Australian Ethical Property Trust (AEPT)
ARSN 138 276 623

Annual Financial Report for the year ended 30 June 2013

Australian Ethical Property Trust (AEPT)

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Directors' Report
For the year ended 30 June 2013

Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Property Trust ("AEPT" or "the Scheme") presents its directors' report together with the audited financial statements of the Scheme for the year ended 30 June 2013 and the accompanying independent auditor's report.

Responsible Entity
Australian Ethical Investment Limited serves as the Responsible Entity for the Scheme. The registered office and principal place of business for the Responsible Entity is:

Registered office
Trevor Pearcey House (Block E)
Traeger Court, 34 Thynne Street
Bruce ACT 2617

Principal place of business
Level 8, 130 Pitt St
Sydney,
NSW 2000

The following persons were directors of Australian Ethical Investment Limited during the whole of the financial year and up to the date of this report unless otherwise indicated:
Justine Hickey (resigned 26 April 2013)
André Morony
Phillip Vernon
Stephen Newnham (resigned 26 July 2013)
Kate Greenhill (appointed 22 February 2013)
Louise Herron (resigned 25 July 2012)
Stephen Gibbs (appointed 25 July 2012)
Mara Bun (appointed 4 February 2013)
Tony Cole (appointed 4 February 2013)

Principal activities and state of affairs
The principal activity of the Scheme is to pool investors' savings to invest in direct property. The constitution of the Scheme authorises investments in properties. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme's investors) with a competitive financial return.

There were no significant changes in the nature of the Scheme's principal activities during the year and there were no significant changes in the Scheme's state of affairs.

Review of operations
Overview
The underlying fundamentals of the Scheme are consistent with those set out in the Scheme's Constitution dated 17 July 2009.

Results
Total return is the percentage change of a unitholder's financial interest in the Scheme assuming all distributions are reinvested in the Scheme. These returns are calculated in accordance with FSC Standard 6 Product Performance-Calculation of Return. The Scheme achieved a total return of -13.9% for the financial year (2012: 9.4%).

Distributions paid and/or payable
Distributions paid and/or payable by the Scheme during the year are shown in the accompanying Statement of Profit or Loss and Other Comprehensive Income.

Net Assets
The value of the Scheme's net assets attributable to unitholders as at 30 June 2013 was $32,863,985 (30 June 2012: $37,139,428).

Directors' Report
For the year ended 30 June 2013

Likely developments

The Responsible Entity continually reviews the Scheme and depending on that review may, during the course of the financial year, make decisions to change the offerings of products to investors.

Other information relating to likely developments has not been disclosed because it may cause unreasonable prejudice to those activities.

Events occurring after the reporting date

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme in future financial years.

Indemnities and insurance premiums for the Responsible Entity and auditors

No insurance premiums are paid out of the assets of the Scheme for insurance cover provided to the Responsible Entity, its officers or auditor of the Scheme. Where the Responsible Entity acts in accordance with the Scheme's constitution and the law, it is generally entitled to an indemnity out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditor of the Scheme is not indemnified out of the assets of the Scheme.

Interest of the Responsible Entity

Fees paid to the Responsible Entity and its associates out of Scheme property and interests held in the Scheme is shown in note 14 of the attached financial statements.

Environmental regulation

The operations of the Scheme are subject to environment regulations under both Commonwealth and State legislation in relation to property developments. Approvals for commercial property developments are required by state planning authorities and environmental protection agencies. The license requirements relate to air, noise, water and waste disposal. The Scheme is responsible for compliance and reporting under the government legislation.

The Scheme is not aware of any material non-compliance in relation to the license during the year.

The Scheme has determined that it is not required to register to report under the National Greenhouse and Energy Reporting Act 2007, which is Commonwealth environmental legislation that imposes reporting obligations on entities that reach reporting thresholds during the year.

The properties held in the Scheme are required to have a minimum of a 5 Green star rating or be in respect to social infrastructure.

