ANNUAL REPORT 2016

ANNUAL REPORT **FOR THE YEAR ENDED 30 JUNE 2016**

AUSTRALIAN MASTERS YIELD
FUND No 3 LIMITED

ABN 58 149 790 545

DIRECTORY

The Company's shares are quoted on the official list of the Australian Securities Exchange Limited (ASX). Home Exchange is Sydney.

ASX Code is AYJ.

DIRECTORS

Mr Alexander MacLachlan (Non-Executive Chairman)

Mr Daryl Dixon (Non-Executive Director)

Mr Christopher Brown (Non-Executive Director)

COMPANY SECRETARY

Ms Hannah Chan

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BANKS

Macquarie Bank
ANZ Bank

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Welcome to the Annual Report for the Australian Masters Yield Fund No 3 Limited ('AMYF3' or the 'Company') for the financial year ended 30 June 2016 (FY16). The Company is part of the Australian Masters Yield Fund Series ('AMYF Series' or 'the Funds').

Overview
At 30 June 2016, the Company remained invested in 8 different fixed income securities issued by Australian and international companies, with a face value totalling $68.6 million.

The profit of the Company after providing for income tax amounted to $2,664,738 (2015: $3,702,931). The net asset value per share of the Company at 30 June 2016 was $71.83 (30 June 2015: $74.90). The earnings per share (EPS) was calculated as $2.73 (2015: $3.79). EPS has declined from 2015 due to the redemption of bonds within the Company but also due to a decline in the reference rate used to determine the coupons on the floating rate investments within the Company. From the beginning of the 2015 financial year to the end of FY16 bank bill yields, as measured by the 3 month bank bill rate, have declined 0.74%.

During the year, the Company paid four fully franked dividends of $0.82 (August 2015), $0.46 (November 2015), $0.86 (February 2016) and $0.49 (May 2016). The Company also announced a fully franked dividend of $0.79 that will be paid in August 2016. The Company made one capital return during the period of $3.17 per share in December 2015. As at 30 June 2016 the Company has returned $28.24 per share of capital to shareholders.

The table below outlines the holdings of the Company at 30 June 2016. All fixed income securities continue to perform in line with expectations.

Issuer	Type	Call date	Maturity	Face value
AMP Bank	Subordinated Debt*	21-Dec-17	21-Dec-22	$7,500,000
AMIT	Senior Note*	9-Nov-17	9-Nov-22	$3,700,000
Bank of America	Subordinated Debt*		14-Feb-17	$17,400,000
Bank of Queensland	Subordinated Debt*	22-Mar-17	22-Mar-22	$15,000,000
IMB Building Society	Subordinated Debt*	29-Jun-17	29-Jun-22	$8,000,000
Insurance Australia Group	Hybrid*	1-May-17	1-May-19	$4,875,000
Morgan Stanley	Senior Bond		9-May-17	$5,100,000
Morgan Stanley	Senior Bond*		22-Feb-17	$7,000,000

*Floating rate investment.

The expected maturity of the last investment in the Company is 21 December 2022, after which it is anticipated the Company will be wound up, with all capital returned to shareholders. In the event that all callable bonds are called by their respective issuers, maturity of the Company would be expected to occur after 21 December 2017.

Company Activity
The Company partially redeemed the Insurance Australia Group May 2019 bond during the year through an on-market sale of securities.

All fixed income securities held within the portfolio of AMYF3 continue to perform as expected, and pay coupons/dividends accordingly.

Global Market Summary
Global debt and equity markets endured periods of volatility throughout the year, with the MSCI World Index ending the 2016 financial year (FY16) down 2.7% in local currency terms. Volatility was driven by large movements in the Chinese equity market, a decline and subsequent recovery in commodity prices (including oil), and divergent monetary policies among the major central banks. December saw the US increase interest rates while Europe, Japan and China announced fresh monetary easing measures to address their growth concerns.

Australian Masters Yield Fund No 3 Limited
Chairman's letter
30 June 2016

The US economy expanded at a slower-than-expected pace as consumer spending softened and inflation remained below target during the year. The Federal Reserve (Fed) raised interest rates by 25 basis points (bps) in December 2015, the first rate-rise in nearly nine years, as the US economy and labour market continued to gain strength. However, external headwinds, including declining growth in China and the United Kingdom's (UK) referendum to remain or leave the European Union (EU) (Brexit), led the Fed to adopt a higher degree of caution as the year progressed and lower its pace of monetary policy tightening.

In Europe, moderate economic growth (GDP: +1.6% for FY16) was supported by an extension of the European Central Bank's quantitative easing program in the second and third quarter of FY16, although inflation remained weak. Brexit, however, presents a potential challenge for Europe, as it threatens to derail the economic recovery and has the potential to trigger similar referendums in other EU member countries.

At 30 June 2016, over US$10 trillion of sovereign bonds were trading at negative yields. 10 year generic government bonds were trading at a yield of -0.13% in Germany, -0.58% in Switzerland and -0.21% in Japan. Yield curves remain largely flat across most major markets, partly driven by investors seeking lower risk assets and low global growth and inflation outlooks.

Domestic Market Summary

The RBA maintained an accommodative monetary policy stance throughout FY16. After keeping the domestic rate on hold for nearly 12 months, the Reserve Bank of Australia (RBA) surprised markets by lowering the cash rate in May by 25 bps to a record low of 1.75%. This was in response to an unexpected fall in inflation in the March quarter, moderate global economic growth, mixed labour market indicators, falling mining investments and weak commodity prices (driven by declining Chinese demand for commodities).

The Australian dollar (AUD) continued to depreciate (-3.3%) against the US dollar (USD) over FY16, in part driven by divergent Australian and US target cash rate movements and expectations of future movements.

After a relatively poor performance in the first half of FY16, Australian bonds recovered as the record low cash rate, a deteriorating outlook for global growth and falling inflation kept demand for bonds high. The Australian bond markets witnessed a strong rally in May and June, following the RBA's decision to cut rates and the Brexit vote, as uncertainty dominated investor sentiment and triggered a shift towards safe haven assets. Australian Government 10 year bond yields declined from 2.52% to 1.98% over this period.

Australian credit spreads, as measured by the additional average yield that companies in the iTraxx index are required to pay (above government yields), ended the fiscal year 0.28% wider, at 1.26%. At one point spreads had moved out to 1.71% (11 February) as US high yield markets sold off on increasing US energy default rates, and fears of further defaults rose on the back of record low oil and gas prices.

The Bloomberg Australian Corporate Bond BBB five-year composite yield traded in a broad range during FY16, touching a high of 4.84% in the first quarter of 2016, before settling lower on the back of a dovish stance by the Fed and a rally in global markets (in particular amongst mining and energy companies) finishing the year at 4.30%.

Mr Alexander MacLachlan
Chairman

25 August 2016

Australian Masters Yield Fund No 3 Limited
Corporate governance statement
30 June 2016

Unless disclosed below, all the best practice recommendations as set out in the 3rd Edition of the ASX Corporate Governance Principles and Recommendations have been applied for the entire financial year ended 30 June 2016.

