

## Appendix 4D Half year report

### 1. Company details

Name of entity

Real Estate Capital Partners USA Property Trust
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ABN or equivalent company  
reference

ARSN 114 494 503
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Financial year ended  
(‘current period’)

31 Dec 2014
-------------

Financial year ended  
(‘previous period’)

31 Dec 2013
-------------

### 2. Results for announcement to the market

2. Results for announcement to the market

			%		\$000's
2.1	Revenues from ordinary activities	decreased	61.4	to	3,093
2.2	Net profit from ordinary activities after tax attributable to members**	decreased	87.9	to	354
2.3	Net profit for the period attributable to members*	decreased	87.9	to	354
2.4	Dividends	Amount per security		Franked amount per security	
	No dividends were declared during period	Nil		Nil	
2.5	Record date for determining entitlements to the final dividend.	N/A			
2.6	Brief explanation of any of the figures in 2.1 to 2.4 above necessary to enable the figures to be understood.				

The previous reporting period comparatives included a one off gain of \$4.5m on a debt modification and a revaluation increment of \$2.5m in respect of the same asset. Revenues and Net Profit in the current reporting period do not include these items.

## **2. Results for announcement to the market (continued)**

Refer to the attached interim Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position and Statement of Cash Flows at Attachment 1 for further details.

## **3. Net Tangible Assets per Unit**

Net Tangible Assets per unit	31 December 2014 \$ per unit	30 June 2014 \$ per unit	Change %
Net Tangible Assets	\$0.49	\$0.42	16.7

## **4. Entities over which control has been gained or lost during the period**

No control has been gained or lost over another entity during the period

## **5. Details of distributions**

No distributions have been declared or were payable for the period.

## **6. Details of distribution reinvestment plans in operation**

N/A

## **7. Details of associates and joint ventures**

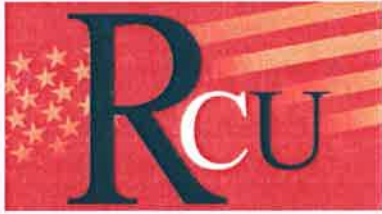
N/A

## **8. Accounting standards used for foreign entities**

The Trust is an investor in real property in the USA. The financial statements of the Trust have been prepared in accordance with Australian Accounting Standards ("AASB's") which comply with International Financial Reporting Standards ("IFRS").

## **9. Description of audit dispute or qualification**

The financial report is based on accounts which have been reviewed by KPMG for the reporting period of six months to 31 December 2014. Based on the review a qualified auditors conclusion was reached in relation to a gain on foreclosure as disclosed in note 4 of the financial statements.



**Real Estate Capital Partners USA Property Trust**

**ARSN 114 494 503**

**Interim Financial Report  
for the six months ended 31 December 2014**

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**This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 30 June 2014 and in accordance with the continuous disclosure requirements of the Corporations Act 2001.**

## Directors' report

The Directors of Quattro RE Limited ("**Quattro**" or "**Responsible Entity**") (formerly Real Estate Capital Partners Managed Investments Limited), the Responsible Entity for the Real Estate Capital Partners USA Property Trust ("**RCU**" or "**the Trust**") (ASX: RCU) present their report together with the interim condensed consolidated financial statements of the Consolidated Entity for the reporting period of six months ended 31 December 2014 and the independent auditor's review 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

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

### 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; Resigned 28 November 2014)
Antony Wood	(Appointed 20 July 2012; Resigned and appointed alternate Director 7 October 2014; Re-Appointed Director 28 November 2014)
Ed Psaltis	(Appointed 7 October 2014; Resigned 25 November 2014)
Andrew Saunders	(Appointed 7 October 2014)

The Directors consider that because the majority of Directors during or since the end of the reporting period were non-executive and independent, an adequate segregation of responsibilities has applied during the reporting period between the investment management functions and corporate governance functions of the Trust.

### Principal activity

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. 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 six months ended 31 December 2014 was \$354,000 (31 December 2013: \$2,939,000). The profit is largely attributable to the gain of \$1,594,000 recognised in the current period resulting from the foreclosure sale of the One Centennial property on 2 April 2014. The Directors have reviewed the foreclosure process and the advice received and are of the opinion that all liabilities associated with the One Centennial property have been satisfied as a consequence of the completed process.

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

#### *Strategy*

Since the end of the last reporting period the Responsible Entity has continued with the strategy set out in the 2013 strategic review of minimising overhead costs, refurbishing and adding value to the Higgins Chicago asset ("Higgins") as well as assessing other opportunities to create value.

#### *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 ASX market announcement on 30 August 2013. The Higgins loan modification provides the opportunity to add value to Higgins through an upgrade/refurbishment of the property and an active management and leasing strategy.

