tenors domestically.

In contrast, yields on stressed European sovereigns continued their advance. Yields on 10-year Greek bonds finished the year at 25.3%, while yields on 10-year bonds issued by Portugal, Spain and Italy closed at 10.2%, 6.2% and 5.8% respectively.

Offshore demand played a significant part in driving down domestic yields, while at the same time placing upward pressure on the Australian dollar. The Reserve Bank of Australia (RBA) estimates that over 85% of CGS are owned by offshore investors, driven largely by our AAA sovereign credit rating and comparatively attractive sovereign yields.

The RBA moved swiftly in the June quarter, cutting the official cash rate by 50 basis points (bps) from 4.25% to 3.75% in May and a further 25 bps in June. The official Australian cash rate now stands at 3.50%. Despite the softening of domestic monetary policy, the official Australian cash rate remains elevated compared to other developed nations - in Canada the cash rate stands at 1%, in Europe 0.75%, in Japan 0.10%, in the UK 0.50% and in the US 0.25%.

Capital markets remained skittish at flash points over the year and at one point, seemed all but closed in Europe until the European Central Bank implemented the Emergency Liquidity Assistance facility, which buoyed capital markets. At the time of writing, funding remains open to corporations and well-rated banks, however credit spreads continue to remain elevated.

Domestically, credit spreads widened across the entire investment grade spectrum, particularly in AA credits. Australian banks, which make up the vast majority of Australian AA issuance, have seen their cost of funding increase significantly and, for the first time, must pay more to borrow from the wholesale debt markets than many non-financial corporates. This factor was the major reason AA spreads widened by approximately 59% compared to AAA (18%), A (14%) and BBB (11%).

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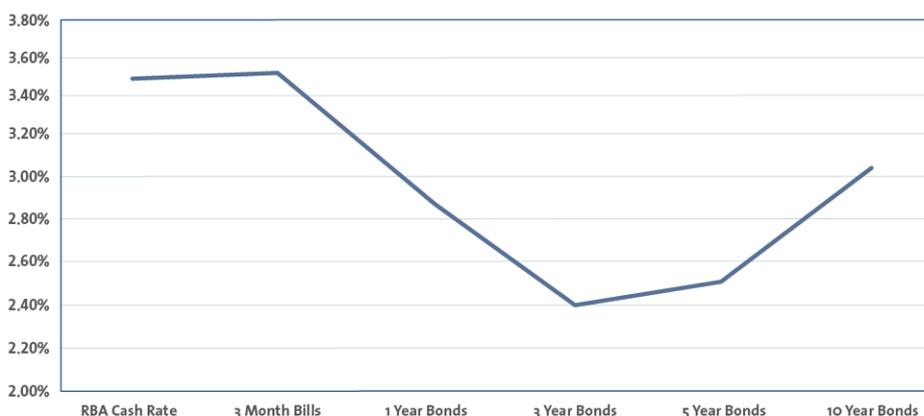
CHAIRMAN'S LETTER

First quarter domestic GDP data surprised on the upside, indicating the economy grew by 1.3% in the three months to March 2012, or 4.3% year-on-year. Despite this, the RBA forecasts growth at, or around, trend pace for the Australian economy over the coming year with the potential for significant variation across the domestic sectors.

Inflation continues to remain low domestically, with underlying measures near 2% over the year to June, and headline CPI inflation lower. The RBA expects the effects of the price on carbon will start to affect these measures over the coming quarters.

The domestic yield curve remains inverted, reflecting market expectations of further cuts to the official cash rate and the potential for slower domestic growth. The futures market is currently pricing a 58% chance of at least a 25 bps rate cut between now and January 2013.

AUSTRALIAN GOVERNMENT YIELD CURVE



Source: Bloomberg

MARKET OUTLOOK

While uncertainty remains over the prospects for developed market growth, particularly in Europe, the RBA is of the view that the Australian economy will continue to trend at average growth, although risks appear to be skewed to the downside. Given this, the domestic outlook for interest rates appears relatively subdued, with the likelihood of further cuts a distinct possibility.

There are no visible signs of an early resolution to the European sovereign debt crisis or a sustained pick up in the US economy. Financial markets may continue to be characterised by increased volatility and investor caution as the effects of the European crisis continue to work their way through the system. Such an environment highlights the importance of investing in a high quality portfolio of fixed income securities, such as those held by the AMYF Series.

Mr Maximilian Sean Walsh – Chairman
Date: 27 August 2012

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DIRECTORS' REPORT

Your directors present their report, together with the financial statements of Australian Masters Yield Fund No 2 Limited ("the Company") for the year ended 30 June 2012.

Directors

The names of the directors in office at any time during, or since the end of the year are:

Mr Maximilian Sean Walsh – Non-Executive Chairman
Mr Daryl Albert Dixon – Non-Executive Director
Mr Alan Cochrane Dixon – Non-Executive Director
Mr Christopher Matthew Brown – Non-Executive Director
Mr Alexander Gen MacLachlan – Non-Executive Director

Directors have been in office since the start of the year to the date of this report unless otherwise stated.

Company Secretaries

The names of the Company Secretaries in office at the date of this report are Ms Hannah Chan and Ms Karen Luu.

Results and Review of Operations

The Company has invested in a portfolio of Australian income securities with a total face value of \$39,900,000.

The profit of the Company after providing for income tax amounted to \$2,364,165 (2011: \$219,103). The net assets value at 30 June 2012 was \$42,826,939 (2011: \$42,180,186). The net asset value per share at 30 June 2012 was \$100.75 (2011: \$99.22).

The weighted average number of ordinary shares for the year was 425,102. The basic and diluted earnings per share after tax was \$5.56 compared to \$3.51 for the previous year.

