Real Estate Capital Partners USA Property Trust

ARSN 114 494 503

ASX Appendix 4E
Preliminary Final Report
for the year ended 30 June 2013

Real Estate Capital Partners USA Property Trust
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ASX Appendix 4E

The following information for Real Estate Capital Partners USA Property Trust ("RCU" and the "Trust") is provided under Listing Rule 4.3A of the Listing Rules of the Australian Stock Exchange ("ASX"). The financial information provided in Appendix 4E covers the Consolidated entity, comprising Real Estate Capital Partners USA Property Trust (the parent entity) and all entities that the Trust controlled during the financial year ended and as at 30 June 2013. The date of this Appendix 4E is 30 August 2013.

1. The reporting period covers the financial year ended 30 June 2013 ("the reporting period") and the previous corresponding period is the financial year ended 30 June 2012 ("the previous period").

2. Results for announcement to the market:

		Reporting Period	***Movement from Previous Period***	
		$'000	***$'000***	***%***
2.1	*Consolidated revenue from ordinary activities*	*348*	*Increased by 210*	*Increased by 152.2*
2.2	*Consolidated loss from ordinary activities after tax attributable to members of the Trust*	*63,373*	*Increased by 39,150*	*Increased by 161.6*
2.3	*Consolidated loss attributable to members of the Trust*	*40,019*	*Increased by 19,265*	*Increased by 92.8*
2.4	*No distributions were paid during the reporting period and none are proposed.*			
2.5	*There is no record date for determining distribution entitlements.*			
2.6	*All matters relating to the results above are described elsewhere in this Appendix 4E.*			

3. The unaudited Consolidated Statement of Comprehensive Income for the Consolidated entity for the reporting period and previous period is set out on pages 13-14 of the attached report.

4. The unaudited Consolidated Statement of Financial Position for the Consolidated entity for the reporting period and previous period is set out on page 16 of the attached report.

5. The unaudited Consolidated Statement of Cash Flows for the Consolidated entity for the reporting period and previous period is set out on page 17 of the attached report.

6. The unaudited Statement of Changes in Equity for the Consolidated entity for the reporting period and previous period is set out on page 15 of the attached report.

7. No distributions were paid during during the reporting period or the previous period and none are proposed.

8. The Trust does not have a Distribution Reinvestment Plan as at the date of this Appendix 4E.

9. The unaudited consolidated net tangible assets as at the end of the reporting period were $0.0743 per unit. The corresponding value as at the end of the previous period was $0.91 per unit.

10. Details of controlled entities which were deregistered during the reporting period are set out in Note 27 (on page 48) to the Consolidated financial statements. The Consolidated entity did not gain cvontrol over any entity during the reporting period.

11. The Consolidated entity disposed of its 35% interest in SGSA II LLC and Record JV LLC. Details of the the Consolidated entity's investment in these associates are disclosed in Notes 16-18 of the attached report.

12. Apart from the information contained in the attached financial report and elsewhere in this Appendix 4E, there is no other significant information needed by an investor to make an informed assessment of the Consolidated entity's financial performance and financial position as at the reporting date.

13. The Trust is not a foreign entity.

14. A commentary on the Consolidated entity's financial results for the year ended 30 June 2013 is contained within the section: Results and distributions which is set out on page 2 of the attached report.

15. The financial information contained in this Preliminary Final Report is based upon the attached report for the year ended 30 June 2013 which are in the process of being audited by the Trust's auditors, KPMG.

16. Not applicable.

17. Not applicable.

Real Estate Capital Partners USA Property Trust
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ASX Appendix 4E

Preliminary Financial Report

The Directors of Real Estate Capital Partners Managed Investments Limited (**"RMIL"** or "**Responsible Entity**"), the Responsible Entity for the Real Estate Capital Partners USA Property Trust ("**RCU**" or "**the Trust**") (ASX: RCU) present this report together with the financial statements of the Consolidated Entity for the financial year ended 30 June 2013.

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.

Directors

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

Prior to 20 July 2012 (whilst a wholly owned subsidiary of The Trust Company (RE Services) Limited

John Atkin	(Resigned 20 July 2012)
David Grbin	(Resigned 20 July 2012)
Andrew Cannane	(Resigned 20 July 2012)
Rupert Smoker	(as Alternate Director for each of John Atkin, David Grbin and Andrew Cannane; Resigned 20 July 2012)

Subsequent to 20 July 2012 (whilst a wholly owned subsidiary of ReCap)

Ben Dillon	(Appointed 20 July 2012)
Gregory Dyer	(Appointed 20 July 2012; Resigned 5 November 2012)
Barry McWilliams	(Appointed 20 July 2012)
Antony Wood	(Appointed 20 July 2012)
Greg Woolley	(Appointed 2 August 2012; Resigned 4 October 2012)

All Directors appointed on and from 20 July 2012 are non-executive and Messrs Dillon, McWilliams and Wood are independent. The current Directors consider that because the majority of the Directors have at all times been independent, an adequate segregation of responsibilities has been achieved between the management functions and corporate governance functions of the Trust since the acquisition of the Responsible Entity by ReCap.

Principal activities

The Trust is a registered managed investment scheme domiciled in Australia. The principal activities of the Consolidated Entity during the reporting period were property investments in the United States of America ("**USA**"). On 11 February 2013 the substantial assets of the Consolidated Entity comprising the Pfingsten and the FedEx Montgomery properties and the 35% interest in the SGSA joint ventures holding of 21 properties in the USA were sold

Principal activities (continued)

Between 15 - 19 March 2013 the Responsible Entity redeemed 90,334,472 (89.43%) units of the Trust at a redemption price of $0.5685 per unit. The redemption price was calculated in accordance with the terms of the Trust's constitution and represented the net tangible assets per unit on the day before the redemption price was paid.

Following the redemption, the Trust's assets predominantly comprised cash and the One Centennial and Higgins properties. The loans secured by the One Centennial and Higgins properties were in default and as at 30 June 2013 the Responsible Entity was in negotiations with the lenders for either the relinquishment of the properties in an agreed foreclosure process or the restructure of the loans.

Since the end of the reporting period, the loan financing the Higgins property has been restructured and the foreclosure of the One Centennial property has been agreed and is progressing: refer to the **Events subsequent to the end of the reporting period** section of this report for further details.

The Trust and the Consolidated Entity did not have any employees during the reporting period.

Results and distributions

The Consolidated Entity's loss for the year ended 30 June 2013 was $63,373,000 (2012: $24,223,000 loss).

The statutory accounting loss was impacted by a number of non-cash fair value items including the following items which were recognised and reported in the interim financial report for the period ended 31 December 2012:

- fair value decrements in respect of investment properties held for sale of $14.370,000, and
- fair value decrement attributable to SGSA joint ventures held for sale of $16,413,000 million

These fair value adjustments were predominantly required to align the carrying values of the assets with the offer received of US$56 million from Saban Capital Group (see below) and resulted in a loss of $32,783,000 for the period ended 31 December 2012.

During the second half of the financial year additional fair value decrements of $4.337 million and $0.216 million were recognised in respect of the Higgins and One Centennial properties respectively in contemplation of their relinquishment to secured lenders. Refer also to the **Events subsequent to the end of the reporting period** section of this report.

Also in the second half of the reporting period a non-cash foreign exchange translation loss of $23,816,000 was realised and transferred from the foreign currency translation reserve in respect of assets disposed during the period.

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.

Review of operations

Governance and management

On 5 June 2012, an ASX announcement was made that ReCap had exercised a call option over the shares in the Responsible Entity. Completion of the call option was subject to a number of conditions which were subsequently satisfied and the ownership and control of the Responsible Entity was transferred to ReCap on 20 July 2012.

Review of operations (continued)

Sale of Bedford Woods and repayment of CBA/Pearlmark Facilities

The Responsible Entity announced to the market that the sale of the RSA Bedford Woods asset to Cole Real Estate Investments for US$93.5 million had settled on 25 July 2012. Proceeds from the sale were primarily used to repay the existing US$87.4 million CBA and Pearlmark debt facilities ("**CBA/Pearlmark debt facilities"**) which were scheduled to expire on 6 August 2012.

The decision to sell the asset, in lieu of the previously announced refinance strategy, was based on the price offered by the purchaser and the significant cost savings from not proceeding with the refinancing. Due to standard loan terms, which include establishment and exit fees, and penalties for early repayment, the total incremental cost to refinance and then sell the RSA Bedford Woods asset during the new loan term was estimated at between US$2.0 million and US$6.0 million, subject to the timing of the RSA Bedford Woods sale.

Parsippany forbearance agreement and foreclosure

The Responsible Entity announced to the ASX on 4 April 2012 that the forbearance agreement entered into with the lender to enable negotiations to continue had expired, and that the property would be relinquished to the lender who would foreclose on the asset immediately. Consent Judgement was granted by the Superior Court of New Jersey on 30 April 2012 and the property was sold at foreclosure auction on 16 August 2012 which resulted in the total extinguishment of the secured debt of US$36.6 million.

Takeover offer by Woolley GAL II

On 17 May 2012 Woolley GAL II Pty Limited ("**Woolley GAL II**") released a bidder's statement under which it proposed to make an unsolicited, all cash takeover bid for RCU at $0.46 per unit. At that date Woolley GAL II and its associates (including Frost Holdings Pty Limited ("**Frost**") held 28.93% of RCU units on issue. The bidder's statement was lodged with ASIC on 31 May 2012 and became unconditional on 29 June 2012. The Responsible Entity lodged the target's statement on 22 June 2012 and Woolley GAL II dispatched a fourth and final supplementary bidder's statement on 4 July 2012 and the offer finally closed on 9 July 2012. At the date of his appointment as a Director of the Responsible Entity on 2 August 2012, Mr Woolley had a relevant interest in 33.02% of RCU units on issue. Mr Woolley resigned as a Director of the Responsible Entity on 4 October 2012 and ceased to be a substantial unitholder on 15 March 2013 following the redemption of his units (see Redemption of units below).

