Australian Ethical Property Trust (AEPT)
ARSN 138 276 623

Annual Financial Report for the year ended 30 June 2014

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Directors' Report
For the year ended 30 June 2014

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 2014 and the accompanying independent auditor's report.

Responsible Entity
Australian Ethical Investment Limited (ABN 47 003 188 930) 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:

Phil Vernon
Kate Greenhill
Stephen Gibbs
Mara Bun
Tony Cole
Stephen Newnham (ceased 26 July 2013)
André Morony (ceased 20 November 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.

On 6 December 2013 management completed the sale of one of the direct property assets, Lawley House. Net proceeds from this transactions were returned to unitholders by way of a return of capital on 18 February 2014.

The Trust is closed to retail investors. Redemption windows are only available twice a year and are at the Responsible Entity's sole discretion.

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 -5.0% for the financial year (2013: -13.9%).

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.

No income distributions were paid or payable by the Scheme during the year (June 2013: No distribution). On 18 February 2014 unitholders received a 64.1 cent per unit return of capital

Net Assets
The value of the Scheme's net assets attributable to unitholders as at 30 June 2014 was $10,581,648 (30 June 2013: $32,863,985).

Directors' Report
For the year ended 30 June 2014

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. The Responsible Entity plans to continue to invest in line with the strategy set out in the Product Disclosure Statement.

Events occurring after the reporting date
In July 2014 an existing Allara Street tenant broke contractual arrangements incurring a $335,652 surrender of lease fee. A new tenant moved into premises on 1 August and has agreed to a 7 year arrangement which includes a rent free 10 month inducement. This lease incentive has been valued at $600,000 and will be amortised over the term of the lease.

On 31 August 2014 the Responsible Entity entered into a loan facility agreement with National Australia Bank being a 1st ranking registered mortgage over the Allara Street property. The loan is a floating rate interest only facility resetting every 90 days. The expiry date is 30 June 2017.

Except as outlined above, 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 property held in the Scheme is 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 22 of the annual report and forms part of the Directors report for the financial year ended 30 June 2014.

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

Phillip Vernon
Managing Director
Australian Ethical Investment Limited
26 September 2014

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2014

	Note	2014 $	2013 $
Investment income			
Interest income	4	**244,502**	86,134
Net change in investment property held at fair value	5	**(445,494)**	(6,392,784)
Rental income	8	**3,352,245**	4,718,051
Other income		**15,020**	443,753
Net investment income		**3,166,273**	(1,144,846)
Operating expenses			
Management fees	14	**526,892**	718,114
Administration fees	14	**69,385**	72,386
Other expenses		**-**	40,820
Amortisation of other assets	9	**32,826**	33,120
Interest expense	8a	**1,843,779**	1,478,784
Investment property expenses	8a	**626,742**	777,373
Operating expenses before finance costs		**3,099,624**	3,120,597
Profit/(loss) from operating activities		**66,649**	(4,265,443)
Finance costs			
Distributions paid and payable to unitholders of the Scheme		**-**	-
Change in net assets attributable to unitholders (total comprehensive income)	3	**66,649**	(4,265,443)

The accompanying notes form part of these financial statements.

Australian Ethical Property Trust

Statement of Financial Position as at 30 June 2014

	Note	2014 $	2013 $
Assets			
Cash and cash equivalents	6	**968,706**	2,982,236
Trade and other receivables	7	**16,279**	388,984
Investment property held at fair value	8	**17,000,000**	49,200,000
Other assets	9	**46,504**	145,836
Total assets		**18,031,489**	52,717,056
Liabilities			
Trade and other payables	10	**61,092**	92,163
Borrowings	11	**7,388,749**	19,760,908
Total liabilities excluding net assets attributable to unitholders		**7,449,841**	19,853,071
Net assets attributable to unitholders	3	**10,581,648**	32,863,985

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the year ended 30 June 2014

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.

Australian Ethical Property Trust

Statement of Cash Flows for the year ended 30 June 2014

	Note	2014 $	2013 $
Cash flows from operating activities			
Income received from investment properties		**3,796,425**	4,707,074
Expenses paid		**(1,227,222)**	(1,850,491)
Interest received		**242,629**	86,134
Interest paid		**(1,843,779)**	(1,470,880)
Net cash provided by operating activities	13	**968,053**	1,471,837
Cash flows from investing activities			
Proceeds from sale of investments		**31,746,779**	-
Purchase of investments		**(7,217)**	(960,775)
Payout of borrowing facility		**(12,440,093)**	-
Proceeds from borrowing		**67,934**	7,904
Net cash provided by/(used in) investing activities		**19,367,403**	(952,871)
Cash flows from financing activities			
Proceeds from issue of units		**-**	200,000
Payment of redemption of units		**(100,172)**	(210,000)
Capital returned to unitholders		**(22,248,814)**	-
Net cash used in financing activities		**(22,348,986)**	(10,000)
Net (decrease)/increase in cash and cash equivalents		**(2,013,530)**	508,966
Cash and cash equivalents at 1 July		**2,982,236**	2,473,270
Cash and cash equivalents at 30 June	6	**968,706**	2,982,236

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the year ended 30 June 2014

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 was constituted on 17 July 2009. The Scheme will terminate on 16 July 2089 unless terminated earlier in accordance with the provisions of the Scheme constitution. The Scheme is domiciled in Australia and is a for profit entity. The financial statements of the Scheme are for the year ended 30 June 2014.