1. Lay Solid Foundations for Management and Oversight

Board Roles and Responsibilities

The Board is responsible for the overall operation, strategic direction, leadership and integrity of Australian Masters Yield Fund No 3 Limited (**Company**) and, in particular, is responsible for the Company's growth and profitability. In meeting its responsibilities, the Board shall undertake the following functions:

- providing and implementing the Company's strategic direction
- overseeing the Manager's implementation of the Company's strategic objectives and monitoring its performance
- reviewing and overseeing the operation of systems of risk management ensuring that the significant risks facing the Company are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with
- overseeing the integrity of the Company's accounting and corporate reporting systems, including the external audit
- ensuring the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the best standards of governance
- reviewing and overseeing internal compliance and legal regulatory compliance
- ensuring compliance with the Company's constitution and with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act 2001*
- overseeing the Company's process for making timely and balanced disclosures of all material information concerning the Company communicating with, and protecting the rights and interests of, all security holders.

The responsibility for the operation and administration of the Company is delegated, by the Board, to Walsh & Company Asset Management Pty Limited (**the Manager**) as set out in the Board Policy and the Management Agreement. The Board ensures the Manager is appropriately qualified and experienced to discharge its responsibilities. The Manager will be responsible for implementing the Company's strategic objectives and operating within the risk appetite as set out within the Investment Guidelines.

Appointment of Directors

The Company has adopted a formal process to ensure that appropriate checks are undertaken before appointing a person, or putting forward to security holders a candidate for election as a director. The Company has outsourced part of this function to an external service provider, which specialises in completing background checks, to verify the candidate's experience, education, criminal record and bankruptcy history.

Upon proposing a candidate for election or re-election as a director, the Company provides security holders with all the relevant material information in its possession to allow security holders to make an informed decision on whether or not to elect or re-elect the candidate. This information will generally include:

- biographical details of the candidate, including their qualifications, experience and skills which may be relevant to the Board of the Company
- details of any current or past directorships held by the candidate

Each Director of the Company receives a formal appointment letter outlining their terms of employment, responsibilities, conditions and expectations of their engagement.

Role of the Company Secretary

The Company Secretary of the Company is directly accountable to the Board, through the Board Chairperson on all matters to do with the proper functioning of the Board. This includes:

- advising the Board on governance matters
- circulating to the Board all board papers in advance of any proposed meeting
- ensuring that the business at board meetings is accurately captured in the minutes
- facilitating the induction and professional development of directors

Diversity
The Company recognises the ASX recommendation with respect to gender diversity and the value add benefits of female representation on the board. However, the Board is of the view that given the fixed life of the Company, the relatively static nature of the Company's portfolio held, the rigid investment strategy and the size of the Company, it is not necessary for the Company to adopt a diversity policy or to seek and appoint a female director.

2. Structure the Board to Add Value

Board Composition
The Company seeks to maintain a Board of Directors with a broad range of skills. The Company has developed a Skills Matrix below which lists the skills that have been identified as the ideal attributes the Company seeks to achieve across its Board membership:

- Leadership
- Industry Knowledge
- Understanding of the Fixed Income Markets
- Corporate Governance
- Financial & Accounting
- Funds Management
- Risk Based Auditing & Risk Management
- Legal

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the Directors' Report. The names of the directors of the Company are:

Mr Alexander MacLachlan (Non-Executive Chairman)
Mr Daryl Dixon (Non-Executive Director)
Mr Christopher Brown (Non-Executive Director)

The Company has no executives or executive directors. All directors are associated with the Manager, however the Board is of the view that given the relatively static nature of the Company's portfolio to be held and the rigid investment strategy and the size of the Company, it is not necessary for the Company to have any independent directors.

The Company recognises the ASX Recommendations with respect to establishing audit, risk, remuneration and nomination committees as good corporate governance. However, considering the size and nature of the Company, the functions that would be performed by these committees are best undertaken by the Board. This is also in line with ASX Recommendations which recognise that "the ultimate responsibility of the integrity of a company's financial reporting rests with the full board".

The Board will review its view on committees in line with the ASX Recommendations and in light of any changes to the size or nature of the Company and, if required, may establish committees to assist it in carrying out its functions.

At that time the Board will adopt a charter for such committees in accordance with the ASX Recommendations and industry best practices.

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive directors on a case-by-case basis and in conformity with the requirements of the Listing Rules and the *Corporations Act 2001*. In accordance with the corporate governance policy, directors are entitled to seek independent advice at the expense of the Company. Written approval must be obtained from the chair prior to incurring any expense on behalf of the Company.

Performance Evaluation
The Board will review its performance annually by discussion and by individual communication with the Chairman, and by reference to generally accepted Board performance standards. The Board and individual directors, including the chairperson, were evaluated during the year to 30 June 2016 in accordance with these processes.

Induction and Ongoing Professional Development
On appointment, the Directors are individually briefed by the Manager and the Management team. Directors are entitled to receive appropriate professional development opportunities to develop and maintain the skills and knowledge needed to perform their role as Directors effectively. The Company's Induction Program is structured to enable a new Director to gain an understanding of; the Company's Investments, the Company's financial, strategic, operational and risk management position, and their rights, duties and responsibilities.

The Company Secretary is responsible for facilitating the induction and ongoing development of all Directors, and where necessary, from time to time, will recommend relevant courses and industry seminars which may assist Directors in discharging their duties.

3. Act Ethically and Responsibly

Code of Conduct
Board members and Company officers are made aware of the requirements to follow corporate policies and procedures, to obey the law and to maintain appropriate standards of honesty and integrity at all times. In this regard the directors have adopted a code of conduct for directors and employees. The code of conduct covers ethical operations, compliance with laws, dealings with customers and public officials, conflicts of interest, confidential and proprietary information and insider trading. A copy of the code of conduct is available on the Company website under the security holder information section.

Share Trading Policy
The Company's code of conduct provides that no director or employee shall purchase or sell Company securities while in possession of material information concerning the Company or such a company that has not previously been generally disclosed to the investing public for at least two business days. Nor shall an employee inform any individual or entity of any such material information, except in the necessary course of business.

Directors are required to give prior notice to the chairman of any dealings in Company securities by themselves or their associates and to provide particulars of any transactions immediately following execution. The company secretary is to make the requisite notifications to ASX within two days of each such transaction.

4. Safeguard Integrity in Corporate Reporting

Audit Committee
The Company recognises the ASX Recommendation with respect to establishing an Audit Committee as part of good corporate governance. However, considering the size of the Company, the functions that would be performed by the Committee are best undertaken by the Board. This is also in line with the ASX Recommendations which recognise that "the ultimate responsibility of the integrity of a company's financial reporting rests with the full board". The Board has adopted a policy to independently verify and safeguard the integrity of its corporate reporting including, but not limited to, the appointment or removal of the external auditor and the rotation of the audit engagement partner.

5. Making Timely and Balanced Disclosure

Continuous Disclosure
All directors have been made aware of the continuous disclosure requirements of the ASX Listing Rules and have been provided with a copy of the relevant rules and guidance notes.

The directors have allocated responsibility to the company secretary to alert the board to any operational or regulatory matters, respectively, which they consider may require disclosure to the market under the continuous disclosure requirements of the ASX Listing Rules. The directors then consider and approve the form of any such announcement.

All Company announcements require the approval of the Board with provision for available directors, including the chairman, to approve urgent announcements. The Company Secretary is responsible for communication with ASX. The chairman is responsible for all media contact and comment.

The annual report contains a review of operations.

6. Respect the Right of Security Holders

Security holder Communication
To promote effective communication with security holders and encourage effective participation at general meetings, information is communicated to security holders:

- through the release of information to the market via the ASX
- through the distribution of the annual report and notices of annual general meeting
- through security holder meetings and investor relations presentations
- by posting relevant information on the Company website.

The independent auditor attends the annual general meeting to respond to questions from security holders on the conduct of the audit and the preparation and content of the audit report.