Saban proposal

During the period of the takeover offer by Woolley GAL II a number of non-binding and indicative proposals were received from third parties in relation to the assets of RCU or subsets of RCU's portfolio. Following the closing of the Woolley GAL II bid, an indicative non-binding proposal was received from Saban Capital Group (**"Saban"**). Saban was RCU's joint venture partner in the SGSA joint ventures which are more fully described in Note 17 to the consolidated financial statements. The Responsible Entity responded to Saban that its proposal was unacceptable in terms of both price and conditions but that they would be responsive to further negotiations.

On 2 November 2012 the Responsible Entity announced that it had signed a conditional term sheet with Saban under which Saban agreed to acquire RCU's wholly-owned Montgomery and Pfingsten properties and RCU's 35% interest in the SGSA joint ventures for US$56 million (**"the Saban sale"**). The Saban sale was approved by unitholders at the resumed meeting of unitholders on 29 January 2013. Completion of the sale occurred on 11 February 2013.

Review of operations (continued)

Redemption of units

Following completion of the Saban sale the Trust was "liquid" for the purposes of section 601KA (4) of the Corporations Act, 2001. On 31 January 2013 the Responsible Entity received redemption requests from unitholders holding approximately 20% of the issued units of the Trust. Under the Constitution of the Trust the provisions relating to rights to obtain a redemption when the Trust is liquid are suspended while the Trust is a listed entity but the Responsible Entity had a discretionary right to redeem units in the Trust if requested by unitholders. On 22 February 2013 the Responsible Entity announced that it was considering granting the redemption requests but would only do so if all unitholders were given an opportunity to seek redemption and a waiver from the ASX Listing Rules and favourable judicial advice were obtained. A satisfactory waiver from the ASX listing rules was obtained on 26 February 2013. On 27 February 2013, the Responsible Entity wrote to unitholders of RCU noting that it would exercise its discretion to accept the redemption requests "subject to the Responsible Entity being able to make a fair assessment of the Redemption Price payable". The letter noted further that certain claims made by Frost Holdings Pty Limited and its associates (see below) might result in the Redemption Price not being able to be assessed ("**Frost Claims**"). On 6 March 2013 His Honour, Justice White provided judicial advice to the Responsible Entity that under section 70 of the Trustee Act the Responsible Entity was justified in accepting and acting on the redemption requests.

On 13 March 2013 the Frost Claims were withdrawn and the Responsible Entity in its capacity as the responsible entity of RCU was released from the Frost Claims to the extent that the Frost Claims are indemnifiable out of the assets of RCU.

Between 15 - 19 March 2013 the Responsible Entity redeemed 90,334,472 (89.43%) units of the Trust at a redemption price of $0.5685 per unit. The redemption price was calculated in accordance with the terms of the Trust's constitution and represented the net tangible assets per unit on the day before the redemption price was paid. The number of issued units remaining in the Trust following completion of the redemption was 10,679,600.

Meeting to replace Responsible Entity

On 6 February 2013 the Responsible Entity received a notice of meeting on behalf of Frost convening a meeting on 11 March 2013 for the purpose of removing RMIL as the responsible entity for the Trust, replacing it with New City Funds Management Limited and changing the investment strategy of the Trust. The notice of meeting to change the responsible entity was subsequently withdrawn.

Higgins and One Centennial properties

On 29 October 2012 the Trust announced that it had appointed a debt advocate for the purpose of discussions which could lead to a restructuring of the loans which were secured over the Higgins and One Centennial properties or a relinquishment of the properties to the respective lenders.

In a notice of meeting in connection with the approval of the Saban sale the Responsible Entity stated that, based on advice from the specialist debt advocate, it was the intention of the Responsible Entity to exit the Higgins and One Centennial properties by surrendering them to the secured creditors in respect of those properties.

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. On 12 April 2013, as a result of changes in the USA debt markets and at the instance of the secured lender, the Responsible Entity commenced negotiations for the purpose of restructuring the loan secured over the Higgins property. The lender subsequently issued a non binding term sheet for the restructure of the loan on 29 May 2013.

Review of operations (continued)

Higgins and One Centennial properties (continued)

On 30 August 2013 Mariner Higgins Centre LLC entered into a debt restructure agreement consistent with the term sheet the material terms of which are set out in the **Events subsequent to the end of the reporting period** section of this report.

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 does not intend to take any action to oppose the entry of the default judgment.

Capital management

As noted above, the proceeds from the sale of the Bedford Woods property were primarily used to fully repay the existing US$87.4 million CBA/ Pearlmark debt facilities which were scheduled to expire on 6 August 2012.

Between 15 - 19 March 2013 the Responsible Entity redeemed 90,334,472 (89.43%) units of the Trust at a redemption price of $0.5685 per unit. The redemption price was calculated in accordance with the terms of the Trust's constitution and represented the net tangible assets per unit on the day before the redemption price was paid.

During the period under review the Responsible Entity appointed a specialist debt advocate to assist in the restructuring of RCU's remaining debt facilities which are secured against the Higgins and One Centennial properties. Because of the negative cash flows (after debt servicing) generated by these properties and based on the advice of the specialist debt advocate, the Responsible Entity formed the intention to relinquish these properties by surrendering them to the secured creditors. However, as a result of changes in the USA debt markets the Responsible Entity commenced negotiations for the purpose of restructuring the loan secured over the Higgins property. The lender subsequently issued a non-binding term sheet for the restructure of the loan on 29 May 2013. On 30 August 2013 Mariner Higgins Centre LLC entered into a debt restructure agreement consistent with the term sheet the material terms of which are set out in the **Events subsequent to the end of the reporting period** section of this report.

The Responsible Entity does not intend to oppose the default judgement granted by the Supreme Court of New Jersey on 7 August 2013 in favour of the lender in respect of the One Centennial property and will relinquish that property.

Interest of the Responsible Entity

The Responsible Entity and its associates, other than ReCap, did not hold any units in the Trust during the financial year. As at 30 June 2013 ReCap held no units in the Trust, having disposed of its total holding of 990,000 units (0.98%) on 9 November 2012 at $0.5354 per unit (30 June 2012: 990,000 units (0.98%)).

Mr Greg Woolley was appointed as a Director of the Responsible Entity on 2 August 2012 and had a relevant interest in 33,352,053 units (33.02%) in the Trust as at that date. Mr Woolley resigned as a Director on 4 October 2012 and ceased to be a substantial unitholder on 15 March 2013.

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

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

		2013 $	2012 $
Transactions with related parties - Consolidated			
Charged by the Responsible Entity and its associates			
- Responsible Entity fees	(see i below)	394,142	216,572
- Trustee fees for RRT	(see i below)	-	5,417
- expense recoveries	(see ii below)	1,261,004	37,255
- expense recoveries in relation to entitlements issues	(see iii below)	-	255,000
- expense recoveries in relation to the Takeovers Panel response	(see iv below)	-	107,500
- expense recoveries in relation to defence of takeover bid by Woolley GAL II	(see v below)	-	130,000
		1,655,146	**751,744**
Charged by the Investment Manager			
- expense recoveries prior to termination	(see vi below)	132,537	371,910
- expense recovery relating to requisition of Investor meeting	(see vii below)	61,350	-
- termination fee	(see viii below)	353,042	-
- expense recoveries in relation to the entitlements issue	(see ix below)	-	260,590
- expense recoveries in relation to the convertible note	(see x below)	-	111,275
- expense recoveries in relation to the Takeover Panel response	(see xi below)	-	138,955
- expense recoveries in relation to defence of takeover bid by Woolley GAL II	(see xii below)	-	148,785
		546,929	**1,031,515**
Charged by the US Asset Manager *****			
- asset management fees prior to termination	(see xiii below)	118,519	1,000,000
- administration fees prior to termination	(see xiii below)	59,260	500,000
- expense recoveries prior to termination	(see xiii below)	91,218	567,164
- expense recoveries in relation to CBA/Pearlmark refinancing	(see xiv below)	70,987	-
- fee in relation to Sale to Saban group	(see xv below)	539,291	-
- asset sale fee	(see xvi below)	910,153	-
- expense recoveries in relation to RRT acquisition	(see xvii below)	-	367,901
- expense recoveries in relation to Intel forbearance	(see xviii below)	-	107,803
- expense recoveries in relation to RSA leasing	(see xix below)	-	344,430
- expense recoveries in relation to CBA/Pearlmark refinancing	(see xx below)	-	184,055
		1,789,428	**3,071,353**