The strategy to re-position the asset thereby provides a more modern and updated office building which will have the following benefits:

- Make the asset more attractive to both current tenants and prospective tenants by offering a higher standard of accommodation in an improved environment.
- Enable higher rents to be sought for the building
- Increase leasing velocity thereby leading to higher occupancy
- Strengthen the cash flow of the asset
- Improve the value of the asset and thereby the Trusts NTA

The refurbishment works have been ongoing during the period and are advanced with the costs being funded from existing reserves of the consolidated entity held by the lender. The works are due to be completed in March 2015 and an active leasing programme is now being implemented. The building has a net lettable area of 135,151sqft, of which 63,336sqft (47%) is leased. A number of existing tenants have already committed to extended leases based on the planned refurbishment works whilst leasing enquiry on the building has increased significantly as the refurbishment is close to completion and new tenants can see the improved building..

The US economy and office markets continue to show signs of improvement. The overall vacancy rate in the O'Hare office market (where Higgins is located) is the lowest since 2007 and continues to decrease with net absorption in the third quarter of 2014 being the highest since the fourth quarter of 2011. All this bodes well for the successful execution of the Higgins strategy.

As at 30 June 2014, the asset was independently valued at US\$14,900,000. The fair value of the asset at 31 December 2014 was assessed at US\$15,237,000. This reflects a Directors valuation as at 31 December 2014 which also takes into account refurbishment works to date. An independent valuation will be carried at 30 June 2015 following the completion of all refurbishment works.

#### *Foreign exchange movements*

As nearly all of the Trusts assets and liabilities are denominated in US\$ and the Trusts earnings are generated in US\$, movements in the US\$/A\$ exchange rate have a material impact on the Trusts NTA and its earnings.

## Directors' report (continued)

During the course of the period the A\$ depreciated against the US\$ from a spot rate of \$0.9420 at 30 June 2014 to a spot rate of \$0.8202 at 31 December 2014. This movement had a material impact on the Trusts NTA which increased 16.7% from \$0.42 at 30 June 2014 to \$0.49 at 31 December 2014. The Trusts Statement of Financial Position is prepared using predominately the spot rate at 31 December 2014.

From an earnings perspective the average A\$/US\$ exchange rate for the period (1 July 2014 – 31 December 2014) was \$0.8915 compared with the average exchange rate over the prior 6 month period (1 January 2014 – 30 June 2014) of \$0.9147. This average movement was less pronounced than the spot rate movement and therefore the impact on the Trusts earnings not as material. The Trusts Statement of Comprehensive Income is prepared using predominately the average exchange rate over the period.

With the A\$/US\$ exchange rate currently below \$0.80 and expected to remain at these lower levels in the foreseeable future, the Trusts NTA and earnings should continue to benefit from a lower and depreciating A\$ over the course of the year.

### *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 and the Sheriff of New Jersey sold the property at auction on 2 April 2014. A gain on foreclosure of US\$1.3 million (A\$1.6 million) has been accounted for in the current period relating to accrued liabilities associated with the foreclosure that are no longer required.

### *Capital Management*

The Responsible Entity is conscious of the current discount that exists between the Trusts NTA and its trading price and will continue to review options and assess strategies that can create value to Unitholders by closing this gap.

### *New acquisitions*

The Trust has been reviewing asset acquisitions and new opportunities that can create value. 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.

### **Going concern**

The consolidated interim 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 interim 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 \$275,000 (30 June 2014: \$782,000 deficiency). Included in payables are amounts relating to tenant security deposits of \$70,000 (30 June 2014: \$61,000), rent received in advance of \$29,000 (30 June 2014: \$81,000) and accrued real estate taxes of \$915,000 (30 June 2014: \$811,000). These amounts, which total \$1,014,000 (30 June 2014: \$953,000) 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 \$739,000 (30 June 2014: \$171,000).

**REAL ESTATE CAPITAL PARTNERS USA PROPERTY TRUST**  
**ARSN 114 494 503**

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, is likely to require additional financing to meet these obligations in the future which may include a raising of additional capital via an equity issue. The available cash and cash equivalent balances as at 31 December 2014 were \$1,691,000 (30 June 2014: \$1,209,000)

*Cashflow budgets*

The Responsible Entity has prepared cash flow budgets through to 29 February 2016 which indicates that the Consolidated Entity will have sufficient funds to meet its short term working capital and financing requirements.

*Conclusion*

The Directors of the Responsible Entity have determined that because the cash flow budgets prepared above 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 cash flow projections 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 raise additional capital via an equity issue or realise assets which may be at amounts less than that stated in the financial statements.