Principal Activities and Significant Changes in Nature of Activities

The principal activity of the Company during the financial year was investing in Australian income securities. There were no significant changes in the nature of these activities of the Company during the year.

Dividends Paid or Recommended

During the year, the Company paid fully franked dividends of \$2.60 per share on 16 December 2011 and \$1.44 per share on 19 April 2012. The total amount of the dividends respectively was \$1,105,265 and \$612,147.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the Company which occurred during the year ended 30 June 2012.

After Balance Date Events

On 9 July 2012, the Company announced a fully franked dividend payment of \$1.35 per share to be paid on 25 July 2012.

On 10 August 2012, the Company announced a general meeting to seek approval for the admission of the Company to the official list of the ASX limited (ASX). The general meeting will be held on 7 September 2012.

There has not been any other events of a material and unusual nature likely, in the opinion of the Directors, to significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company, in future financial years.

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DIRECTORS' REPORT

Future Developments, Prospects and Business Strategies

The Company will continue to undertake its activities described in this report.

Likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Company.

Environmental Issues

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Options

No options over issued shares or interests in the Company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Indemnifying Officers or Auditor

Indemnities have been given during or since the end of the year, for all of the directors of the Company.

No indemnities have been given or insurance premiums paid, during or since the end of the year, for the auditor of the Company.

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DIRECTORS' REPORT

Information on Directors

Maximilian Sean Walsh AM, BEc (USyd)

Non-Executive Chairman of Directors

Max Walsh is regarded as one of Australia's leading economics and business journalists. He has specialised in the areas of business, economics and politics in a journalistic career spanning nearly 50 years. He has been editor and managing editor of The Australian Financial Review and Editor-in-Chief of The Bulletin. He has also served on the board of Northern Star TV (predecessor to Channel Ten).

Max serves as Chairman of the Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund No 1 Limited and Australian Masters Yield Fund No 3 Limited. Further Max serves as Non Executive Chairman of Asian Masters Fund Limited and Global Resource Masters Fund Limited. Max also serves as director of Australian Governance Masters Index Fund Limited.

Max is presently Deputy Chairman of Dixon Advisory & Superannuation Services Limited. Dixon Advisory & Superannuation Services Limited is the Manager of the Australian Governance Masters Index Fund Limited, Asian Masters Fund Limited, Global Resource Masters Fund Limited, Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund Series and the Responsible Entity for US Masters Residential Property Fund and US Select Private Opportunities Fund.

- Appointed as non-executive chairman and director on 28 June 2010
- Directly holds 1 and beneficially holds 3,000 fully paid ordinary shares in the capital of the Company
- During the past three years has acted as a non-executive director of the following Australian listed public companies:
 - Asian Masters Fund Limited since 10 October 2007
 - Global Resource Masters Fund Limited since 20 November 2008
 - Australian Masters Corporate Bond Fund No 1 Limited since 18 March 2008
 - Australian Masters Corporate Bond Fund No 2 Limited since 7 August 2008
 - Australian Masters Corporate Bond Fund No 3 Limited since 23 December 2008
 - Australian Masters Corporate Bond Fund No 4 Limited since 23 December 2008
 - Australian Masters Corporate Bond Fund No 5 Limited since 3 September 2009
 - Australian Governance Masters Index Fund Limited since 30 November 2009

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Daryl Albert Dixon MA (Hons) (Cambridge), BA (Hons) (UQ)

Non-Executive Director

Daryl Dixon is a graduate in economics of Cambridge and Queensland Universities. Daryl has extensive experience in the areas of taxation, retirement incomes and social welfare policy. He is known in Australia as a leading financial expert, particularly in the area of superannuation.

Daryl has special expertise in personal and self managed super fund strategies, as well as extensive experience as a direct share investor in his own right. Daryl has worked previously for the International Monetary Fund, the Federal Treasury, Department of Finance and the Social Welfare Policy Secretariat. Daryl was also a member of the Fraser Government's Occupational Superannuation Task Force.

Daryl is a director of the Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund No 1 Limited and Australian Masters Yield Fund No 3 Limited.

Daryl is Executive Chairman of Dixon Advisory & Superannuation Services, a financial advisory firm he founded in 1986 which has now over \$4 billion of funds under administration. Dixon Advisory & Superannuation Services Limited is the Manager of the Australian Governance Masters Index Fund Limited, Asian Masters Fund Limited, Global Resource Masters Fund Limited, Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund Series and the Responsible Entity for US Masters Residential Property Fund and US Select Private Opportunities Fund.

- Appointed as non-executive director on 8 February 2011
- Beneficially holds 500 fully paid ordinary shares in the capital of the Company
- During the past three years has acted as a non-executive director of the following Australian listed public companies:
 - Asian Masters Fund Limited since 10 October 2007 until 31 December 2010
 - Global Resource Masters Fund Limited since 20 November 2008 until 8 June 2010
 - Australian Masters Corporate Bond Fund No 1 Limited since 18 March 2008
 - Australian Masters Corporate Bond Fund No 2 Limited since 7 August 2008
 - Australian Masters Corporate Bond Fund No 3 Limited since 23 December 2008
 - Australian Masters Corporate Bond Fund No 4 Limited since 23 December 2008
 - Australian Masters Corporate Bond Fund No 5 Limited since 3 September 2009

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DIRECTORS' REPORT

Alan Cochrane Dixon BCom (ANU), CA

Non-Executive Director

Alan Dixon has been providing financial advisory services to corporations, institutions and individuals for the last 15 years. Until December 2000, he worked for various investment banks, including ABN AMRO, where he was the Associate Director in Mergers and Acquisitions and Equity Capital Markets, and Ord Minnett Corporate Finance. Since January 2001, he has operated as Managing Director of Dixon Advisory Group Limited.