***** a wholly owned subsidiary of ReCap

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

		2013 $	2012 $
Transactions with related parties – Consolidated (continued)			
Amount claimed by other related parties			
- Paid to Frost			
- underwriting fee	(see xxi below)	-	1,000,000
- establishment fee	(see xxi below)	-	500,000
- convertible note establishment fee	(see xxii below)	-	400,000
- cost reimbursements on underwriting agreement	(see xxi below)	-	642,565
		-	**2,542,565**
Payments to person before taking office			
- Ben Dillon	(see xxiii below)	-	2,640
		-	**2,640**
Balances outstanding with related parties - Consolidated			
Included in payables:			
- to the Responsible Entity			
- Responsible Entity fees		14,225	19,897
- Expense recoveries		80,508	-
- trustee fees for RRT		-	2,750
- expense recoveries in relation to the entitlements issues		-	49,080
- expense recoveries in relation to the Takeovers Panel response		-	30,250
- expense recoveries in relation to defence of takeover bid		-	143,000
	(see Note 20)	**94,733**	**244,977**
- to the Investment Manager			
- expense recoveries in relation to defence of takeover bid		-	163,664
- expense recoveries in relation to the Takeover Panel response		-	30,849
- expense recoveries in relation to the entitlements issue		-	150,000
	(see Note 20)	**-**	**344,513**
- to the US Asset Manager			
- asset management fees		-	64,349
- administration fees		-	32,174
- expense recovery fees		-	9,214
- expense recovery in relation to CBA/Pearlmark refinance		-	185,583
	(see Note 20)	**-**	**291,320**
- to person before taking office			
- Ben Dillon		-	2,640
		-	**2,640**
Included in receivables or other assets			
- sale offer costs recoverable from Frost	(see Note 13)	-	100,634
		-	**100,634**

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

- i Between 1 July - 20 July 2012 the Responsible Entity fees were calculated at 0.08% per annum of the Trust's gross assets (calculated on a consolidated basis and paid on a monthly basis) in accordance with the Trust Companies Management Services agreement. From 20 July – 31 October the RE fee was calculated as 0.2% of net assets in accordance with the RCU Product Disclosure Statement. From 1 November 2012 the Responsible Entity fee was calculated on 3% of the effective gross income of the Trust in accordance with the Trusts Constitution. Trustee fees of $10,000 per annum 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 Costs incurred by the Responsible Entity in managing the Trust included accounting, compliance, legal and expense recoveries including amounts paid to Directors of the Responsible Entity or their related entities. These included 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 agreed scope of their services as Directors of the Responsible Entity. Management expense recoveries have been included in other operating costs in the consolidated statement of comprehensive income.
- iii Additional costs in connection with capital raising, unitholder engagement and capital management.
- iv Additional costs in connection with response to application to Takeovers Panel.
- v Additional costs in connection with defence of takeover bid by Woolley GAL II.
- vi Expense recoveries prior to termination of investment management agreement on 31 October 2012 per ASX announcement on 27 September 2012.
- vii Expenses incurred in relation to requisition of an Investor Meeting called by Intelligent Investor.
- viii Termination fees per ASX announcement on 27 September 2012.
- ix Management of capital raising process, provision of information and attendance on underwriter, the Responsible Entity, advisors in relation to various matters including analysis of capital raising, financial modelling and co-ordinating due diligence, recommendations and negotiation of documentation, liaising with debt providers and third parties. Capitalised to issue costs; refer Note 20.
- x Provision of information and attendance on Frost, the Responsible Entity and advisors in relation to due diligence matters including corporate structure, properties, leases, loans, tax matters; drafting and review of convertible note term sheet, financial analysis, negotiation of documents and the like.
- xi Management of Takeover Panel response process, attendance upon the Responsible Entity, various parties and advisors. Collation of information and drafting response documents. Capitalised to issue costs; refer Note 20.
- xii Additional costs incurred in connection with takeover bid by Woolley GAL II.
- xiii Asset management, administration fees and expense recoveries charged by the US Asset Manager prior to termination of the agreement as per ASX announcement on 27 September 2012.
- xiv Expense recoveries in relation to debt broker, financial analysis, preparation of information memorandum, review of quotes, negotiations of proposals, negotiation of term sheet and documentation, credit approval and review of final documentation. These costs have been included in general and administrative expenses.
- xv 1% Sale fee charged by the US Asset Manager on the sale to Saban for Pfingsten, Montgomery and 35% joint venture interests as stipulated in the termination deed of the US Asset Manager as per ASX announcement on 27 September 2012.

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

xvi	Bedford Woods asset sale fee (US$935,000) accrued in 30 June 2012 financial statements but paid and disclosed as related party transaction during current reporting period.
xvii	Expense recoveries in respect of the RRT acquisition are included in acquisition costs; see Note 7 for further details. Amounts charged include work in connection with the transfer of Pool A properties to the SGSA II joint venture, completion of the Unit Sale Deed and restructure to deal with the untransfered Pool A asset and Pool B.
xviii	Proposals to lender in relation to Intel asset loan, financial analysis, negotiations, review of legal precedents, documentation and agreements including negotiation and confirmation of non-recourse nature of loan. These costs have been included in other operating costs.
xix	Proposals to RSA, the tenant of the Bedford Woods asset and its parent company, EMC Corporation, financial analysis, negotiations with RSA and its brokers in respect of agreement of terms, negotiation of further commercial issues, lease documentation and EMC Corporations guarantee of RSA's obligations. Negotiation of brokerage agreement and subsequent rebate of a portion ($344,430) of broker's remuneration, to owner (a controlled entity of the Trust). These costs have been included in property expenses.
xx	Discussion with debt broker, financial analysis, preparation of information memorandum, review of quotes, negotiations of proposals, negotiation of term sheet and documentation, credit approval and review of final documentation. These costs have been included in general and administrative expenses.
xxi	An underwriting fee of 5%, an establishment fee and costs incurred on the underwriting have been capitalised to issue costs (Refer Note 20).
xxii	A convertible note establishment fee charged has been included in other operating expenses.
xxiii	Pre-appointment expenses charged by a Director for work done in connection with the review of the Woolley GAL II take over bid have been included in other operating expense.

Events subsequent to the end of the reporting period

Higgins property loan modification

On 30 August 2013 Mariner Higgins Centre LLC entered into a debt restructure agreement consistent with the term sheet the material terms of which are:

- A Note of US$11.0m with a maturity date in March 2017 bearing fixed interest at 6.25%p.a. 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% p.a. 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 to contribute 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 will be 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$2million. 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 to pay to the lender a modification fee of US$170,000 and legal and other third party costs.

Upon completion of the debt restructure agreement both the Higgins property and the corresponding secured loan will be reclassified from current assets and liabilities to non-current assets and liabilities and the net tangible asset (**"NTA"**) per unit of RCU will increase from $0.0743 per unit to $0.6909 per unit.

Directors' report (continued)

Events subsequent to the end of the reporting period (continued)

Foreclosure of the One Centennial asset

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 asset. Having regard to the limited recourse nature of the loan, the responsible entity does not intend to take any action to oppose the entry of the default judgement.

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.

Business strategies and prospects

The impact of the Higgins loan modification described above, together with the relinquishment of the One Centennial property as part of the agreed foreclosure process, is to increase the Trust's NTA per unit to $0.6793 per unit. The increase in NTA is primarily driven by:

- the 30 June 2013 valuation of US$11.7m less the A Note liability of US$11.0m and the borrowers interest in the 50:50 share of proceeds noted above
- the forgiveness of unpaid interest and default interest accrued during the period when the property was subject to default

The Higgins loan modification provides the Trust with the opportunity to add value to the property through an upgrade of certain common areas and an active leasing strategy for the repositioned property. The Chicago O'Hare market enjoyed positive leasing activity during the year and in the locale of the property a new major retail outlet has recently opened adding new amenities to the area.

The Higgins loan modification allows the Trust to remain invested in USA real estate and is forecast to be accretive to investors and is an example of the Responsible Entity's focus on real estate markets and the opportunities to deliver value to investors. The risks to the strategy are normal commercial risks such as the identification of suitable assets, the sourcing of appropriate finance, foreign exchange risk, taxation risk and the depletion of cash reserves in the event that Trust is unable to implement the strategy.

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.

Directors' report (continued)

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

Between 1 July 2011 and 20 July 2012, the Responsible Entity was covered under The Trust Company Limited group insurance policy. In addition, the Directors and officers of the Responsible Entity have runoff insurance cover in relation to the period prior to its acquisition by The Trust Company Limited group.

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.

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.

Consolidated statement of comprehensive income for the year ended 30 June 2013	**Note**	**Consolidated 2013 $'000**	**Consolidated 2012 $'000**
Continuing operations			
Revenue and other income			
Interest income	5	22	28
Net gain/(loss) on foreign exchange		326	(24)
Other income		-	134
Total revenue and other income		**348**	**138**
Expenses			
Property expenses		256	533
Responsible Entity fees	28(i)	394	217
Investment Manager fee	28(viii)	353	-
Asset management fees	28(xiii)	178	1,500
Custodian fees		60	82
Other operating expenses	6	3,794	3,958
Total expenses		**5,035**	**6,290**
Loss before income tax for the year		**(4,687)**	**(6,152)**
Income tax	9	**-**	**-**
Loss for the year from continuing operations		**(4,687)**	**(6,152)**
Discontinued operations			
Loss from discontinued operations (net of income tax)	4	**(34,870)**	**(18,071)**
Realised foreign currency loss on disposal of assets	4	**(23,816)**	**-**
		(58,686)	**(18,071)**
Loss for the year		**(63,373)**	**(24,223)**

Continued on page 14

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

Consolidated statement of comprehensive income for the year ended 30 June 2013	**Note**	**Consolidated 2013 $'000**	**Consolidated 2012 $'000**
Other comprehensive income			
Unrealised foreign currency translation gain - foreign operations		(462)	3,164
Net change in foreign currency translation reserve on disposal of assets transferred to profit and loss		23,816	-
Net change in fair value of cash flow hedges transferred to profit and loss		-	305
Total other comprehensive income		**23,354**	**3,469**
Total comprehensive loss for the year		**(40,019)**	**(20,754)**
Total comprehensive loss for the year attributable to unitholders		**(40,019)**	**(20,754)**
Earnings per unit			
		Cents	**Cents**
Basic loss per unit	24	(85.31)	(39.27)
Diluted loss per unit	24	(85.31)	(39.27)