Auditor’s declaration

The auditor’s independence declaration is included on page 20 of the annual report and forms part of the Directors report for the financial year ended 30 June 2013.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

Phillip Vernon
Managing Director
Australian Ethical Investment Limited
30 September 2013

Australian Ethical Property Trust

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2013

	Note	2013 $	2012 $
Investment income			
Interest income	4	**86,134**	86,675
Net change in investment property held at fair value	5	**(6,392,784)**	1,388,534
Rent	8	**4,718,051**	4,644,569
Other income		**443,752**	38,649
Net investment income		**(1,144,846)**	6,158,427
Operating expenses			
Management fees	14	**718,114**	704,441
Administration costs		**146,326**	99,671
Interest expense	8a	**1,478,784**	1,580,199
Investment property expenses	8a	**777,373**	580,453
Operating expenses before finance costs		**3,120,597**	2,964,764
(Loss)/profit from operating activities		**(4,265,443)**	3,193,663
Finance costs			
Distributions paid and payable to unitholders of the Scheme		**-**	-
Change in net assets attributable to unitholders (total comprehensive income)		**(4,265,443)**	3,193,663

The accompanying notes form part of these financial statements.

Australian Ethical Property Trust

Statement of Financial Position as at 30 June 2013

	Note	2013 $	2012 $
Assets			
Cash and cash equivalents	6	**2,982,236**	2,473,270
Trade and other receivables	7	**388,984**	-
Investment property held at fair value	8	**49,200,000**	54,809,296
Other assets	9	**145,836**	53,675
Total assets		**52,717,056**	57,336,241
Liabilities			
Trade and other payables	10	**92,163**	443,809
Borrowings	11	**19,760,908**	19,753,004
Total liabilities excluding net assets attributable to unitholders		**19,853,071**	20,196,813
Net assets attributable to unitholders	3	**32,863,985**	37,139,428

Statement of Changes in Equity for the year ended 30 June 2013

The Scheme's net assets attributable to unitholders are classified as a liability under AASB 132 Financial Instruments: Presentation. As such the Scheme has no equity, and no items of changes in equity have been presented for the current or comparative year.

Statement of Cash Flows for the year ended 30 June 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Income received from investment properties		**4,707,074**	4,757,203
Payment to suppliers		**(1,842,587)**	(2,572,903)
Interest received		**86,134**	65,277
Interest paid		**(1,470,880)**	(1,580,199)
Net cash used in operating activities	13	**1,479,741**	669,378
Cash flows from investing activities			
Proceeds from sale of investments		**-**	1,217,428
Payments for other assets		**(960,775)**	-
Purchase of investments		**-**	(1,200,000)
Net cash (used in)/ provided by investing activities		**(960,775)**	17,428
Cash flows from financing activities			
Proceeds from issue of units		**200,000**	180,000
Payment of redemption of units		**(210,000)**	-
Net cash (used in)/provided by financing activities		**(10,000)**	180,000
Net increase in cash and cash equivalents		**508,966**	866,806
Cash and cash equivalents at 1 July		**2,473,270**	1,606,464
Cash and cash equivalents at 30 June	6	**2,982,236**	2,473,270

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies

The Australian Ethical Property Trust ("AEPT" or the "Scheme") is a registered managed investment scheme under the Corporations Act 2001. The Scheme is a for profit entity. The financial statements of the Scheme are for the year ended 30 June 2013.

Statement of compliance
The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Scheme comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors of the Responsible Entity on 30 September 2013.

Basis of preparation

These financial statements are presented in Australian dollars and are prepared on the historical cost basis with the exception of investment properties which are measured at fair value and receivables and payables which are measured at amortised cost.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been applied consistently.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In preparing these financial statements significant judgements and estimates were used in valuing the investment properties.

Accounting policies
(a) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions or highly liquid investments with original maturities of three months or less and deposits with the property manager.

(b) Financial instruments
Financial instruments comprise of trade and other receivables, cash and cash equivalents, interest bearing liabilities and trade and other payables.

Recognition and initial measurement
A financial instrument is recognised when the Scheme becomes a party to the contractual provisions of the instrument. Regular way purchase and sales of financial assets are accounted for at trade date (i.e. the date the Scheme commits itself to purchase or sell the asset).

Financial instruments are initially recognised at fair value plus any directly attributable transaction costs.