Alan has a Bachelor of Commerce from the Australian National University and is a Member of the Institute of Chartered Accountants in Australia. He is also a SPAA Accredited SMSF Specialist Advisor.

Alan currently serves as a director of the Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund No 1 Limited and Australian Masters Yield Fund No 3 Limited.

Alan is presently a director of Dixon Advisory & Superannuation Services Limited. Dixon Advisory & Superannuation Services Limited is the Manager of the Australian Governance Masters Index Fund Limited, Asian Masters Fund Limited, Global Resource Masters Fund Limited, Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund Series and the Responsible Entity for US Masters Residential Property Fund and US Select Private Opportunities Fund.

- Appointed as non-executive director on 8 February 2011
- Beneficially holds 1,000 fully paid ordinary shares in the capital of the Company
- During the past three years has acted as a non-executive director of the following Australian listed public companies:
 - Asian Masters Fund Limited since 10 October 2007 until 31 December 2010
 - Global Resource Masters Fund Limited since 20 November 2008 until 8 June 2010
 - Australian Masters Corporate Bond Fund No 1 Limited since 18 March 2008
 - Australian Masters Corporate Bond Fund No 2 Limited since 7 August 2008
 - Australian Masters Corporate Bond Fund No 3 Limited since 23 December 2008
 - Australian Masters Corporate Bond Fund No 4 Limited since 23 December 2008
 - Australian Masters Corporate Bond Fund No 5 Limited since 3 September 2009
 - van Eyk Three Pillars Limited since 29 September 2009 until 31 October 2011

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DIRECTORS' REPORT

Christopher Matthew Brown BChem Eng (Hons) (USyd), BCom (USyd)

Non-Executive Director

Chris Brown serves as the Managing Director; Chief Operating Officer at Dixon Advisory. Prior to joining Dixon Advisory, Chris was an Executive Director at UBS AG in the Investment Banking Division in Sydney. Over his eight years at UBS he provided capital markets and mergers & acquisitions advice to many different public and private companies in Australia and overseas. Chris specialised in providing this advice to industrial, utility, infrastructure, property and financial companies. Chris spent several years in the UBS Mergers & Acquisitions Group in New York working on transactions in chemical, health care, consumer products, media, telecoms, technology, insurance and utilities. Before joining UBS, Chris also worked in the Investment Banking Division of ABN AMRO where he focused on mergers and acquisitions along with capital markets advice to companies in the Australian property sector.

Before his career in investment banking, Chris worked for a Sydney based property funds management company and a chemical engineering and design company. Chris has a Bachelor of Chemical Engineering with 1st Class honours and a Bachelor of Commerce both from Sydney University.

Chris is a director of the Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund Series and a director of Dixon Advisory & Superannuation Services Limited. Dixon Advisory & Superannuation Services Limited is the Manager of the Australian Governance Masters Index Fund Limited, Asian Masters Fund Limited, Global Resource Masters Fund Limited, Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund Series and the Responsible Entity for US Masters Residential Property Fund and US Select Private Opportunities Fund.

- Appointed as non-executive director on 28 June 2010
- Beneficially holds 50 fully paid ordinary shares in the capital of the Company
- During the past three years has acted as a non-executive director of the following Australian listed public companies:
 - Australian Masters Corporate Bond Fund No 1 Limited since 18 September 2009
 - Australian Masters Corporate Bond Fund No 2 Limited since 18 September 2009
 - Australian Masters Corporate Bond Fund No 3 Limited since 23 December 2008
 - Australian Masters Corporate Bond Fund No 4 Limited since 23 December 2008
 - Australian Masters Corporate Bond Fund No 5 Limited since 3 September 2009
 - van Eyk Three Pillars Limited since 29 September 2009 until 31 October 2011

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Alexander Gen MacLachlan BA (Cornell), MBA (Wharton)

Non-Executive Director

Alex MacLachlan is the Managing Director of Global Resource Masters Fund Limited, Asian Masters Fund Limited, the Australian Masters Yield Fund Series, the Australian Masters Corporate Bond Fund Series and Australian Governance Masters Index Fund Limited.

Alex is a director of Dixon Advisory & Superannuation Services Limited. Dixon Advisory & Superannuation Services Limited is the Manager of the Australian Governance Masters Index Fund Limited, Asian Masters Fund Limited, Global Resource Masters Fund Limited, Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund Series and the Responsible Entity for US Masters Residential Property Fund and US Select Private Opportunities Fund.

Before joining Dixon Advisory, Alex was an investment banker specialising in the natural resources sector, most recently serving as Head of Energy, Australasia, for UBS AG in Sydney and prior to that as an investment banker with Credit Suisse First Boston. During his career as an investment banker, Alex advised many of Australia's and the world's leading natural resources companies, working with over 30 companies on more than \$100 billion in announced mergers and acquisitions and capital markets transactions.

Before specialising in natural resources investment banking, Alex worked in the Japanese Government Bond derivatives markets in London, New York and Sydney.

Alex has a Bachelor of Arts from Cornell University and a Masters of Business Administration from The Wharton School, University of Pennsylvania.

