

Real Estate Capital Partners USA Property Trust

ARSN 114 494 503

Annual Financial Report for the year ended 30 June 2014

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Directors' report

The Directors of Quattro RE Limited ("**Quattro**" or "**Responsible Entity**") (formerly Real Estate Capital Partners Managed Investments Limited or "**RMIL**"), the Responsible Entity for the Real Estate Capital Partners USA Property Trust ("**RCU**" or "**the Trust**") (ASX: RCU) present their report together with the financial statements of the Consolidated Entity for the financial year ended 30 June 2014 and the independent auditor's audit report thereon.

The Consolidated Entity comprises the Trust and the entities it controlled during the financial period. The Trust became a registered managed investment scheme under the *Corporations Act 2001* on 26 May 2005.

Responsible entity and Investment Manager

The Responsible Entity has carried out the investment management function engaging specialist asset management services relevant to the remaining USA property assets of the Trust and expert consultants to assist in the review of strategy and its implementation as required for the Trust.

Directors

The Directors of the Responsible Entity during or since the end of the reporting period are:

Ben Dillon (Appointed 20 July 2012)

Barry McWilliams (Appointed 20 July 2012)

Antony Wood (Appointed 20 July 2012)

All of the Directors are non-executive and independent. The Directors consider that because all of the Directors are independent, an adequate segregation of responsibilities between the investment management functions and corporate governance functions of the Trust has applied during the reporting period.

Principal activities

The Trust is a registered managed investment scheme domiciled in Australia. The principal activity of the Consolidated Entity during the reporting period was property investment in the United States of America ("**USA**"). There were no significant changes in the nature of the Consolidated Entity's activities during the reporting period other than the completion of the foreclosure of the One Centennial property. The Trust and the Consolidated Entity did not have any employees during the reporting period.

Results and distributions

The Consolidated Entity's profit for the year ended 30 June 2014 was \$2,875,000 (2013: \$65,027,000 loss).

No distributions have been paid or are payable in respect of the current or immediately preceding corresponding period and the Directors of the Responsible Entity do not recommend the payment of a distribution.

Directors' report (continued)

Review of operations

Strategic review

In June - July 2013 the Responsible Entity undertook a detailed strategic review of the Trust which included a comprehensive review of the two properties remaining in RCU, Higgins, Chicago ("**Higgins**") and One Centennial, New Jersey ("**One Centennial**"), discussions with lenders in respect of the loans for the two properties, a review of the outlook for the US real estate market, a consideration of the ability to utilise accumulated tax losses within RCU's controlled entities, a consideration of the most suitable strategy for RCU to create value for unitholders and the reduction in RCU's operating costs. The review led to the restructure of the loan which finances the Higgins property, the Trust not opposing and assisting the foreclosure of One Centennial, a reduction of overhead costs, and the carrying out of due diligence on a number of other assets as prospective purchasers.

Higgins

On 30 August 2013 RCU's controlled entity, Mariner Higgins Centre LLC, entered into a modification agreement in respect of the loan which finances Higgins. The terms of the Higgins loan modification were disclosed in an announcement made on 30 August 2013. The Higgins loan modification provided the opportunity to add value to Higgins through an upgrade/refurbishment of the property and an active management strategy.

The strategy is to re-position the asset from a B Grade asset to a lower A Grade asset, providing a more modern and updated office environment, with the expected benefits being an increase in leasing enquiry, increased rents and reductions in vacancy. The refurbishment works have commenced, with the cost being met from existing reserves held with the lender. The full benefit of the refurbishment will start to impact later in the year as the works are completed, however a number of existing tenants have already committed to extended leases based on the planned refurbishment works.

As at 30 June 2014, the asset was valued at US\$14,900,000 (2013: US\$11,700,000), an increase of US\$3,200,000 or 27.35%. The increased valuation reflects both the current refurbishment program as well as positive improvements in the wider US economy and real estate markets and improved conditions for commercial office assets located in the O'Hare Chicago sub market. The Consolidated Entity's participation in any incremental value upon the ultimate realisation of the property is subject to the capital event waterfall described in Note 17 to the financial statements.

One Centennial

On 7 August 2013, the Supreme Court of New Jersey granted the lenders application for a default judgment in respect of the property. At that time the lender was owed US\$27.0 million (plus accrued interest of US\$5.1 million) and the valuation of the asset was US\$23.8 million. The lender also had recourse to escrow funds of approximately US\$3.4 million. Having regard to the limited recourse nature of the loan, the Responsible Entity did not take any action to oppose the entry of the default judgment and provided the assistance required by the lender to complete the foreclosure sale of the property on 2 April 2014.

Upon completion of the foreclosure auction process the property (and related escrow funds held by the lender) and corresponding debt (and accrued interest) were derecognised by the Trust resulting in a gain on foreclosure of US\$4.1 million.

Directors' report (continued)

Review of operations (continued)

New acquisitions

The Trust has been actively reviewing asset acquisitions and continues to do so. The investment strategy of the Trust is to identify assets where value can be added or the acquisition is opportunistic, with a focus on markets that have a positive macro economic outlook, which includes both Australasia and the USA.

Capital Management

On 24 September 2013, a placement was completed which raised \$584,000. The purpose of the placement was to assist in the funding of costs in reviewing new acquisitions.

Unitholders' meeting on 16 January 2014

On 18 November 2013, Lemark Corporation Limited ("LMC") requisitioned a meeting of Unitholders to consider three proposed resolutions to wind up the Trust, to remove RMIL as the responsible entity and replace it with New City Funds Management Limited. On the 3 December 2013, the responsible entity issued an Explanatory Memorandum to Unitholders detailing the proposed resolutions and the Directors recommendations to reject the three proposed resolutions. The unitholders' meeting was held on the 16 January 2014 and the resolutions relating to the winding up of the Trust and the removal of the Responsible Entity as responsible entity of the Trust were rejected by unitholders. As the resolution for the removal of the Responsible Entity was not passed it was not necessary to vote on the third resolution.

LMC failed to attend the meeting on 16 January 2014 or to vote. If they had voted, the resolutions would still have been rejected by unitholders.

Proposed meeting on 20 March 2014

On 16 January 2014, LMC provided notice of its intention to hold a further meeting of Unitholders. On 18 February 2014, LMC issued a notice of meeting to be held on 20 March 2014 to consider resolutions to remove the responsible entity and replace it with USA Residential Funds Management Pty Limited. On 20 March 2014, the day of the meeting, LMC purported to cancel the meeting and did not attend the meeting which consequently lapsed.

Interest of the Responsible Entity

The Responsible Entity and its associates did not hold any units in the Trust during the financial year, except that Mr. Ben Dillon holds 2,000 units in the Trust. Mr. Andrew Saunders, the Company Secretary of the Responsible Entity, and his associates own 927,267 units in the Trust.

Responsible Entity fees, related party fees and other transactions

Except as disclosed in this report or in the notes to the consolidated financial statements, no Director of the Responsible Entity has received or become entitled to receive any benefit because of a contract made by the Responsible Entity or a related entity with a Director or with a firm of which a Director is a member or with an entity of which a Director of the Responsible Entity has a substantial interest. All transactions with related parties are conducted on commercial terms and conditions.

Directors' report (continued)

Responsible Entity fees, related party fees and other transactions (continued)

	2014	2013
	\$	\$
<i>Transactions with related parties - Consolidated</i>		
<i>Charged by the Responsible Entity and its associates</i>		
• Responsible Entity fees (see i below)	170,171	394,142
• Responsible Entity fee in relation to Higgins property debt restructuring (see ii below)	136,044	-
• Responsible Entity fee in relation to One Centennial foreclosure (see iii below)	137,108	-
• expense recoveries (see iv below)	1,417,887	1,261,004
	1,861,210	1,655,146
<i>Charged by the Investment Manager</i>		
• expense recoveries prior to termination	-	132,537
• expense recovery relating to requisition of Investor meeting	-	61,350
• termination fee	-	353,042
	-	546,929
<i>Charged by the US Asset Manager</i>		
• asset management fees prior to termination	-	118,519
• administration fees prior to termination	-	59,260
• expense recoveries prior to termination	-	91,218
• expense recoveries in relation to CBA/Pearlmark refinancing	-	70,987
• fee in relation to Sale to Saban group	-	539,291
• asset sale fee	-	910,153
	-	1,789,428
<i>Balances outstanding with related parties - Consolidated</i>		
<i>Included in payables:</i>		
• to the Responsible Entity		
• Responsible Entity fees	123,289	14,225
• Expense recoveries	21,122	127,368
(see Note 16)	144,411	141,593

Directors' report (continued)

Responsible Entity fees, related party fees and other transactions (continued)

- i Responsible Entity fees are calculated on the following basis:
 - Between 1 - 20 July 2012: at 0.08% per annum of the Trust's gross assets (calculated on a consolidated basis) in accordance with Trust Company's Management Services agreement.
 - Between 20 July - 31 October 2012: at 0.2% of net assets in accordance with the RCU Product Disclosure Statement, being less than the fee permitted by the Constitution..
 - Since 1 November 2012: at 3% of the gross income of the Trust in accordance with the Trust's Constitution. Trustee fees of \$10,000 p.a. were paid to a related party (prior to 20 July 2012) of the then responsible entity for acting as the trustee of RRT since its acquisition.
- ii Responsible Entity fee at 3% of the gain arising on the Higgins property debt modification
- iii Responsible Entity fee at 3% of the gain arising on the foreclosure of the One Centennial property
- iv Costs incurred by the Responsible Entity in managing the Trust included accounting, compliance, legal and expense recoveries including:
 - in the current year \$522,635 paid to Zerve Pty Limited, a party related to the Company Secretary of the Responsible Entity, for asset management services provided to the USA REIT.
 - in the prior corresponding period: an amount of \$103,700 paid to Ben Dillon, \$45,456 to Barry McWilliams and \$39,842 to Antony Wood for work done by them outside the scope of their normal services as Directors of the Responsible Entity.

Management expense recoveries have been included in other operating costs in the consolidated statement of comprehensive income.

Events subsequent to the end of the reporting period

Other than the matters disclosed in this report there has not arisen in the interval between the end of the financial period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial periods.

Business strategies and prospects

The business plan for the Trust takes account of the current asset base, the structure of the group with its embedded tax losses, the expertise of the management team in relation to USA and Australasian property investment and the potential sources of capital to support the value add property opportunities being considered by the Trust.

In this reporting period the key strategic objectives were to:

- research and formulate a feasible resetting of the investment direction for the Trust following the large scale capital redemption;
- complete the restructuring of the investment in Higgins and resolve the handback of One Centennial and its loan liability;
- commence a property acquisition plan focusing on value add opportunities predominantly in the USA but also the Australasian market;
- develop a plan for the utilization of the embedded tax benefits in the Trust's structure for the enhancement of future total investment returns; and
- stabilize the investor base and confirm unitholders' support for the property investment strategy;
- raise a top up to working capital of the Trust through allowable private placement to support property due diligence and medium term cashflow planning; and
- significantly reduce the Trust's governance and management expenditure.

Directors' report (continued)

Business strategies and prospects (continued)

The continuing business strategies of the Trust are an extension of these objectives and predominantly fall into three streams:

- to continue to investigate value add property investment opportunities in USA and Australasian markets;
- to implement, if appropriate, a restructure of the Trust to facilitate the efficient utilisation of embedded tax benefits with the objective of enhancing future total investment returns; and
- to market the Trust to potential sources of equity to assist to fund the identified property acquisition opportunities.

The Higgins loan modification provided the Trust with the opportunity to add value to the property through a renovation programme and an enhanced positioning of the property in the market. The renovation, which comprises an upgrade to the common areas, is in progress with a third of the works complete. In terms of the market for new tenants, the O Hare market vacancy rate hit a 7 year low in mid 2014 and continues to improve, providing positive indications for the leasing programme post renovation. The improved market and ongoing works have resulted in an increase of 240% in leasing enquiry on the property, with total enquiry for 492,000sqft in the first part of 2014. As the renovations complete, we anticipate the property will be well positioned to convert the enquiry into long term lease commitments.

The risks to the business strategies are the normal commercial risks such as the identification of suitable assets, the sourcing of appropriate equity and debt finance, foreign exchange risk, taxation risk and the depletion of cash reserves in the event that the Trust is unable to implement the strategies to generate additional cash-flow.