**Interest of the Responsible Entity**

The Responsible Entity and its associates did not hold any units in the Trust during the period, except that Mr Ben Dillon holds 2,000 units in the Trust and Mr Andrew Saunders and his associates hold 1,167,267 units in the Trust.



## Directors' report (continued)

### 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. Directors of the Responsible Entity are paid directors' fees by the Responsible Entity from its own resources.

All transactions with related parties are conducted on commercial terms and conditions.

Costs incurred by the Responsible Entity in managing the Trust include the cost of advisers to provide the fund management, asset management, legal, accounting and other services. These costs are included in expense recoveries.

		6 months ended 31 December	
		2014	2013
		\$	\$
<b>Transactions with related parties - Consolidated</b>			
<i>Charged by the Responsible Entity</i>			
• management fees	(see i below)	93,340	100,649
• expense recoveries	(see ii below)	263,663	586,576
		<b>357,003</b>	<b>687,225</b>
<i>Charged by Zerve Pty Limited</i>			
• US asset management fees	(see ii below)	269,952	268,216
		<b>269,952</b>	<b>268,216</b>

### Responsible Entity fees, related party fees and other transactions

		31 December 2014	30 June 2014
		\$	\$
<b>Balances outstanding with related parties - Consolidated</b>			
<i>Included in payables:</i>			
• to the Responsible Entity			
• Responsible Entity fees		58,539	123,289
• Expense recoveries		-	21,122
	(see Note 7)	<b>58,539</b>	<b>144,411</b>

### Notes relating to both periods – 6 months ended 31 December 2013 and 2014

- i Responsible Entity fees are calculated on the following basis:
  - 3% of the effective gross income of the Trust in accordance with the Trust's Constitution.
- ii In the prior period, \$268,216 paid to Zerve Pty Limited for asset management services was included in expense recoveries. In the current period these fees have been separated disclosed with prior period comparatives updated accordingly.

**Directors' report (continued)**

**Events subsequent to the end of the reporting period**

Other than the matters disclosed above 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.

**Lead auditor's independence declaration**

The lead auditor's independence declaration as required by section 307C of the Corporations Act 2001 is set out on page 7 and forms part of this Directors' Report for the period ended 31 December 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:

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

Ben Dillon

Director

Sydney, 27 February 2015



***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 review for the half-year ended 31 December 2014 there have been:

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

*KPMG*

KPMG

Ian Moyser  
Partner

Sydney

27 February 2015

**REAL ESTATE CAPITAL PARTNERS USA PROPERTY TRUST**  
**ARSN 114 494 503**

	Note	Consolidated	
		31 December 2014	31 December 2013
<b>Condensed consolidated interim statement of comprehensive income for the six months ended 31 December 2014</b>		<b>\$'000</b>	<b>\$'000</b>
<b>Continuing operations</b>			
<b>Revenue and other income</b>			
Rental income from investment properties		786	2,235
Recoverable outgoings from investment properties		600	1,101
Interest income		2	13
Gain on debt modification		-	4,534
Gain on foreclosure	4	1,594	-
Other income		87	11
Net gain/(loss) on foreign exchange		24	113
<b>Total revenue and other income</b>		<b>3,093</b>	<b>8,007</b>
<b>Expenses</b>			
Property expenses		875	2,050
Responsible Entity fees	13	93	101
Custodian fees		30	32
Borrowing costs		399	3,294
Other operating expenses		977	2,781
<b>Total expenses</b>		<b>2,374</b>	<b>8,258</b>
Change in fair value of investment property	9	-	2,477
Change in fair value of financial liability	10	(365)	713
<b>Profit/(loss) for the period before income tax</b>		<b>354</b>	<b>2,939</b>
Income tax		-	-
<b>Profit/(loss) for the period</b>		<b>354</b>	<b>2,939</b>

Continued on page 9

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

		Consolidated	
Condensed consolidated interim statement of comprehensive income for the six months ended 31	Note	31 December 2014 \$'000	31 December 2013 \$'000
Profit/(loss) for the period		354	2,939
Other comprehensive income			
Foreign currency translation differences - foreign operations		538	742
<b>Total other comprehensive income/(loss)</b>		<b>538</b>	<b>742</b>
<b>Total comprehensive profit/(loss) for the period</b>		<b>892</b>	<b>3,681</b>
<b>Total comprehensive profit/(loss) for the period attributable to unitholders</b>		<b>892</b>	<b>3,681</b>
<b>Earnings per unit for profit attributable to the ordinary equity holders of the trust</b>		<b>Cents</b>	<b>Cents</b>
Basic and diluted earnings/(loss) per unit	11	2.88	25.48