Derecognition
The Scheme derecognises financial assets when the contractual rights to the cash flows from the financial assets expire or it transfers the financial assets 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.

Classification
Financial assets measured at amortised cost include cash and cash equivalents and trade and other receivables. Financial liabilities measured at amortised cost include borrowings and trade and other payables.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

(b) Financial instruments - continued
Measurement
Subsequent to initial recognition, all financial instruments are carried at amortised cost using the effective interest rate method.

Financial liabilities arising from redeemable units issued by the Scheme are carried at the redemption amount representing the unitholders' rights to the residual interest in the Scheme's assets, effectively the fair value at the reporting date.

Offsetting
Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(c) Investment property
Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(d) Trade and other receivables
Receivables are carried at amortised cost and may include accrued income and other receivables such as Reduced Input Tax Credits (RITC).

(e) Payables
Payables are carried at amortised cost and may include amounts for accrued expenses and other payables such as GST and redemption monies owing by the Scheme.

Accrued expenses includes management fees payable.

(f) Distributions paid and payable
In accordance with the Constitution, the Scheme fully distributes its net income to unitholders. The distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses are transferred to net assets attributable to unitholders and are not assessable or distributable until realised. Realised capital losses are not distributed to unitholders but are retained to be offset against any future realised capital gains. Distributions paid and payable to unitholders are recognised in the Statement of Profit or Loss and Other Comprehensive Income as 'Finance costs'. Distributions paid are included in the Statement of Cash Flows as 'Net cash flows (used in)/provided by financing activities'.

(g) Change in net assets attributable to unitholders
Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising on fluctuation in value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

(h) Revenue
Interest income
Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues using the effective interest rate method. It is recognised on a gross basis, including withholding tax, if any.

Rental income
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

In the event that lease incentives are paid to enter into operating leases, such incentives are recognised as an asset. The aggregate benefit of incentives is recognised as a reduction of rental income on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

(i) Goods and services tax (GST)
The Scheme qualifies for Reduced Input Tax Credits (RITC's) at a rate of between 55% to 75% depending on the service.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Statement of Financial Position are shown inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(j) Income tax
Under current income tax legislation the Scheme is not liable to pay income tax as the net income of the Scheme is assessable in the hands of the beneficiaries (the unitholders) who are ‘presently entitled’ to the income of the Scheme. There is no income of the Scheme to which the unitholders are not presently entitled and additionally, the Scheme's Constitution requires the distribution of the full amount of the net income of the Scheme to the unitholders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Scheme, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Scheme to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Scheme's Constitution.

(k) Net assets attributable to unitholders
In accordance with AASB 132, unitholders' funds are classified as a financial liability and disclosed as such in the Statement of Financial Position, being referred to as 'Net assets attributable to unitholders'. The units can be put back to the Scheme at any time for cash equal to the proportionate share of the Scheme's net asset values. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the Statement of Financial Position date if unitholders exercised their right to put the units back to the Scheme. Changes in the value of this financial liability are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

(l) Expenses
All expenses, including management fees, are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

(m) Leasehold improvements and capitalised software
Leasehold improvements and capitalised software are carried at cost less, where applicable, any accumulated depreciation and impairment losses.

The depreciable amount of all fixed assets including buildings, is depreciated over their estimated useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

A straight line basis of depreciation has been adopted for leasehold improvements and capitalised software. The estimated useful lives for current and comparative periods are as follows:

Software	3 - 5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

(n) Leasehold improvements and capitalised software
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(o) Comparative figures
When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(p) Standards affecting presentation and disclosure
Amendments to AASB 101 '*Presentation of Financial Statements*':

The amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

(q) Standards and interpretations affecting the reported results or financial position
There are no new and revised standards and interpretations adopted in these financial statements affecting the reporting results or financial position.

Notes to the financial statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

(r) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Responsible Entity has not elected to early adopt any of these new standards or amendments in this Financial report. The impact on the financial position or performance of the Scheme of these new standards and amendments is currently being assessed by management.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13.	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards - Investment Entities'	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	30 June 2014

Notes to the Financial Statements for the year ended 30 June 2013

Note 2 - Number of issued units

Each unit represents a right to an individual share in the Scheme per the Constitution. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Scheme.