Going concern

The consolidated financial report of the Trust has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

Working capital

The Consolidated statement of financial position discloses that the Consolidated Entity had a deficiency of working capital (being the amount of payables in excess of cash and cash equivalents and trade and other receivables) of \$782,000 (2013: \$2,885,000 surplus). Included in payables are amounts relating to tenant security deposits of \$61,000 (2013: \$65,000), rent received in advance of \$81,000 (2013: \$280,000) and accrued real estate taxes of \$811,000 (2013: \$721,000). These amounts, which total \$953,000 (2013: \$1,066,000) are not immediately payable or refundable to tenants, and accordingly, once excluded from the calculation, the Consolidated Entity would have a surplus of working capital of \$171,000 (2013: \$3,951,000).

The Consolidated Entity currently does not receive consistent cash income and will not do so until the occupancy of the Higgins property exceeds 90%. The Consolidated Entity continues to require cash to settle its ongoing operating expenses and accordingly, will require additional financing to meet these obligations.

Cashflow budgets

The Responsible Entity has prepared cashflow budgets through to August 2015 which indicate that upon successful execution of the Consolidated Entity's business strategy, which includes the raising of additional capital via an equity issue, the Consolidated Entity will generate sufficient funds to meet its working capital and financing requirements.

Directors' report (continued)

Going concern (continued)

Conclusion

The Directors of the Responsible Entity have determined that because the cashflow budgets prepared above, which include an assumption about raising additional capital via an equity issue, indicate that there are reasonable grounds to consider that the Consolidated Entity will be able to pay its debts as and when they become due and payable, that the preparation of the financial report on a going concern basis to be appropriate. However, if the Responsible Entity is unable to execute its business strategy as planned and cashflow projections, including the proceeds of the proposed capital raising, are not achieved, there is material uncertainty that the Trust would be able to meet its financial obligations as and when they fall due and continue as a going concern and as such the Consolidated Entity may be required to realise assets at amounts less than that stated in the financial statements.

Significant changes in state of affairs

In the opinion of the Directors of the Responsible Entity there have been no other significant changes in the state of affairs of the Trust which occurred during the financial year not otherwise disclosed in this Directors' report or the attached financial report.

Indemnification and insurance of officers and auditors

Indemnification

Under the Trust's Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Trust's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Trust.

The Trust has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been auditor of the Trust.

Insurance premiums

Subsequent to 20 July 2012, Real Estate Capital Partners Pty Limited has paid as part of its insurance arrangements, premiums in respect of Directors' and officers' liability insurance contracts covering Directors and officers of the Responsible Entity.

Directors' report (continued)

Non-audit services

During the financial year the Consolidated Entity's auditor, KPMG, provided certain other services in addition to their statutory duties as auditor.

The Board of the Responsible Entity has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit and Risk Committee of the Responsible Entity, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Responsible Entity to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Consolidated Entity, acting as an advocate for the Consolidated Entity or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Consolidated Entity, KPMG, and its related practices for audit and non-audit services provided during the year are set out in Note 7 to the consolidated financial statements.

Environmental regulations

To the best of Directors' knowledge the operations of the USA REIT have been conducted in compliance with the environmental regulations existing under USA federal, state and local legislation.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 9 and forms part of the Directors' Report for the year ended 30 June 2014.

Rounding off

The Trust and Consolidated Entity are of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and the Directors' Report have been rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the Responsible Entity:



Ben Dillon
Director
Sydney, 12 September 2014



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Quattro RE Limited, as Responsible Entity of Real Estate Capital Partners USA Property Trust

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Kims

KPMG

Ian Moyser
Partner

Sydney

12 September 2014

		Consolidated	
Consolidated statement of profit and loss and other comprehensive income for the year ended 30 June 2014	Note	2014	2013
		\$'000	\$'000
			Re-presented (See Note 4)
Revenue and other income			
Rental income from investment properties		3,794	6,826
Recoverable outgoings from investment properties		1,568	1,999
Gain on debt modification		4,534	-
Gain on foreclosure		4,570	-
Interest income	5	21	22
Net gain/(loss) on foreign exchange		40	326
Other income		80	17
Total revenue and other income		14,607	9,190
Expenses			
Property expenses		3,587	3,955
General and administration		-	2,076
Borrowing costs		6,638	4,294
Responsible Entity fees	24	443	394
Investment Manager fee		-	353
Asset management fees		-	178
Custodian fees		61	60
Other operating expenses	6	3,701	3,794
Total expenses		14,430	15,104
Change in fair value of investment property		2,464	(35,290)
Change in fair value of financial liability		234	-
Share of profit of equity accounted investees, net of tax		-	1,647
Realised foreign currency loss on disposal of assets		-	(25,470)
Profit/(loss) before income tax		2,875	(65,027)
Income tax	8	-	-
Profit/(loss) for the year		2,875	(65,027)

Continued on page 11

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

		Consolidated	
Consolidated statement of profit and loss and other comprehensive income for the year ended 30 June 2014 (continued)	Note	2014	2013
		\$'000	\$'000
			Re-presented (See Note 4)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Unrealised foreign currency translation gain/(loss) - foreign operations		891	(462)
Net change in foreign currency translation reserve on disposal of assets transferred to profit and loss		-	25,470
Total other comprehensive income		891	25,008
Total comprehensive income/(loss) for the year		3,766	(40,019)
Total comprehensive income/(loss) for the year attributable to unitholders of the Trust		3,766	(40,019)
Earnings per unit			
		Cents	Cents
Basic earnings/(loss) per unit	20	24.16	(87.54)
Diluted earnings/(loss) per unit	20	24.16	(87.54)

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**Consolidated statement of changes in equity
for the year ended 30 June 2014**

Consolidated Entity	Note	Issued capital \$'000	Translation reserve \$'000	Accumul- ated losses \$'000	Total equity \$'000
2013					
Balance at 30 June 2012	18	254,478	(22,813)	(139,498)	92,167
Total comprehensive income for the year					
Profit/(loss) for the year		-	-	(39,557)	(39,557)
Translation of foreign operations		-	(462)	-	(462)
Realised foreign exchange on disposal of assets		-	25,470	(25,470)	-
Total comprehensive income for the year		-	25,008	(65,027)	(40,019)
Transactions with owners, recorded directly in equity					
Redemption of units	18	(51,355)	-	-	(51,355)
Total transactions with owners		(51,355)	-	-	(51,355)
Balance at 30 June 2013		203,123	2,195	(204,525)	793
2014					
Balance at 30 June 2013	18	203,123	2,195	(204,525)	793
Total comprehensive income for the year					
Profit/(loss) for the year		-	-	2,875	2,875
Translation of foreign operations		-	891	-	891
Realised foreign exchange on disposal of assets		-	-	-	-
Total comprehensive income for the year		-	891	2,875	3,766
Transactions with owners, recorded directly in equity					
Units issued	18	584	-	-	584
Total transactions with owners		584	-	-	584
Balance at 30 June 2014		203,707	3,086	(201,650)	5,143

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

**Consolidated statement of financial position
as at 30 June 2014**

	Note	Consolidated	
		2014 \$'000	2013 \$'000
Assets			
Current assets			
Cash and cash equivalents	9(a)	1,209	6,188
Trade and other receivables	10	150	142
Other assets	11	1,218	6,382
Assets held for sale – investment properties	12	-	38,275
Total current assets		2,577	50,987
Non-current assets			
Investment properties	14	15,817	-
Investments in equity accounted investees	15	-	-
Other assets	11	3,015	-
Total non-current assets		18,832	-
Total assets		21,409	50,987
Liabilities			
Current liabilities			
Trade and other payables	16	2,141	3,445
Financial liabilities, at fair value	17	706	-
Financial liabilities, at amortised cost	17	-	46,749
Total current liabilities		2,847	50,194
Non-current liabilities			
Financial liabilities, at fair value	17	13,419	-
Total non-current liabilities		13,419	-
Total liabilities		16,266	50,194
Net assets		5,143	793
Equity			
Issued capital	18	203,707	203,123
Reserves	18	3,086	2,195
Accumulated losses		(201,650)	(204,525)
Total equity		5,143	793

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

**Consolidated statement of cash flows
for the year ended 30 June 2014**

Consolidated statement of cash flows for the year ended 30 June 2014	Note	Consolidated	
		2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts in the course of operations		5,673	10,005
Payments in the course of operations		(6,737)	(14,204)
Realised gain/(loss) on foreign exchange		-	-
Payments of interest and other borrowing costs		(1,548)	(4,482)
Net cash from/(used in) operating activities	9(b)	(2,612)	(8,681)
Cash flows used in investing activities			
Interest received		21	-
Payments for improvements to investment properties		(327)	-
Proceeds from sale of investment property		-	111,875
Proceeds from sale of equity accounted investment		-	25,996
Transfer funds to capital reserve		(1,193)	-
Net cash from/(used in) investing activities		(1,499)	137,871
Cash flows from in financing activities			
Proceeds from issue of units	18	584	-
Redemption of units		-	(51,355)
Repayment of borrowings		-	(85,253)
Cash relinquished on foreclosure		(1,451)	-
Net cash from financing activities		(867)	(136,608)
Net increase/(decrease) in cash and cash equivalents		(4,978)	(7,418)
Cash and cash equivalents at the beginning of the year		6,188	13,288
Effect of exchange rate fluctuations		(1)	318
Cash and cash equivalents at the end of the year	9(a)	1,209	6,188

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

REAL ESTATE CAPITAL PARTNERS USA PROPERTY TRUST

ARSN 114 494 503

Notes to the consolidated financial statements
for the year ended 30 June 2014

1. Reporting entity

Real Estate Capital Partners USA Property Trust (the “Trust”), is a registered managed investment scheme under the *Corporations Act 2001*. The consolidated financial report of the Trust as at and for the year ended 30 June 2014 comprises the Trust and its subsidiaries (together referred to as the “Consolidated Entity” and individually as “Group entities”). The Trust is a for-profit entity. The principal activities of the Consolidated Entity during the financial year were the derivation of rental income from investment properties located in the United States of America (“USA”).

2. Basis of preparation

(a) Statement of compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (“AASBs”) adopted by the Australian Accounting Standards Board (“AASB”) and the *Corporations Act 2001*. The consolidated financial report also complies with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board (“IASB”).

The financial statements were authorised for issue by the Directors of the Responsible Entity on 12 September 2014.

(b) Going concern

The consolidated financial report of the Trust has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

Working capital

The Consolidated statement of financial position discloses that the Consolidated Entity had a deficiency of working capital (being the amount of payables in excess of cash and cash equivalents and trade and other receivables) of \$782,000 (2013: \$2,885,000 surplus). Included in payables are amounts relating to tenant security deposits of \$61,000 (2013: \$65,000), rent received in advance of \$81,000 (2013: \$280,000) and accrued real estate taxes of \$811,000 (2013: \$721,000). These amounts, which total \$953,000 (2013: \$1,066,000) are not immediately payable or refundable to tenants, and accordingly, once excluded from the calculation, the Consolidated Entity would have a surplus of working capital of \$171,000 (2013: \$3,951,000).

The Consolidated Entity currently does not receive consistent cash income and will not do so until the occupancy of the Higgins property exceeds 90%. The Consolidated Entity continues to require cash to settle its ongoing operating expenses and accordingly, will require additional financing to meet these obligations.

Cashflow budgets

The Responsible Entity has prepared cashflow budgets through to August 2015 which indicate that upon successful execution of the Consolidated Entity’s business strategy, which includes the raising of additional capital via an equity issue, the Consolidated Entity will generate sufficient funds to meet its working capital and financing requirements.

REAL ESTATE CAPITAL PARTNERS USA PROPERTY TRUST

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Notes to the consolidated financial statements

for the year ended 30 June 2014

2. Basis of preparation

(b) Going concern (continued)

Conclusion

The Directors of the Responsible Entity have determined that because the cashflow budgets prepared above, which include an assumption about raising additional capital via an equity issue, indicate that there are reasonable grounds to consider that the Consolidated Entity will be able to pay its debts as and when they become due and payable, that the preparation of the financial report on a going concern basis to be appropriate. However, if the Responsible Entity is unable to execute its business strategy as planned and cashflow projections, including the proceeds of the proposed capital raising, are not achieved, there is material uncertainty that the Trust would be able to meet its financial obligations as and when they fall due and continue as a going concern and as such the Consolidated Entity may be required to realise assets at amounts less than that stated in the financial statements.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- investment properties are measured at fair value
- investment properties held for sale are measured at fair value
- financial liabilities are measured at fair value

The methods used to measure fair values are discussed further in Note 3(c), 3(h) and 3(j).

(d) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars (“**A\$**”), which is the Trust’s presentation currency. The Trust’s functional currency is Australian dollars; however, the Consolidated Entity is predominantly comprised of operations located in the USA. The functional currency of the controlled entities that hold these operations is United States dollars (“**US\$**”).