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 2013

Consolidated Entity	Note	Issued capital $'000	Translation reserve $'000	Hedging reserve $'000	Accumul-ated losses $'000	Total equity $'000
2012						
Balance at 30 June 2011	22	237,867	(25,977)	(305)	(115,275)	96,310
Total comprehensive income for the year						
Loss for the year		-	-	-	(24,223)	(24,223)
Translation of foreign operations		-	3,164	-	-	3,164
Net change in fair value of cash flow hedges transferred to profit or loss		-	-	305	-	305
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	-
Total comprehensive income for the year		-	3,164	305	(24,223)	(20,754)
Transactions with owners, recorded directly in equity						
Units issued	22	19,994	-	-	-	19,994
Capital raising fees	22	(3,383)	-	-	-	(3,383)
Distributions to unitholders		-	-	-	-	-
Total transactions with owners		16,611	-	-	-	16,611
Balance at 30 June 2012		**254,478**	**(22,813)**	**-**	**(139,498)**	**92,167**
2013						
Balance at 30 June 2012	22	254,478	(22,813)	-	(139,498)	92,167
Total comprehensive income for the year						
Loss for the year		-	-	-	(39,557)	(39,557)
Translation of foreign operations		-	(462)	-	-	(462)
Realised foreign exchange on disposal of assets		-	23,816	-	(23,816)	-
Net change in fair value of cash flow hedges transferred to profit or loss		-	-	-	-	-
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	-
Total comprehensive income for the year		-	23,354	-	(63,373)	(40,019)
Transactions with owners, recorded directly in equity						
Units issued	22	-	-	-	-	-
Capital raising fees	22	-	-	-	-	-
Distributions to unitholders		-	-	-	-	-
Redemption of units	22	(51,355)	-	-	-	(51,355)
Total transactions with owners		**(51,355)**	**-**	**-**	**-**	**(51,355)**
Balance at 30 June 2013		**203,123**	**541**	**-**	**(202,871)**	**793**

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 2013

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000
Assets			
Current assets			
Cash and cash equivalents	12(a)	6,188	13,288
Trade and other receivables	10	142	624
Other assets	13	6,382	205
Assets held for sale - investment properties	14	38,275	124,984
Total current assets		50,987	139,101
Non-current assets			
Investment properties	15	-	80,582
Investments in equity accounted investees	17	-	42,092
Other assets	13	-	5,595
Deferred charges	19	-	918
Total non-current assets		-	129,187
Total assets		50,987	268,288
Liabilities			
Current liabilities			
Trade and other payables	20	3,445	12,862
Loans and borrowings	21	46,749	121,002
Total current liabilities		50,194	133,864
Non-current liabilities			
Loans and borrowings	21	-	42,257
Total non-current liabilities		-	42,257
Total liabilities		50,194	176,121
Net assets		**793**	**92,167**
Equity			
Issued capital	22	203,123	254,478
Reserves	22	541	(22,813)
Accumulated losses		(202,871)	(139,498)
Total equity		**793**	**92,167**

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 2013	**Note**	**Consolidated 2013 $'000**	**2012 $'000**
Cash flows from operating activities			
Receipts in the course of operations		10,005	23,168
Payments in the course of operations		(14,204)	(17,577)
Realised gain/(loss) on foreign exchange		-	(39)
Payments of interest and other borrowing costs		(4,482)	(10,505)
Net cash from/(used in) operating activities	12(b)	(8,681)	(4,953)
Cash flows used in investing activities			
Interest received on notes		-	1,348
Payments for improvements to investment properties		-	(304)
Payments for acquisition of RRT investment		-	-
Acquisition costs in relation to RRT investment		-	(193)
Proceeds from sale of investment property		111,875	-
Proceeds from sale of equity accounted investment		25,996	-
Distribution received from financial asset at fair value through profit or loss		-	1,219
Net cash from/(used in) investing activities		137,871	2,070
Cash flows from in financing activities			
Proceeds from units issued	22	-	19,994
Capital raising fees	22	-	(3,383)
Distributions paid		-	-
Redemption of units		(51,355)	-
Proceeds from borrowings		-	-
Repayment of borrowings		(85,253)	(2,361)
Net cash from financing activities		(136,608)	14,250
Net increase/(decrease) in cash and cash equivalents		(7,418)	11,367
Cash and cash equivalents at the beginning of the year		13,288	2,135
Effect of exchange rate fluctuations		318	(214)
Cash and cash equivalents at the end of the year	12(a)	**6,188**	**13,288**

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

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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 2013 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") adopted by the International Accounting Standards Board ("IASB").

The financial statements were authorised for issue by the Directors of the Responsible Entity on 28 August 2013.

(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 settlement of liabilities in the normal course of business. In concluding that the going concern basis of preparation is appropriate, Directors of the Responsible Entity have reviewed the current cash reserves and cash flow budgets of the Consolidated Entity for the ensuing year, and considered the impact of the Higgins property loan modification and the foreclosure of the One Centennial property (**see Note 31. Events subsequent to the end of the reporting period**).

(c) Basis of measurement

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

- derivative financial instruments are measured at fair value
- investment properties are measured at fair value
- investment properties held for sale are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value

The methods used to measure fair values are discussed further in Notes 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 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.

1. 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**
  Assets held for sale are valued at fair value

- **Investments in equity accounted investees**
  Subsequent to attaining significant influence during the prior financial year, the Trust's investment in the SGSA joint ventures was accounted for in accordance with the equity method.

- **Derivative Financial instruments – Valuation**
  The fair value of derivative financial instruments is determined by reference to market values.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Consolidated Entity. Control exists when the Consolidated Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing whether control exists, potential voting rights that are presently exercisable 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 27 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. In the Trust's financial statements, investments in subsidiaries are carried at cost, less impairment.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

Investments in associates (equity accounted investees)

Associates are those entities in which the Consolidated Entity has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Consolidated Entity holds between 20-50% of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Consolidated Entity's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Consolidated Entity, from the date that significant influence commences until the date that significant influence ceases.

When the Consolidated Entity's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil and the recognition of further losses is discontinued except to the extent that the Consolidated Entity has an obligation or has made payments on behalf of the investee.

The carrying amount of the Group's Investments in associates is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of the asset exceeds it recoverable amount. The recoverable amount of the asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time of money and the risks specific to the asset.

Transactions eliminated on consolidation

All inter-entity balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in the preparation of these consolidated financial statements.

(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 and derivative financial instruments are included in gains and losses on investments and net gain/loss on derivatives, respectively. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents, are presented separately in the statement of comprehensive income.

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

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
- its investment in an associate that includes a foreign operation whilst retaining significant influence, the relevant proportion of the cumulative amount is re-classified to profit or loss.

(c) Financial instruments

(i) Classification

The Consolidated Entity's financial instruments comprise:

- the category of financial assets and financial liabilities at fair value through profit or loss comprising of interest rate options
- 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*.

(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.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Measurement (continued)

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.

(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.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(vii) Specific instruments (continued)

Derivative financial instruments

The Trust and Consolidated Entity have 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 are 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 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.

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.

3. Significant accounting policies (continued)

(f) Distribution and taxation (continued)

Distributions to unitholders (continued)

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.

(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.

3. Significant accounting policies (continued)

(i) Property valuations (continued)

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 15 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.

(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.

3. Significant accounting policies (continued)

(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 (Refer Note 8) 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 (Refer Note 18). 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 17).

(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 July 2013 which may impact the consolidated entity in the period of initial application. None of these are expected to have a significant financial effect on the consolidated financial statements of the Trust. The Trust does not intend to early adopt these standards and the extent of their impact has not been determined.

4. Discontinued Operations

During the 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 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.

These operations were not discontinued operations or classified as held for sale as at 30 June 2012 and the comparative consolidated statement of profit or loss and other comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

	Consolidated	
Results of discontinued operation	**2013**	**2012**
	$'000	**$'000**
Revenue	10,489	27,605
Expenses	(10,069)	(23,216)
Fair value decrement	(35,290)	(22,460)
Results from operating activities	**(34,870)**	**(18,071)**
Income tax	-	-
Results from operating activities net of tax	**(34,870)**	**(18,071)**
Gain on sale of discontinued operation	-	-
Realised foreign exchange loss on disposal of assets	(23,816)	-
Income tax applicable	-	-
Loss for the year	**(58,686)**	**(18,071)**
Basic earnings (loss) cents per share	(79.00)	(29.16)
Diluted earnings (loss) cents per share	(79.00)	(29.16)

	Consolidated	
Cash flows from/(used in) discontinued operations	**2013**	**2012**
	$'000	**$'000**
Net cash used in operating activities	(3,147)	1,291
Net cash from investing activities	-	2,067
Net cash from financing activities	-	(2,380)
Net cash flows for the year	**(3,147)**	**978**

5. Interest income

	Consolidated 2013 $'000	Consolidated 2012 $'000
Interest income derived from:		
Cash and cash equivalents	22	28
Financial assets at fair value through profit or loss	-	134
	22	**162**

6. Other operating expenses

	Consolidated 2013 $'000	Consolidated 2012 $'000
Property general and administrative expenses	592	1,361
Registry services	114	104
Audit and accounting at the Head Trust	258	285
Legal	989	25
Taxation	118	17
Expense recovery	1,455	372
Other trust level expenses	218	851
Takeover bid costs	50	943
	3,794	**3,958**

7. Auditor's remuneration

	Consolidated 2013 $	Consolidated 2012 $
Auditors of the Trust – KPMG Australia:		
Audit and review of the financial reports	215,000	313,593
Other regulatory audit services	22,500	35,060
Taxation services	103,569	19,600
Other services – transaction services	-	60,017
	341,069	428,270
Auditors of the subsidiaries – KPMG US:		
Audit and review of the financial reports	105,714	118,035
Audit and review of the financial reports of subsidiaries under US GAAP	-	231,522
Taxation services	124,220	120,065
	229,934	469,622
	571,003	**897,892**

8. Acquisition costs

Acquisition costs relating to the acquisition and re-structuring of the RRT and SGSA agreements ("the SGSA joint ventures") have been expensed and included in the to loss from discontinued operations within the statement of comprehensive income as this investment has been disposed of.