- Appointed as non-executive director on 28 June 2010
- Beneficially holds 50 fully paid ordinary shares in the capital of the Company
- During the past three years has acted as a non-executive director of the following Australian listed public companies:
 - Global Resource Masters Fund Limited since 20 November 2008
 - Asian Masters Fund Limited since 23 September 2009
 - Australian Masters Corporate Bond Fund No 1 Limited since 18 September 2009
 - Australian Masters Corporate Bond Fund No 2 Limited since 18 September 2009
 - Australian Masters Corporate Bond Fund No 3 Limited since 23 December 2008
 - Australian Masters Corporate Bond Fund No 4 Limited since 23 December 2008
 - Australian Masters Corporate Bond Fund No 5 Limited since 3 September 2009
 - van Eyk Three Pillars Limited since 29 September 2009 until 31 October 2011

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DIRECTORS' REPORT

Information on Company Secretaries

Hannah Chan BCom (UNSW), MCom (USyd), CA

Company Secretary

Hannah has a Bachelor of Commerce degree in Finance from the University of NSW and a Master of Commerce degree in Accounting from the University of Sydney. She is also a Chartered Accountant with the Institute of Chartered Accountants in Australia. Prior to joining the Manager, Hannah gained extensive audit experience whilst working with Deloitte Touche Tohmatsu and Ernst & Young.

- Appointed as Company Secretary on 28 June 2010

Karen Luu BEc (UNSW), CA

Company Secretary

Karen Luu has a Bachelor of Economics degree majoring in Accounting and Economics from the University of NSW. She is also a Chartered Accountant with the Institute of Chartered Accountants in Australia. She is concurrently the Company Secretary of Australian Masters Corporate Bond Fund No 4 Limited, Australian Masters Corporate Bond Fund No 5 Limited, Australian Masters Yield Fund No 1 Limited, Australian Masters Yield Fund No 3 Limited, Australian Masters Yield Fund No 4 Limited and Australian Governance Masters Index Fund Limited.

- Appointed as Company Secretary on 1 February 2012

Directors' Meetings

Attendance of individual directors at board meetings held during the year ended 30 June 2012 was as follows:

	Meetings Held	Meetings Attended
Maximilian Walsh	4	4
Daryl Dixon	4	4
Alan Dixon	4	3
Christopher Brown	4	4
Alexander MacLachlan	4	4

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DIRECTORS' REPORT

Remuneration Report

(a) Remuneration Policy

Under the Company's constitution, each director may be paid remuneration for ordinary services performed as a director. However, Maximilian Walsh, Daryl Dixon, Alan Dixon, Christopher Brown and Alexander MacLachlan have agreed not to be paid any remuneration for the services they perform as directors.

(b) Key Management Personnel Remuneration

Details of remuneration paid during the year to directors and officers are set out in the table below.

2012

Directors	Salary, fees and Commission \$	Superannuation Contributions \$	Cash bonus \$	Non-cash benefits \$	Other \$	Total \$
Maximilian Walsh	-	-	-	-	-	-
Daryl Dixon	-	-	-	-	-	-
Alan Dixon	-	-	-	-	-	-
Christopher Brown	-	-	-	-	-	-
Alexander MacLachlan	-	-	-	-	-	-
Total	-	-	-	-	-	-

2011

Directors	Salary, fees and Commission \$	Superannuation Contributions \$	Cash bonus \$	Non-cash benefits \$	Other \$	Total \$
Maximilian Walsh	-	-	-	-	-	-
Daryl Dixon	-	-	-	-	-	-
Alan Dixon	-	-	-	-	-	-
Christopher Brown	-	-	-	-	-	-
Alexander MacLachlan	-	-	-	-	-	-
Total	-	-	-	-	-	-

(c) Service Agreements

The Company does not presently have formal service agreements or employment contracts with any of the key management personnel.

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Remuneration Report (cont.)

(d) Directors Protection Deeds

The Company has agreed to provide access to board papers and minutes to current and former directors of the Company while they are directors and for a period of 7 years after they cease to be directors.

The Company has agreed to indemnify, to the extent permitted by the *Corporations Act 2001*, each officer in respect of certain liabilities, which the director may incur as a result of, or by reason of (whether solely or in part), being or acting as a director of the Company.

(e) Beneficial and Relevant Interest of Directors in Shares

As at the date of this report, details of directors who hold shares for their own benefit or who have an interest in holdings through a third party and the total number of such shares held are listed as follows:

Director	No. of shares
Maximilian Walsh	3,001
Daryl Dixon	500
Alan Dixon	1,000
Christopher Brown	50
Alexander MacLachlan	50

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Proceedings on Behalf of Company

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-audit Services

During the Deloitte Private Pty Ltd, a related party of the Company's auditor, performed tax review services for the Company.

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board of Directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Deloitte Touche Tohmatsu and its related party for non-audit services provided for the year ended 30 June 2012.

	\$
Tax Compliance	5,091
	5,091

Auditor's Independence Declaration

A copy of the lead auditor's independence declaration for the year ended 30 June 2012 as required under section 307C of the *Corporations Act 2001* is set out on page 12.

Signed in accordance with a resolution of the Board of Directors:



Director: _____
Mr Maximilian Sean Walsh – Chairman

Dated this 27th day of August 2012

The Board of Directors
Australian Masters Yield Fund No 2 Limited
Level 15
100 Pacific Highway
NORTH SYDNEY NSW 2060

27 August 2012

Dear Board Members

Australian Masters Yield Fund No 2 Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Australian Masters Yield Fund No 2 Limited.