The Trust and Consolidated Entity are of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by Class Order 05/641 effective 28 July 2005 and Class Order 06/51 effective 31 January 2006) and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand dollars unless otherwise stated.

REAL ESTATE CAPITAL PARTNERS USA PROPERTY TRUST

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**Notes to the consolidated financial statements
for the year ended 30 June 2014**

2. Basis of preparation (continued)

(e) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Significant judgements, estimates and assumptions made by management in the preparation of these consolidated financial statements are outlined below:

• Investment properties – Valuation

Investment properties are valued each reporting date to reflect their fair value according to the Trust's policy on valuing property (Refer to Note 3(i) for further details).

• Assets held for sale – Investment properties (for comparative period only)

Assets disclosed as held for sale as at 30 June 2013 were valued at fair value

• Financial liabilities – Valuation

During the current financial year, Mariner Higgins LLC (a controlled entity of the Trust) entered into a loan modification agreement with the secured lender to the controlled entity's investment property. The financial liability created by the loan modification agreement has been designated as a financial liability at fair value through profit and loss by Directors of the Responsible Entity (Refer to Note 17 for further details).

3. Significant accounting policies

Except as set out below and on the following page the accounting policies adopted in the preparation of the consolidated financial statements are consistent with those applied in the preparation of the Consolidated Entity's financial statements as at 30 June 2013.

New accounting standards

The Consolidated Entity has adopted the following new accounting standards and amendments to standards, including any consequential amendments to other standards, with an initial application date of 1 July 2013:

• AASB 10 – Consolidated Financial Statements (2011)

As a result of AASB 10 (2011) the Consolidated Entity has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Consolidated Entity has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The Consolidated Entity re-assessed the control conclusion for its investees at 1 July 2013 and no change was made to those entities classified as subsidiaries as at that date.

3. Significant accounting policies (continued)

New accounting standards (continued)

• **AASB 13 – Fair Value Measurement**

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other AASB's. In particular, it unifies the definition of fair values as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs. In accordance with the transitional provisions of AASB 13 the Consolidated Entity has applied the new fair value measurement guidance prospectively. Notwithstanding the foregoing, the change has had no significant impact on the measurement of the Consolidated Entity's assets and liabilities.

Financial liability, at fair value

It is noted above that during the current financial year, Mariner Higgins LLC (a controlled entity of the Trust) entered into a loan modification agreement with the secured lender to the controlled entity's investment property. In prior reporting periods the financial liability of Mariner Higgins LLC was accounted for in accordance with the amortised cost method.

Upon undertaking a quantitative and qualitative assessment of the terms of the modification agreement, the Directors of the Responsible Entity determined the modification to be substantial, and have accounted for it as an extinguishment of the original financial liability and the recognition of a new financial liability in accordance with AASB 139 – Financial Instruments: Recognition and Measurement ("AASB 139"). The financial liability created by the loan modification agreement has been designated by Directors of the Responsible Entity as a financial liability at fair value through profit and loss.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are those entities over which the Consolidated Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than half the voting rights. In assessing whether control exists, potential voting rights that are presently exercisable or convertible are considered.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. A schedule of subsidiaries is set out in Note 23 to these consolidated financial statements. The financial statements of subsidiaries are prepared for the same reporting period as the Trust using consistent accounting policies. Adjustments are made to align any dissimilar accounting policies which may exist.

All balances and the effects of transactions between subsidiaries have been eliminated in full. In the Trust's financial statements, investments in subsidiaries are carried at cost, less impairment.

3. Significant accounting policies (continued)

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the foreign currency closing exchange rate ruling at the end of the reporting period.

Foreign currency exchange differences arising on translation and realised gains and losses on disposals or settlements of monetary assets and liabilities are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Australian dollars at the foreign currency closing exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to investments at fair value through profit or loss are included in gains and losses on investments. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents, are presented separately in the statement of comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at the exchange rate at reporting date. The income and expenses of foreign operations are translated to Australian dollars at the average exchange rate for the year.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve ("Translation reserve") in equity. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Consolidated Entity disposes of only part of its interest in a subsidiary that includes a foreign operation whilst retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

(c) Financial instruments

(i) Classification

The Consolidated Entity's financial instruments comprise:

- the category of financial liabilities at fair value through profit or loss comprising loans and borrowings
- financial instruments that are classified as loans and receivables including trade and other receivables
- financial liabilities that are not at fair value through profit or loss including trade and other payables and loans and borrowings.
- cash and cash equivalents.

(ii) Recognition

The Consolidated Entity recognises financial assets and financial liabilities at fair value through profit or loss on the date it becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date they originated.

Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of AASB 139 *Financial Instruments: Recognition and Measurement*.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Measurement

Financial instruments are measured initially at fair value ("transaction price") plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

Financial instruments classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any. Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

(iv) Derecognition

The Trust derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

(v) Fair value measurement principles

The fair value of financial instruments is based on valuation techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Consolidated Entity would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility, appropriate yield curve) and the current creditworthiness of the counterparties. Specifically, the fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates on the valuation date.

(vi) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such indication exists, impairment testing is carried out and an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(vii) Specific instruments

Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Derivative financial instruments

The Trust and Consolidated Entity have previously used derivative financial instruments to partially hedge their exposure to interest rate risks arising from investment activities. In accordance with its investment strategy, the Trust and Consolidated Entity do not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting would be accounted for as trading instruments.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred.

(d) Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income as it accrues, using the effective interest method of the instrument calculated at the acquisition or origination date. Interest income and expense includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(e) Expenses

All expenses, including Responsible Entity, Asset management fees and Custodian fees, are recognised in profit or loss on an accruals basis.

(f) Distribution and taxation

Distributions from the US REIT

Distributions of earnings and profits made by the Trust's subsidiary, Mariner American Property Income REIT, Limited (the "US REIT") for the financial year are not taxable. Distributions that are in excess of its earnings and profits are treated as non-taxable returns of capital to the Trust to the extent of the Trust's adjusted tax cost basis in the units of the US REIT.

Distributions made by the US REIT which are attributable to capital gains from disposal of the US properties are subject to US tax at a special rate of 35%. The Consolidated Entity recognises a deferred tax liability at 35% on the difference between the fair value of the properties and their tax cost base under the US tax regulation. The deferred tax liability is adjusted to reflect the movement in the fair value of the properties and their tax cost base. To the extent that the fair value of the properties is lower than the tax cost base no deferred tax asset is recognised.

3. Significant accounting policies (continued)

(f) Distribution and taxation (continued)

Distributions to unitholders

Distributions from the Trust to unitholders are from available cash flows and not directly related to the accounting profit. Distributions can be a mixture of tax deferred distributions as well as taxable income distributions. Under current legislation the Trust is not subject to income tax as its taxable income (including assessable realised capital gains) is distributed in full to the unitholders. The Trust fully distributes its distributable income, calculated in accordance with the Trust Constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the Constitution.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Trust is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Trust to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses the excess is distributed to the unitholders.

(g) Goods and services tax

Management fees, custody fees and other expenses are recognised net of the amount of goods and services tax ("GST") recoverable from the Australian Taxation Office ("ATO") as a reduced input tax credit ("RITC").

Payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows are included in the statements as cash flows on a gross basis.

(h) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income or for capital appreciation or for both. Land and buildings comprising the investment properties are considered composite assets and are disclosed as such in the accompanying notes to the consolidated financial statements.

Investment properties acquired are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Where the contracts of purchase include a deferred payment arrangement, amounts payable are recorded at their present value, discounted at the rate applicable to the Trust if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

Investment properties are subsequently stated at fair value with any change therein recognised in profit or loss. Fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

3. Significant accounting policies (continued)

(i) Property valuations

Valuations are undertaken internally by knowledgeable property professionals each reporting period and external, independent valuations are obtained annually or more frequently if Directors of the Responsible Entity are of the opinion that the market has moved materially.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation.

Valuations reflect, where appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within the appropriate time. Any gain or loss arising from a change in fair value is recognised in profit or loss.

Valuations are predicated on marketing programs with terms of 6-12 months (as stated in the independent valuations) appropriate for the hypothetical sale of individual assets. However, Directors consider that book values may not be realised in the event of a sale without the benefit of an appropriate marketing program.

(j) Other investments

The Trust's investment in other debt and equity securities is determined by reference to their quoted closing bid price at the reporting date, or if unquoted determined using an appropriate valuation technique.

(k) Rental income

Rental income from investment properties is recognised on a straight line basis over the lease term. Rental income not received at reporting date is reflected in the statement of financial position as a receivable or if paid in advance within payables, as rent in advance. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease, on a straight-line basis, as a reduction of lease income.

Lease incentives provided by the Consolidated Entity to lessees, and rental guarantees which may be received from third parties (arising on the acquisition of investment property) are excluded from the measurement of fair value of investment property and are treated as separate assets as presented in Note 14 if applicable. Such assets are amortised over the respective periods to which the lease incentives and rental guarantees apply, either using a straight line basis, or a basis which is representative of the pattern of benefits.

Contingent rents based on the future amount of a factor that changes other than with the passage of time including turnover rents and CPI linked rental increases are only recognised when contractually due.

3. Significant accounting policies (continued)

(l) Deferred leasing and tenancy costs

Expenditure on direct leasing and tenancy costs is capitalised and written off over the lease term in proportion to the rental revenue recognised in each financial year.

(m) Assets held for sale

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before applying the classification as held for sale, the measurement of the assets is brought up to date in accordance with applicable accounting standards.

Investment properties which are classified as held for sale are carried at fair value as the measurement provisions of AASB 5 *Non-current Assets Held for Sale and Discontinuing Operations* do not apply to investment properties.

(n) Acquisition costs

In prior periods, transaction costs relating to the Trust's investment in RRT, SGSA II LLC and Record JV LLC were expensed to profit or loss as incurred and non-refundable deposits paid in respect of the unit sale deed and note purchase agreement were recorded as non-current assets on the statement of financial position. Subsequent to attaining significant influence during the prior financial year, the Trust's investment in the RRT acquisition was accounted for in accordance with the equity method (Refer Note 15). The Consolidated Entity disposed of these investments in the prior reporting period.

(o) Operating segments

The Consolidated Entity determines and presents operating segments based on the information provided to the Chief Executive Officer (CEO) of the Responsible Entity, who is the Consolidated Entity's chief operating decision maker.

(p) New standards and interpretations not yet adopted

There are a number of standards, amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 2013 and which have not been applied in preparing these financial statements. The following standard is not expected to have a significant financial effect on the consolidated financial statements of the Trust or the Consolidated Entity.

The Trust does not intend to early adopt these standards which are effective for annual reporting periods beginning on or after 1 January 2015 and the extent of their impact has not been determined.

IFRS 9: Financial Instruments (2009) and IFRS 9: Financial Instruments (2010)

IFRS 9: Financial Instruments (2009) introduces new requirements for the classification and measurement of financial assets. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

IFRS 9: Financial Instruments (2010) introduces additional changes relating to financial liabilities. The International Accounting Standards Board ("IASB") currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9: Financial Instruments (2010) and add new requirements to address the impairment of financial assets and e accounting.

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4. Discontinued Operations

During the prior corresponding financial year the Consolidated Entity settled on the sale of its Bedford Woods property, its Montgomery and Pfingsten properties and its 35% interest in the SGSA joint ventures and completed the foreclosure sale of its Parsippany property. During the prior corresponding financial year the Responsible Entity also resolved to surrender the Trust's properties at Higgins and One Centennial in satisfaction of the secured debts of these properties.

During the current financial year Mariner Higgins Center LLC entered into a loan modification agreement with the secured lender which enabled the Consolidated Entity to retain control of the property. As a consequence of entering into the loan modification agreement, the Consolidated Entity no longer satisfies the criteria of discontinued operations within the meaning of AASB 5: Non-current assets held for Sale and Discontinued Operations and amounts disclosed within the statement of profit and loss and other comprehensive income in respect of the prior period have been re-presented.