	Consolidated	
	2013	**2012**
	$'000	**$'000**
Acquisition costs expensed to profit or loss		
- charged by US Asset Manager (Refer to Note 28(xvii))	-	368
- charged by other parties	-	193
	-	**561**

9. Taxation

The Trust is subject to 35% capital gains tax 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 $7,536,000 (2012: $3,650,000) 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.

10. Trade and other receivables

	Consolidated	
	2013	**2012**
Current	**$'000**	**$'000**
Trade receivables	80	297
GST receivable	62	327
	142	**624**

11. Financial assets - derivative

In a prior year the Trust entered into an interest rate option for US$75 million to limit 3 month LIBOR floating interest rate exposure. The option had a capped rate of 1.5% with quarterly reset dates and as at 30 June 2012 the fair value of the option was assessed to be $Nil. The option matured on 6 August 2012.

12.(a) Cash and cash equivalents

	Consolidated	
	2013	**2012**
	$'000	**$'000**
Cash held at banks	6,188	13,288
	6,188	**13,288**

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

	Consolidated 2013 $'000	2012 $'000
Loss before tax	(63,374)	(24,223)
Adjustments for:		
Amortisation of deferred loan charges and others	533	1,322
Unrealised foreign exchange (gain)/loss	(326)	24
Realised foreign currency on disposal of assets	23,816	-
Distribution income	-	(1,218)
Income received on notes	-	(694)
Changes in fair value of financial assets through profit or loss	-	37
Changes in equity accounted joint venture	(1,647)	(3,110)
Lease straight-lining	5	(98)
Sale costs classified in investing activities	1,673	-
Changes in fair value of investment properties	-	3,794
Changes in fair value of assets held for sale	35,291	18,666
Loss on sale of investment property	-	-
Borrowing costs	4,294	12,509
	265	7,009
Change in assets and liabilities during the financial year:		
Change in trade and other receivables and other assets	434	495
Change in trade and other payables	(4,898)	(1,952)
Borrowing costs paid	(4,482)	(10,505)
Net cash from/(used in) operating activities	**(8,681)**	**(4,953)**

13. Other assets

		Consolidated 2013 $'000	2012 $'000
Current			
Prepaid expenses		70	22
Property related deposits*		5,622	-
Receivable from Saban	(See Note 18)	-	82
Receivable from Frost Holdings Pty Limited (**"Frost"**)		-	101
Withholding tax receivable		690	-
		6,382	**205**
Non-current			
Property related deposits*		-	5,595
		-	**5,595**
		6,382	**5,800**

* 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 have been classified as current assets in the current reporting period to align with the current asset classification of the properties to which they relate (See Note 14).

14. Assets held for sale – investment properties

		Consolidated	
		2013	**2012**
		$'000	**$'000**
Current			
Investment properties held for sale – at fair value		38,275	124,984
		38,275	**124,984**
The movement in carrying amount is reconciled as follows:			
Carrying amount at the beginning of the year		124,984	20,984
Lease straight-lining		(5)	80
Transferred from investment properties	(See Note 15)	80,582	133,964
Transferred to investment properties	(See Note 15)	-	(20,984)
Transferred from deferred charges	(See Note 19)	-	3,424
Gain/(loss) due to foreign currency translation		3,442	6,182
Disposals		(151,805)	-
Fair value decrement		(18,923)	(18,666)
		38,275	**124,984**

Details of the individual investment properties held for sale are set out below.

14. Assets held for sale – investment properties (continued)

Details of the investment properties held for sale are set out hereunder:

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.

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 does not intend to take any action to oppose the entry of the default judgment.

Higgins Centre LLC

Notwithstanding that on 30 August 2013 Mariner Higgins LLC entered into a debt restructure agreement that will result in the Consolidated Entity retaining the property, it remains classified as a discontinued operation for the current financial year (**see Note 31: Events subsequent to the end of the reporting period**).

As at 30 June 2012

Property:	1515 Route 10, Parsippany, NJ	174 Middlesex Turnpike, Bedford Woods, MA
Current valuation:	$36,033,117	$88,950,995
Valuation method at 30 June 2012:	Foreclosure price	Sale price less costs to sell

Parsippany, New Jersey

The Responsible Entity announced to the ASX on 4 April 2012 that the forbearance agreement entered into with the lender to enable negotiations to continue had expired, and that the property would be relinquished to the lender who would foreclose on the asset immediately. Consent Judgement was granted by the Superior Court of New Jersey on 30 April 2012 and the property was sold at foreclosure auction on 16 August 2012. The property was valued at the amount of secured debt and accrued interest (less escrow cash held by the lender) extinguished by the foreclosure sale.

Bedford Woods, Massachusetts

Subsequent to entering into an amended lease with RSA Security Inc. for the Bedford Woods property on 29 February 2012, the Responsible Entity received an offer for its sale and announced on 23 July 2012, on behalf of the Responsible Entity, that a binding sales contract for US$93.5 million had been entered into. The contract settled on 25 July 2012. The property was valued at its sale price (US$93.5 million) less costs of sale (US$2.432 million), converted at the year end exchange rate.

Valuation Principles

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

15. Investment properties

		Consolidated 2013 $'000	2012 $'000
Non-current			
Investment properties – at fair value		-	80,582
		-	**80,582**
The movement in carrying amount is reconciled as follows:			
Carrying amount at the beginning of the year		80,582	190,029
Lease straight-lining		-	32
Improvements to investment properties (including tenant incentives)		-	3,499
Gain/(loss) due to foreign currency translation		-	3,796
Fair value decrement		-	(3,794)
Transferred from Assets held for sale	(See Note 14)	-	20,984
Transferred to assets held for sale*	(See Note 14)	(80,582)	(133,964)
Carrying amount at the end of the year		**-**	**80,582**
Comprising:			
Deferred rental income		-	2,135
Fair value of properties (excluding straight-lining)		-	78,447
		-	**80,582**

* Investment properties at One Centennial and Higgins are classified as held for sale at 30 June 2013, as disclosed in Note 14.

The fair value of each property classified as investment property (excluding straight-lining) at 30 June 2013 is as set out in the following table. Amounts are presented in both A$ and US$ for comparative purposes.

Property	2013 US$'000	2012 US$'000	2013 A$'000	2012 A$'000
Montgomery	-	22,500	-	21,977
Pfingsten	-	15,733	-	15,367
One Centennial	-	27,191	-	26,559
Higgins	-	14,890	-	14,544
	-	**80,314**	**-**	**78,447**

Determination of fair value

Investment properties are measured at fair value with any change therein recognised in profit or loss. 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 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 knowledgably, prudently and without compulsion.

15.Investment properties (continued)

Independent valuations

An independent valuation of the One Centennial property was conducted as at 30 June 2013 (and at 30 June 2012) by Integra Realty Resources. An independent valuation of the Higgins property was conducted as at 30 June 2013 by CBRE. All other properties were valued as at 30 June 2012 by Colliers International.

The valuations were prepared by considering and utilising one or more of the following established valuation techniques: discounted cash flow analysis, income capitalisation such as EBITDA multiple analysis, direct comparison of valuation of similar investments, reference to recent sales transactions of the same or similar securities, and other methods as determined by the Responsible Entity to arrive at the property valuation.

The key weighted average assumptions used in the independent valuations adopted by the Trust were as follows:

	30 June 2013	**30 June 2012**	**30**
Capitalisation rate	7.25-8.00%	7.66%	
Terminal yield	7.50-8.00%	7.25% - 8.0%	7
Discount rate	8.75-9.00%	8.55%	
Weighted average lease expiry	5.9 years	5.5 years	

The Consolidated Entity’s valuation policy is set out in Note 3(i) above.

Leases as lessor

The Consolidated Entity leases out investment property under operating leases. The average lease term across the investment properties at June 2013 is 5.9 years (2012: 5.5 years). The future minimum lease payments receivable under non-cancellable leases are as follows:

	Consolidated	
	2013	**2012**
Leases as lessor	**$’000**	**$’000**
Less than one year	3,935	7,038
Between one and five years	11,768	25,235
More than five years	4,951	9,886
	20,654	**42,159**

Future minimum lease payments receivable in respect of investment properties held for sale (see Note 14) have been excluded from the above table.

16. Assets held for sale – Other investments

		Consolidated	
		30 June 2013 $'000	**30 June 2012 $'000**
Carrying amount at beginning of period		-	-
Transfer from other investments in equity accounted investees	(See Note 17)	26,965	-
Gain/(Loss) due to foreign currency translation		349	-
Disposal		(27,314)	-
		-	**-**

17. Investments in equity accounted investees

		Consolidated	
		30 June 2013 $'000	**30 June 2012 $'000**
Carrying amount at beginning of period		42,092	-
Transfer from other investments	(See Note 18)	-	39,086
Share of profit of equity accounted joint venture		1,662	3,110
Gain/(Loss) due to foreign currency translation		(603)	(104)
Distribution receivable		(651)	-
Fair value decrement		(15,535)	-
Transfer to Assets held for sale – Other investments	(See Note 16)	(26,965)	-
		-	**42,092**

17. Investments in equity accounted investees (continued)

Summary unaudited financial information for equity accounted investees for the prior corresponding year is presented below in Australian dollars, but not adjusted for the percentage ownership held by the Trust. The Trust commenced equity accounting its investment in these entities on 31 December 2011 upon attaining significant influence and discontinued the application of equity accounting on 31 December 2012 upon reclassification of the investment as held for sale. Accordingly there are no results to report as at 30 June 2013.