Rights of Security holders
The Board of Directors has developed a strategy within its Continuous Disclosure Policy to ensure that security holders are informed of all major developments affecting the Company's performance, governance, activities and state of affairs. This includes having a website to facilitate communication with security holders via electronic methods. Each security holder is also provided online access to the Registry to allow them to receive communication from, and send communication to, the Company and the Registry. In addition, the Company publishes regular security holder communications, such as half-yearly and annual reports and provides security holders with an opportunity to access such reports and other releases electronically.

The Board encourages full participation of security holders at the Company's annual general meeting to ensure a high level of accountability and identification with the Company's strategy. Security holders who are unable to attend the Annual General Meeting are given the opportunity to provide questions or comments ahead of the meeting and where appropriate, these questions are answered at the meeting. The external auditor will also be invited to attend the annual general meeting of security holders and will be available to answer any questions concerning the conduct, preparation and content of the auditor's report.

7. Recognise and Manage Risk

Risk Management
The Board oversees the risk management process of identification, assessment, monitoring and managing the significant areas of risk applicable to the Company and its operations. It has not established a separate committee to deal with these matters as the directors consider the size and nature of the Company and its operations to not warrant a separate committee at this time. The Board liaises with, and oversees, the Manager in the application of the risk management protocols. The Manager is responsible for monitoring the performance and risk parameters of investments and keeping the Board apprised of any market and/or Company-specific developments that may impact on the Company's investments.

In order to evaluate and continually improve the effectiveness of its risk management and internal control processes, the Company has adopted a set of Risk Management Guidelines. The Board will annually review the Company's Risk Management Guideline to satisfy itself that the Risk Management framework continues to be sound. The last review took place on 9 May 2016.
The Company does not have a material exposure to sustainability risks.

The Board receives a letter half-yearly from the Company's external auditor regarding its procedures, and reporting that the financial records have been properly maintained and the financial statements comply with the Accounting Standards.

The Manager provides declarations required by Section 295A of the *Corporations Act 2001* for all financial periods and confirms that in its opinion the financial records of the Company have been properly maintained and that the financial statements and accompanying notes comply with the Accounting Standards and give a true and fair view of the financial position and performance of the Company, based on its review of the internal control systems, management of risk, the financial statements and the letter from the Company's external auditor.

Details of the Company's financial risk management are set out in the notes to the financial statements.

8. Remunerate Fairly and Responsibly

Remuneration Policies

Due to the relatively small size of the Company and its operations, the Board does not consider it appropriate, at this time, to form a separate committee to deal with the remuneration of directors.

In accordance with the Company's constitution, each director may be paid remuneration for ordinary services performed as a director. Under ASX Listing Rules, the maximum fees payable to directors may not be increased without the prior approval from the Company in a general meeting. Directors will seek approval from time to time as deemed appropriate. The Company does not intend to remunerate its Directors through an equity based remuneration scheme. Under the Company's constitution, each director may be paid remuneration for ordinary services performed as a director. However, Alexander MacLachlan, Daryl Dixon and Christopher Brown have agreed not to be paid any remuneration for the services they perform as directors.

Remuneration of the directors during the year ended 30 June 2016 is set out in the Directors' Report and in the notes to the financial statements.

Recognition of Legitimate Interests of Stakeholders

As detailed above, the Company has adopted a code of conduct which 'inter alia' deals with compliance with legal and other obligations to legitimate stakeholders. The full code of conduct is available on the Company website under the security holder information section.

Other Information

Further information relating to the Company's corporate governance practices and policies has been made publicly available on the Company's website at www.amyf.com.au.

Australian Masters Yield Fund No 3 Limited
Directors' report
30 June 2016

The directors present their report, together with the financial statements, on the Company for the year ended 30 June 2016.

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

Mr Alexander MacLachlan – Non-Executive Chairman (appointed as Chairman on 25 November 2015)
Mr Daryl Dixon – Non-Executive Director
Mr Christopher Brown – Non-Executive Director
Mr Maximilian Walsh – Non-Executive Chairman (retired on 25 November 2015)
Mr Alan Dixon – Non-Executive Director (retired on 25 November 2015)

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

Information on Directors
Alexander MacLachlan, BA (Cornell), MBA (Wharton)
Non-Executive Chairman

Alex is currently Chairman of the Responsible Entity for the Emerging Markets Masters Fund, US Masters Residential Property Fund, Australian Property Opportunities Fund, Australian Property Opportunities Fund II, US Select Private Opportunities Fund Series and New Energy Solar Fund. Alex also serves as a director of the Australian Masters Yield Fund Series, Australian Masters Corporate Bond Fund No 5 Limited, Asian Masters Fund Limited and New Energy Solar Limited.

Alex joined Dixon Advisory in 2008 to lead the Funds Management division. He is currently the CEO of Walsh & Company, the Funds Management division of Dixon Advisory Australia and the Head of Strategy of Dixon Advisory USA.

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 at 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 Master of Business Administration from The Wharton School, University of Pennsylvania.

Alex was appointed as non-executive director on 10 March 2011 and non-executive chairman on 25 November 2015, and he beneficially holds 50 fully paid ordinary shares in the capital of the Company.

During the past three years, Alex has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:
- Asian Masters Fund Limited (since 2009)
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)
- Australian Masters Yield Fund No 1 Limited (since 2010)
- Australian Masters Yield Fund No 2 Limited (since 2010)
- Australian Masters Yield Fund No 4 Limited (since 2011)
- Australian Masters Yield Fund No 5 Limited (since 2012)
- Emerging Markets Master Fund (since 2012)
- Global Resource Masters Fund Limited (since 2008, delisted 11 March 2016)
- US Masters Residential Property Fund (since 2011)
- US Select Private Opportunities Fund (since 2012)
- US Select Private Opportunities Fund II (since 2013)
- US Select Private Opportunities Fund III (since 2016).

Daryl Dixon, MA (Hons) (Cambridge), BA (Hons) (UQ)
Non-Executive Director

Daryl is a graduate in economics of Cambridge and Queensland Universities and the founder of Dixon Advisory. 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 is a director of Australian Masters Corporate Bond Fund No 5 Limited and the Australian Masters Yield Fund 1 to 3. 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 was appointed as non-executive director on 10 March 2011, and he beneficially holds 1,000 fully paid ordinary shares in the capital of the Company.

During the past three years, Daryl has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)
- Australian Masters Yield Fund No 1 Limited (since 2010)
- Australian Masters Yield Fund No 2 Limited (since 2011)
- US Masters Residential Property Fund (since 2011 until 22 June 2015)
- US Select Private Opportunities Fund (since 2012 until 23 April 2014).

Christopher Brown, BChem Eng (Hons) (USyd), BCom (USyd)
Non-Executive Director

Chris is a director of the Australian Masters Yield Fund Series, Australian Masters Corporate Bond Fund No 5 Limited and serves as Managing Director and Chief Executive Officer at Dixon Advisory, Australia.

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 M&A 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 chemicals, healthcare, consumer products, media, telecoms, technology, insurance and utilities.

Before joining UBS, Chris also worked in the Investment Banking division of ABN AMRO as well as 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 the University of Sydney.

Chris was appointed as non-executive director on 10 March 2011, and he beneficially holds 360 fully paid ordinary shares in the capital of the Company.