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5. Interest income

	Consolidated	
	2014	2013
	\$'000	\$'000
Interest income derived from:		
Cash and cash equivalents	21	22
	21	22

6. Other operating expenses

	Consolidated	
	2014	2013
	\$'000	\$'000
Audit and accounting at the Head Trust	206	258
Due diligence expenses	450	-
Expense recovery	1,407	1,455
Legal	843	989
Other trust level expenses	375	218
Property general and administrative expenses	308	592
Registry services	69	114
Takeover bid costs	-	50
Taxation	43	118
	3,701	3,794

7. Auditor's remuneration

	Consolidated	
	2014	2013
	\$	\$
Auditors of the Trust – KPMG Australia:		
Audit and review of the financial reports	144,950	215,000
Other regulatory audit services	20,395	22,500
Taxation services	10,000	103,569
	175,345	341,069
Auditors of the subsidiaries – KPMG US:		
Audit and review of the financial reports	61,402	105,714
Audit and review of the financial reports of subsidiaries under US GAAP	38,648	-
Taxation services	30,858	124,220
	130,908	229,934
	306,253	571,003

8. Taxation

The Trust is subject to 35% capital gains tax in the U.S.A. on the future disposal of its investment properties. In previous years, the Trust recognised a deferred tax liability being 35% of the difference between the fair value in US dollars compared to the tax cost base in US dollars, translated to Australian dollars. However, due to the diminution in value of the investment properties, the portfolio fair value is now less than the tax cost base and as a result, it is not probable that a capital gains tax liability would arise. As at the reporting date, the fair value of the investment property portfolio remains less than the tax cost base.

The Trust has not recognised a deferred tax asset of \$1,798,000 (2013: \$7,536,000) in relation to the investment property portfolio, as it is not probable that future taxable profits will be available against which the Trust can utilise the benefit.

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9.(a) Cash and cash equivalents

	Consolidated	
	2014	2013
	\$'000	\$'000
Cash held at banks	1,209	6,188
	1,209	6,188

9.(b) Reconciliation of cash flows from operating activities

	Consolidated	
	2014	2013
	\$'000	\$'000
Profit/(loss) before tax	2,875	(63,374)
Adjustments for:		
Gain on debt modification	(4,534)	-
Gain on foreclosure	(4,570)	-
Amortisation of deferred loan charges and others	265	533
Unrealised foreign exchange (gain)/loss	-	(326)
Realised foreign currency on disposal of assets	-	23,816
Lease straight-lining	7	5
Changes in equity accounted joint venture	-	(1,647)
Changes in fair value of investment properties	(2,464)	-
Change in fair value of financial liability	(234)	-
Changes in fair value of assets held for sale	-	35,291
Interest received classified as investing activity	21	-
Sale costs classified as investing activity	-	1,673
Borrowing costs	6,566	4,294
	(2,068)	265
Change in assets and liabilities during the financial year:		
Change in trade and other receivables and other assets	(304)	434
Change in trade and other payables	1,308	(4,898)
Borrowing costs paid	(1,548)	(4,482)
	(544)	(8,946)
Net cash from/(used in) operating activities	(2,612)	(8,681)

10. Trade and other receivables

	Consolidated	
	2014	2013
	\$'000	\$'000
Current		
Trade receivables	-	80
GST receivable	77	62
Other receivable	73	-
	150	142

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11. Other assets

	Consolidated	
	2014	2013
	\$'000	\$'000
Current		
Prepaid expenses	46	70
Property related deposits*	493	5,622
Withholding tax receivable	679	690
	1,218	6,382
Non-current		
Property related deposits*	3,015	-
	3,015	-

* Property related deposits are comprised of tenant improvement reserves, capital replacement reserves, insurance escrows and real estate taxes escrows held in the United States. Property related deposits were classified as current assets in the prior corresponding reporting period to align with the current asset classification of the properties to which they relate (See Note 12).

12. Assets held for sale – investment properties

	Consolidated	
	2014	2013
	\$'000	\$'000
Current		
Investment properties held for sale – at fair value	-	38,275
	-	38,275
<i>The movement in carrying amount is reconciled as follows:</i>		
Carrying amount at the beginning of the year	38,275	124,984
Lease straight-lining	-	(5)
Transferred from investment properties (See Note 14)	-	80,582
Transferred to investment properties (See Note 14)	(13,077)	-
Gain/(loss) due to foreign currency translation	562	3,442
Disposals	(25,760)	(151,805)
Fair value decrement	-	(18,923)
	-	38,275

Details of the individual investment properties held for sale as at 30 June 2013 are set out below:

As at 30 June 2013

Property:	One Centennial LLC	Higgins Centre LLC
Current valuation:	\$25,660,377*	\$12,614,555*
Valuation method at 30 June 2013:	Independent valuation - Integra	Independent valuation - CBRE

* A\$ equivalent of US\$ valuation

On 29 October 2012 the Responsible Entity announced that it had appointed a debt advocate for the purpose of discussions which could lead to the restructuring of the non-recourse loans secured over the above properties or the relinquishment of the properties to the respective secured lenders.

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Notes to the consolidated financial statements
for the year ended 30 June 2014**12. Assets held for sale – investment properties (continued)***One Centennial LLC*

On 7 August 2013 the Supreme Court of New Jersey granted the lender's application for a default judgment in respect of the property. Having regard to the non-recourse nature of the loan, the Responsible Entity did not oppose the entry of the default judgment and the property proceeded to foreclosure auction on 2 April 2014.

Higgins Centre LLC

Notwithstanding that on 30 August 2013 Mariner Higgins LLC entered into a debt restructure agreement that resulted in the Consolidated Entity retaining the property, it remains classified as a discontinued operation for the prior corresponding financial year.

Valuation Principles

The valuation principals applied to investment properties (see Note 15) have also been applied to – Assets Held for Sale - Investment Properties.

13. Assets held for sale – Other investments

	Consolidated	
	2014	2013
	\$'000	\$'000
Current		
Carrying amount at beginning of period	-	-
Transfer from other investments in equity accounted investees (See Note 15)	-	26,965
Gain/(Loss) due to foreign currency translation	-	349
Disposal	-	(27,314)
	-	-

During the prior corresponding period the Consolidated Entity disposed of its equity accounted investment in the Saban joint ventures comprising SGSA II LLC and Record JV LLC.

14. Investment properties

		Consolidated	
		2014	2013
		\$'000	\$'000
Non-current			
Investment properties – at fair value		-	-
		15,817	-
<i>The movement in carrying amount is reconciled as follows:</i>			
Carrying amount at the beginning of the year		-	80,582
Lease straight-lining		(35)	-
Improvements to investment properties (including tenant incentives)		253	-
Gain/(loss) due to foreign currency translation		(737)	-
Fair value increment		3,259	-
Transferred from assets held for sale*	(See Note 12)	13,077	-
Transferred to assets held for sale*	(See Note 12)	-	(80,582)
Carrying amount at the end of the year		15,817	-
Comprising:			
Deferred rental income		983	-
Fair value of properties (excluding straight-lining)		14,834	-
		15,817	-

* Investment properties at One Centennial and Higgins were classified as held for sale at 30 June 2013, as disclosed in Note 12. The Directors of the Responsible Entity resolved to retain the Higgins property subsequent to entering into a loan modification agreement with the secured lender and determined it to be classified as investment property.

Measurement of fair value

Investment properties are measured at fair value with any change therein recognised in profit or loss.

(i) Fair value hierarchy

The Trust has an internal valuation process for determining the fair value at each reporting date. An independent valuer, having an appropriate professional qualification and recent experience in the location and category of the property being valued, values individual properties annually or more regularly if considered appropriate. These external valuations are taken into consideration by the Directors of the Responsible Entity when determining the fair values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently and without compulsion.

An independent valuation of the Higgins property was conducted as at 30 June 2014 by CBRE.

The fair value measurement for investment property of \$15,817,000 has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see Note 14(ii) below).

14. Investment properties (continued)

Measurement of fair value (continued)

(ii) Level 3 fair value

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	\$'000
Balance at the beginning of the year	-
Acquisitions and reclassification assets held for sale	13,330
Items included in comprehensive income	
• Change in fair value of investment property	3,259
• Rental income (Lease straight lining)	(35)
Item included in other comprehensive income	
• Loss due to foreign currency translation	(737)
Balance at the end of the year	15,817

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of the net cash flows to be generated from the property, taking into account expected rental growth rate, vacancy periods, occupancy rate, lease incentive costs such as rent free periods and other costs not paid for by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the determination of an appropriate discount rate takes into consideration the quality and location of the building, tenant credit quality and lease terms.	<ul style="list-style-type: none"> Expected market rental growth: 3.0% Current occupancy rate: 73.86% Vacancy periods between leases: 3 months Risk adjusted discount rate: 8.75% 	<p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> Expected market rental growth was higher/(lower) The occupancy rate was higher/(lower) The vacancy period between leases was shorter/(longer) The risk adjusted discount rate was lower/(higher)

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14. Investment properties (continued)

Leases as lessor

The Consolidated Entity leases out investment property under operating leases. Leases at the Higgins property are subject to either fixed rent reviews, indexed rent reviews or market rent reviews and subsequent renewals are negotiated with the lessee. No contingent rents are charged. The weighted average lease term at the Higgins property at June 2014 is 5.1 years (2013: 5.9 years for both the Higgins and One Centennial properties). The future minimum lease payments receivable under non-cancellable leases are as follows:

	Consolidated	
	2014	2013
	\$'000	\$'000
Leases as lessor		
Less than one year	1,087	3,935
Between one and five years	2,574	11,768
More than five years	3,114	4,951
	6,775	20,654

15. Investments in equity accounted investees

	Consolidated	
	30 June	30 June
	2014	2013
	\$'000	\$'000
Non-current		
Carrying amount at beginning of period	-	42,092
Share of profit of equity accounted joint venture	-	1,662
Gain/(Loss) due to foreign currency translation	-	(603)
Distribution receivable	-	(651)
Fair value decrement	-	(15,535)
Transfer to Assets held for sale – Other investments	(See Note 13)	(26,965)
	-	-

During the prior corresponding period the Consolidated Entity disposed of its equity accounted investment in the Saban joint ventures comprising SGSA II LLC and Record JV LLC.

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16. Trade and other payables

		Consolidated	
		2014	2013
		\$'000	\$'000
Current			
Payable to the Responsible Entity (incl.GST)	(see Note 24)	144	95
Trade payables		983	596
Tenants' security deposits		61	65
Rent received in advance		81	280
Accrued real estate taxes		811	721
Accrued interest payable		61	1,688
		2,141	3,445

17. Financial liabilities

		Consolidated	
		2014	2013
		\$'000	\$'000
Current			
At amortised cost			
Bank loans – secured		-	46,962
Deferred charges		-	(213)
		-	46,749
At fair value			
Bank loans – secured		706	-
		706	-
Total financial liabilities – Current		706	46,749
Non-current			
At fair value			
Bank loans – secured		13,419	-
Total financial liabilities – Non-current		13,419	-
Total loans and borrowings		14,125	46,749

Debt maturity profile

The debt maturity profile as at the reporting date was as follows:

Property	Loan maturity date		Rate	2014 \$'000	2013 \$'000
Current liabilities					
One Centennial	1 May 2015	Fixed	5.36%	-	28,633
Higgins	1 March 2017	Fixed	6.25%	706	18,329
				706	46,962
less: Deferred charges				-	(213)
				706	46,749
Non-current liability					
Higgins	1 March 2017	Fixed	6.25%	13,419	-
				13,419	-
				14,125	46,749

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17. Financial liabilities (continued)

Terms and conditions

One Centennial

On the 7 August 2013, the Supreme Court of New Jersey granted the lenders application for a default judgment in respect of the property. Having regard to the limited recourse nature of the loan, the Responsible Entity did not take any action to oppose the entry of the default judgment and the foreclosure sale of the property was completed on 2 April 2014.

The debt was limited recourse to the One Centennial property and the deficiency incurred upon the foreclosure sale did not give rise to any further liability to the Trust.