As lead audit partner for the audit of the financial statements of Australian Masters Yield Fund No 2 Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Michael Kaplan
Partner
Chartered Accountant

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
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STATEMENT OF COMPREHENSIVE INCOME

	Notes	2012 \$	2011 \$
Revenue	2	3,527,460	361,036
Gain on disposal of financial asset		101,333	-
Gain on financial assets at fair value through profit or loss		64,631	-
Management fee		(252,477)	(37,750)
Accounting and Audit fees		(29,333)	(10,000)
Registry fees		(9,853)	-
Other expenses		(24,383)	(282)
Profit before income tax		3,377,378	313,004
Income tax expense	3	(1,013,213)	(93,901)
Profit for the year		2,364,165	219,103
Other comprehensive income		-	-
Total other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		2,364,165	219,103
Earnings per share			
Basic earnings per share	12	5.56	3.51
Diluted earnings per share	12	5.56	3.51

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

AS AT 30 JUNE 2012

STATEMENT OF FINANCIAL POSITION

	Notes	2012 \$	2011 \$
Assets			
<i>Current</i>			
Cash and cash equivalents	5	4,866,651	26,627,586
Other receivables	6	24,566	299,842
Total Current Assets		4,891,217	26,927,428
<i>Non-Current</i>			
Financial assets	7	38,087,777	15,121,365
Deferred tax assets	8	146,290	191,235
Total Non-current Assets		38,234,067	15,312,600
Total Assets		43,125,284	42,240,028
Liabilities			
<i>Current</i>			
Other payables	9	17,102	10,000
Current tax liabilities	10	281,243	49,842
Total Current Liabilities		298,345	59,842
Total Liabilities		298,345	59,842
Net Assets		42,826,939	42,180,186
Equity			
Issued capital	11	41,961,083	41,961,083
Retained earnings		865,856	219,103
Total Equity		42,826,939	42,180,186

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

STATEMENT OF CHANGES IN EQUITY

	Notes	Issued capital \$	Retained earnings \$	Total \$
Balance at Incorporation		-	-	-
Profit for the period		-	219,103	219,103
Other comprehensive income		-	-	-
Total comprehensive income for the period		-	219,103	219,103
Shares issued	11	42,510,101	-	42,510,101
Issue costs (net of tax)	11	(549,018)	-	(549,018)
Balance at 30 June 2011		41,961,083	219,103	42,180,186
Balance at 1 July 2011		41,961,083	219,103	42,180,186
Profit for the year		-	2,364,165	2,364,165
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	2,364,165	2,364,165
Dividends Paid	4	-	(1,717,412)	(1,717,412)
Balance at 30 June 2012		41,961,083	865,856	42,826,939

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

STATEMENT OF CASH FLOWS

	Notes	2012 \$	2011 \$
Cash flows from operating activities			
Interest received from investments		2,632,299	-
Interest received from bank		660,034	-
Management fees paid		(270,951)	(40,512)
Payments to suppliers		(58,484)	(303)
Net tax paid		(656,431)	-
Net cash flows provided by / (used in) operating activities	13 (a)	2,306,467	(40,815)
Cash flows from investing activities			
Proceeds from disposal of investments		7,075,090	-
Payments for purchase of investments		(29,425,080)	(15,000,000)
Net cash flows (used in) investing activities		(22,349,990)	(15,000,000)
Cash flows from financing activities			
Dividends paid	4	(1,717,412)	-
Proceeds from share issues		-	42,510,101
Payments of issue costs		-	(841,700)
Net cash flows (used in) / provided by financing activities		(1,717,412)	41,668,401
Net (decrease) / increase in cash and cash equivalents		(21,760,935)	26,627,586
Cash and cash equivalents			
at beginning of year		26,627,586	-
Cash and cash equivalents			
at end of the year	13 (b)	4,866,651	26,627,586

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

The financial report covers Australian Masters Yield Fund No 2 Limited ("the Company") as an individual entity. Australian Masters Yield Fund No 2 Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report has been approved for issue in accordance with a resolution of the Directors on 27 August 2012.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report.

1. Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The comparative period is for the period from 28 June 2010 (date of incorporation) to 30 June 2011.

New Accounting Standards and Interpretations

Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reported results or financial position.

Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting year ended 30 June 2012, are outlined in the table below:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
• AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
• AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (cont.)

New Accounting Standards and Interpretations (cont.)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
• AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
• AASB 119 'Employee Benefits'(2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
• AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
• AASB 128 'Investments in Associates and Joint Ventures'	1 January 2013	30 June 2014
• AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
• AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013
• Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'	1 January 2013	30 June 2014
• AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014
• AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
• AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	30 June 2014
At the date of authorisation of the financial statements, the following IASBs were also in issue but not effective, although Australian equivalent Standards have not yet been issued:		
• Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	30 June 2016
• Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (amendments to IFRS 10, IFRS 11 and IFRS 12)	1 January 2013	30 June 2014

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (cont.)

(a) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantively enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off of current tax assets and liabilities exists and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (cont.)

(b) Financial Instruments

Financial Instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by market place convention.

The Company has elected to early adopt "AASB 9 Financial Instruments", which was issued on 7 December 2009. AASB 9 includes requirements for the classification and measurement of financial assets. Adoption of this standard has had no effect on the reported results or financial position of the Company.

(i) Financial assets

Initial recognition and measurement

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit and loss, directly attributable transaction costs.

The Company determines the classification of its financial assets at initial recognition.

Subsequent measurement

Financial assets are subsequently measured at amortised cost using the effective interest rate method, only if the following conditions are met, otherwise they are measured at fair value:

- a) Where the financial asset is held within a business model with the objective to collect contractual cash flows; and
- b) contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The effective interest rate method is used to allocate interest income or interest expenses over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

(ii) Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (cont.)

(iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as derivative and non-derivative instruments, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at amortised cost.

Subsequent Measurement

Non-derivative instruments are subsequently measured at amortised cost using the effective interest rate method.

(iv) Fair value

Fair value is the amount for which an asset could be sold or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Fair value is determined based on the bid price for all quoted investments in an active market. Valuation techniques are applied to determine the fair value for all unlisted securities and securities in markets that are not active, including recent arm's length transactions with reference to similar instruments and valuation techniques commonly used by market participants.

(c) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of the entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in profit or loss.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (cont.)

(e) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Interest income is recognised in profit or loss using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

In most cases, the Company qualifies for Reduced Input Tax Credits (RITCs) at a rate of 75%; hence expenses have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office.