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

**Condensed consolidated interim statement of changes  
in equity  
for the six months ended 31 December 2014**

<b>Consolidated Entity</b>	<b>Note</b>	<b>Issued capital \$'000</b>	<b>Translation reserve \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Total equity \$'000</b>
<b>2013</b>					
Balance at 30 June 2013		203,123	2,195	(204,525)	793
<b>Total comprehensive income for the period</b>					
Profit/(loss) for the period		-	-	2,939	2,939
Translation of foreign operations		-	742	-	742
Total comprehensive income for the period		-	742	2,939	3,681
<b>Transactions with owners, recorded directly in equity</b>					
Units issued		584	-	-	584
Total transactions with owners		584	-	-	584
<b>Balance at 31 December 2013</b>		<b>203,707</b>	<b>2,937</b>	<b>(201,586)</b>	<b>5,058</b>
<b>2014</b>					
Balance at 30 June 2014		203,707	3,086	(201,650)	5,143
<b>Total comprehensive income for the period</b>					
Profit/(loss) for the period		-	-	354	354
Translation of foreign operations		-	538	-	538
Total comprehensive income for the period		-	538	354	892
<b>Transactions with owners, recorded directly in equity</b>					
Units issued		-	-	-	-
Total transactions with owners		-	-	-	-
<b>Balance at 31 December 2014</b>		<b>203,707</b>	<b>3,624</b>	<b>(201,296)</b>	<b>6,035</b>

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

**REAL ESTATE CAPITAL PARTNERS USA PROPERTY TRUST**  
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**Condensed consolidated interim statement of financial position**  
**as at 31 December 2014**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2014</b>	<b>30 June 2014</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,691	1,209
Trade and other receivables	5	173	150
Other assets	6	1,658	1,218
Assets held for sale - investment properties	8	-	-
<b>Total current assets</b>		<b>3,522</b>	<b>2,577</b>
<b>Non-current assets</b>			
Investment properties	9	18,577	15,817
Other assets	6	2,695	3,015
<b>Total non-current assets</b>		<b>21,272</b>	<b>18,832</b>
<b>Total assets</b>		<b>24,794</b>	<b>21,409</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	7	2,139	2,141
Financial liabilities, at fair value	10	811	706
<b>Total current liabilities</b>		<b>2,950</b>	<b>2,847</b>
<b>Non-current liabilities</b>			
Financial liabilities, at fair value	10	15,809	13,419
<b>Total non-current liabilities</b>		<b>15,809</b>	<b>13,419</b>
<b>Total liabilities</b>		<b>18,759</b>	<b>16,266</b>
<b>Net assets</b>		<b>6,035</b>	<b>5,143</b>
<b>Equity</b>			
Issued capital		203,707	203,707
Reserves		3,624	3,086
Accumulated losses		(201,296)	(201,650)
<b>Total equity</b>		<b>6,035</b>	<b>5,143</b>

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

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<b>Condensed consolidated interim statement of cash flows for the six months ended 31 December 2014</b>	<b>Note</b>	<b>Consolidated</b>	
		<b>31 December 2014 \$'000</b>	<b>31 December 2013 \$'000</b>
<b>Cash flows from operating activities</b>			
Receipts in the course of operations		1,470	3,504
Payments in the course of operations		(2,067)	(5,116)
Payments of interest and other borrowing costs		(392)	(1,040)
<b>Net cash from/(used in) operating activities</b>		<b>(989)</b>	<b>(2,652)</b>
<b>Cash flows from investing activities</b>			
Interest received		2	-
Payments for improvements to investment properties		(195)	-
Transfer funds to capital reserve (see Note 10)		-	(1,193)
<b>Net cash from/(used in) investing activities</b>		<b>(193)</b>	<b>(1,193)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		-	584
Repayment of borrowings from external parties		-	(77)
Proceeds from foreclosure		1,594	
<b>Net cash (used in)/from financing activities</b>		<b>1,594</b>	<b>507</b>
Net increase/(decrease) in cash and cash equivalents		412	(3,338)
Cash and cash equivalents at 1 July		1,209	6,188
Effect of exchange rate fluctuations on cash held		70	(243)
<b>Cash and cash equivalents at 31 December</b>		<b>1,691</b>	<b>2,607</b>

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



**Notes to the condensed consolidated interim financial statements  
for the six months ended 31 December 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 condensed consolidated interim financial report of the Trust as at and for the reporting period of six months ended 31 December 2014 comprises the Trust and its subsidiaries (together referred to as the “**Consolidated Entity**” and individually as “**Group entities**”). The principal activities of the Consolidated Entity during the financial period were the derivation of rental income from an investment property located in the United States of America (“**USA**”).

The responsible entity of the Trust is Quattro RE Limited (the “**Responsible Entity**” or “**Quattro**”).