Higgins

On 30 August 2013 Mariner Higgins LLC ("Borrower") entered into a loan modification agreement with the secured lender which enabled it to retain control of the property. Upon completion of the loan modification agreement the fair value of the secured loan was re-evaluated in accordance with the capital event waterfall (see below) and reclassified from current to non-current liability. The material terms of the agreement include:

- A Note of US\$11.0m with a maturity date of 1 March 2017 bearing fixed interest at 6.25%pa. The maturity date can be extended to 1 March 2018 if there has been no event of default and a 1% extension fee is paid;
- B Note of US\$6.0m. The note will accrue fixed interest at 6.25% pa. but the interest is only payable (a) if an event of default occurs or (b) in accordance with the capital event waterfall set out below;
- Borrower contributed US\$1.1m initially to a capital reserve (equity contribution) accruing a 10% p.a. cumulative coupon. The coupon is payable and the amount contributed is repayable if (a) there is no event of default and (b) in accordance with the cash flow and capital event waterfalls set out below;
- The equity contribution is added to the existing capital reserve accounts and used for the purpose of paying for leasing, tenant incentives, capital works and building improvements. The Borrower will not be required to make any further monthly contributions to the capital reserve accounts but is entitled to make further equity contributions of up to US\$2.0 million. In the event that additional contributions are made, a similar amount can be withdrawn from an existing capital reserve account up to US\$950,000;
- The coupon on the capital contribution is paid in accordance with the cash flow waterfall so that the cash flow received is disbursed first to pay property taxes, secondly for insurance, thirdly to operating expenses, fourthly to the payment of the interest on the A Note, fifthly to any fees to the loan servicer, and lastly to the capital reserve account until 90% occupancy of the property is achieved after which 50% will be paid on account of the coupon accruing on the capital contribution ("**cash flow waterfall**");
- In the event that the property is sold or refinanced between 1 December 2016 and the maturity date and no event of default has occurred, the capital event waterfall is first to the A note holder (the lender) of principal and any unpaid interest; secondly in repayment of the Borrower's contributions to the capital reserve plus accrued coupon; thirdly 50:50 between the B Note holder up to an amount equal to the B note and interest accrued on the B note and the Borrower and thereafter to the Borrower ("**capital event waterfall**");
- The property cannot be sold without the lender's consent prior to 1 December 2016;
- The modification is personal to the Borrower and can only be passed on to third parties if approved by the lender;

The Borrower has paid to the lender a modification fee of US\$170,000 and legal and other third party costs.

There are no financial covenants in respect of the current loan facilities.

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17. Financial liabilities (continued)**Loan breaches and defaults***Higgins*

A Notice of Default was served on Mariner Higgins Centre, LLC (a wholly owned subsidiary of the Trust) on 5 February 2013 in respect of that entity's US\$17 million debt facility. Subsequently Mariner Higgins Centre LLC entered into a debt restructure agreement with the lender on 30 August 2013 as noted in the terms and conditions noted above.

One Centennial

On 7 August 2013 the Supreme Court of New Jersey granted the lender's application for a default judgment in respect of the One Centennial property. Having regard to the limited recourse nature of the loan, the Responsible Entity did not take any action to oppose the entry of the default judgment and the foreclosure sale of the property was completed on 2 April 2014.

18. Capital and reserves**Capital management**

On 24 September 2013, a private placement of 1,601,940 units at \$0.365 per unit raised \$584,000. The purpose of the placement was to assist in the funding of costs in reviewing potential new property acquisitions.

Between 15 – 19 March 2013, the Responsible Entity redeemed 90,334,472 units of the Trust at a redemption price of \$0.5685 per unit.

Issued capital

The movement in the Trust's issued capital during the year is shown below:

	2014		2013	
	No. of units	\$'000	No. of units	\$'000
Opening balance	10,679,600	203,123	101,014,072	254,478
Units issued – placement	1,601,940	584	-	-
Redemption of units	-	-	(90,334,472)	(51,355)
Closing balance	12,281,540	203,707	10,679,600	203,123

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations which are predominantly represented by the Higgins property and its corresponding secured loan; as at 30 June 2013 it also comprised the foreign currency differences arising from the One Centennial property and its corresponding secured loan. The balance of the translation reserve at 30 June 2014 was \$3,086,000 (30 June 2013: (\$2,195,000)) and will be realised upon disposal of the property and extinguishment of its corresponding secured loan.

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19. Financial instruments – Fair values and risk management

The Consolidated Entity's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risks to which the Consolidated Entity is exposed are market risk, currency risk, interest rate risk, credit risk and liquidity risk. The nature and extent of the financial instruments outstanding at the end of the reporting period and the risk management policies employed by the Consolidated Entity are discussed below.

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

30 June 2014		Carrying amount				Fair value			
	Note	Designated at fair value \$'000	Loans and receivables \$'000	Other financial liabilities \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets not measured at fair value									
Trade and other receivables	10	-	150	-	150	-	-	-	-
Cash and cash equivalents	9(a)	-	1,209	-	1,209	-	-	-	-
		-	1,359	-	1,359	-	-	-	-
Financial liabilities measured at fair value									
Bank Loans – secured	17	14,125	-	-	14,125	-	-	14,125	14,125
		14,125	-	-	14,125	-	-	14,125	14,125
Financial liabilities not measured at fair value									
Trade payables	16	-	-	2,141	2,141	-	-	-	-
		-	-	2,141	2,141	-	-	-	-
30 June 2013									
Financial assets not measured at fair value									
Trade and other receivables	10	-	142	-	142	-	-	-	-
Cash and cash equivalents	9(a)	-	6,188	-	6,188	-	-	-	-
		-	6,330	-	6,330	-	-	-	-
Financial liabilities measured at fair value									
Bank Loans – secured	17	46,749	-	-	46,749	-	-	46,749	46,749
		46,749	-	-	46,749	-	-	46,749	46,749
Financial liabilities not measured at fair value									
Trade payables	16	-	-	3,445	3,445	-	-	-	-
		-	-	3,445	3,445	-	-	-	-

19. Financial instruments – Fair values and risk management (continued)

(b) Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

The following table show the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Contingent consideration	<i>Discounted cash flows:</i> The valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate. The expected payments are determined by considering the actual interest payable on the loan and the amount expected to be paid to the secured lender at maturity under the capital event waterfall (Refer Note 17).	<ul style="list-style-type: none"> Risk-adjusted discount rate (2014: 6.25%) Valuation of secured property (2014: \$15,817,000) (Refer Note 14) 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> the risk-adjusted discount rate were lower (higher) the valuation of the secured property were higher (lower)

(ii) Level 3 fair values

Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Contingent consideration \$'000
Balance as at 1 July 2013	-
Assumed upon debt restructure	14,125
Balance as at 30 June 2014	14,125

19. Financial instruments – Fair values and risk management (continued)

(c) Financial risk management

The Consolidated Entity has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

(i) Risk management framework

The Consolidated Entity's Responsible Entity has overall responsibility for the establishment and oversight of the Consolidated Entity's risk management framework. The Responsible Entity has established a framework for developing and monitoring the Consolidated Entity's risk management policies. The Responsible Entity regularly reviews these policies.

The Consolidated Entity's risk management policies are established to identify and analyse the risks faced by the Consolidated Entity, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated Entity's activities.

The Consolidated Entity's Audit Committee oversee how management monitors compliance with the Consolidated Entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Consolidated Entity.

(ii) Credit risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Consolidated Entity's receivables from customers and investments in debt securities.

The Consolidated Entity has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The carrying amounts of financial assets best represent the maximum credit risk exposure at the end of the reporting period. There were no significant concentrations of credit risk to counterparties at 30 June 2014. There are no financial assets that are past due or impaired which are considered to have significant credit risk.

Trade and other receivables

The Consolidated Entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate.

At 30 June 2014, the maximum exposure to credit risk for trade and other receivables by geographic region was as follows:

	2014 \$'000	2013 \$'000
USA	73	80
Australia	77	62
	150	142

19. Financial instruments – Fair values and risk management (continued)

(ii) Credit risk (continued)

At 30 June 2014, the maximum exposure to credit risk for trade and other receivables by type of counterparty was as follows:

	2014 \$'000	2013 \$'000
Government bodies	138	142
Other	12	-
	150	142

Impairment

At 30 June 2014, the aging of trade and other receivables that were not impaired was as follows:

	2014 \$'000	2013 \$'000
Neither past due nor impaired	150	142
	150	142

An analysis of the credit quality of trade and other receivables that are neither past due nor impaired is as follows:

	2014 \$'000	2013 \$'000
External credit ratings at least A1 from rating	150	142
	150	142

(iii) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation. The Consolidated Entity's liquidity risk is monitored on a monthly basis by the Responsible Entity.

The table below presents cash flows on financial liabilities payable by the Consolidated Entity by remaining contractual maturities at the end of the reporting period. The amounts disclosed are the contractual, undiscounted cash flows:

Contractual cash flows						
	Carrying amount \$'000	Total \$'000	6 months or less \$'000	6-12 months \$'000	12-24 months \$'000	More than 24 months \$'000
2014						
Non-derivative financial liabilities						
Trade payables	2,141	2,141	2,141	-	-	-
Loans and borrowings	14,125	14,125	358	348	663	12,756
	16,266	16,266	2,499	348	663	12,756
2013						
Non-derivative financial liabilities						
Trade payables	3,445	3,445	3,445	-	-	-
Loans and borrowings	46,749	46,749	46,749	-	-	-
	50,194	50,194	50,194	-	-	-

There are no cash flows associated with derivatives that are cash flow hedges and that are expected to occur and impact profit or loss

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for the year ended 30 June 2014****19. Financial instruments – Fair values and risk management (continued)****(iv) Market risk**

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices - will affect the Consolidated Entity's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The strategy on the management of investment risk is driven by the Trust's investment objective. The market risk is managed on a daily basis by the Responsible Entity in accordance with the investment guidelines as outlined in the Trust's PDS and subsequent announcements.

Currency risk

The Trust is exposed to exchange rate fluctuations on its investments in the United States of America ("USA"), since its USA investment is denominated in Australian dollars ("AUD"). The US REIT invests in properties in the USA acquired with USA dollars ("USD") loans which provide a partial natural hedge.

As at the reporting date, the Consolidated Entity's total gross exposure to financial assets and liabilities which are held in foreign currency at the end of the reporting period was as follows:

	2014		2013	
	AUD \$'000	USD* \$'000	AUD \$'000	USD* \$'000
Cash and cash equivalents	499	710	2,132	4,056
Receivables and other assets	77	73	61	81
Other assets - current	18	1,200	-	6,382
Other assets - non-current	-	3,015	-	-
Payables	(610)	(1,531)	(265)	(3,180)
Loans and borrowings	-	(14,125)	-	(46,749)
Net statement of financial position exposure	(16)	(10,658)	1,928	(39,410)

* These amounts are expressed in AUD but represent financial instruments that are denominated in USD and converted to AUD on consolidation.

19. Financial instruments – Fair values and risk management (continued)

(iv) Market risk (continued)

Currency risk (continued)

Sensitivity analysis

A reasonably possible strengthening (weakening) of the AUD against the USD at 30 June 2014 would have affected the measurement of financial instruments and affected equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Consolidated			
	Profit or loss		Equity, net of tax	
	Strengthening \$'000	Weakening \$'000	Strengthening \$'000	Weakening \$'000
30 June 2014				
USD (10% movement)	1,066	(1,066)	1,066	(1,066)
30 June 2013				
USD (10% movement)	363	(4,262)	103	(126)

Interest rate risk

The US REIT does not have any floating rate mortgage loans. The Trust's total loans of \$14,124,824 are fixed interest rate loans.

Exposures arise predominantly from assets and liabilities bearing fixed interest rates. The Consolidated Entity's exposure to interest rate risk is set out in the following table. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements. As at the reporting date, the interest rate profile of the Consolidated Entity's interest bearing financial instruments as reported was:

	Consolidated	
	2014 \$'000	2013 \$'000
Fixed-rate instruments		
Loans and borrowings	(14,125)	(46,749)
Variable-rate instruments		
Cash and cash equivalents	1,209	6,188

Sensitivity analysis

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Consolidated			
	Profit or loss		Equity, net of tax	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
30 June 2014				
Variable-rate financial instruments	-	-	-	-
Loans and borrowings	-	-	-	-
Cash flow sensitivity (net)	-	-	-	-
30 June 2013				
Variable-rate financial instruments	62	(62)	62	(62)
Loans and borrowings	-	-	-	-
Cash flow sensitivity (net)	62	(62)	62	(62)

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Notes to the consolidated financial statements
for the year ended 30 June 2014**20. Earnings per unit**

The calculation of basic earnings/(loss) per unit at 30 June 2014 was based on the profit attributable to unitholders of the Trust of \$2,874,579 (2013 loss: \$65,027,627) and a weighted average number of units outstanding of 11,899,708 (2013: 74,284,968), calculated as follows:

	2014 \$	2013 \$
Net profit/(loss) attributable to unitholders of the Trust	2,874,579	(65,027,627)
Weighted average number of units (basic)		
In units		
Issued units at 1 July	10,679,600	101,014,072
Effect of units issued	1,220,108	-
Redemption of units (weighted for the year)	-	(26,729,104)
Weighted average number of units at 30 June	11,899,708	74,284,968

Diluted earnings per unit

As there are no diluting factors in the year and comparative years, the diluted loss per unit is equal to the basic.

21. Operating segments

The main business of the Consolidated Entity is investment in property located in the United States of America which is leased to third parties.