During the past three years, Chris has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:

- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)
- Australian Masters Yield Fund No 1 Limited (since 2010)
- Australian Masters Yield Fund No 2 Limited (since 2010)
- Australian Masters Yield Fund No 4 Limited (since 2011)
- Australian Masters Yield Fund No 5 Limited (since 2012)
- US Masters Residential Property Fund (since 2011 until 22 June 2015)
- US Select Private Opportunities Fund (since 2012 until 23 April 2014).

Maximilian Walsh, AM, BEc (USyd)
Non-Executive Chairman (retired on 25 November 2015)

Max is regarded as one of Australia's leading economists and business journalists. He has specialised experience 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 also served on the board of Northern Star TV (predecessor to Channel Ten). Further, Max served as Chairman for the Australian Masters Yield Fund 1 to 3 and Australian Masters Corporate Bond Fund No 5 Limited until 25 November 2015, and served as Non-Executive Chairman of Global Resource Masters Fund Limited until 13 April 2016. Max currently serves as a director of Australian Governance Masters Index Fund Limited and Asian Masters Fund Limited.

Max was appointed as director and non-executive chairman on 10 March 2011, and he directly holds 1 and beneficially holds 3,000 fully paid ordinary shares in the capital of the Company.

During the past three years, Max has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:
- Asian Masters Fund Limited (since 2007)
- Australian Governance Masters Index Fund Limited (since 2009)
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)
- Australian Masters Yield Fund No 1 Limited (since 2010 until 25 November 2015)
- Australian Masters Yield Fund No 2 Limited (since 2011 until 25 November 2015)
- Global Resource Masters Fund Limited (since 2008, delisted 11 March 2016)
- US Masters Residential Property Fund (since 2011 until 22 June 2015)
- US Select Private Opportunities Fund (since 2012 until 23 April 2014).

Alan Dixon, BCom (ANU), CA
Non-Executive Director (retired on 25 November 2015)

Alan has been providing financial advisory services to corporations, institutions and individuals for more than 18 years. Until December 2000, he worked for various investment banks, including ABN AMRO (where he was an Associate Director in Mergers and Acquisitions and Equity Capital Markets) and Ord Minnett Corporate Finance. Since January 2001, he operated as a Group Managing Director of the Dixon Advisory Group. Dixon Advisory provides a complete suite of financial services, employs more than 300 people and has close to $5 billion of funds under administration across over 4,500 self managed super funds.

During 2012, Alan re-located to New York and is now the Managing Director and CEO, Dixon Advisory USA. His primary executive responsibility is the day-to-day management of US Masters Residential Property Fund.

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 was appointed as non-executive director on 10 March 2011, and he beneficially holds 1,000 fully paid ordinary shares in the capital of the Company.

During the past three years, Alan has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009)
- Australian Masters Yield Fund No 1 Limited (since 2010 until 25 November 2015)
- Australian Masters Yield Fund No 2 Limited (since 2011 until 25 November 2015)
- US Masters Residential Property Fund (since 2011 until 22 June 2015)
- US Select Private Opportunities Fund (since 2012 until 23 April 2014).

Company Secretary
The name of the Company Secretary in office at the date of this report is Ms Hannah Chan.

Information on Company Secretary
Hannah Chan, BCom (UNSW), MCom (USyd), CA

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 Walsh & Company Asset Management Pty Limited (the Manager), Hannah gained extensive audit experience while working with Deloitte Touche Tohmatsu and Ernst & Young.

She is also the Company Secretary of Asian Masters Fund Limited, Australian Governance Masters Index Fund Limited, Australian Masters Yield Fund Series, Australian Masters Corporate Bond No 5 Limited, and joint Company Secretary of New Energy Solar Limited, Walsh & Company Asset Management Pty Limited and Walsh & Company Investments Limited. She is a director of Australian Fund Accounting Services Pty Limited.

Hannah was appointed as Company Secretary on 10 March 2011.

Principal Activities and Significant Changes in Nature of Activities
The principal activity of the Company during the financial year was investing in Australian dollar denominated income securities. There were no significant changes in the nature of these activities of the Company that occurred during the year.

Results and Review of Operations
The profit for the company after providing for income tax amounted to $2,664,738 (30 June 2015: $3,702,931).

The Company has fully invested in a portfolio of Australian dollar denominated income securities with a face value of $68.6 million.

The movement in the Company's profit was primarily driven by the reduction of the income producing assets of the Company as financial investments matured during the period with the proceeds being paid out as capital returns to investors. Profits were also lower due to the RBA reducing rates by 0.25% over the year.

As approved by shareholders at the General Meetings held on 25 November 2015, the Company made its Fourth Capital Return of $3.17 per share on 10 December 2015. During the year, the Company has distributed, or provided for, fully franked dividends of $2.63 per share. The net asset value per share was $71.83 at 30 June 2016 (2015: $74.90).

The weighted average number of ordinary shares for the year was 976,386 (2015: 976,386). The basic and diluted earnings per share after tax was $2.73 compared to $3.79 for the previous year.

Further details are included in the Chairman's Letter which forms part of this financial report.

Dividends Paid or Recommended
During the year, the Company paid four fully franked dividends of $0.82 per share on 18 August 2015, $0.46 per share on 10 December 2015, $0.86 per share on 15 February 2016 and $0.49 per share on 30 May 2016. The total amount of the dividends paid during the year was $2,567,896 ($2.63 per share).

Directors' Meetings
The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2016, and the number of meetings attended by each director were:

	Meetings held	Meetings attended
Alexander MacLachlan	4	4
Daryl Dixon	4	4
Christopher Brown	4	4
Maximilian Walsh	1	1
Alan Dixon	1	1

Held: represents the number of meetings held during the time the director held office.

Remuneration Report
(a) Remuneration Policy

Under the Company's constitution, each director may be paid remuneration for ordinary services performed as a director. However, Alexander MacLachlan, Daryl Dixon and Christopher Brown have agreed not to be paid any remuneration, including incentives, retirement benefits and other benefits, for the services they perform as directors. Aside from the directors there are no other key management personnel.

(b) Key Management Personnel's Remuneration

Alexander MacLachlan, Daryl Dixon, Christopher Brown, Maximilian Walsh and Alan Dixon were not paid any remuneration for the services they perform as directors for the year ended 30 June 2016 (2015: Nil).

(c) Service Agreements

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

(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

At the balance date, 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
Alexander MacLachlan	50
Daryl Dixon	1,000
Christopher Brown	360

Mr Maximilian Walsh and Mr Alan Dixon retired as Directors on 25 November 2015. At 30 June 2016, Mr Maximilian Walsh and Mr Alan Dixon are no longer members of the Company's key management personnel. As at balance date, Mr Maximilian Walsh and Mr Alan Dixon continue to beneficially hold 3,001 shares and 1,000 shares, respectively.

There were no movements in shareholdings during the year.

f) Related-Party Transactions

Management Fee
Mr Alexander MacLachlan is Director of the Company and Director of the Manager, Walsh & Company Asset Management Pty Limited. The Manager is entitled to receive an annualised management fee of 0.59% (exclusive of GST) of the value of the Portfolio. The management fee paid or payable for the year was $432,058 (2015: $543,305) exclusive of GST.

No management fees are outstanding to the Manager at 30 June 2016 (2015: Nil).

Administration costs
Australian Fund Accounting Services Pty Limited, a wholly-owned subsidiary of Dixon Advisory Group Pty Limited, the parent of the Manager, provides fund administration services under an agreement with the Manager.

Total fund administration fees paid or payable for the year was $90,000 (2015: $90,000), exclusive of GST.

Significant Changes in the State of Affairs
There were no significant changes in the state of affairs of the company during the financial year.