	2013 Units	2012 Units
On issue at beginning of year	**34,788,338**	34,609,962
Issued	**190,060**	178,376
Redeemed	**(199,633)**	-
On issue at year end	**34,778,765**	34,788,338

Note 3 - Net assets attributable to unitholders

The Scheme manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability.

The objective of the Scheme is to provide unitholders with returns in accordance with the Investment Memorandum. The Scheme aims to deliver income and capital appreciation through investing in property. The Scheme is not subject to any externally imposed capital requirements.

	2013 $	2012 $
Opening balance	**37,139,428**	33,765,765
Issued	**200,000**	180,000
Redeemed	**(210,000)**	-
Change in net assets attributable to unitholders	**(4,265,443)**	3,193,663
Net assets attributable to unitholders	**32,863,985**	37,139,428

Note 4 - Interest income

Interest income from financial assets carried at amortised cost:

Cash and cash equivalents	**86,134**	86,675
	86,134	86,675

Note 5 - Gains/(losses) on investment properties

Change in fair value of investment properties	**(6,392,784)**	1,388,534
	(6,392,784)	1,388,534

Note 6 - Cash and cash equivalents

Cash at bank	**2,979,194**	2,216,492
Cash on Deposit - Property Manager	**3,042**	256,778
	2,982,236	2,473,270

Cash at bank earns interest at floating rates based on daily bank deposit rates. For the purposes of the Statement of Cash Flows, cash includes cash at bank and cash on deposit.

Note 7 - Trade and other receivables

Debtors (net of GST)	**388,984**	-
	388,984	**-**

Notes to the Financial Statements for the year ended 30 June 2013

Note 8 - Investment properties	2013 $	2012 $
Commercial property at fair value	**49,200,000**	54,809,296
At Fair Value		
Leasehold improvements		
Opening balance at 1 July	**569,421**	-
Additions	**902,000**	588,333
Amortisation	**(118,512)**	(18,912)
Closing balance at 30 June	**1,352,909**	569,421
Investment Property		
Opening balance at 1 July	**54,239,875**	52,851,341
Net (loss)/gain on property revaluation	**(6,392,784)**	1,388,534
Closing balance at 30 June	**47,847,091**	54,239,875
(a) Amounts recognised in profit or loss for investment property		
Rental income	**4,718,051**	4,644,569
Direct operating expenses from property that generate rental income	**(2,256,157)**	(2,160,652)
	2,461,894	2,483,917

(b) Valuation basis

Property investments are investments in properties which are held either to earn rental income or for capital appreciation or for both. Property investments are carried at fair value. An external valuation company, having an appropriately recognised professional qualification and recent experience in the location and category of property being valued, values the investment properties annually. The 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.

Both investment properties have been independently valued during the period by Egan and Jones Lang LaSalle (the "valuers") (2012: Jones Lang LaSalle), independent valuers not related to the Group, and the directors are of the view that these valuation reflect the fair value of the properties at 30 June 2013. The valuations conducted by Egan and Jones Lang LaSalle have been made on the basis of fair value, using the capitalised rate and a blended valuation method. The capitalisation rate utilised for the 30 June 2013 valuations was 8.50% (30 June 2012: 7.50% to 8.50%). Valuers Egan and Jones Lang LaSalle are both members of the Institute of Valuers of Australia. Valuations reflect, where appropriate, the type of tenants, future rent reviews and market conditions. Any change in any of these factors could have a significant impact on the value of the Scheme's property investments. Any gain or loss from a change in fair value is recognised in the Statement of Profit or Loss and Other Comprehensive Income. All property acquisition costs in respect of properties acquired are capitalised into the value of the property investments at the time of purchase to reflect the total acquisition cost in the Statement of Financial Position. Additions and other expenditure on property investments which are capital in nature are capitalised as incurred.