The Consolidated Entity has two reportable segments, based on the geographical location of each segment. Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit or loss after income tax as included in the internal management reports that are reviewed by the Chief Executive Officer (“CEO”) of the Responsible Entity. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The amounts set out on the following page are expressed in AUD but represent amounts that are denominated in USD and converted to AUD on consolidation.

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21. Operating segments (continued)

Consolidated Entity – 2014	USA \$'000	Australia \$'000	Total \$'000
External revenues	5,362	-	5,362
Interest income	-	21	21
Gain on debt modification	4,534	-	4,534
Gain on foreclosure	4,570	-	4,570
Net gain/(loss) on foreign exchange	-	40	40
Other income	73	7	80
Total income	14,539	68	14,607
Borrowing costs	6,638	-	6,638
Other operating expenses	4,619	3,173	7,792
Total expenses	11,257	3,173	14,430
Changes in fair value of investment properties	2,464	-	2,464
Change in fair value of financial liability	234	-	234
Realised foreign exchange loss on disposals of assets	-	-	-
Loss before income tax	5,980	(3,105)	2,875
Income tax	-	-	-
Profit/(loss) after income tax	5,980	(3,105)	2,875
Segment assets	17,729	3,608	21,409
Segment liabilities	15,656	610	16,266

	USA \$'000	Australia \$'000	Total \$'000
External revenues	8,825	-	8,825
Interest income	1	21	22
Net gain/(loss) on foreign exchange	309	17	326
Share of profit of equity accounted investee	1,647	-	1,647
Other income	17	-	17
Total income	10,799	38	10,837
Borrowing costs	4,294	-	4,294
Other operating expenses	6,803	4,007	10,810
Total expenses	11,097	4,007	15,104
Changes in fair value of investment properties	(35,290)	-	(35,290)
Realised foreign exchange loss on disposals of assets	(25,470)	-	(25,470)
Loss before income tax	(61,058)	(3,969)	(65,027)
Income tax	-	-	-
Loss after income tax	(61,058)	(3,969)	(65,027)
Segment assets	44,242	6,745	50,987
Segment liabilities	49,929	265	50,194

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22. Parent entity

As at, and throughout, the financial year ended 30 June 2014 the parent entity ("Parent Entity") of the Consolidated Entity was the Trust.

	2014	2013
	\$'000	\$'000
Results of the Parent Entity		
Loss for the year	(3,105)	(35,011)
Other comprehensive income	-	-
Total comprehensive loss for the year	(3,105)	(35,011)
Financial position of the Parent Entity at year end		
	2014	2013
	\$'000	\$'000
Current assets	1,869	6,745
Total assets	3,680	6,745
Current liabilities	610	265
Total liabilities	610	1,090
Total equity of the Parent Entity comprising of:	2014	2013
	\$'000	\$'000
Issued capital	203,707	203,123
Reserves	(3,185)	(3,347)
Accumulated losses	(197,452)	(194,121)
Total equity	3,070	5,655

23. Group Entities

	Class of units	Consolidated Entity Interest	
		30 June 2014	30 June 2013
Parent Entity		%	%
Real Estate Capital Partners USA Property Trust			
Controlled entities			
RCU RRT, LLC	Ordinary	99.9	99.9
Mariner American Property Income REIT, Limited	Ordinary	99.9	99.9
Controlled entities of Mariner American Property Income REIT, Limited			
Mariner Higgins LLC	Ordinary	100	100
Mariner One Centennial LLC	Ordinary	100	100
Mariner Parsippany 1515 LLC*	Ordinary	-	100
Mariner Bedford Woods LLC*	Ordinary	-	100
Mariner Montgomery Terminal LLC*	Ordinary	-	100

*deregistered during period

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23. Group entities (continued)

The parent entity is incorporated in Australia whilst the controlled entities are incorporated in the USA. Mariner American Property Income REIT Limited and RCU RRT LLC also have preferred units on issue held by external parties. Overall, Real Estate Capital Partners USA Property Trust owns 99.9% of the issued capital of Mariner American Property Income REIT Limited and RCU RRT LLC.

There are no significant restrictions which restrict the ability of the controlled entities to transfer funds to the parent by way of cash distributions or loan repayments.

24. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or is part of the key management of the Trust. Related party transactions are transfers of resources, services or obligations between related parties and the Trust, regardless of whether a price has been charged.

Quattro RE Limited (formerly Real Estate Capital Partners Managed Investments Limited) (the "Responsible Entity") and its related party, Zerve Pty Limited are considered to be related parties of the Trust. In the prior corresponding period Real Estate Capital Partners Pty Limited, Real Estate Capital Partners Management Pty Limited and RCU Services Inc. were also considered to be related parties of the Trust.

The Trust Company Limited Group was also considered to be a related party of the Trust during the prior corresponding period until 20 July 2012.

Key management personnel

The Trust does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Trust and this is considered the Key Management Personnel ("KMP"). The Directors of the Responsible Entity at any time during the financial year were as follows:

Ben Dillon	(Appointed 20 July 2012)
Barry McWilliams	(Appointed 20 July 2012)
Antony Wood	(Appointed 20 July 2012)

Subsequent to the transfer of the Responsible Entity to Real Estate Capital Partners Pty Limited on 20 July 2012, the remuneration expenses of the Directors of the Responsible Entity for work done within the Director's usual appointment is paid for by the Responsible Entity out of the Responsible Entity's fee. Work done by Directors outside of work customarily carried out by Directors is paid for by and charged as an expense to the Trust.

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the Responsible Entity or its key management personnel or their personally related entities at any time during the reporting period.

Unit holdings of the Responsible Entity and its key management personnel

Other than as noted below, neither the Responsible Entity nor its key management personnel held any units in the Trust during the financial year (2013: Nil). Mr. Ben Dillon holds 2,000 units in the Trust and Mr. Andrew Saunders, the Company Secretary of the Responsible Entity, and his associates own 927,267 units in the Trust.

24. Related parties (continued)

Related party investments held by the Trust

As at 30 June 2014 the Trust held no investments in the Responsible Entity, the former Investment Manager or their associates (2013: Nil).

Responsible Entity fees, related party fees and other transactions

Except as disclosed in these consolidated financial statements, no Director of the Responsible Entity has received or become entitled to receive any benefit because of a contract made by the Responsible Entity or a related entity with a Director or with a firm of which a Director is a member or with an entity of which a Director of the Responsible Entity has a substantial interest. All transactions with related parties are conducted on normal commercial terms and conditions.

	2014	2013
	\$	\$
<i>Transactions with related parties - Consolidated</i>		
<i>Charged by the Responsible Entity and its associates</i>		
• Responsible Entity fees (see i below)	170,171	394,142
• Responsible Entity fee in relation to Higgins property debt restructuring (see ii below)	136,044	-
• Responsible Entity fee in relation to One Centennial foreclosure (see iii below)	137,108	-
• expense recoveries (see iv below)	1,417,887	1,261,004
	1,861,210	1,655,146
<i>Charged by the Investment Manager</i>		
• expense recoveries prior to termination	-	132,537
• expense recovery relating to requisition of Investor meeting	-	61,350
• termination fee	-	353,042
	-	546,929
<i>Charged by the US Asset Manager</i>		
• asset management fees prior to termination	-	118,519
• administration fees prior to termination	-	59,260
• expense recoveries prior to termination	-	91,218
• expense recoveries in relation to CBA/Pearlmark refinancing	-	70,987
• fee in relation to Sale to Saban group	-	539,291
• asset sale fee	-	910,153
	-	1,789,428
<i>Balances outstanding with related parties - Consolidated</i>		
<i>Included in payables:</i>		
• to the Responsible Entity		
• Responsible Entity fees	123,289	14,225
• Expense recoveries	21,122	127,368
(see Note 16)	144,411	141,593

24. Related parties (continued)

Responsible Entity fees, related party fees and other transactions (continued)

- i Responsible Entity fees are calculated on the following basis:
 - Between 1 - 20 July 2012: at 0.08% per annum of the Trust's gross assets (calculated on a consolidated basis) in accordance with Trust Companies Management Services agreement.
 - Between 20 July - 31 October 2012: at 0.2% of net assets in accordance with the RCU Product Disclosure Statement.
 - Since 1 November 2012: at 3% of the gross income of the Trust in accordance with the Trust's Constitution. Trustee fees of \$10,000 p.a. were paid to a related party (prior to 20 July 2012) of the Responsible Entity for acting as the trustee of RRT since its acquisition.
- ii Responsible Entity fee at 3% of the gain arising on the Higgins property debt modification
- iii Responsible Entity fee at 3% of the gain arising on the foreclosure of the One Centennial property
- iv Costs incurred by the Responsible Entity in managing the Trust included accounting, compliance, legal and expense recoveries including:
 - in the current year \$522,635 paid to Zerve Pty Limited, a party related to the Company Secretary of the Responsible Entity, for asset management services provided to the USA REIT..
 - in the prior corresponding period: an amount of \$103,700 paid to Ben Dillon, \$45,456 to Barry McWilliams and \$39,842 to Antony Wood for work done by them outside the scope of their normal services as Directors of the Responsible Entity.

Management expense recoveries have been included in other operating costs in the consolidated statement of comprehensive income.

25. Capital commitments

As at 30 June 2014 the Consolidated Entity had outstanding capital commitments for the refurbishment of the Higgins property of \$352,912 (30 June 2013: \$Nil).

26. Contingencies

Contingent liabilities

Claims by Financial Consultant

The financial statements of the Trust for the year ended 30 June 2013 recorded as a contingent liability a claim by a former financial consultant for US\$750,000 and additional punitive damages of US\$5,000,000 for services provided in the acquisition of the Record Realty Trust and assistance with asset refinancing.

The Responsible Entity's attempts to have the claim summarily dismissed were unsuccessful and the costs to defend the action in the Superior Court of California were assessed (based on the estimate provided by the Responsible Entity's USA lawyers) to be potentially greater than the claim made exclusive of punitive damages. The Responsible Entity formed the view that, having regard to the quantum of the potentially irrecoverable costs of defending the claim, it was in the best interests of unitholders that the claim be settled. Accordingly the Responsible Entity entered into a settlement agreement with the former financial consultant to release the Trust, its controlled entities and other defendants from all claims in consideration for the payment of US\$400,000.

The settlement amount was paid on 5 December 2013 and the Trust, its controlled entities and other defendants, including the Company Secretary of the Responsible Entity have been released from all claims made by the former financial consultant.

In the opinion of the Responsible Entity there are no other contingent assets, contingent liabilities or commitments subsisting at or arising since the reporting date not otherwise disclosed in this report.

27. Events subsequent to the end of the reporting period

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Responsible Entity, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

Directors' declaration

1. In the opinion of the Directors of Quattro RE Limited ("Responsible Entity"), the Responsible Entity for the Real Estate Capital Partners USA Property Trust ("Trust"):
 - (a) the consolidated financial statements and notes, set out on pages 10 to 48, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
 - (b) subject to the matters described in Note 2(b) ("Going concern") there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from persons performing the chief executive function and chief financial officer function for the year ended 30 June 2014.
3. The Directors draw attention to Note 2(a) of the financial report which contains a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Responsible Entity:

A handwritten signature in black ink, appearing to read 'Ben Dillon', is written over a horizontal line.

Ben Dillon
Director

Sydney, 12 September 2014



Independent auditor's report to the unitholders of Real Estate Capital Partners USA Property Trust

Report on the financial report

We have audited the accompanying consolidated financial report of Real Estate Capital Partners USA Property Trust (the "Trust"), which comprises the consolidated statement of financial position as at 30 June 2014, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 27 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Consolidated Entity comprising the Trust and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Quattro RE Limited (the Responsible Entity), 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 is free from material misstatement, whether due to fraud or error. In note 2a, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group 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 entity'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 entity'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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Consolidated Entity's financial position and of its performance.

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



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Real Estate Capital Partners USA Property Trust is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2a.

Emphasis of Matter

Without modifying the our opinion, we draw attention to note 2(b) which indicates that the company has net working capital of \$171,000 but no consistent expected source of income for the next 12 months out of which it can meet ongoing operating expenses. As set out in note 2(b), the Consolidated Entity needs to undertake a capital raising to enable it to meet its financial obligations as and when they fall due. These conditions indicate the existence of a material uncertainty which may cast significant doubt as to whether the Consolidated Entity will be able to continue as a going concern and therefore the Consolidated Entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

KPMG

KPMG

Ian Moyser
Partner

Sydney

12 September 2014

Corporate governance statement

The responsible entity for the Real Estate Capital Partners USA Property Trust ("**the Trust**") (ASX: RCU) is Quattro RE Limited ("**Responsible Entity**") ABN 55 115 913 810, AFSL 299074.