The net amount of GST recoverable from the Australian Taxation Office is included in Other Receivables in the Statement of Financial Position.

Cash flows are presented in the Statement of Cash Flows on a gross basis.

(g) Trade and Other Payables

Trade payables and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. The balance is unsecured and is recognised as a current liability with the amount normally paid within 30 days of recognition of the liability.

(h) Provisions

Provisions are recognised where the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(i) Earnings Per Share

Basic earnings per share is determined by dividing the profit/(loss) after income tax excluding any cost of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year. Diluted earnings per share is the same because there are no dilutive potential ordinary shares.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (cont.)

(j) Operating Segments

The Company is engaged in investing activities conducted in Australia and derives revenue from both fixed and variable interest financial assets.

(k) Share Capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(l) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Company.

(m) Key Estimates and Judgments – Impairment

The Investment Committee regularly reviews the investments held in the Company's portfolio and where it believes that impairment has occurred or is likely to occur, it will normally seek to exit the position.

The Company follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement in determining when a financial asset is impaired. This determination requires significant judgment.

In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near term business outlook for the investee including factors such as industry and sector performance, and operational and financing cash flows.

No impairment has been recognised in respect of financial assets.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

2. Revenue

	2012	2011
	\$	\$
Interest from investments in financial assets	3,084,585	121,365
Interest from banks	414,032	239,671
Other income	28,843	-
	3,527,460	361,036

3. Income Tax Expense

(a) The components of tax expense comprise:

Current tax	968,268	49,842
Deferred tax	44,945	44,059
	1,013,213	93,901

(b) Prima facie tax on profit from ordinary activities
before income tax at 30%

	1,013,213	93,901
	1,013,213	93,901

The applicable weighted average effective tax rate is

	30%	30%
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AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

4. Dividends Paid

	2012	2011
	\$	\$
Dividends paid		
Fully franked dividend \$2.60 per share paid on 16 December 2011	1,105,265	-
Fully franked dividend \$1.44 per share paid on 19 April 2012	612,147	-
	1,717,412	-
Total dividends per share for the year	\$ 4.04	-

The tax rate at which paid dividends have been franked is 30%.

Franking credit balance

The amount of franking credits available for the subsequent financial year are:

- Franking account balance as at the end of the financial year at 30%	833	-
- Franking credits that will arise from payment of income tax payable as at the end of the financial year	281,243	49,842
- Franking debits that will arise from payment of dividends as at the end of the financial year	-	-
	282,076	49,842

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

5. Cash and Cash Equivalents

	2012	2011
	\$	\$
Current		
Cash at bank	4,866,651	26,627,586
	4,866,651	26,627,586

The weighted average interest rate on cash at bank is 3.75% (2011: 4.94%) as at year end.

6. Other Receivables

Current		
GST receivable	2,055	60,171
Interest receivable	22,511	239,671
	24,566	299,842

There are no balances above that contain assets that are impaired and past due. All the receivables above are non-interest bearing.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

7. Financial Assets

2012				
\$				
Non-Current				
Amortised Cost				
a) Corporate Bonds	Maturity Date	Coupon Rate	Face Value	Amortised Cost
<u>Floating Rate</u>				
Royal Bank of Scotland	27-Oct-14	BBSW+0.87%	5,000,000	4,595,874
Bank of America	14-Feb-17	BBSW+0.38%	6,900,000	5,717,855
HBOS plc (Lloyds)	01-May-17	BBSW+0.26%	2,000,000	1,605,572
Bank of Queensland	10-May-21	BBSW+3.75%	10,000,000	10,123,358
Genworth Financial Inc	30-Jun-21	BBSW+4.75%	6,000,000	6,004,914
IMB Limited	16-Sep-21	BBSW+4.00%	10,000,000	10,040,204
			39,900,000	38,087,777

2011				
\$				
Non-Current				
Amortised Cost				
a) Corporate Bonds	Maturity Date	Coupon Rate	Face Value	Amortised Cost
<u>Floating Rate</u>				
Bank of Queensland	10-May-21	BBSW+3.75%	10,000,000	10,121,365
Genworth Financial Inc	30-Jun-21	BBSW+4.75%	5,000,000	5,000,000
			15,000,000	15,121,365

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

8. Deferred Tax Assets

	2012	2011
	\$	\$
Non-Current		
Deferred tax assets comprise:		
Transaction costs on equity issue	141,176	188,235
Other	5,114	3,000
	146,290	191,235

9. Other Payables

Current		
Accrued expenses	17,102	10,000
	17,102	10,000

10. Current Tax Liabilities

Current		
Current tax liabilities	281,243	49,842
	281,243	49,842

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012
NOTES TO THE FINANCIAL STATEMENTS

11. Issued Capital

	2012	2011
	\$	\$
425,102 (2011: 425,102) fully paid ordinary shares	41,961,083	41,961,083
	41,961,083	41,961,083

(a) Issued shares

Balance at beginning of the period	41,961,083	-
1 fully paid ordinary share of \$1.00	-	1
272,001 fully paid ordinary shares of \$100	-	27,200,100
153,100 fully paid ordinary shares of \$100	-	15,310,000
Issue costs	-	(784,311)
Tax effect on issue costs	-	235,293
Balance at the end of the period	41,961,083	41,961,083

(b) Movement in ordinary shares

Date	Details	No.	No.
Balance at beginning of the period		425,102	-
28 June 2010	Ordinary shares issues	-	1
2 May 2011	Ordinary shares issues	-	272,001
17 May 2011	Ordinary shares issues	-	153,100
Balance at the end of the period		425,102	425,102

Holders of ordinary shares participate in dividends and the proceeds on the winding up of the Company in proportion to the number of shares held.