Reporting date		**30 June 2012**	
Name of equity accounted investee	**SGSA II LLC**	**Record JV LLC "A" units**	**Total**
Country of incorporation	USA	USA	
	$'000	**$'000**	**$'000**
Cash and cash equivalents	3,717	1,831	5,548
Other current assets	3,189	819	4,008
Current assets	6,906	2,650	9,556
Investment properties	226,323	27,447	253,770
Other non-current assets	3,778	371	4,149
Non-current assets	230,101	27,818	257,919
Total assets	237,007	30,468	267,475
Current liabilities	1,557	148	1,705
Non-current liabilities (Bank loans – secured)	129,919	15,590	145,509
Total liabilities	131,476	15,738	147,214
Net assets	**105,531**	**14,730**	**120,261**
Ownership interest	35.0%	35.0%	
Equity accounted interest	**36,936**	**5,156**	**42,092**
Income	15,925	1,846	17,771
Expenses	(8,296)	(589)	(8,885)
Profit/(loss)	**7,629**	**1,257**	**8,886**
Ownership interest	**2,670**	**440**	**3,110**

18. Other investments

		Consolidated	
		2013	**2012**
Non-current		**$'000**	**$'000**
Financial assets at fair value through profit or loss is represented by:			
Investment in RRT		-	-
Preferred redeemable equity units in SGSA II		-	-
Investment in SGSA II		-	-
		-	**-**
The movement in carrying amount is reconciled as follows:			
Carrying amount at beginning of year		-	39,413
Change in fair value of financial assets at fair value through profit or loss		-	(37)
Dividends received & receivable		-	(1,219)
Transferred from other assets		-	-
Additional cost of investment		-	-
Acquisition costs written-off		-	-
Transfer to other assets	(See Note 13)	-	(82)
Transfer to investments in equity accounted investees	(See Note 17)	-	(39,086)
Gain/(Loss) due to foreign currency translation		-	1,011
		-	**-**

The portfolio was transferred to SGSA II LLC and Record JV LLC during 2012 and the Consolidated Entity commenced accounting for its investment in accordance with the equity method. (see Note 17 above). Accordingly, there are no movements to report in the current reporting period.

19. Deferred charges

		Consolidated	
		2013	**2012**
		$'000	**$'000**
Non-current			
Deferred lease commissions		-	4,880
Other deferred lease costs		-	16
		-	4,896
Accumulated amortisation		-	(554)
		-	4,342
less: Transferred to Assets held for sale – investment properties	(Refer Note 14)	-	(3,424)
		-	**918**

20. Trade and other payables

		Consolidated 2013 $'000	Consolidated 2012 $'000
Current			
Payable to the Responsible Entity	(see Note 28)	95	245
Payable to US Asset Manager	(see Note 28)	-	292
Payable to the Investment Manager	(see Note 28)	-	345
Trade payables		596	2,503
Tenants' security deposits		65	144
Rent received in advance		280	1,683
Accrued real estate taxes		721	1,523
Accrued interest payable		1,688	2,921
Accrued tenant incentives payable		-	3,206
		3,445	**12,862**

21. Loans and borrowings

	Consolidated 2013 $'000	Consolidated 2012 $'000
Current		
Bank loans – secured	46,962	121,106
Deferred charges	(213)	(104)
	46,749	**121,002**
Non-Current		
Bank loans – secured	-	42,536
Deferred charges	-	(279)
	-	**42,257**
Total loans and borrowings	**46,749**	**163,259**

Terms and conditions

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

The Bedford Woods, Pfingsten and Montgomery facilities were financed by loans from CBA and Pearlmark Real Estate Partners (formerly Transwestern Realty Partners) and were repaid in full on 25 July 2012 by using the proceeds from the sale of Bedford Woods on the same date.

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

Property	Loan maturity date		Rate	$'000
Current liabilities				
One Centennial	1 May 2015	Fixed	5.36%	28,633
Higgins	1 March 2017	Fixed	6.25%	18,329
				46,962
less: Deferred charges				(213)
				46,749

The above facilities are fully drawn and in default.

21. Loans and borrowings (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. As noted previously, it was the intention of the Responsible Entity to relinquish the property by not contesting these proceedings and surrendering it to the secured lender. As a result of changes in the USA debt markets and at the instance of the secured lender, the Responsible Entity commenced negotiations on 12 April 2013 for the purpose of restructuring the secured loan. The lender subsequently issued a non-binding term sheet for the restructure of the loan on 29 May 2013. On 30 August 2013 Mariner Higgins Centre LLC entered into a debt restructure agreement consistent with the term sheet the material terms of which are set out in **Note 31. Events subsequent to the end of the reporting period.**

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 does not intend to take any action to oppose the entry of the default judgment.

22. Capital and reserves

Capital management

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:

	2013		2012	
	No. of units	**$'000**	**No. of units**	**$'000**
Opening balance	101,014,072	254,478	51,016,594	237,867
Units issued – placement	-	-	-	-
Units issued – entitlements offer	-	-	49,997,478	19,994
Issue costs paid	-	-	-	(3,383)
Redemption of units	(90,334,472)	(51,355)	-	-
Closing balance	**10,679,600**	**203,123**	**101,014,072**	**254,478**

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 and One Centennial properties and their corresponding secured loans. The balance of the translation reserve at 30 June 2013 was $541,000 (30 June 2012: ($22,813,000)) and will be realised upon disposal of the properties and extinguishment of their corresponding secured loans.

23. Financial instruments

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 Trust 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.

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.

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, since its US investment is denominated in AUD. The US REIT invests in properties in the US acquired with USD loans which provide a partial natural hedge.

As at the reporting date, the Trust'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:

Consolidated	**2013**		**2012**	
	AUD	**USD***	**AUD**	**USD***
Financial assets and liabilities	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	2,132	4,056	173	13,115
Receivables and other assets **	61	6,463	510	6,832
Payables	(265)	(3,180)	(1,763)	(11,099)
Loans and borrowings	-	(46,749)	-	(163,259)
Gross statement of financial position exposure	**1,928**	**(39,410)**	**(1,080)**	**(154,411)**

* These amounts are expressed in AUD but represent financial instruments that are denominated in USD and converted to AUD on consolidation.
** 30 June 2012 Investment in RRT reclassified from financial asset to equity accounted investee upon attainment of significant influence (Refer Note 17).

23. Financial instruments (continued)

Currency risk (continued)

Sensitivity analysis

A 10% strengthening of the AUD against the USD at 30 June 2013 would have increased/ (decreased) equity and profit or loss by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. A similar analysis is performed on the same basis for 2012.

	Consolidated	
	Equity $'000	**Profit or loss $'000**
30 June 2013		
USD	**103**	**363**
30 June 2012		
USD	**(4,634)**	**1,764**

A 10% weakening of the AUD against the USD at 30 June 2013 would have had the following effect on the basis that all other variables remain constant.

	Consolidated	
	Equity $'000	**Profit or loss $'000**
30 June 2013		
USD	**(126)**	**(4,262)**
30 June 2012		
USD	**5,664**	**(2,157)**

Interest rate risk

The US REIT does not have any floating rate mortgage loans. The Trust's total loans of $46,748,756 are fixed interest rate loans.

Exposures arise predominantly from assets and liabilities bearing variable 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 instruments was:

	Consolidated Carrying amount	
	2013 $'000	**2012 $'000**
Variable rate instruments		
Cash and cash equivalents	6,188	13,288
Floating rate loans and borrowings	-	(71,303)
	6,188	**(58,015)**
Fixed rate instruments		
Loans and borrowings	**(46,749)**	**(92,339)**

23. Financial instruments (continued)

Interest rate risk (continued)

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.

	Profit or loss		***Equity***	
	100bp increase $'000	100bp decrease $'000	100bp increase $'000	100bp decrease $'000
2013				
Variable rate financial instruments				
Cash and cash equivalents	62	(62)	62	(62)
Loans and borrowings	-	-	-	-
Cash flows sensitivity (net)	62	(62)	62	(62)
2012				
Variable rate financial instruments				
Cash and cash equivalents	133	(133)	133	(133)
Loans and borrowings	(713)	713	(713)	713
Cash flows sensitivity (net)	**(580)**	**580**	**(580)**	**580**

Price risk

As the Consolidated Entity does not hold any openly marketed equity investments at the reporting date, market price is not applicable.

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.

At 30 June 2013 the Trusts two remaining properties Higgins and One Centennial both have loans which are fully drawn and in default. Both loans have been classified as current liabilities on the consolidated statement of financial position. See note 21 for further details.

23. Financial instruments (continued)

Liquidity risk (continued)

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:

	Carrying amount $'000	Contractual cash flow $'000	Maturity 6 months or less $'000	6-12 months $'000	12-24 months $'000	More than 24 months $'000
2013						
Financial liabilities						
Payables	(3,445)	(3,445)	(3,445)	-	-	-
Loans and borrowings	(46,749)	(46,749)	(46,749)	-	-	-
	(50,194)	**(50,194)**	**(50,194)**	**-**	**-**	**-**
2012						
Financial liabilities						
Payables	(12,862)	(12,862)	(12,862)	-	-	-
Loans and borrowings	(163,259)	(163,642)	(122,330)	(1,204)	(2,428)	(37,680)
	(176,121)	**(176,504)**	**(135,192)**	**(1,204)**	**(2,428)**	**(37,680)**

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

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Consolidated Entity. 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 2013. There are no financial assets that are past due or impaired which are considered to have significant credit risk.