The following sets out the Responsible Entity's Corporate Governance Practices and compliance with the ASX's Corporate Governance Principles and Recommendations (3rd edition) for the period from 1 July 2013 to 30 June 2014.

Principle 1

Lay solid foundations for management and oversight

Companies should establish and disclose the respective roles and responsibilities of board and management

The role of the Responsible Entity is to manage the Trust in the unitholders' best interests in accordance with the Trust's Constitution and the *Corporations Act 2001*.

The Board of the Responsible Entity

The Board of the Responsible Entity is appointed by the owner of the Responsible Entity and holds office until required to resign under the terms of the Responsible Entity's Constitution. Reappointment and new appointments will be made in accordance with director appointment policies adopted by the Board of the Responsible Entity. Responsibility for corporate governance matters resides with the Board of the Responsible Entity.

Charter

The Board has adopted a Board Charter that sets out the roles and responsibilities of the Board of Directors.

In the Charter, the Board acknowledges that, in discharging its duties to the unitholders of the schemes for which the Responsible Entity acts as a responsible entity (including the Trust), the interests of the unitholders may be different from those of its shareholder and that it has a duty to act in the best interests of unitholders including, where necessary, give priority to those interests where they conflict with the interests of the of the Responsible Entity.

The Charter includes requirements that the Board will:

- Provide strategic direction upon the Trust's business strategies and objectives
- Approve and monitor the acquisition, sale and financing of the Trust's assets
- Monitor the operational and financial position and performance of the Trust
- Identify the principal risks faced by the Trust and monitoring the effectiveness of risk management systems
- Ensure that financial disclosure and reporting mechanisms result in adequate, accurate and timely information
- Ensure that the market is kept informed of material developments
- Review and evaluate the chief executive officer's performance
- Review and evaluate Board performance
- Maintain corporate governance standards and adhere to ASX Corporate Governance Council's Principles and Recommendations (as may be revised from time to time)

Corporate governance statement (continued)

Principle 1 (continued)

Compliance Committee

The Trust is not required to have a Compliance Committee because a majority of Directors of the Responsible Entity are "external" for the purpose of s601 JA(2) of *Corporations Act* 2001. It was the Board's intention to establish a separate Compliance Committee but the appointment of a Committee was deferred having regard to the reduction in the scale of the Trust following the sale of the substantial assets of the Trust to the Saban group in February 2013 and the subsequent redemption of approximately 90% of the Trusts units in March 2013.

Pending the appointment of the Compliance Committee, the Board has adopted a Charter which sets out its duties, responsibilities and reporting requirements when acting as a Compliance Committee.

The Board acting as a Compliance Committee monitors the extent to which the Responsible Entity complies with the Trust's Compliance Plan, the Trust's Constitution and the *Corporations Act*.

The Board acting as a Compliance Committee meets quarterly, or as necessary, and is provided with comprehensive compliance reports. The Board minutes its findings when acting as a Compliance Committee in the Board minutes.

The Board when acting as a Compliance Committee has access to all information relevant to the Responsible Entity's compliance with the Compliance Plan and the *Corporations Act*.

The Board when acting as a Compliance Committee may commission independent legal, accounting or other professional advice or assistance, at the reasonable expense of the Responsible Entity.

Compliance monitoring and reporting

A compliance manager has been appointed who is responsible for reviewing and monitoring the efficiency of compliance and risk management systems on an ongoing basis, and ensuring that appropriate compliance and risk mitigation measures are in place.

The compliance manager provides reports at least quarterly for the Board and the Compliance Committee as well as for the business areas responsible for the day to day delivery of business activities.

The compliance manager may report matters directly to the Board without reference to any other party.

The Investment Manager and the service providers provide regular reporting to the Responsible Entity and an annual certification of its ongoing capacity to continue to meet its obligations.

Services Agreement

The Responsible Entity does not have its own employees and has entered into services agreements with persons including related parties to provide the resources necessary to enable the Responsible Entity to undertake operational management of the Trust.

Performance Evaluation

Where service providers are engaged to provide specified activities for the Trust, the engagement is under written agreements and includes performance and service delivery requirements that are subject to monitoring, review and reporting to the Responsible Entity. The compliance manager conducts an annual review of the performance of all service providers.

Corporate governance statement (continued)

Principle 2: Structure of the board to add value

Companies should have a board with an effective composition, size and commitment to adequately discharge its responsibilities and duties

Composition

There are currently three Directors of the Responsible Entity. All of the current Directors are independent directors. An independent director is understood as a non executive director who is free from any business or other relationship that could materially interfere with, or be perceived materially to interfere with, the independent exercise of their judgment. Formerly two non executive but not independent directors also held office.

Details of the Directors' experience, qualifications and committee membership are set out below.

Ben Dillon

Independent Chairman

Mr Dillon has over 20 years business experience and is Chairman of Quantum Funds Management Limited, a specialised real estate fund manager. His experience is broad based across a variety of business related roles including Westpac where he was Head of Property in Institutional Bank.

Prior to this Mr Dillon was an executive at Macquarie Bank Limited where he specialised in hospitality and leisure property transactions and also a Partner and Director of corporate finance at KPMG. He is a graduate in Economics and Law from the University of Sydney and holds a Masters of Management (Marketing) from the Macquarie Graduate School of Management. He is a Chartered Accountant, a Fellow of the Financial Services Institute of Australasia and a Member of the Royal Institution of Chartered Surveyors. Mr Dillon is also a member of the Audit and Risk Management Committee.

Barry McWilliams

Independent Director

Mr McWilliams was a senior partner at Mallesons Stephen Jaques (now King & Wood Mallesons) where he specialised in corporate and commercial advisory work with an emphasis on securities markets and funds management for over 25 years.

Mr McWilliams has extensive experience in general corporate and commercial law, funds management, securities markets, prospectuses, stock exchange listings and the property trust industry. Prior to joining Mallesons Stephen Jaques, Barry specialised in commercial, banking and finance law as a partner at Russell McVeagh McKenzie Bartleet (now Russell McVeagh) in Auckland, New Zealand. He holds an LLB (Hons) degree from Auckland University.

Mr McWilliams is the Chairman of Retail Responsible Entity Limited, the responsible entity of the Federation Centres unlisted funds which own approximately \$1.2 billion of shopping centres, a director of Ascendas Hospitality Australia Funds Management Pty Limited, a director of Australian Design Centre and other companies. He is a Fellow of the Australian Institute of Company Directors. He also acts as a consultant on securities and funds management matters.

Corporate governance statement (continued)

Principle 2: Structure of the board to add value

Composition (continued)

Tony Wood

Independent Director

Mr Wood is based in New York and is active across an international platform including the Australian, Asian and North American markets. He has over 25 years relevant experience, having previously been Managing Director and founding principal of Blaxland Group until its sale in late 2011.

Former roles have included Director, Jones Lang LaSalle and senior fiduciary positions with BZW-Mirvac, BT Funds Management and Record Investments. Tony's experience encompasses traditional real estate investment with management of listed and unlisted funds, mergers and acquisitions as well as debt and equity finance. Tony holds a B.Sc.(Hons) in Estate Management from Heriot-Watt University in the UK. He is a Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Australian Property Institute. Tony is also a member of the Audit and Risk Management Committee.

Independent Professional Advice

With the approval of the Chairman, Directors may seek independent professional advice, at the expense of the Responsible Entity, to assist them in carrying out their duties as Directors.

Appointment

The appointment of Directors to the Board of the Responsible Entity is made by the Board following recommendation from the Nomination Committee. The Nomination Committee comprises the following Directors:

- Ben Dillon
- Barry McWilliams

These appointments are made, having regard to a range of criteria, the skills and experience of the nominee, diversity considerations and the business of the company. A formal letter of appointment is issued to the successful nominee. Remuneration is agreed by the Responsible Entity in consultation with the successful nominee. The renewal of an appointment is considered by the Nominee Committee.

Board Performance

Performance of the Board is reviewed by the Chairman in accordance with the Board Charter. In doing so, the Chairman reviews the composition and effectiveness of the Board both individually and as a whole, and seeks to identify where improvement might be made and to assess the quality and effectiveness of information that is provided to the Directors.

The Board also undertakes an annual self assessment of the performance of the Board and individual Directors, facilitated by the Company Secretary. The review includes confidential discussions with individual Directors. The results of these discussions are reviewed by the Board.

Compliance Committee Performance

At least annually, the Board considers the performance of the Board sitting as a Compliance Committee, with a view to identifying areas for improvement and to assess the quality and effectiveness of information it is receiving. The Board will undertake this review both at an individual level and in relation to the Committee as a whole.

Corporate governance statement (continued)

Principle 3: Promote Ethical and Responsible Decision Making

Companies should actively promote ethical and responsible decision making.

Access to documents

The Board has access to all documents and information necessary to discharge its duties and responsibilities.

Code of Conduct

The Directors and the Trust's management team are required to conduct themselves in accordance with the Code of Conduct.

This Code sets out standards of professional behaviour in areas such as conflict of interest, professional conduct and confidentiality.

Securities Trading Policy

The Responsible Entity has no employees and has outsourced all of its functions to agents which include related parties.

All Directors and officers and all agents who provide management functions to the Trust, are prohibited from trading in securities when in possession of unpublished price sensitive information.

Each Director has agreed to provide notice to the Responsible Entity of any dealings in securities within three business days of such dealings so that the Responsible Entity can comply with its obligation to notify the ASX.

Diversity

The Code of Conduct sets out the Board's commitment to achieving diversity in the appointment of Directors and the engagement of agents to provide management functions to the Trust. The Code of Conduct does not, however, set out the measurable objectives for achieving this commitment. The Board recognises that the Trust is relatively small and has limited operations and that the achievement of diversity is a longer term objective for the Trust.

Corporate governance statement (continued)

Principle 4: Safeguard Integrity in Financial Reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Audit Committee

The Board has established an Audit and Risk Management Committee. The Committee comprises two members both of whom are independent.

The Committee is a committee of the Board, and as such its performance is incorporated into the Board's performance review.

The Committee has a Charter, approved by the Board, which sets out the Committee's functions, duties, responsibilities, composition and proceedings.

The functions of the Committee are to:

- Consider the integrity of the Trust's financial statements
- Monitor the relationship with the Trust's external auditors
- Assess the propriety of related party transactions
- Assist in the maintenance of an effective risk management framework
- Consider the adequacy of insurance policies
- Make recommendations to the Board on significant accounting and financial policies

The duties and responsibilities of the Committee are to:

- Monitor the integrity of financial statements
- Review and approve the audit plans and ensure that those plans are properly carried out
- Determine that no management restrictions are being placed upon the audit function of either the internal or external auditors
- Review and approval all accounting policy changes
- Oversee the independence of the external auditors and their appointment
- Monitor the performance of the audit function

The Chairman of the Board is not permitted to be Chairman of the Audit and Risk Management Committee. The members of the Committee are:

- Tony Wood (Chairman)
- Ben Dillon

At least once a year the Audit and Risk Management Committee will meet the external auditor. It also meets separately with the external auditor independently of management.

Appointment of Auditor

KPMG is the current Auditor for the Responsible Entity for:

- The managed investment schemes for which the Responsible Entity is the responsible entity
- The compliance plans for those registered managed investment schemes.

KPMG has been appointed Auditor since 2008-2009 financial year and has appointed an audit partner for the compliance plan audits who is different from the individual partners responsible managed investment scheme audits. The appointment and removal of the external auditor is regulated by the *Corporations Act*.

Corporate governance statement (continued)

Principle 5: Make Timely and Balanced Disclosure

Companies should promote timely and balanced disclosure of all material matters concerning the company.

Continuous Disclosure Policy and Procedures

The Responsible Entity has continuous disclosure procedures designed specifically to identify matters requiring disclosure and to allow appropriate announcements to be made in a timely manner consistent with the ASX Listing Rules.

These procedures are in place to ensure that unitholders and the market are provided with full and timely information about RCU's activities. They form part of the protocols for managing the use and disclosure of information and correlate with the policies described in Principle 3.

The Company Secretary has a duty to inform the Board promptly of any matter that can be reasonably expected to have a material impact on the value of the Trust's operates policies and procedures.

The release of price-sensitive information is made first through the ASX before release to any other party, and is the responsibility of the Company Secretary.