**2. Basis of preparation**

**(a) Statement of compliance**

The condensed consolidated interim financial report is a general purpose condensed financial report which has been prepared for a for-profit entity for the reporting period ended 31 December 2014 and which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. The consolidated interim financial report does not include all of the information required for an annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2014 and the ASX announcements released during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The financial statements are presented in Australian Dollars and all values are rounded to the nearest thousand dollars (\$'000) except where otherwise stated. The condensed financial report has also been prepared on a historical cost basis, except for investment properties and loans designated at fair value through profit and loss, which have been measured at fair value.

The financial statements were approved by the Directors of the Responsible Entity on 27 February 2015.

**(b) Use of estimates and judgments**

The preparation of the condensed consolidated interim 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. In preparing the condensed consolidated interim financial statements, the judgements made by the Responsible Entity in applying the Consolidated Entity's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2014.

**2. Basis of preparation (continued)**

**(c) Going concern**

The preparation of financial statements on a going concern basis contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

*Working capital*

The consolidated interim 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 \$275,000 (30 June 2014: \$782,000 deficiency). Included in payables are amounts relating to tenant security deposits of \$70,000 (30 June 2014: \$61,000), rent received in advance of \$29,000 (30 June 2014: \$81,000) and accrued real estate taxes of \$915,000 (30 June 2014: \$811,000). These amounts, which total \$1,014,000 (30 June 2014: \$953,000) 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 \$739,000 (30 June 2014: \$171,000).

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, is likely to require additional financing to meet these obligations in the future which may include a raising of additional capital via an equity issue. The available cash and cash equivalent balances as at 31 December 2014 were \$1,691,000 (30 June 2014: \$1,209,000)

*Cashflow budgets*

The Responsible Entity has prepared cash flow budgets through to 29 February 2016 which indicates that the Consolidated Entity will have sufficient funds to meet its short term working capital and financing requirements.

*Conclusion*

The Directors of the Responsible Entity have determined that because the cash flow budgets prepared above 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 cash flow projections 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 raise additional capital via an equity issue or realise assets at amounts less than that stated in the financial statements.

**3. Significant accounting policies**

Except as described below and on the following page the accounting policies adopted in the preparation of the consolidated interim financial statements are consistent with those followed in the preparation of the Consolidated Entity's annual financial statements as at 30 June 2014.

***Changes in accounting policies***

The Consolidated Entity has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with an initial application date of 1 July 2014.

**4. Discontinued operations**

On 7 August 2013, the Supreme Court of New Jersey granted the lenders application for a default judgment in respect of the property and the Sheriff of New Jersey sold the property at auction on 2 April 2014. A gain on foreclosure of US\$1.3 million(A\$1.6 million) has been accounted for in the current period relating to accrued liabilities associated with the foreclosure that are no longer required.

**5. Trade and other receivables**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2014</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	141	-
GST receivable	32	77
Other receivable	-	73
	<b>173</b>	<b>150</b>

**6. Other assets**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2014</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Prepaid expenses	128	46
Withholding tax receivable	589	679
Property related deposits*	941	493
	<b>1,658</b>	<b>1,218</b>
<b>Non-current</b>		
Property related deposits*	2,695	3,015
	<b>2,695</b>	<b>3,015</b>

\* 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 relating to the Higgins property are classified as non-current assets to align with the non-current asset classification of the property.

**7. Trade and other payables**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June</b>
	<b>2014</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Payable to the Responsible Entity (see Note 13)	59	144
Trade payables	995	983
Tenants' security deposits	70	61
Rent received in advance	29	81
Accrued real estate taxes	915	811
Accrued interest payable	71	61
	<b>2,139</b>	<b>2,141</b>

8. Assets held for sale – investment properties

	Consolidated	
	31 December 2014 \$'000	30 June 2014 \$'000
<b>Current</b>		
Investment properties held for sale – at fair value	-	-
	-	-

The movement in the carrying amount is reconciled as set out below:

Carrying amount at the beginning of the period	-	38,275
Lease straight-lining	-	-
Disposals	-	(25,760)
(Loss)/gain due to foreign currency translation	-	562
Fair value increment/(decrement) of investment properties	-	-
Transferred to Investment properties (see Note 9)	-	(13,077)
	-	-

9. Investment properties

	Consolidated	
	31 December 2014 \$'000	30 June 2014 \$'000
<b>Non- current</b>		
Investment properties – at fair value	18,577	15,817
	18,577	15,817

and the movement in the carrying amount is reconciled as set out below:

	6 months ended 31 December 2014 \$'000	Year ended 30 June 2014 \$'000
Carrying amount at the beginning of the period	15,817	-
Lease straight-lining	(45)	(35)
Improvements to investment properties (including tenant incentives)	423	253
Gain/(loss) due to foreign currency translation	2,382	(737)
Fair value increment/(decrement) of investment properties	-	3,259
Transferred from Assets held for sale - Investment properties (see Note 8)	-	13,077
<b>Carrying amount at the end of the period</b>	<b>18,577</b>	<b>15,817</b>
<b>Comprising of:</b>		
Deferred rental income	1,063	983
Fair value of properties (excluding straight-lining)	17,514	14,834
	18,577	15,817

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The fair value of investment property (including straight-lining) at 31 December 2014 is as set out in the following table. Amounts are presented in both A\$ and US\$ for comparative purposes.