Future Developments, Prospects and Business Strategies
The Company is fully invested and currently has the intention to hold all existing investments until maturity, however it continues to monitor opportunities to maximize value for shareholders. The Company may seek shareholder approval from time to time to return capital derived from the maturity of its investments to shareholders.

Environmental Issues
The Company’s operations are not regulated by any significant environmental regulation under a law of the Commonwealth, 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.

Proceedings on Behalf of the 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.

After Balance Date Events
On 29 July 2016, the Company announced a fully franked dividend of $0.79 per share. The dividend was paid to shareholders on 18 August 2016.

There have 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.

Auditor
Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

Non-audit Services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 21 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's Independence Declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

____
Mr Alexander MacLachlan
Chairman

25 August 2016

Deloitte Touche Tohmatsu
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The Board of Directors
Australian Masters Yield Fund No 3 Limited
Level 15
100 Pacific Highway
NORTH SYDNEY NSW 2060

25 August 2016

Dear Board Members

Australian Masters Yield Fund No 3 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 3 Limited.

As lead audit partner for the audit of the financial statements of Australian Masters Yield Fund No 3 Limited for the financial year ended 30 June 2016, 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
DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants

Australian Masters Yield Fund No 3 Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2016

	Note	2016 $	2015 $
Revenue	4	4,421,159	5,581,190
Realised (loss)/gain on disposal/redemption of financial assets		(26,539)	727,862
Loss on financial assets at fair value through profit or loss		(4,875)	(385,990)
Expenses			
Management and administration fee	18	(546,360)	(650,000)
Accounting and audit fees		(34,995)	(32,304)
Listing fees		(37,337)	(39,891)
Registry fees		(33,158)	(34,211)
Custody fees		(24,893)	(11,194)
Other expenses		(27,067)	(26,764)
Profit before income tax expense		3,685,935	5,128,698
Income tax expense	5	(1,021,197)	(1,425,767)
Profit after income tax expense for the year attributable to the owners of Australian Masters Yield Fund No 3 Limited		2,664,738	3,702,931
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Australian Masters Yield Fund No 3 Limited		2,664,738	3,702,931
		Cents	**Cents**
Basic earnings per share	20	272.92	379.25
Diluted earnings per share	20	272.92	379.25

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Australian Masters Yield Fund No 3 Limited
Statement of financial position
As at 30 June 2016

	Note	2016 $	2015 $
Assets			
Current assets			
Cash and cash equivalents	6	2,098,358	2,747,721
Other receivables	7	3,731	5,360
Financial assets	8	29,023,412	-
Total current assets		31,125,501	2,753,081
Non-current assets			
Financial assets, at amortised cost	9	34,268,350	62,371,238
Financial assets, at fair value	9	4,948,125	8,102,600
Deferred tax assets	10	50,816	143,759
Total non-current assets		39,267,291	70,617,597
Total assets		70,392,792	73,370,678
Liabilities			
Current liabilities			
Current tax liabilities	12	195,623	121,283
Other payables	11	66,060	119,984
Total current liabilities		261,683	241,267
Total liabilities		261,683	241,267
Net assets		70,131,109	73,129,411
Equity			
Issued capital	13	68,804,359	71,899,503
Retained profits		1,326,750	1,229,908
Total equity		70,131,109	73,129,411

The above statement of financial position should be read in conjunction with the accompanying notes

Australian Masters Yield Fund No 3 Limited
Statement of changes in equity
For the year ended 30 June 2016

	Issued capital $	Retained earnings $	Total equity $
Balance at 1 July 2014	89,533,034	2,213,630	91,746,664
Profit after income tax expense for the year	-	3,702,931	3,702,931
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	3,702,931	3,702,931
Capital returns (note 13)	(17,633,531)	-	(17,633,531)
Dividends paid (note 14)	-	(4,686,653)	(4,686,653)
Balance at 30 June 2015	71,899,503	1,229,908	73,129,411

	Issued capital $	Retained earnings $	Total equity $
Balance at 1 July 2015	71,899,503	1,229,908	73,129,411
Profit after income tax expense for the year	-	2,664,738	2,664,738
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	2,664,738	2,664,738
Capital returns (note 13)	(3,095,144)	-	(3,095,144)
Dividends paid (note 14)	-	(2,567,896)	(2,567,896)
Balance at 30 June 2016	68,804,359	1,326,750	70,131,109

The above statement of changes in equity should be read in conjunction with the accompanying notes

Australian Masters Yield Fund No 3 Limited
Statement of cash flows
For the year ended 30 June 2016

	Note	2016 $	2015 $
Cash flows from operating activities			
Receipt from ATO		40,018	48,159
Dividends received		281,942	376,141
Interest received from investments		3,176,115	3,600,690
Interest received from banks		43,948	512,105
Management fees paid		(475,264)	(597,635)
Payments to suppliers		(322,229)	(162,245)
Net tax paid		(853,914)	(1,778,244)
Net cash from operating activities	19	1,890,616	1,998,971
Cash flows from investing activities			
Proceeds from redemption of investments		3,123,060	21,695,997
Net cash from investing activities		3,123,060	21,695,997
Cash flows from financing activities			
Dividends paid	14	(2,567,895)	(4,686,653)
Capital returns paid	13	(3,095,144)	(17,633,531)
Net cash used in financing activities		(5,663,039)	(22,320,184)
Net (decrease)/increase in cash and cash equivalents		(649,363)	1,374,784
Cash and cash equivalents at the beginning of the financial year		2,747,721	1,372,937
Cash and cash equivalents at the end of the financial year	6	2,098,358	2,747,721

The above statement of cash flows should be read in conjunction with the accompanying notes

1. General information

The financial report covers Australian Masters Yield Fund No 3 Limited (Company) as an individual entity. Australian Masters Yield Fund No 3 Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange Limited (ASX).

The financial report has been approved for issue in accordance with a resolution of the directors on 19 August 2016.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

In the current year, the Company has applied a number of amendments to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end.

- AASB 2015-3 'Amendments to Australian Accounting Standards arising form the Withdrawal of AASB 1031 'Materiality''

The adoption of the above standards had no material impact on the financial statements.

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 (AASB) 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.

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. For the purposes of preparing the financial statements, the Company is a for-profit entity.

The comparative period of this report is from 1 July 2014 to 30 June 2015.

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.

Revenue recognition

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.

2. Summary of Significant Accounting Policies (continued)

Dividends
Dividends are recognised when declared during the financial year.

Income tax
The income tax expense (income) 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, at the end of the reporting period. Current tax liabilities (assets) are 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 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.

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.

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. The Company has not early adopted subsequent amendments to AASB 9 issued in 2010 and 2013.

2. Summary of Significant Accounting Policies (continued)

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.

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.

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.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 arms length transactions, with reference to similar instruments and valuation techniques commonly used by market participants.

2. Summary of Significant Accounting Policies (continued)

Impairment
Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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.

Share capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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 period. Diluted earnings per share is the same because there are no dilutive potential ordinary shares.

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

Goods and Services Tax ('GST')
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. 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. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

New Accounting Standards and Interpretations not yet mandatory or early adopted
At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below.

2. Summary of Significant Accounting Policies (continued)

AASB 9 Financial Instruments and the relevant amending standards
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The Company will adopt the relevant amending standards from 1 January 2018 but the impact of its adoption is yet to be assessed by the Company.

AASB 2014-9 'Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements'
These amendments are applicable to annual reporting periods beginning on or after 1 January 2016. The adoption of these amendments from 1 January 2016 will not have a material impact on the company.

AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'
These amendments are applicable to annual reporting periods beginning on or after 1 January 2018. The adoption of these amendments from 1 January 2018 will not have a material impact on the company.

AASB 14 Regulatory Deferral Accounts
This standard is applicable to annual reporting periods beginning on or after 1 January 2016. The adoption of this standard from 1 January 2016 will not have a material impact on the Company.

AASB 2014-3 Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations
These amendments are applicable to annual reporting periods beginning on or after 1 January 2016. The adoption of these amendments from 1 January 2016 will not have a material impact on the Company.

AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation
These amendments are applicable to annual reporting periods beginning on or after 1 January 2016. The adoption of these amendments from 1 January 2016 will not have a material impact on the Company.

AASB 15 Revenue from Contracts with Customers, AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The Company will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the Company.

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The Company will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the Company.

AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
These amendments are applicable to annual reporting periods beginning on or after 1 January 2016. The adoption of these amendments from 1 January 2016 will not have a material impact on the Company.

AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB101
These amendments are applicable to annual reporting periods beginning on or after 1 January 2016. The adoption of these amendments from 1 January 2016 will not have a material impact on the Company.

AASB 2015-5 Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exception
These amendments are applicable to annual reporting periods beginning on or after 1 January 2016. The adoption of these amendments from 1 January 2016 will not have a material impact on the Company.

2. Summary of Significant Accounting Policies (continued)

AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses
These amendments are applicable to annual reporting periods beginning on or after 1 January 2017. The Company will adopt this standard from 1 January 2017 but the impact of its adoption is yet to be assessed by the Company.

AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107
These amendments are applicable to annual reporting periods beginning on or after 1 January 2017. The Company will adopt this standard from 1 January 2017 but the impact of its adoption is yet to be assessed by the Company.

3. Critical accounting judgements, estimates and assumptions

The directors evaluate estimates and judgements 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.

Key estimates and judgements - impairment
The directors regularly review 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 judgement.

In making this judgement, 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 industry and sector performance and operational and financing cash flows.

The Company is a long-term investor and does not regard short-term or cyclical movements in the unit price of its investments as evidence of impairment.

No impairment has been recognised in respect of financial assets.

4. Revenue

	2016 $	2015 $
Dividends	281,942	376,141
Interest from investments in financial assets	4,096,640	4,912,406
Interest from banks	42,577	279,139
Other income	-	13,504
Revenue	4,421,159	5,581,190

5. Income tax expense

	2016 $	2015 $
Income tax expense		
Current tax	928,254	1,433,628
Deferred tax	92,943	(7,861)
Aggregate income tax expense	1,021,197	1,425,767
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	3,685,935	5,128,698
Tax at the statutory tax rate of 30%	1,105,781	1,538,609
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Franking credit from dividends	(84,584)	(112,842)
Income tax expense	1,021,197	1,425,767

6. Current assets - Cash and cash equivalents

	2016 $	2015 $
Cash at bank	2,098,358	1,877,721
Cash on deposit	-	870,000
	2,098,358	2,747,721

The weighted average interest rate on cash at bank is 1.74% (2015: 2.35%) at year-end.

7. Current assets - Other receivables

	2016 $	2015 $
Interest receivable	2,735	4,105
GST receivable	996	1,255
	3,731	5,360

8. Current assets - Financial assets

	2016	
	$ Face value	$ Amortised cost
Corporate bonds (Maturity date, Coupon rate)		
Fixed rate		
Morgan Stanley (9-May-17, 8.00%)	5,100,000	5,160,645
Floating rate		
Bank of America (14-Feb-17, 3M BBSW + 0.38%)	17,400,000	16,961,935
Morgan Stanley (22-Feb-17, 3M BBSW + 0.47%)	7,000,000	6,900,832
	29,500,000	29,023,412

9. Non-current - Financial assets

	2016	
	$ Face value	$ Amortised cost
a) Corporate bonds (Maturity date, Coupon rate)		
Floating rate		
Bank of Queensland (22-Mar-22, 3M BBSW + 4.25%)	15,000,000	15,038,944
IMB Limited (29-Jun-22, 3M BBSW + 4.25%)	8,000,000	8,014,368
Australian Mutual Investment Trust (9-Nov-22, 3M BBSW + 3.90%)	3,700,000	3,701,957
AMP Bank Limited (21-Dec-22, 3M BBSW + 3.10%)	7,500,000	7,513,081
	34,200,000	34,268,350

	2016	
	Face value	Fair value
b) Hybrid convertible preference shares (Maturity date, Coupon rate)		
Floating rate		
Insurance Australia Group (IAGPC) (1-May-19, 6M BBSW + 4.00%)	4,875,000	4,948,125

Total face value and total carrying amount at 30 June 2016 was $68,575,000 and $68,239,887, respectively.

9. Non-current - Financial assets (continued)

	2015	
	$ Face value	$ Amortised cost
a) Corporate bonds (Maturity date, Coupon rate)		
Fixed rate		
Morgan Stanley (9-May-17, 8.00%)	5,100,000	5,161,560
Floating rate		
Bank of America (14-Feb-17, 3M BBSW + 0.38%)	17,400,000	16,213,015
Morgan Stanley (22-Feb-17, 3M BBSW + 0.47%)	7,000,000	6,724,420
Bank of Queensland (22-Mar-22, 3M BBSW + 4.25%)	15,000,000	15,040,561
IMB Limited (29-Jun-22, 3M BBSW 4.25%)	8,000,000	8,016,036
Australian Mutual Investment Trust (9-Nov-22, 3M BBSW + 3.90%)	3,700,000	3,702,202
AMP Bank Limited (21-Dec-22, 3M BBSW + 3.10%)	7,500,000	7,513,444
	63,700,000	62,371,238

	Face value	Fair value
b) Hybrid convertible preference shares (Maturity date, Coupon rate)		
Floating rate		
Insurance Australia Group (IAGPC) (1-May-19, 6M BBSW + 4.00%)	7,975,000	8,102,600

Total face value and total carrying amount at 30 June 2015 was $71,675,000 and $70,473,838, respectively.

10. Non-current assets - Deferred tax assets

	2016 $	2015 $
Deferred tax asset comprises:		
Other	19,230	5,550
Amounts recognised in equity:		
Transaction costs on equity issue	-	108,086
Fair value of financial assets	31,586	30,123
	31,586	138,209
Deferred tax asset	50,816	143,759

11. Current liabilities - Other payables

	2016 $	2015 $
Accrued expenses	66,060	119,984

12. Current liabilities - Current tax liabilities

	2016 $	2015 $
Provision for income tax	195,623	121,283

13. Equity - Issued capital

	2016 Shares	2015 Shares	2016 $	2015 $
Ordinary shares - fully paid	976,386	976,386	68,804,359	71,899,503

Movements in ordinary share capital

Details	Date paid	Shares	$
Balance	1 July 2014	976,386	89,533,034
Second Capital Return of $5.13 per share	3 March 2015	-	(5,008,860)
Third Capital Return of $12.93 per share	12 May 2015	-	(12,624,671)
Balance	30 June 2015	976,386	71,899,503
Fourth Capital Return of $3.17 per share	10 December 2015	-	(3,095,144)
Balance	30 June 2016	976,386	68,804,359

Ordinary shares
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 shareholder 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.

Share buy-back
There is no current on-market share buy-back.

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

The Company's capital may fluctuate with prevailing market movements and it may undertake a buyback 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 2016, financial liabilities were $261,683 (2015: $241,267). 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.