23. Financial instruments (continued)

Credit risk (continued)

The exposure to credit risk is set out below:

		Consolidated	
	Credit Rating	**2013 $'000**	**2012 $'000**
Cash and cash equivalents	A-1	28	5,124
Cash and cash equivalents	A-2	75	75
Cash and cash equivalents	A-1+	6,085	8,089
Cash and cash equivalents	Not rated	-	-
		6,188	13,288
Receivables and other assets	N/A	6,524	7,342
		12,712	**20,630**

	Consolidated	
Concentration of credit risk by geographical areas	**2013 $'000**	**2012 $'000**
USA	10,519	19,947
Australia	2,193	683
	12,712	**20,630**

Impairment losses

There are no impairments in the current financial year.

23. Financial instruments (continued)
Specific Instruments
Derivatives

At 30 June 2013 the Consolidated Entity did not hold any derivatives. On 6 August 2012 an interest rate option for US$75 million to limit 3 month LIBOR floating interest rate exposure with a capped rate of 1.5% matured. As at 30 June 2012 the fair value of the option was assessed to be $Nil.

Estimation of fair value
The major methods and assumptions used in estimating the fair values of financial instruments are disclosed in Note 3(c). The fair value of the following financial instruments determined using valuation techniques are as follows:

Consolidated	**2013**		**2012**	
	Carrying amount	Fair value	Carrying amount	Fair value
	$'000	$'000	$'000	$'000
Fixed loans and borrowing	(46,749)	(46,291)	(92,339)	(95,263)
	(46,749)	**(46,291)**	**(92,339)**	**(95,263)**

The carrying amount of all financial assets and liabilities as at 30 June 2013 and 30 June 2012 were considered to approximate their fair value, except for fixed rate loans as shown above.

23. Financial instruments (continued)

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows are based on the government yield curve at the reporting date plus an appropriate credit spread, and were as follows:

	Consolidated	
	2013	**2012**
	%	**%**
Loans and borrowings	6.51%	3.72%

24. Earnings per unit

The calculation of basic loss per unit at 30 June 2013 was based on the loss attributable to unitholders of the Trust of $63,373,627 (2012 loss: $24,223,000) and a weighted average number of units outstanding of 74,284,968 (2012: 61,974,945), calculated as follows:

	2013	**2012**
	$	**$**
Net loss attributable to unitholders of the Trust	**(63,373,627)**	**(24,223,000)**

	2013	**2012**
Weighted average number of units (basic)		
In units		
Issued units at 1 July	101,014,072	51,016,594
Effect of units issued	-	10,958,351
Redemption of units (weighted for the year)	(26,729,104)	-
Weighted average number of units at 30 June	**74,284,968**	**61,974,945**

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.

25. 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 various states 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.

25. Operating segments (continued)

Consolidated Entity – 2013	**USA**	**USA (Discontinued)**	**Australia**	**Total**
	$'000	**$'000**	**$'000**	**$'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	310	10,489	38	10,837
Borrowing costs	-	4,294	-	4,294
Other operating expenses	1,028	5,775	4,007	10,810
Total expenses	1,028	10,069	4,007	15,104
Changes in fair value of investment properties	-	(35,290)	-	(35,290)
Realised foreign exchange loss on disposals of assets	-	(23,816)	-	(23,816)
Loss before income tax	(718)	(58,686)	(3,969)	(63,373)
Income tax	-	-	-	-
Loss after income tax	**(718)**	**(58,686)**	**(3,969)**	**(63,373)**
Segment assets	**163**	**44,079**	**6,745**	**50,987**
Segment liabilities	**227**	**49,702**	**265**	**50,194**

Consolidated Entity – 2012	**USA**	**USA (Discontinued)**	**Australia**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
External revenues	-	22,474	-	22,474
Interest income	-	666	28	694
Net loss on foreign exchange	-	-	(24)	(24)
Distribution income	-	1,219	-	1,219
Other income	-	174	134	307
Total income	-	24,533	138	24,670
Borrowing costs	-	12,509	-	12,509
Other operating expenses	3,394	10,707	2,896	16,997
Total expenses	3,394	23,216	2,896	29,506
Change in fair value of financial assets at fair value through profit or loss	-	(37)	-	(37)
Changes in equity accounted joint venture	-	3,109		3,110
Changes in fair value of investment properties	-	(22,460)	-	(22,460)
Loss before income tax	(3,394)	(18,071)	(2,758)	(24,223)
Income tax	-	-	-	-
Loss after income tax	**(3,394)**	**(18,071)**	**(2,758)**	**(24,223)**
Segment assets	**1,238**	**258,455**	**8,595**	**268,288**
Segment liabilities	**327**	**174,038**	**1,756**	**176,121**

26. Parent entity

As at, and throughout, the financial year ended 30 June 2013 the parent entity (**"Parent Entity"**) of the Consolidated Entity was the Trust.

Results of the Parent Entity	**2013 $'000**	**2012 $'000**
Loss for the year	(35,011)	(26,711)
Other comprehensive income	-	3,072
Total comprehensive loss for the year	**(35,011)**	**(23,639)**

Financial position of the Parent Entity at year end	**2013 $'000**	**2012 $'000**
Current assets	6,745	8,595
Total assets	6,745	93,910
Current liabilities	265	1,763
Total liabilities	1,090	1,743

Total equity of the Parent Entity comprising of:	**2013 $'000**	**2012 $'000**
Issued capital	203,123	254,478
Reserves	(3,347)	(3,201)
Accumulated losses	(194,121)	(159,110)
Total equity	**5,655**	**92,167**

27. Group Entities

		Consolidated Entity Interest	
Parent Entity	**Class of units**	**30 June 2013 %**	**30 June 2012 %**
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 Parsippany 1515 LLC	Ordinary	100	100
Mariner Derry Meadows LLC*	Ordinary	-	100
Mariner Bedford Woods LLC	Ordinary	100	100
Mariner Montgomery Terminal LLC	Ordinary	100	100
Mariner Higgins LLC	Ordinary	100	100
Mariner One Centennial LLC	Ordinary	100	100
Mariner 111 Pfingsten LLC*	Ordinary	-	100
Mariner Mezz Borrower I, LLC*	Ordinary	-	100
Mariner Mezz Borrower II, LLC*	Ordinary	-	100

*deregistered during period

27. 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.

28. 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.

Real Estate Capital Partners Managed Investments Limited (the "Responsible Entity") and its related parties, Real Estate Capital Partners Management Pty Limited and RCU Services Inc are considered to be related parties of the Trust. Real Estate Capital Partners Pty Limited (the parent company of the aforementioned entities) is also considered to be a related party of the Trust.

The Trust Company Limited Group are also considered to be a related party of the Trust during the relevant period.

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:

Prior to 20 July 2012 (whilst a wholly owned subsidiary of The Trust Company (RE Services) Limited)

John Atkin	(Resigned 20 July 2012)
David Grbin	(Resigned 20 July 2012)
Michael Britton	(Resigned 23 December 2011)
Andrew Cannane	(Resigned 20 July 2012)
Rupert Smoker	(as Alternate Director for each of John Atkin, David Grbin and Andrew Cannane; resigned 20 July 2012)

Prior to 20 July 2012 remuneration expenses of the Directors of the Responsible Entity were the responsibility of the ultimate parent entity of the Responsible Entity (The Trust Company Limited) and were not borne by the Trust.

28. Related parties (continued)

Key management personnel (continued)

Subsequent to 20 July 2012 (whilst a wholly owned subsidiary of ReCap)

Ben Dillon	(Appointed 20 July 2012)
Gregory Dyer	(Appointed 20 July 2012; Resigned 5 November 2012)
Barry McWilliams	(Appointed 20 July 2012)
Antony Wood	(Appointed 20 July 2012)
Greg Woolley	(Appointed 2 August 2012; Resigned 4 October 2012)

Subsequent to the transfer of the Responsible Entity to ReCap 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

The Responsible Entity and its associates, other than ReCap, did not hold any units in the Trust during the financial year.

Mr Greg Woolley was appointed as a Director of the Responsible Entity on 2 August 2012 and had a relevant interest in 33,352,053 (33.02%) in the Trust as at that date. Mr Woolley resigned as a Director on 4 October 2012 and ceased to be a substantial unitholder on 15 March 2013..

Other than as noted above, neither the Responsible Entity nor its key management personnel held any units in the Trust (2012: Nil).

Unit holding of former Investment Manager

As at 30 June 2013 ReCap, the parent company of the former Investment Manager, held no units in the Trust, having disposed of its total holding of 990,000 units (0.98%) on 9 November 2012 at $0.5354 per unit (30 June 2012: 990,000 units (0.98%)).

Related party investments held by the Trust

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

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.