Property	31 December 2014	31 December 2014	30 June 2014	30 June 2014
	US\$'000	A\$'000	US\$'000	A\$'000
Higgins, Illinois	15,237	18,577	14,900	15,817
	<b>15,237</b>	<b>18,577</b>	<b>14,900</b>	<b>15,817</b>

**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 \$18,577,000 has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see Note 9(ii) below).

9. Investment properties (continued)

(ii) Level 3 fair value

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

	\$'000
Balance at the beginning of the year	15,817
Acquisitions and reclassification assets held for sale	-
Improvements to investment properties (including tenant incentives)	423
Items included in comprehensive income	
• Change in fair value of investment property	-
• Rental income (Lease straight lining)	(45)
Item included in other comprehensive income	
• Gain /(loss) due to foreign currency translation	2,382
Balance at the end of the year	<u>18,577</u>

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"> <li>• Expected market rental growth: 3.0%</li> <li>• Current occupancy rate: 47%</li> <li>• Vacancy periods between leases: 3 months</li> <li>• Risk adjusted discount rate: 8.75%</li> <li>• Improvements made to the property over the period</li> </ul>	<p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> <li>• Expected market rental growth was higher/(lower)</li> <li>• The occupancy rate was higher/(lower)</li> <li>• The vacancy period between leases was shorter/(longer)</li> <li>• The risk adjusted discount rate was lower/(higher)</li> </ul>

10. Financial liabilities

	Consolidated	
	31 December	30 June
	2014	2014
	\$'000	\$'000
<b>Current</b>		
Bank loans (secured), at fair value	811	706
	<b>811</b>	<b>706</b>
<b>Non-Current</b>		
Bank loans (secured), at fair value	15,809	13,419
	<b>15,809</b>	<b>13,419</b>
<b>Total loans and borrowings</b>	<b>16,620</b>	<b>14,125</b>

**Terms and conditions**

*Higgins*

On 30 August 2013 Mariner Higgins LLC 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 in 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 of the total loan amount(A Note & B Note) 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\$2.0million. 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;
- 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

## 10. Financial liabilities (continued)

### Financial liability fair values

#### Determination of fair value

The fair value of the Higgins loan has been determined as the amount which would be payable under the capital event waterfall (see above), (substituting the 31 December 2014 fair value of the property see Note 9 above) as a proxy for the sale proceeds received. Directors of the Responsible Entity consider the book value of the Higgins secured loan to be a reasonable approximation of fair value.

#### Fair value hierarchy

AASB 13 – Fair Value Measurement requires the disclosure of fair value measurements in accordance with the following fair value measurement hierarchy:

- Level 1: quotes prices (unadjusted) in active markets for identical liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the liability, either directly or indirectly, and
- Level 3: inputs for the liability that are not based on observable market data

Directors of the Responsible Entity consider the Higgins loan fair value to be determined in accordance with Level 3 measurements.

The table below analyses financial instruments measured at fair value at the end of reporting period by the level in the fair value hierarchy in to which the fair value measurement is categorised:

as at 31 December 2014	Level 3 \$,000	Total \$,000
<b>Financial liabilities at fair value through profit or loss</b>		
Bank loans (secured)	16,620	16,620

#### 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.	<ul style="list-style-type: none"> <li>• Risk-adjusted discount rate : 6.25%</li> <li>• Valuation of secured property: \$18,577,000 (Refer Note 9)</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• the risk-adjusted discount rate were lower (higher)</li> <li>• the valuation of the secured property were higher (lower)</li> </ul>



### Reconciliation of Level 3 fair values

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

	Contingent consideration \$'000
Balance as at 1 July 2014	14,125
Change in fair value of borrowings	365
Gain/(loss) due to foreign currency translation	2,130
<b>Balance as at 31 December 2014</b>	<b>16,620</b>

### 11. Earnings per unit

The calculation of basic earnings per unit at 31 December 2014 was based on the profit attributable to unitholders of the Trust of \$354,000 (31 December 2013: \$2,939,000) and a weighted average number of units outstanding of 12,281,540 (31 December 2013: 11,532,807), calculated as follows:

	As at 31 December	
	2014 \$'000	2013 \$'000
Net profit/(loss) attributable to unitholders of the Trust	354	2,939
	As at 31 December	
	2014	2013
Weighted average number of units (basic)		
Issued units at 1 July	12,281,540	10,679,600
Effect of units issued (1,601,940 units issued 25 September 2013)	-	853,207
Weighted average number of units at 31 December	<b>12,281,540</b>	<b>11,532,807</b>

### Diluted earnings per unit

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

### 12. Operating segments

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

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.