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 complies 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 26 September 2014.

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 AASBs requires management to make judgments, 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 judgments 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.

Change in accounting policies
The Scheme has adopted the following standards and amendments for the 30 June 2014 reporting period:

(a) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective for accounting periods beginning on or after 1 January 2013)

AASB 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change, the fair value of derivative liabilities has changed on transition to AASB 13, largely due to incorporating credit risk into the valuation.

On adoption of the standard, the Scheme has not changed its valuation inputs for listed financial assets or liabilities and continues to utilise quoted bid and ask prices. There has been no impact to the net gains/(losses) on financial instruments held at fair value through profit or loss.

(b) AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for accounting periods beginning on or after 1 January 2013)

AASB 2012-2 requires additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments did not have any impact on the Scheme's financial position or performance.

Note 1 - Statement of significant accounting policies - continued

Change in accounting policies - continued

(c) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 127 (revised 2011) *Separate Financial Statements* and AASB 128 (revised 2011) *Investments in Associates and Joint Ventures* (effective for accounting periods beginning on or after 1 January 2013)

The Scheme has early adopted AASB 2013-5 *Amendments to Australian Accounting Standards - Investment Entities* (effective for accounting periods beginning on or after 1 January 2014) which makes amendments to AASB 10, AASB 12 and AASB 127 (the "Amendments").

AASB 10 *Consolidated financial statements* and Amendments to AASB 10:

The objective of AASB 10 is to establish principles for the presentation and preparation of consolidated financial statements. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The amendments to AASB 10 define an investment entity and introduce an exemption from the consolidation requirements for investment entities. The adoption of these standards has had no impact on the Scheme.

Investment entity

The Scheme has multiple unrelated unitholders and holds multiple investments directly or indirectly. Ownership interests in the interfunding investments are in the form of units which are classified as debt in accordance with AASB 132 and which are exposed to variable returns from changes in the fair value of the Scheme's net assets. The Scheme has been deemed to meet the definition of an investment entity per AASB 10 as the following conditions exist:
(i) The Scheme has obtained funds for the purpose of providing unitholders with investment management services;
(ii) The Scheme's business purpose, which is communicated directly to unitholders, is investing solely for returns from capital appreciation and investment income; and
(iii) The performance of investments made through the Scheme are measured and evaluated on a fair value basis.
The Scheme meets the typical characteristics of an investment entity.

AASB 12 *Disclosure of interests in other entities* and Amendments to AASB 12:

The standard requires entities to disclose significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interests in other entities. Entities will also be required to provide more disclosures around certain 'structured entities'. The amendments also introduce new disclosure requirements related to investment entities. Adoption of the standard has impacted certain disclosures in the Scheme's annual financial report, but has had no impact to the Scheme's financial position or results of operations.

AASB 127 (revised 2011) *Separate financial statements* and Amendments to AASB 127:

The objective of the standard is to prescribe the accounting and disclosure requirements when an entity prepares separate financial statements. The amendments require an investment entity as defined in AASB 10 to present separate financial statements as its only financial statements in the case where it measures all of its subsidiaries at fair value through profit or loss and to disclose that fact. The adoption of this standard has had no impact on the Scheme.

AASB 11 *Joint arrangements* and AASB 128 (revised 2011) *Investments in Associates and Joint Ventures* and related amendments have also been adopted, however, these standards have had no impact on the scheme.

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 of original maturity of three months or less.

(b) Financial instruments

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

Note 1 - Statement of significant accounting policies - continued

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.

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 unsettled purchases, accrued expenses and other payables such as GST and redemption monies owing by the Scheme. Unsettled purchases are amounts due to brokers for securities purchased that have not been paid at reporting date. Trades are recorded on trade date and normally settle within three business days. Accrued expenses include management fees payable.

Notes to the Financial Statements for the year ended 30 June 2014

Note 1 - Statement of significant accounting policies - continued

(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 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 from fluctuations in the 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. Interest income 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.

(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.

Note 1 - Statement of significant accounting policies - continued

(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 profit or loss 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.

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.

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

(o) Standards and interpretations in issue not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2014 reporting period and have not yet been early adopted by the Scheme. The assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

> AASB 9 *Financial Instruments (2009 or 2010 version)* , AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* , AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* , AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* and AASB 2013-9 *Amendments to Australian Accounting Standards Conceptual Framework, Materiality and Financial Instruments* (effective from 1 January 2017).