Upon confirmation by the ASX of the release of information to the market, the announcement is posted to the website of the Trust to ensure accessibility to the widest audience. Presentations of material to analysts, brokers and the media are all subject to these disclosure practices.

The continuous and periodic disclosure requirements are embedded into the Trust's Compliance Plan, which is subject to ongoing compliance monitoring and forms part of the annual external compliance audit plan.

Principle 6: Respect the Rights of Unitholders

Companies should respect the rights of unitholders and facilitate the effective exercise of those rights.

Communications Policy

The Directors of the Responsible Entity are committed to open and effective communication, ensuring that unitholders are informed of all significant developments concerning the listed vehicles for the Responsible Entity.

RCU produces two sets of audited financial information each year, the annual report for the year ended 30 June and the half year report for the six months ended 31 December. Both of these are made available to unitholders and other interested parties.

Communication with unitholders is principally conducted through the website, which contains all market announcements, presentations and current financial information material. The Directors of the Responsible Entity encourage unitholders to receive electronic communications.

Corporate governance statement (continued)

Principle 6: Respect the Rights of Unitholders (continued) Communications Policy (continued)

The types of communication available on the website include:

- All disclosures made to the ASX
- Annual and half year reports
- All investor bulletins and presentations by the Trust's management team
- All correspondence from the Board Chairman sent to unitholders
- All policies and summaries of charters
- Key dates and events
- Current and archived webcasts of annual and half yearly results briefings
- Detailed results information relating to the most recent reporting period.

Additionally, the presentations from these briefings are available on the Trust's website after confirmation of receipt from the ASX in accordance with the disclosure practices of the Responsible Entity.

Principle 7: Recognise and Manage Risk

Companies should establish a sound system of risk oversight and management and internal controls.

Risk Management and Internal Controls

The Responsible Entity is the holder of an Australian Financial Services Licence and accordingly is required to have in place processes including compliance, risk management and internal controls appropriate to the nature, scale and complexity of its business to enable it to meet its obligations under the financial services laws.

As part of the overall process to manage risk, the Directors of the Responsible Entity are provided declarations that are required to be made in accordance with section 295A of the *Corporations Act*. When receiving the declaration, the Responsible Entity is provided with assurance from the Chief Financial Officer and Executive Officer that the declaration is based on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks. Additional information may be found in the Financial Report under the section "Directors' Declaration" on page 49.

Corporate governance statement (continued)

Principle 7: Recognise and Manage Risk (continued)

In addition, the Responsible Entity recognises that effective risk management forms part of its approach to creating unitholder value over the life of the Trust. The Responsible Entity has implemented policies and internal controls to ensure that the Trust's assets are protected and material risks are identified and appropriately managed.

The compliance manager monitors and reports to the Board on the risk management system.

The Responsible Entity has in place an integrated risk management framework that enables the identification, assessment, management and reporting of risks.

The Responsible Entity recognises the strategic risks that need to be managed and undertakes a formal annual review of RCU strategy.

In particular, the Responsible Entity has identified a set of core risks that it believes most directly impact the Trust, and that are inherent in the environment in which it operates, which include:

- Financial risks, specifically
 - o Macroeconomic conditions (broader economic and monetary policy conditions)
 - o Refinancing and capital expenditure (cost of capital to fund development and financial arrangements)
 - o Market volatility (impacts on valuation of assets, financing arrangements, and the price of the Trust securities)
- Property risk (risk to assets, development and redevelopment projects)
- Basis risk – relative pricing of securities
- Liquidity risk – the ability to liquidate a security with minimum delay
- Counter party risk (Credit Risk including Pre-Settlement and Settlement Risk) – risk that a party to a contract will not perform to the terms of the contract
- Business risk – risk that the business model is unsustainable
- Investment Risk – risk that investments in underlying asset are unsound, arising from poor investment processes or poor execution of those processes
- Operations Risk – deficiencies in internal procedures and controls leading to financial loss
- Legal Risk – that contracts are not legally enforceable or documented incorrectly
- Fiduciary Risk – risk that poor compliance and/or monitoring procedures will result in litigation from clients, investors and/or investee companies
- Human resources risk – failure to provide adequate or insufficiently trained specialists to undertake the required tasks and/or failure to appropriately segregate duties amongst staff and/or failure to assign appropriate accountabilities
- Derivatives can be used to mitigate market, basis and/or liquidity risk. A culture of process management, compliance and corporate governance should assist in mitigating the prospect of business, investment, operations, fiduciary and human resource risk
- Insurance risk (assets, contractors and service providers)
- Environmental and sustainability risks, including those arising from government policy.

The risk management structure is further supported by the Trust's Compliance Plan, which identifies and manages the statutory risk applicable to the Trust, its control methodologies and the monitoring obligations of the Trust. The Compliance Plan is available to all unitholders of the Trust on request.

Operational risks are monitored and managed on an ongoing basis by the Trust's management team, and supported by a number of other functional areas that include finance, research, property management services, legal and audit, which provide information, data and reporting.

Corporate governance statement (continued)

Principle 7: Recognise and Manage Risk (continued)

Risk Management and Internal Controls (continued)

Mitigation planning and monitoring is achieved through a range of methods. These include:

- The construction of terms of contract where service providers are engaged and the active management of those contracts
- Reviews to ensure that changes to statutory, government policy and sustainability risk are communicated to the business in a timely manner to plan for expected operating activity amendments
- Financial risk is managed through a dedicated finance function (Fund finance teams, financial control and reporting, capital strategy management and forecasting and analytics).

Principle 8: Remunerate Fairly and Responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Remuneration

The Responsible Entity does not have a remuneration committee as it does not employ any personnel directly. The remuneration arrangements for the Directors are set by the Responsible Entity. Only independent Directors are remunerated for their duties – it is the practice of the Responsible Entity that no senior executives or non executive directors are remunerated for Director appointments.

Expense Reimbursement

Directors are entitled to be reimbursed for reasonable expenses incurred in the performance of their duties.

Corporate governance statement (continued)

ASX Principles – Statement of compliance

ASX Principle	Comply Y/N
Principle 1: Lay solid foundations for management and oversight Companies should establish and disclose the respective roles and responsibilities of board and management	
1.1 Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions	Y
1.2 Companies should disclose the process for evaluating the performance of senior executives	Y
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.	Y
Principle 2: Structure the Board to add value Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties	
2.1 A majority of the Board should be independent directors	Y
2.2 The Chair should be an independent Director	Y
2.3 The roles of chair and chief executive officer should not be exercised by the same individual	Y
2.4 The Board should establish a nomination committee	Y
2.5 Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors	Y
2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.	Y
Principle 3: Promote ethical and responsible decision making Companies should actively promote ethical and responsible decision making	Y
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:	Y
– The practices necessary to maintain confidence in the company's integrity	
– The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders	
– The responsibility and accountability of individuals for reporting and investigating reports of unethical practices	
3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	N
3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	N
3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board	N
3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3.	Y

Corporate governance statement (continued)

ASX Principles – Statement of compliance (continued)

ASX Principle	Comply Y/N
Principle 4: Safeguard integrity in financial reporting Companies should have a structure to independently verify and safeguard the integrity of their financial reporting	
4.1 The board should establish an audit committee	Y
4.2 The audit committee should be structured so that it	Y
– Consists only of non-executive directors	
– Consists of a majority of independent directors	
– Is chaired by an independent chair, who is not the chair of the Board	
– Has at least three members	
4.3 The audit committee should have a formal charter	Y
4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4	Y
Principle 5: Make timely and balanced disclosure Companies should promote timely and balanced disclosure of all material matters concerning the company	
5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclosure of those policies or a summary of those policies	Y
5.2 Companies should provide the information indicated in the Guide to reporting on Principle 5.	Y
Principle 6: Respect the rights of unitholders Companies should respect the rights of unitholders and facilitate the effective exercise of those rights	
6.1 Companies should design a communications policy for promoting effective communication with unitholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	Y
6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.	Y

Corporate governance statement (continued)

ASX Principles – Statement of compliance (continued)

ASX Principle		Comply Y/N
Principle 7: Recognise and manage risk Companies should establish a sound system of risk oversight and management and internal controls		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	Y
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	Y
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the <i>Corporations Act</i> is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	Y
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Y
Principle 8: Remunerate fairly and reasonably Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear		
8.1	The board should establish a remuneration committee	Y
8.2	Companies should clearly distinguish the structure of non executive directors' remuneration from that of executive directors and senior executives	Y
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Y

ASX Additional information

Real Estate Capital Partners USA Property Trust (the “Trust”) is a registered managed investment scheme established and domiciled in Australia. The Trust is listed on the Australian Securities Exchange (“ASX”) under the code: RCU. Real Estate Capital Partners Managed Investments Limited, a wholly-owned subsidiary of Real Estate Capital Partners Pty Limited, is the Responsible Entity of the Trust.

The following information in relation to unit holdings is provided as at 18 August 2014.

Substantial unitholders

The number of units held by the Trust’s substantial unitholders and the date on which the last notice was lodged with the ASX are as follows:

	Date of notice	No. of securities	% of issued capital
Lemarne Corporation Limited	22 March 2013	2,000,000	16.28
KushKush Investments Pty Limited	22 March 2013	2,000,000	16.28

Voting rights

The provisions of the *Corporations Act 2001* governing proxies and voting for meetings of members of registered managed investment schemes apply to the Trust except that no objection may be made to any vote cast at a meeting unless the objection is made at the meeting.

For so long as the Trust is listed on the ASX, the Responsible Entity and its associates are entitled to vote their interest on resolutions to remove the Responsible Entity and choose a new Responsible Entity.

Distribution of equity securities

Analysis of numbers of equity security holders by size of holdings:

Range	No. of unitholders	No. of securities	% of issued capital
1 to 1,000	751	353,412	2.88
1,001 to 5,000	575	1,342,313	10.93
5,001 to 10,000	127	925,182	7.53
10,001 to 100,000	117	2,996,814	24.40
100,001 and Over	11	6,663,819	54.26
Total	1,581	12,281,540	100.00

The number of security investors holding less than a marketable parcel of 2,500 securities (\$0.20 on 18 August 2014) is 1,103 and they hold 906,683 securities.

On-market buy back

There is no current on-market buy-back.

ASX Additional information (continued)

Twenty largest equity security holders

The 20 largest holders of quoted equity securities at 18 August 2014 are set out below:

	No. of securities	% of issued capital
Lemarne Corporation Limited	2,000,000	16.28
KushKush Investments Pty Limited (Alexander Discretionary Trust)	2,000,000	16.28
Real Estate Capital Partners Management Pty Limited	560,970	4.57
Maryton Australia Pty Limited	435,673	3.55
Mr. Andrew John Saunders	366,297	2.98
Mr. Simon Robert Evans (Master Liam James Evans Account)	300,072	2.44
Mr. Simon Robert Evans & Mrs. Kathryn Margaret Evans (Kamiyacho Super Fund Account)	300,000	2.44
Bond Street Custodians Limited (BHRNJA – PF0533 Account)	244,109	1.99
Hersham Holdings Pty Limited (Hersham Family Account)	240,000	1.95
Mr. Albert Serchong Chen	110,315	0.90
Angueline Capital Pty Limited	106,383	0.87
Australian Executors Trustees Limited (No.1 Account)	89,986	0.73
Australian Executors Trustees Limited (No.2 Account)	82,936	0.68
Mr. Andrew William Kirkwood	77,633	0.63
Xavier Holdings Limited & Macky Trustee Company Limited (Xavier Account)	76,691	0.62
Mr. John Brendan O'Reilly	70,114	0.57
Mrs. Shu-lin Cheng & Mr. Jung-tung Chen & Mrs. Chuang Yuan Chen	60,222	0.49
Berger Equities Pty Limited (Berger Super Fund Account)	60,000	0.49
Animako Pty Limited (Sedl Superannuation Fund Account)	59,400	0.48
Fogfam Pty Limited (Fogarty Family Super Fund Account)	57,510	0.47
Total	7,298,311	59.43

Corporate directory

Registered and Administration office

Quattro RE Limited (formerly Real Estate Capital Partners Managed Investments Limited)
as responsible entity for Real Estate Capital Partners USA Property Trust
Level 9
117 Macquarie Street
Sydney NSW AUSTRALIA 2000
Phone: 1800 622 812

Company secretary: Mr Andrew Saunders

Unit registry

Link Market Services Limited
Level 12
680 George Street
Sydney NSW AUSTRALIA 2000
Phone: 02 8280 7111

Auditor

KPMG
10 Shelley Street
Sydney NSW AUSTRALIA 2000

Website

www.recap.com.au/rcu