**12. Operating segments (continued)**

**Consolidated Entity – 6 months ended 31 December 2014**

	USA	Australia	Total
	\$'000	\$'000	\$'000
External revenues	1,386	-	1,386
Interest income	-	2	2
Net gain on foreign exchange	-	24	24
Gain on foreclosure	1,594	-	1,594
Other income	87	-	87
<b>Total income</b>	<b>3,067</b>	<b>26</b>	<b>3,093</b>
Borrowing costs	394	5	399
Other operating expenses	1,317	658	1,975
<b>Total expenses</b>	<b>1,711</b>	<b>663</b>	<b>2,374</b>
Changes in equity accounted joint venture	-	-	-
Change in fair value of financial liability	(365)	-	(365)
Changes in fair value of investment properties	-	-	-
Profit/(Loss) before income tax	991	(637)	354
Income tax	-	-	-
<b>Profit/(Loss) after income tax</b>	<b>991</b>	<b>(637)</b>	<b>354</b>
<b>Segment assets</b>	<b>24,041</b>	<b>753</b>	<b>24,794</b>
<b>Segment liabilities</b>	<b>18,334</b>	<b>425</b>	<b>18,759</b>

**Consolidated Entity – 6 months ended 31 December 2013**

	USA	Australia	Total
	\$'000	\$'000	\$'000
External revenues	3,336	-	3,336
Interest income	-	13	13
Net gain on foreign exchange	-	113	113
Gain on debt modification	4,534	-	4,534
Other income	11	-	11
<b>Total income</b>	<b>7,881</b>	<b>126</b>	<b>8,007</b>
Borrowing costs	3,294	-	3,294
Other operating expenses	2,906	2,058	4,964
<b>Total expenses</b>	<b>6,200</b>	<b>2,058</b>	<b>8,258</b>
Changes in equity accounted joint venture	-	-	-
Change in fair value of financial liability	713	-	713
Changes in fair value of investment properties	2,477	-	2,477
Profit/(Loss) before income tax	4,871	(1,932)	2,939
Income tax	-	-	-
<b>Profit/(Loss) after income tax</b>	<b>4,871</b>	<b>(1,932)</b>	<b>2,939</b>
<b>Segment assets</b>	<b>49,330</b>	<b>3,290</b>	<b>52,620</b>
<b>Segment liabilities</b>	<b>47,267</b>	<b>295</b>	<b>47,562</b>

### 13. 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 (a company controlled by Andrew Saunders, a Director of the Responsible Entity) are considered to be related parties of the Trust.

#### **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 reporting period (and corresponding prior period) were as follows:

Ben Dillon	(Appointed 20 July 2012)
Barry McWilliams	(Appointed 20 July 2012; Resigned 28 November 2014)
Antony Wood	(Appointed 20 July 2012; Resigned and appointed alternate Director 7 October 2014; Re-Appointed Director 28 November 2014)
Ed Psaltis	(Appointed 7 October 2014; Resigned 25 November 2014)
Andrew Saunders	(Appointed 7 October 2014)

#### **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. Directors of the Responsible Entity are paid directors' fees by the Responsible Entity from its own resources.

All transactions with related parties are conducted on normal commercial terms and conditions.

		6 months ended 31 December	
		2014	2013
		\$	\$
<b>Transactions with related parties - Consolidated</b>			
<i>Charged by the Responsible Entity</i>			
• management fees	(see i below)	93,340	100,649
• expense recoveries	(see ii below)	263,663	586,576
		<b>357,003</b>	<b>687,225</b>
<i>Charged by Zerve Pty Limited</i>			
• US asset management fees:	(see ii below)	269,952	268,216
		<b>269,952</b>	<b>268,216</b>

**13. Related parties (continued)**

**Responsible Entity fees, related party fees and other transactions**

	31 December 2014 \$	30 June 2014 \$
<b>Balances outstanding with related parties - Consolidated</b>		
<b>Included in payables:</b>		
• to the Responsible Entity		
• Responsible Entity fees	58,539	123,289
• Expense recoveries		21,122
(see Note 7)	<b>58,539</b>	<b>144,411</b>

**Notes relating to both periods – 6 months ended 31 December 2013 and 2014**

- i Responsible Entity fees are calculated on the following basis:
  - 3% of the effective gross income of the Trust in accordance with the Trust's Constitution.
- ii In the prior period, \$268,216 paid to Zerve Pty Limited for asset management services was included in expense recoveries. In the current period these fees have been separated disclosed with prior period comparatives updated accordingly.