At shareholders meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

11. Issued Capital (cont.)

Capital Management

The Company's objective in managing capital is to continue to provide shareholders with dividends and capital appreciation over the long term.

The Company's capital may fluctuate with prevailing market movements and it may undertake a buy-back of its shares in the event that they trade at a sizable discount to NTA backing.

The Company's capital consists of shareholders' equity plus financial liabilities. The movement in equity is shown in the Statement of Changes in Equity. At 30 June 2012, financial liabilities was \$2,102. There are no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

12. Earnings per Share

(a) Earnings used in calculating earnings per share

	2012	2011
	\$	\$
Profit from continuing operations used to calculate basic and diluted earnings per share	2,364,165	219,103

(b) Weighted average number of shares

	No.	No.
Weighted average number of ordinary shares outstanding during the year used to calculate basic earnings per share	425,102	62,424
Effect of dilution	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	425,102	62,424

There are no instruments that could potentially dilute basic earnings per share in the future.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

13. Cash Flow Information

(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax

	2012	2011
	\$	\$
Profit after tax	2,364,165	219,103
Add / (less):		
Accrued interest on financial assets	(452,286)	(121,365)
Fair value through profit or loss	(64,631)	-
Gain on disposal on financial assets	(101,333)	-
Changes in assets and liabilities:		
Decrease / (Increase) in receivables	277,104	(242,454)
Decrease in deferred tax assets	44,945	44,059
Increase in other payables and accruals	7,102	10,000
Increase in income taxes payable	231,401	49,842
Cash flows from operations	2,306,467	(40,815)

The Company does not have any formal loan facilities in place at the date of these financial statements.

(b) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes:

- (i) cash at bank and in hand; and
- (ii) investments in money market instruments with 30 days or less maturity.

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	4,866,651	26,627,586
	4,866,651	26,627,586

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509

FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

14. Related Party Transactions

The names of the persons who were directors of the Company at any time during the year and to the date of these financial statements are:

Mr Maximilian Sean Walsh – Non-Executive Chairman
Mr Daryl Albert Dixon – Non-Executive Director
Mr Alan Cochrane Dixon – Non-Executive Director
Mr Christopher Matthew Brown – Non-Executive Director
Mr Alexander Gen MacLachlan – Non-Executive Director

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated and are as follows:

Dixon Advisory & Superannuation Services Limited

Mr Maximilian Walsh, Mr Daryl Dixon, Mr Alan Dixon, Mr Christopher Brown and Mr Alexander MacLachlan are directors of the Company, the Manager and Issue Manager, Dixon Advisory & Superannuation Services Limited.

(a) Key Management Personnel Related Entity Transaction

Key management personnel and their related entities hold directly, indirectly or beneficially as at the reporting date the following interests in the Company:

	Ordinary shares	
	Direct	Indirect
Maximilian Walsh	1	3,000
Daryl Dixon	-	1,000
Alan Dixon	-	1,000
Christopher Brown	-	50
Alexander MacLachlan	-	50

(b) Management Fee

The Manager is entitled to receive an annualised management fee of 0.59% (excluding GST) of the value of the Portfolio. The first management fee is 0.59% per annum (excluding GST) of gross proceeds raised and calculated upon the allotment of shares. The management fee paid or payable to Dixon Advisory & Superannuation Services Limited for the year was \$270,951 (2011: \$40,512), inclusive of GST. No management fees are outstanding to the Manager at year end.

(c) Transaction Costs

In connection with the provision of services as Issue Manager, the Issue Manager is entitled to receive structuring and handling fees of 1.80% of the total funds raised in share placements. The handling and structuring fee for the year ended 30 June 2012 was \$nil (2011: \$841,700), inclusive of GST. No transaction costs are payable to the Manager at year end.

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NOTES TO THE FINANCIAL STATEMENTS

15. Key Management Personnel

Names and positions held by key management personnel in office at any time during the financial year are:

Mr Maximilian Sean Walsh – Non-Executive Chairman
Mr Daryl Albert Dixon – Non-Executive Director
Mr Alan Cochrane Dixon – Non-Executive Director
Mr Christopher Matthew Brown – Non-Executive Director
Mr Alexander Gen MacLachlan – Non-Executive Director

Key Management Personnel Remuneration

Maximilian Walsh, Daryl Dixon, Alan Dixon, Christopher Brown and Alexander MacLachlan have agreed not to be paid any remuneration for the services they perform as directors.

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

Number of shares held by key management personnel

	Balance at 1 July 2011	Received as remuneration	Net change other	Balance at 30 June 2012
Directors	No.	No.	No.	No.
Maximilian Walsh	3,001	-	-	3,001
Daryl Dixon	1,000	-	-	1,000
Alan Dixon	1,000	-	-	1,000
Christopher Brown	50	-	-	50
Alexander MacLachlan	50	-	-	50
Total	5,101	-	-	5,101

16. Financial Risk Management

(a) Financial Risk Management Policies

The Company's financial instruments consist mainly of deposits with banks and investments in fixed income securities. The main risks the Company is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

(i) Interest rate risk

Exposure to interest rate risk arises on financial assets recognised at the reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Company is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is managed using a mix of fixed and floating rate financial assets. At 30 June 2012, approximately 100% of the financial assets are at a floating rate.

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NOTES TO THE FINANCIAL STATEMENTS

16. Financial Risk Management (cont.)

(ii) Liquidity risk

Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due.

The Company's exposure to liquidity risk is minimal. The Company has no borrowings as at 30 June 2012 and cash inflows from coupons from the underlying financial assets are received at regular intervals to meet the obligations of the Company. Financial assets can be traded in the over the counter market, in the event the Company needs to convert investments into cash to realise underlying financial positions.