(c) Leasing arrangements

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	2013 $	2012 $
Within one year	**4,979,895**	4,718,051
Later than one year but not later than 5 years	**16,732,403**	19,682,879
Later than 5 years	**15,367,151**	16,521,644
	37,079,449	40,922,574

Operating leases relate to the investment property owned by the Scheme with lease terms of between 3 to 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Notes to the Financial Statements for the year ended 30 June 2013

Note 9 - Other assets	**2013 $**	2012 $
Capitalised project costs (a)	**79,330**	53,675
Prepayments	**66,506**	-
	145,836	53,675

(a) Capitalised project costs

At cost		
Balance as at 1 July	**68,974**	50,905
Additions	**58,775**	18,069
Balance as at 30 June	**127,749**	68,974
Accumulated amortisation and impairment		
Balance as at 1 July	**15,299**	1,851
Amortisation	**33,120**	13,448
Balance as at 30 June	**48,419**	15,299

Note 10 - Trade and other payables

Trade payables and sundry creditors	**92,163**	443,809
	92,163	443,809

Note 11 - Borrowings

Bank bill (secured)		
Current	**19,760,908**	19,753,004
	19,760,908	19,753,004

Summary of borrowing arrangements:
The Scheme has entered into a revolving credit facility with the corporate bankers (National Australia Bank). The credit is provided via a revolving 90 day fixed interest bank bill. This is secured against the property at 64 Allara St, Canberra. The current bill was entered into on 29 June 2013 and matures on 29 September 2013. The current yield rate is 5.00% and the effective rate, inclusive of fees and charges is 8.13%.

The Scheme holds two rolling bank bills, both secured by First Mortgage over two properties held by the Scheme at a rate of 1.7% above the bank bill rate. The bank bill facilities are non-amortising facilities with the yield rate set at the lower of (i) the cap rate (5% per annum) and (ii) the floating rate prevailing at the drawdown date (reset at each roll). The current weighted average effective interest rate on the bills is 7% per annum (2012: 8%). The facility automatically resets on 29 September 2013 and expires on 30 June 2014 and 30 June 2016 respectively.

A loan facility in the amount of $7.4m expires on 30 June 2014. The Responsible Entity intends to commence re-negotiations with NAB in the near future. Given the strength of the loan to value ratio (46%) in relation to this facility and past transactions with NAB, the Responsible Entity is confident that the facility can be re-financed with similar terms.

Note 12 - Auditor's remuneration

Audit fees in relation to the Scheme are paid directly by the Responsible Entity. During the year the following fees were paid or payable by the Responsible Entity for services in relation to the audit of the Scheme. In the 2012 year audit fees were paid directly by the Scheme.

Auditing the financial statements	**4,000**	5,830
Compliance plan audit	**2,375**	1,334
	6,375	7,164

The auditor of the Scheme is KPMG (2012: Thomas Davis and Co).

Notes to the Financial Statements for the year ended 30 June 2013

Note 13 - Reconciliation of profit for the period to net cash provided by operating activities

	2013 $	2012 $
(Loss)/profit from operating activities	**(4,265,443)**	3,193,663
Adjustments for:		
Net losses/(gains) on revaluation of investments	**6,392,784**	(1,388,534)
Amortisation of capital costs	**151,632**	-
Changes in assets and liabilities:		
Increase in trade and other receivables	**(388,984)**	(983,250)
(Increase)/decrease in prepayments	**(66,506)**	509,015
Decrease in trade and other payables	**(351,646)**	(661,516)
Increase in borrowings	**7,904**	-
Net cash provided by operating activities	**1,479,741**	669,378

Note 14 - Related party disclosures

Australian Ethical Investment Limited (AEIL), as Responsible Entity of the Scheme, provides investment services for the Scheme in accordance with Scheme's constitution. Transactions with the Responsible Entity are undertaken on commercial terms and conditions.

During the year the following amounts were paid to the Responsible Entity in accordance with the Scheme's Constitution.

	2013	2012
Management fees	**718,114**	704,441
Accounting fees (Reimbursable)	**72,386**	35,653
Reimbursable expenses	**19**	59
	790,519	740,153
Value of units held by Australian Ethical Retail Superannuation Fun	**16,121,099**	18,218,375
Value of units held by Australian Ethical Balanced Trust	**16,122,085**	17,743,471

Note 15 - Financial risk management and financial instruments

The Scheme is exposed to a variety of financial risks from investments in financial instruments, including market risk, credit risk and liquidity risk.