14. Equity - Dividends

Dividends

Dividends paid during the financial year were as follows:

	2016 $	2015 $
Fully franked dividends of $4.80 per share	-	4,686,653
Fully franked dividends of $2.63 per share	2,567,896	-
	2,567,896	4,686,653

Dividends of $2.63 per share paid during the 2016 financial year were comprised of:

- Fully franked dividend $0.82 per share paid on 18 August 2015
- Fully franked dividend $0.46 per share paid on 10 December 2015
- Fully franked dividend $0.86 per share paid on 15 February 2016
- Fully franked dividend $0.49 per share paid on 30 May 2016

Dividends of $4.80 per share paid during the 2015 financial year were comprised of:

- Fully franked dividend $1.20 per share paid on 18 August 2014
- Fully franked dividend $1.20 per share paid on 5 December 2014
- Fully franked dividend $1.80 per share paid on 3 March 2015
- Fully franked dividend $0.60 per share paid on 12 May 2015

The tax rate at which paid dividends have been franked is 30% (2015: 30%).

Franking credits

	2016 $	2015 $
Franking (debits)/credits available at the reporting date based on a tax rate of 30%	(122,116)	3,665
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	195,623	121,283
Franking credits available for subsequent financial years based on a tax rate of 30%	73,507	124,948

15. Financial instruments

Financial risk management policies

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

15. Financial instruments (continued)

Market risk

Market price risk
Market price risk is the risk that changes in market prices such as equity prices will affect the Company's income and the value of its holdings of financial instruments.

Inherently, the Company is exposed to market price risk as it invests its capital in securities whose market prices can fluctuate.

Market risk is moderated by ensuring that the Company's investment portfolio is not overexposed to one company or one particular sector. The relative weightings of the individual funds are reviewed by the Investment Committee frequently.

The Company has performed sensitivity analysis relating to its exposure to its market price risk at balance date. This sensitivity analysis demonstrates the effect on profit and equity which would results from a change in these risks on financial assets.

At 30 June 2016, the effect on profit and equity as a result of changes in the value of equity investments, with all other variables remaining constant, would be as follows:

2016	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
Financial assets at fair value	5%	247,406	247,406	(5%)	(247,406)	(247,406)

2015	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
Financial assets at fair value	5%	405,130	405,130	(5%)	(405,130)	(405,130)

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 2016, approximately 8% of the financial assets were at a fixed rate and 92% of the financial assets were at a floating rate.

	2016		**2015**	
	Weighted average interest rate %	**Balance $**	**Weighted average interest rate %**	**Balance $**
Cash and cash equivalents	1.74%	2,098,358	2.35%	2,747,721
Other receivables	-	3,731	-	5,360
Investment in financial assets	7.28%	81,583,880	7.27%	88,221,545
Net exposure to cash flow interest rate risk		83,685,969		90,974,626

An analysis by remaining contractual maturities is shown in 'liquidity risk management' below.

15. Financial instruments (continued)

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.

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:

2016	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
Cash at bank	1	20,984	20,984	(1)	(20,984)	(20,984)
Financial assets	1	615,994	615,994	(1)	(616,277)	(616,277)
		636,978	636,978		(637,261)	(637,261)

2015	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
Cash at bank	1	27,477	27,477	(1)	(27,477)	(27,477)
Financial assets	1	654,600	654,600	(1)	(654,883)	(654,883)
		682,077	682,077		(682,360)	(682,360)

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.

There are no amounts of collateral held as security at 30 June 2016.

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 when they fall due.

The Company's exposure to liquidity risk is minimal. The Company had no borrowings at 30 June 2016, 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 generally be traded in the over-the-counter market, in the event the Company needs to convert investments into cash to realise underlying financial positions.

Remaining contractual maturities
The tables below reflect the undiscounted contractual settlement terms (interest and face value) for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. Interest is only included for amortised cost assets. The amounts will not reconcile to the Statement of Financial Position.

15. Financial instruments (continued)

2016	1 year or less $	Between 1 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives				
Cash and cash equivalents	2,098,358	-	-	2,098,358
Other receivables	3,731	-	-	3,731
Investment in financial assets	26,847,065	13,579,120	41,157,695	81,583,880
Total non-derivatives	28,949,154	13,579,120	41,157,695	83,685,969

2015	1 year or less $	Between 1 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives				
Cash and cash equivalents	2,747,721	-	-	2,747,721
Other receivables	5,360	-	-	5,360
Investment in financial assets	3,109,500	38,703,095	46,408,950	88,221,545
Total non-derivatives	5,862,581	38,703,095	46,408,950	90,974,626

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

16. Fair value measurement

Fair value hierarchy
The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

a) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

2016	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Corporate bonds *	-	64,693,168	-	64,693,168
Total assets	-	64,693,168	-	64,693,168

* The amortised cost carrying value at 30 June 2016 is $63,291,762 (refer Notes 8 and 9).

16. Fair value measurement (continued)

2015	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Corporate bonds *	-	64,842,999	-	64,842,999
Total assets	-	64,842,999	-	64,842,999

* The amortised cost carrying value at 30 June 2015 is $62,371,238 (refer Note 9).

The fair values of the financial assets measured at amortised cost included in the level 2 category above have been determined by their redemption price at balance date, or where this is not available, by applying valuation techniques with reference to recent arm's length transactions or by applying market based valuation techniques.

There were no transfers between levels during the financial year.

b) Financial assets measured at fair value through profit or loss

Financial Asset Level 1	Fair Value 30 June 2016 $	Fair Value 30 June 2015 $	Valuation Approach
Hybrid Convertible Preference Shares	4,948,125	8,102,600	Quoted bid prices in an active market

There were no key unobservable inputs or relationship of unobservable input to fair value during the financial year ended 30 June 2016.

17. Key management personnel

Directors
The following persons were directors of Australian Masters Yield Fund No 3 Limited during the financial year:

Mr Alexander MacLachlan	Non-Executive Chairman (appointed as Chairman on 25 November 2015)
Mr Daryl Dixon	Non-Executive Director
Mr Christopher Brown	Non-Executive Director
Mr Maximilian Walsh	Non-Executive Chairman (retired on 25 November 2015)
Mr Alan Dixon	Non-Executive Director (retired on 25 November 2015)

Compensation
Alexander MacLachlan, Daryl Dixon, Christopher Brown, Maximilian Walsh and Alan Dixon 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.

18. Related party transactions

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

Key management personnel
Disclosures relating to key management personnel are set out in note 17 and the remuneration report included in the directors' report.

18. Related party transactions (continued)

Management fee
Mr Alex MacLachlan is a Director of the Company and of the Manager.

The Manager is entitled to receive an annualised management fee of 0.59% (exclusive of GST) of the value of the Portfolio. The management fee paid or payable for the year was $432,058 (2015: $543,305) exclusive of GST.

No management fees are outstanding to the Manager at the year-end (2015: Nil).

Administration costs
Australian Fund Accounting Services Pty Limited, a wholly-owned subsidiary of Dixon Advisory Group Limited, the parent of the Manager, provides fund administration services under an agreement with the Manager. These services include net asset valuation, management accounting, statutory reporting, capital management and taxation.

Total fund administration fees paid or payable for the year was $90,000 (2015: $90,000), exclusive of GST.