(iii) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Company does not have any material credit risk exposure to a single receivable or group of debtors under financial instruments entered into by the Company.

There are no amounts of collateral held as security at 30 June 2012.

(b) Financial Instruments

(i) Financial instrument composition and maturity analysis:

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts will not reconcile to the statement of financial position.

	2012	Weighted Average Effective Interest Rate
	\$	
Financial Assets		
Cash and cash equivalents	4,866,651	3.75%
Other receivables	24,566	-
Investment in financial assets	59,982,243	8.43%
	64,873,460	
		Weighted Average Effective Interest Rate
	2011	
	\$	
Financial Assets		
Cash and cash equivalents	26,627,586	4.94%
Other receivables	299,842	-
Investment in financial assets	28,565,000	8.28%
	55,492,428	

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NOTES TO THE FINANCIAL STATEMENTS

16. Financial Risk Management (cont.)

	Within 1 year	1 to 5 years	Over 5 years	Total
30 June 2012				
Financial Assets	\$	\$	\$	\$
Cash and cash equivalents	4,866,651	-	-	4,866,651
Other receivables	24,566	-	-	24,566
Investment in financial assets	2,527,430	23,397,963	34,056,850	59,982,243
Total Financial Assets	7,418,647	23,397,963	34,056,850	64,873,460

	Within 1 year	1 to 5 years	Over 5 years	Total
30 June 2011				
Financial Assets	\$	\$	\$	\$
Cash and cash equivalents	26,627,586	-	-	26,627,586
Other receivables	299,842	-	-	299,842
Investment in financial assets	1,356,500	5,426,000	21,782,500	28,565,000
Total Financial Assets	28,283,928	5,426,000	21,782,500	55,492,428

(ii) Net Fair Values

The net fair values of:

- Financial assets measured at amortised cost are determined by their redemption price at the balance date or, where this is not available, by applying valuation techniques with reference to recent arm's length transactions, similar instruments and pricing models. The aggregate net fair value is \$37,694,346 at 30 June 2012 (2011: \$15,244,048).
- Other assets and other liabilities approximate their carrying value.

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FOR THE YEAR ENDED 30 JUNE 2012

NOTES TO THE FINANCIAL STATEMENTS

16. Financial Risk Management (cont.)

(iii) Sensitivity Analysis

Interest Rate Risk

The Company has performed sensitivity analysis relating to its exposure to its interest rate risk at the balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks on financial asset balances at year end that have a variable interest rate.

At 30 June 2012, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2012	2011
	\$	\$
Change in profit before tax		
Increase in interest rate by 1%		
- Cash at bank	48,675	291,277
- Financial assets	346,066	13,626
Decrease in interest rate by 1%		
- Cash at bank	(48,675)	(291,277)
- Financial assets	(346,127)	(13,662)
Change in equity		
Increase in interest rate by 1%		
- Cash at bank	48,675	291,277
- Financial assets	346,066	13,626
Decrease in interest rate by 1%		
- Cash at bank	(48,675)	(291,277)
- Financial assets	(346,127)	(13,662)

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NOTES TO THE FINANCIAL STATEMENTS

17. Auditor's Remuneration

The auditor of the Company is Deloitte Touche Tohmatsu. The fee in connection with the audit and review of the financial statements of the Company received or receivable by Deloitte Touche Tohmatsu is \$23,500 for the year ended 30 June 2012 (2011: \$10,000). Tax and other services for the year ended 30 June 2012 amounted to \$5,091 (2011: \$13,390).

18. Contingent Liabilities

The directors are not aware of any potential liabilities or claims against the Company as at the balance date.

19. Capital Commitments

The Company has no capital commitment at balance date.

20. Events After The Reporting Period

On 9 July 2012, the Company announced a fully franked dividend payment of \$1.35 per share to be paid on 25 July 2012.

On 10 August 2012, the Company announced a general meeting to seek approval for the admission of the Company to the official list of the ASX limited (ASX). The general meeting will be held on 7 September 2012.

There has not been any other events of a material and unusual nature likely, in the opinion of the Directors, to significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company, in future financial years.

21. Company Details

The registered office of the Company is:

Australian Masters Yield Fund No 2 Limited
Level 15, 100 Pacific Highway
North Sydney NSW 2060

The principal place of business is:

Australian Masters Yield Fund No 2 Limited
Level 15, 100 Pacific Highway
North Sydney NSW 2060

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DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial report as set out in pages 13 to 37 and the additional disclosures included in the Directors' Report designated as "Remuneration Report", as set out on pages 9 to 10, are in accordance with the *Corporations Act 2001*, including:
 - a. Giving a true and fair view of the Company's financial position as at 30 June 2012 and of its performance, as represented by the results of the operations and the cash flows, for the financial year ended on that date;
 - b. In compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements; and
 - c. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. The directors of the Manager, Dixon Advisory & Superannuation Services Limited have declared that:
 - a. The financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. The financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. The financial statements and notes for the financial year give a true and fair view.
3. As at the date of this declaration, in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors made pursuant to section 295(5) of the *Corporations Act 2001*:

On behalf of the Directors



Mr Maximilian Sean Walsh – Chairman
Date: 27th August 2012

Independent Auditor's Report to the members of Australian Masters Yield Fund No 2 Limited

We have audited the accompanying financial report of Australian Masters Yield Fund No 2 Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 13 to 38.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Masters Yield Fund No 2 Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion, the financial report of Australian Masters Yield Fund No 2 Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 10 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Australian Masters Yield Fund No 2 Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Michael Kaplan
Partner
Chartered Accountants
Sydney, 27 August 2012



ANNUAL REPORT **FOR THE YEAR ENDED 30 JUNE 2012**

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