**13. Related parties (continued)**

**Unit holdings of the Responsible Entity and its key management personnel**

Other than as noted below, neither the Responsible Entity nor its key personnel held any units in the Trust at 31 December 2014 (31 December 2013: Nil). Mr Ben Dillon holds 2,000 units in the Trust and Mr Andrew Saunders and his associates hold 1,167,267 units in the Trust.

**Related party investments held by the Trust**

As at 31 December 2014 the Trust held no investments in the Responsible Entity or their associates (31 December 2013: Nil).

**14. Financial instruments**

**Financial risk management**

The Consolidated Entity's financial risk management objectives and policies are consistent with those disclosed in the financial report as at and for the year ended 30 June 2014.

**(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.

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31 December 2014	Carrying amount					Fair value			
	Note	Designated at fair value	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets not measured at fair value</b>									
Trade and other receivables	5	-	173	-	173	-	-	-	-
Cash and cash equivalents		-	1,691	-	1,691	-	-	-	-
			1,864	-	1,864	-	-	-	-
<b>Financial liabilities measured at fair value</b>									
Bank Loans – secured	10	16,620	-	-	16,620	-	-	16,620	16,620
		16,620	-	-	16,620	-	-	16,620	16,620
<b>Financial liabilities not measured at fair value</b>									
Trade payables	7	-	-	2,139	2,139	-	-	-	-
		-	-	2,139	2,139	-	-	-	-
<b>30 June 2014</b>									
<b>Financial assets not measured at fair value</b>									
Trade and other receivables	5	-	150	-	150	-	-	-	-
Cash and cash equivalents		-	1,209	-	1,209	-	-	-	-
		-	1,359	-	1,359	-	-	-	-
<b>Financial liabilities measured at fair value</b>									
Bank Loans – secured	10	14,125	-	-	14,125	-	-	14,125	14,125
		14,125	-	-	14,125	-	-	14,125	46,749
<b>Financial liabilities not measured at fair value</b>									
Trade payables	7	-	-	2,141	2,141	-	-	-	-
		-	-	2,141	2,141	-	-	-	-

**Capital management**

In the previous reporting period the Responsible Entity received applications from professional investors for 1,601,940 new fully paid units in the Trust at an issue price of \$0.365 per unit. The placement raised \$584,708 to fund the due diligence costs of reviewing potential property acquisitions and contribute towards the cost of implementing the Trust's new investment strategy.

**15. Contingent assets and liabilities and commitments**

**Contingent liabilities**

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

**16. Events subsequent to reporting date**

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.

**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 8 to 26, 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 31 December 2014 and of its performance for the six months ended on that date; and
    - (ii) complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.
  - (b) 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 period ended 31 December 2014.

Signed in accordance with a resolution of the Responsible Entity:

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

Ben Dillon  
Director

Sydney, 27 February 2015



## **Independent auditor's review report to the unitholders of Real Estate Capital Partner USA Property Trust**

### **Report on the financial report**

We have reviewed the accompanying interim financial report of Real Estate Capital Partners USA Property Trust (the "Trust") which comprises the condensed statement of financial position as at 31 December 2014, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the interim period ended on that date, condensed notes 1 to 16 comprising a summary of accounting policies and other explanatory information and the directors' declaration.

#### *Directors' responsibility for the financial report*

The directors of Quattro RE Limited (the Responsible Entity) are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2014 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Independence*

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





*Basis for qualified auditor's conclusion*

Note 4 to the financial report discloses a gain on foreclosure of \$1.6m. We were unable to obtain sufficient appropriate evidence regarding the entitlement to the gain and extinguishment of the corresponding liabilities. Consequently, we were unable to determine whether any adjustment to these amounts were necessary.

*Qualified conclusion*

Based on our review, which is not an audit, and except for the possible effects of the matter described in the basis for qualified auditor's conclusion paragraph, we have not become aware of any matter that makes us believe that the interim financial report of Real Estate Capital Partners USA Property Trust is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2014 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Emphasis of matter*

Without modifying our conclusion, we draw attention to note 2(c) which indicates the company has net working capital of \$739,000 but no consistent expected source of income for the next 12 months out of which it can meet ongoing operating expenses. The Consolidated Entity is reliant upon a number of assumed one-off cash inflows for the period, the timing of which is uncertain. In addition the Consolidated Entity is likely to require additional financing to meet its financial obligations as and when they fall due, which may be by way of a capital raising. 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.

KIM

KPMG

Ian Moyser  
Partner

Sydney

27 February 2015