This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risks and the management of unitholder funds.

(a) Categories of financial instruments

	2013	2012
Financial assets		
Cash and bank balances	**2,982,236**	2,473,270
Loans and receivables	**388,984**	-
	2,982,236	2,473,270
Financial liabilities		
Trade and other payables	**92,163**	443,809
Borrowings	**19,760,908**	19,753,004
Amounts payable to unitholders	**32,863,985**	37,139,428
	52,717,056	57,336,241

Notes to the Financial Statements for the year ended 30 June 2013

Note 15 - Financial risk management and financial instruments - continued

(b) Financial risk management objectives

The Scheme is exposed to a number of risks due to the nature of its activities. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk. The Scheme's objective in managing these risks is the protection and enhancement of unitholder value.

The Scheme's risk management policies are approved by the Responsible Entity and seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. The risk management system is an ongoing process of identification, measurement, monitoring and controlling risk.

The Investment Committee's Charter requires it to oversee the processes which govern the investment of monies of the Investment Trusts for which Australian Ethical Investment Limited is the Responsible Entity. The Investment Committee bears primary responsibility for the oversight of processes for the management of the above financial risks. It meets on a regular basis to analyse financial risk exposure and to evaluate management strategies in the context of the most recent economic conditions and forecasts.

(c)(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Investment Manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's constitution. The Scheme's investment mandate is to invest in a diversified portfolio of direct property in major Australian cities. There has been no change to the Scheme's exposure to market risks or the manner in which it manages and measures the risk.

(c)(ii) Interest rate risk management

The Scheme is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. Interest rate risk in the Scheme arises from cash and cash equivalents and borrowings.

The Scheme's interest rate risk is managed by holding cash and cash equivalents in a floating rate deposit accounts and entering into a loan facility with National Australia Bank that is floating rate and resets every three months.

Management has performed a sensitivity analysis relating to the Scheme's exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in interest rates by 100 basis points. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.

At 30 June 2013, the effect on net assets attributable to unitholders and the change in net assets attributable to unitholders as a result of changes in interest rates with all other variables remaining constant would be as follows:

	2013	2012
	$	$
Increase in interest rate by 1%	**(167,787)**	(172,797)
Decrease in interest rate by 1%	**167,787**	172,797

Notes to the Financial Statements for the year ended 30 June 2013

Note 15 - Financial risk management and financial instruments - continued

(c)(iii) Price risk
Price market risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The investment manager manages the Scheme's market risk on a monthly basis in accordance with the Scheme's investment objectives and policies.

As the majority of the Scheme's financial instruments are carried at its carrying value which is deemed comparable to its fair value, the Scheme's financial assets and liabilities are not exposed to price risk.

(c)(iv) Currency risk
All of the monetary financial instruments held by the consolidated entity, being liquid assets, receivables, interest-bearing liabilities and payables are denominated in Australian dollars. Hence fluctuations in exchange rates do not impact the profit/(loss) for the year or shareholders' equity.

(d) Credit risk management
Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Scheme is predominately exposed to credit risk through its deposits at banks and trade and other receivables.

The Scheme's policy over credit risk is to minimise its exposure to counterparties, holding cash and cash equivalents at financial institutions with a credit rating of 'A' or higher and settling trade and other receivables on a monthly basis.

At the balance sheet date, all cash was held with National Australia Bank, which carries a Standard & Poor's rating of AA- at 30 June 2013 (2012 AA-)

No financial assets carried at amortised cost were past due or impaired at 30 June 2013 (2012: nil).

The maximum credit risk exposure (without taking into account collateral and other credit enhancements) is represented by the respective carrying amounts of the relevant financial asset in the Statement of Financial Position.

The table below details the maximum exposure to credit risk for the assets held by the Scheme.

	2013	2012
	$	$
Cash and cash equivalents	**2,982,236**	2,473,270
Loans and receivables	**388,984**	-
Total	**388,984**	2,473,270

(e) Liquidity risk management
Liquidity risk is the risk that the Scheme will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk predominately arises from borrowings, trade and other payables and amounts payable to unit holders upon redemption.