19. Reconciliation of profit after income tax to net cash from operating activities

	2016 $	2015 $
Profit after income tax expense for the year	2,664,738	3,702,931
Adjustments for:		
Accrued interest on financial assets	(920,524)	(1,102,562)
Loss/(gain) on redemption/sale of financial assets	26,539	(727,862)
Fair value through profit or loss	4,875	385,990
Change in operating assets and liabilities:		
Decrease in receivables	1,629	10,407
Decrease/(increase) in deferred tax assets	92,943	(7,862)
(Decrease)/increase in other payables and accruals	(53,924)	82,544
Increase/(decrease) in income taxes payable	74,340	(344,615)
Net cash from operating activities	1,890,616	1,998,971

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

20. Earnings per share

	2016 $	2015 $
Profit after income tax attributable to the owners of Australian Masters Yield Fund No 3 Limited	2,664,738	3,702,931
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	976,386	976,386
Weighted average number of ordinary shares used in calculating diluted earnings per share	976,386	976,386
	Cents	**Cents**
Basic earnings per share	272.92	379.25
Diluted earnings per share	272.92	379.25

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

21. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the company:

	2016 $	2015 $
Audit services - Deloitte Touche Tohmatsu		
Audit or review of the financial statements	26,250	25,500
Other services - Deloitte Touche Tohmatsu		
Tax compliance	2,400	2,300
	28,650	27,800

22. Capital Commitments

The Company has no capital commitments at the balance date.

23. Contingent liabilities

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

24. Events after the reporting period

On 29 July 2016, the Company announced a fully franked dividend of $0.79 per share. The dividend was paid to shareholders on 18 August 2016.

No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

25. Company details

The registered office and principal place of business of the Company is:

Australian Masters Yield Fund No 3 Limited
Level 15, 100 Pacific Highway
North Sydney NSW 2060

Australian Masters Yield Fund No 3 Limited
Directors' declaration
30 June 2016

In the opinion of the directors:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

The directors of the Manager, Walsh & Company Asset Management Pty Limited, have declared that:

- the financial records of the Company for the financial year have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
- the financial statements and notes for the financial year comply with the Accounting Standards; and
- the financial statements and notes for the financial year give a true and fair view.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

____
Mr Alexander MacLachlan
Chairman

25 August 2016

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report
to the members of Australian Masters Yield Fund No. 3 Limited

Report on the Financial Report

We have audited the accompanying financial report of Australian Masters Yield Fund No.3 Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other 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 10 to 32.

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 2, 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.

Deloitte.

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.3 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:

(a) the financial report of Australian Masters Yield Fund No.3 Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 7 of the directors' report for the year ended 30 June 2016. 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.3 Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants
Sydney, 25 August 2016

Australian Masters Yield Fund No 3 Limited
Shareholder information
30 June 2016

The shareholder information set out below was applicable as at 31 July 2016.

Distribution of quoted shares as at 31 July 2016
Analysis of number of equitable security holders by size of holding:

Distribution of shareholders category (size of holding)	Number of shareholders
1 to 1,000	1,610
1,001 to 5,000	189
	1,799
Holding less than a marketable parcel	2

Equity security holders

Top 20 holders of ordinary shares

	Ordinary shares	
Shareholder name	Number held	% of total shares issued
ASTAM BOOKS PTY LTD	4,000	0.41
C & J PLAYER SUPER FUND A/C	3,500	0.36
ROSENSHUL S/F A/C	3,400	0.35
HAWES FAMILY SUPER FUND A/C	3,200	0.33
THE BEDO SUPER FUND A/C	3,000	0.31
SOUTHWOOD SUPER FUND A/C	3,000	0.31
THE LEAHY FAMILY S/FUND A/C	3,000	0.31
VETEMAC PTY LTD STAFF SF A/C	2,700	0.28
KE DOWNES PROVIDENT FUND A/C	2,600	0.27
CHILTON SUPER FUND A/C	2,500	0.26
R SUPERANNUATION FUND A/C	2,500	0.26
DWO HAWKS SUPER FUND A/C	2,500	0.26
BREWER SUPER FUND A/C	2,500	0.26
MENHAIR RETIREMENT FUND A/C	2,320	0.24
J & J KRUGER SUPER FUND A/C	2,300	0.24
P A & J TURNER S/F A/C	2,253	0.23
BERNARD G RENWICK S/F A/C	2,250	0.23
CLEAVES FAMILY S/F A/C	2,200	0.23
CONSCHELL S/F A/C	2,138	0.22
JOHNSON SUPER FUND A/C	2,100	0.22
	53,961	5.58

Unquoted equity securities
There are no unquoted equity securities.

Australian Masters Yield Fund No 3 Limited
Shareholder information
30 June 2016

Substantial holdings as at 31 July 2016
There are no substantial holders in the Company pursuant to the provisions of Section 671B of the Corporations Act 2001.

Directors' shareholdings	Ordinary shares
Alexander MacLachlan	50
Daryl Dixon	1,000
Christopher Brown	360

Voting rights
The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Australian Masters Yield Fund No 3 Limited
Management agreement

The Company's investment activities are managed on an exclusive basis by the Manager. The management agreement is dated 3 November 2011 (**Management Agreement**) and the deed of assignment is dated 28 March 2014.

Subject to any applicable regulations, the Company's investment policies and any written guidelines issued by the Company from time to time, the Manager will manage the portfolio and has discretion to acquire, hold and dispose of investments on behalf of the Company.

The term of the Management Agreement provides for the appointment of the Manager for a period commencing on 2 December 2011 and expiring on 2 December 2016 (**Initial Term**). Unless terminated during the initial term, the Management Agreement will be automatically extended for successive further terms of one year each.

The Manager is entitled to receive an annualised management fee of 0.59% (plus GST) of the value of the portfolio, payable annually in advance within 10 Business Days of each 30 June during the term of the Management Agreement. The Manager is not entitled to a performance fee.

The Manager is also entitled to be reimbursed by the Company for fees, costs and expenses when properly incurred in connection with the investment and management of the portfolio, the acquisition, disposal or maintenance of any investment or performance of the Manager's obligations under the Management Agreement, including costs of convening and holding a general meeting of the Company, fees payable to ASIC or any other regulatory body, outgoings in relation to the Portfolio (for example, insurance premiums, rates, levies, duties and taxes), all costs including commissions and brokerage incurred in connection with the acquisition or sale of any of the Company's investments or proposed investments and any software licensing or software subscription fees in connection with risk monitoring and investment research specifically in relation to the Portfolio incurred by the Manager approved by the Board.

The Manager may terminate the Management Agreement at any time by giving to the Company at least six months' written notice.

The Management Agreement gives the Company certain termination rights including the right to immediately terminate the Management Agreement if the Manager:

a) becomes insolvent; or
b) materially breaches its obligations and such breach cannot be rectified; or
c) breaches its obligations and does not remedy that breach within 30 days after the Company has notified the Manager in writing to remedy the breach; or
d) the value of the Portfolio falls to a level below $1,000,000 and a notice of meeting for the Company is sent to shareholders which includes a resolution to seek approval to voluntarily wind up the Company; or
e) persistently fails to ensure that investments made on behalf of the Company are consistent with the Company's investment strategy.

The Company may also terminate the Management Agreement if the licence under which the Manager performs its obligations is suspended for a period of one month or more or is cancelled at any time and the Manager fails to maintain an authorisation enabling it to perform its obligations under the Agreement from a third party holder of a licence.

The Company is also entitled to terminate the Management Agreement after the expiration of the Initial Term on delivery of three months' prior written notice.

ANNUAL REPORT **FOR THE YEAR ENDED 30 JUNE 2016**

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