28. Related parties (continued)

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

		2013 $	2012 $
Transactions with related parties - Consolidated			
Charged by the Responsible Entity and its associates			
- Responsible Entity fees	(see i below)	394,142	216,572
- Trustee fees for RRT	(see i below)	-	5,417
- expense recoveries	(see ii below)	1,261,004	37,255
- expense recoveries in relation to entitlements issues	(see iii below)	-	255,000
- expense recoveries in relation to the Takeovers Panel response	(see iv below)	-	107,500
- expense recoveries in relation to defence of takeover bid by Woolley GAL II	(see v below)	-	130,000
		1,655,146	**751,744**
Charged by the Investment Manager			
- expense recoveries prior to termination	(see vi below)	132,537	371,910
- expense recovery relating to requisition of Investor meeting	(see vii below)	61,350	-
- termination fee	(see viii below)	353,042	-
- expense recoveries in relation to the entitlements issue	(see ix below)	-	260,590
- expense recoveries in relation to the convertible note	(see x below)	-	111,275
- expense recoveries in relation to the Takeover Panel response	(see xi below)	-	138,955
- expense recoveries in relation to defence of takeover bid by Woolley GAL II	(see xii below)	-	148,785
		546,929	**1,031,515**
Charged by the US Asset Manager *****			
- asset management fees prior to termination	(see xiii below)	118,519	1,000,000
- administration fees prior to termination	(see xiii below)	59,260	500,000
- expense recoveries prior to termination	(see xiii below)	91,218	567,164
- expense recoveries in relation to CBA/Pearlmark refinancing	(see xiv below)	70,987	-
- fee in relation to Sale to Saban group	(see xv below)	539,291	-
- asset sale fee	(see xvi below)	910,153	-
- expense recoveries in relation to RRT acquisition	(see xvii below)	-	367,901
- expense recoveries in relation to Intel forbearance	(see xviii below)	-	107,803
- expense recoveries in relation to RSA leasing	(see xix below)	-	344,430
- expense recoveries in relation to CBA/Pearlmark refinancing	(see xx below)	-	184,055
		1,789,428	**3,071,353**

***** a wholly owned subsidiary of ReCap

28. Related parties (continued)

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

		2013 $	2012 $
Transactions with related parties – Consolidated (continued)			
Amount claimed by other related parties			
- Paid to Frost			
- underwriting fee	(see xxi below)	-	1,000,000
- establishment fee	(see xxi below)	-	500,000
- convertible note establishment fee	(see xxii below)	-	400,000
- cost reimbursements on underwriting agreement	(see xxi below)	-	642,565
		-	**2,542,565**
Payments to person before taking office			
- Ben Dillon	(see xxiii below)	-	2,640
		-	**2,640**
Balances outstanding with related parties - Consolidated			
Included in payables:			
- to the Responsible Entity			
- Responsible Entity fees		14,225	19,897
- Expense recoveries		80,508	-
- trustee fees for RRT		-	2,750
- expense recoveries in relation to the entitlements issues		-	49,080
- expense recoveries in relation to the Takeovers Panel response		-	30,250
- expense recoveries in relation to defence of takeover bid		-	143,000
	(see Note 20)	**94,733**	**244,977**
- to the Investment Manager			
- expense recoveries in relation to defence of takeover bid		-	163,664
- expense recoveries in relation to the Takeover Panel response		-	30,849
- expense recoveries in relation to the entitlements issue		-	150,000
	(see Note 20)	**-**	**344,513**
- to the US Asset Manager			
- asset management fees		-	64,349
- administration fees		-	32,174
- expense recovery fees		-	9,214
- expense recovery in relation to CBA/Pearlmark refinance		-	185,583
	(see Note 20)	**-**	**291,320**
- to person before taking office			
- Ben Dillon		-	2,640
		-	**2,640**
Included in receivables or other assets			
- sale offer costs recoverable from Frost	(see Note 13)	-	100,634
		-	**100,634**

28. Related parties (continued)

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

i Between 1 July - 20 July 2012 the Responsible Entity fees were calculated at 0.08% per annum of the Trust's gross assets (calculated on a consolidated basis and paid on a monthly basis) in accordance with the Trust Companies Management Services agreement. From 20 July – 31 October the RE fee was calculated as 0.2% of net assets in accordance with the RCU Product Disclosure Statement. From 1 November 2012 the Responsible Entity fee was calculated on 3% of the effective gross income of the Trust in accordance with the Trusts Constitution. Trustee fees of $10,000 per annum 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 Costs incurred by the Responsible Entity in managing the Trust included accounting, compliance, legal and expense recoveries including amounts paid to Directors of the Responsible Entity or their related entities. These included 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 agreed scope of their services as Directors of the Responsible Entity. Management expense recoveries have been included in other operating costs in the consolidated statement of comprehensive income.

iii Additional costs in connection with capital raising, unitholder engagement and capital management.

iv Additional costs in connection with response to application to Takeovers Panel.

v Additional costs in connection with defence of takeover bid by Woolley GAL II.

vi Expense recoveries prior to termination of investment management agreement on 31 October 2012 per ASX announcement on 27 September 2012.

vii Expenses incurred in relation to requisition of an Investor Meeting called by Intelligent Investor.

viii Termination fees per ASX announcement on 27 September 2012.

ix Management of capital raising process, provision of information and attendance on underwriter, the Responsible Entity, advisors in relation to various matters including analysis of capital raising, financial modelling and co-ordinating due diligence, recommendations and negotiation of documentation, liaising with debt providers and third parties. Capitalised to issue costs; refer Note 20.

x Provision of information and attendance on Frost, the Responsible Entity and advisors in relation to due diligence matters including corporate structure, properties, leases, loans, tax matters; drafting and review of convertible note term sheet, financial analysis, negotiation of documents and the like.

xi Management of Takeover Panel response process, attendance upon the Responsible Entity, various parties and advisors. Collation of information and drafting response documents. Capitalised to issue costs; refer Note 20.

xii Additional costs incurred in connection with takeover bid by Woolley GAL II.

xiii Asset management, administration fees and expense recoveries charged by the US Asset Manager prior to termination of the agreement as per ASX announcement on 27 September 2012.

xiv Expense recoveries in relation to debt broker, financial analysis, preparation of information memorandum, review of quotes, negotiations of proposals, negotiation of term sheet and documentation, credit approval and review of final documentation. These costs have been included in general and administrative expenses.

xv 1% Sale fee charged by the US Asset Manager on the sale to Saban for Pfingsten, Montgomery and 35% joint venture interests as stipulated in the termination deed of the US Asset Manager as per ASX announcement on 27 September 2012.

28. Related parties (continued)

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

xvi Bedford Woods asset sale fee (US$935,000) accrued in 30 June 2012 financial statements but paid and disclosed as related party transaction during current reporting period.

xvii Expense recoveries in respect of the RRT acquisition are included in acquisition costs; see Note 7 for further details. Amounts charged include work in connection with the transfer of Pool A properties to the SGSA II joint venture, completion of the Unit Sale Deed and restructure to deal with the untransfered Pool A asset and Pool B.

xviii Proposals to lender in relation to Intel asset loan, financial analysis, negotiations, review of legal precedents, documentation and agreements including negotiation and confirmation of non-recourse nature of loan. These costs have been included in other operating costs.

xix Proposals to RSA, the tenant of the Bedford Woods asset and its parent company, EMC Corporation, financial analysis, negotiations with RSA and its brokers in respect of agreement of terms, negotiation of further commercial issues, lease documentation and EMC Corporations guarantee of RSA's obligations. Negotiation of brokerage agreement and subsequent rebate of a portion ($344,430) of broker's remuneration, to owner (a controlled entity of the Trust). These costs have been included in property expenses.

xx Discussion with debt broker, financial analysis, preparation of information memorandum, review of quotes, negotiations of proposals, negotiation of term sheet and documentation, credit approval and review of final documentation. These costs have been included in general and administrative expenses.

xxi An underwriting fee of 5%, an establishment fee and costs incurred on the underwriting have been capitalised to issue costs (Refer Note 20).

xxii A convertible note establishment fee charged has been included in other operating expenses.

xxiii Pre-appointment expenses charged by a Director for work done in connection with the review of the Woolley GAL II take over bid have been included in other operating expense.

29. Capital commitments

As at 30 June 2013 the Consolidated Entity had no outstanding capital commitments (30 June 2012: $Nil).

30. Contingencies

Contingent liabilities

Claims by Financial Consultant

The Responsible Entity has been advised that a claim for US$750,000 and additional punitative damages of US$5,000,000 by a financial consultant against the Trust has commenced in the Superior Court of California for services provided in the acquisition of the Record Realty Trust and assistance with asset refinancing. The Responsible Entity has not been properly served in these proceedings but controlled entities of the Trust have been served and Directors of the Responsible Entity consider the claim is not likely to be successful as the financial consultant was not engaged by the Trust or its controlled entities and as such no liability in relation to this claim has been recorded in the financial statements at 30 June 2013.

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.

31. Events subsequent to the end of the reporting period

Higgins property loan modification

On 30 August 2013 Mariner Higgins Centre LLC entered into a debt restructure agreement consistent with the term sheet the material terms of which are:

- A Note of US$11.0m with a maturity date in March 2017 bearing fixed interest at 6.25%p.a. 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% p.a. 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 to contribute 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 will be 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$2million. 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 to pay to the lender a modification fee of US$170,000 and legal and other third party costs.

Upon completion of the debt restructure agreement both the Higgins property and the corresponding secured loan will be reclassified from current assets and liabilities to non-current assets and liabilities and the net tangible asset (**"NTA"**) per unit of RCU will increase from $0.0743 per unit to $0.6909 per unit.

Foreclosure of the One Centennial asset

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 asset. Having regard to the limited recourse nature of the loan, the responsible entity does not intend to take any action to oppose the entry of the default judgement.

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.

Corporate directory

Registered and Administration office

Real Estate Capital Partners Managed Investments Limited
as responsible entity for Real Estate Capital Partners USA Property Trust
Level 9
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Company secretary: Mr Andrew Saunders

Unit registry

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Auditor

KPMG
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Sydney NSW AUSTRALIA 2000

Website

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