The Scheme manages its liquidity risk in relation to trade and other payables by ensuring that there is enough cash and cash equivalents to meet them as the come due.

The Scheme manages its liquidity risk in relation to trade and other payables by entering into a bank bill facility with National Australia Bank which is secured against the property at 64 Allara Street, Canberra. This facility resets every three months.

The Scheme's governing documents allows for the redemption of units twice a year. In order to meet possible redemptions, the Scheme holds 5% of the total investments in cash and cash equivalents. In the event of significant redemptions, the Scheme has the ability to suspend redemptions until it can realise investments.

Notes to the Financial Statements for the year ended 30 June 2013

Note 15 - Financial risk management and financial instruments - continued

(e) Liquidity risk management - continued

Financial instrument composition and maturity analysis

			2013			
	Weighted average interest rate	**1-3 months**	**3 months to 1 year**	**1 to 5 years**	**5+ years**	**Total**
	%	**$**	**$**	**$**	**$**	**$**
Variable interest-bearing assets						
Cash and cash equivalents	**2.90**	**2,982,236**	**-**	**-**	**-**	**2,982,236**
Non-interest bearing						
Trade receivables	**N/A**	**388,984**	**-**	**-**	**-**	**388,984**
Total financial assets		**3,371,220**	**-**	**-**	**-**	**3,371,220**
Fixed interest rate instruments						
Borrowings	**7.48**	**19,760,908**	**-**	**-**	**-**	**19,760,908**
Non-interest bearing						
Trade and other payables	**N/A**	**92,163**	**-**	**-**	**-**	**92,163**
Amounts payable to unitholders	**N/A**	**32,863,985**				**32,863,985**
Total financial liabilities		**52,717,056**	**-**	**-**	**-**	**52,717,056**

			2012			
	Weighted average interest rate	**1-3 months**	**3 months to 1 year**	**1 to 5 years**	**5+ years**	**Total**
	%	$	$	$	$	$
Variable interest-bearing assets						
Cash and cash equivalents	3.50	2,473,270	-	-	-	2,473,270
Non-interest bearing						
Trade receivables	N/A	-	-	-	-	-
Total financial assets		2,473,270	-	-	-	2,473,270
Fixed interest rate instruments						
Borrowings	8.00	19,753,004	-	-	-	19,753,004
Non-interest bearing						
Trade and other payables	N/A	443,809	-	-	-	443,809
Amounts payable to unitholders	N/A	37,139,428				37,139,428
Total financial liabilities		57,336,241	-	-	-	20,196,813

Secured bank loan facilities with various maturity dates through to 2016 and which may be extended by mutual agreement:

	2013	2012
	$	$
Amount used	**19,760,908**	19,753,004
Amount unused	**-**	-

Note 16 - Events subsequent to the reporting date

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

Note 17 - Contingencies

There are no contingent liabilities or contingent assets as at 30 June 2013 (30 June 2012: nil)

Australian Ethical Property Trust

Directors' Declaration

In the opinion of the Directors of Australian Ethical Investment Limited, the Responsible Entity of the Australian Ethical Property Trust (the "Scheme"):

(a) The financial statements and notes that are set out on pages 3 to 18 are in accordance with the Corporations Act 2001, including:
i. Giving a true and fair view of the Scheme’s financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
ii. Complying with Australian Accounting Standards and Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the Scheme will be able to pay its debts when they become due and payable.

The Directors draw attention to Note 1 of the financial report which contains a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

Phillip Vernon
Managing Director
Australian Ethical Investment Limited
30 September 2013

KPMG

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

To: the directors of Australian Ethical Investment Limited, the Responsible Entity for the Australian Ethical Property Trust:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Karen Hopkins
Partner

Sydney
30 September 2013

Independent auditor's report to the unitholders of the Australian Ethical Property Trust

Report on the financial report

We have audited the accompanying financial report of the Australian Ethical Property Trust (the "Scheme"), which comprises of the statement of financial position as at 30 June 2013, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 17 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Scheme's financial position, and of its performance.

KPMG

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Australian Ethical Property Trust is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Scheme's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

KPMG

Karen Hopkins
Partner

Sydney
30 September 2013