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has also now introduced revised rules around hedge accounting. The standard is available for early adoption but management does not expect this to have a significant impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. Further, the derecognition rules have not been changed from the previous requirements, and the Scheme does not apply hedge accounting.

The Scheme has not yet decided when to adopt AASB 9.

Notes to the Financial Statements for the year ended 30 June 2014

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.

The Trust is closed to retail investors. Redemption windows are only available twice a year and are at the Responsible Entity's sole discretion.

	2014	2013
	Units	Units
On issue at beginning of year	**34,778,765**	34,788,338
Issued	**-**	190,060
Redeemed	**(178,247)**	(199,633)
On issue at year end	**34,600,518**	34,778,765

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.

	2014	2013
	$	$
Opening balance	**32,863,985**	37,139,428
Issued	**-**	200,000
Redeemed	**(100,172)**	(210,000)
Return of Capital	**(22,248,814)**	-
Change in net assets attributable to unitholders	**66,649**	(4,265,443)
Net assets attributable to unitholders	**10,581,648**	32,863,985

Note 4 - Interest income

Interest income from financial assets carried at amortised cost:		
Cash and cash equivalents	**244,502**	86,134
	244,502	86,134

Note 5 - Gains/(losses) on investment properties

Realised loss in on disposal of investment property		
Agreed sale price	**32,100,000**	-
Cost of sale	**(353,221)**	-
Net proceeds from sale	**31,746,779**	-
Amortised cost of property sold	**32,142,273**	-
Realised loss in from disposal of investment property	**(395,494)**	-
Unrealised gain/(loss) in fair value of investment properties	**(50,000)**	(6,392,784)
	(445,494)	(6,392,784)

Note 6 - Cash and cash equivalents

Cash at bank	**968,626**	2,979,194
Cash on Deposit - Property Manager	**80**	3,042
	968,706	2,982,236

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	**16,279**	388,984
	16,279	388,984

Notes to the Financial Statements for the year ended 30 June 2014

Note 8 - Investment properties	**2014**	2013
	$	$
Commercial property at fair value	**17,000,000**	49,200,000
At Fair Value		
Leasehold improvements		
Opening balance at 1 July	**1,352,908**	569,420
Additions	**7,217**	902,000
Disposals	**(1,345,182)**	-
Amortisation	**(14,943)**	(118,512)
Closing balance at 30 June	**-**	1,352,908
Investment Property		
Opening balance at 1 July	**47,847,092**	54,239,876
Disposals	**(30,797,092)**	-
Net gain/(loss) on property revaluation	**(50,000)**	(6,392,784)
Closing balance at 30 June	**17,000,000**	47,847,092

(a) Amounts recognised in profit or loss for investment property

Rental income	**3,352,245**	4,718,051
Direct operating expenses from property that generate rental income	**(2,470,521)**	(2,256,157)
	881,724	2,461,894

(b) Valuation basis

Property investment is an investment in property which are held either to earn rental income or for capital appreciation, or for both. The property investment is 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 property annually. The fair value is based on market value, being the estimated amount for which the 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.

The investment property was independently valued at 31 December 2013 by Egan (the "valuers") (2013: Egan and Jones Lang LaSalle), independent valuers not related to the Group. The valuation conducted by Egan has been made on the basis of fair value, using the capitalised rate method. The valuation of $17,550,000 was based on the capitalisation rate of 8.00% (30 June 2013: 8.50%). Egan is a member of the Institute of Valuers of Australia. The valuation reflects, where appropriate, the type of tenants, future rent reviews and market conditions.

An independent valuation as at 30 June was performed by Jone Lang LaSalle. Although the capitalisation rate (8%) utilised for this valuation equated to that used in December Jones Lang LaSalle determined that the applicable rental market was lower than in December resulting in a reduced valuation. This independent valuation of $17,000,000 was adopted in the Statement of Financial Position as 30 June 2014. This resulted in a total net valuation reduction of $50,000 for the full financial year.

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 investment at the time of purchase to reflect the total acquisition cost in the Statement of Financial Position. Additions and other expenditure on the property investment which are capital in nature are capitalised as incurred. The directors are of the view that the above valuation reflects the fair value of the property at 30 June 2014.

(c) Leasing arrangements

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

Within one year	**1,161,515**	4,979,895
Later than one year but not later than 5 years	**5,241,022**	16,732,403
Later than 5 years	**1,833,793**	15,367,151
	8,236,330	37,079,449

Notes to the Financial Statements for the year ended 30 June 2014

Note 8 - Investment properties - continued

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.

Note 9 - Other assets

	2014	2013
	$	$
Capitalised project costs (a)	46,504	79,330
Prepayments	-	66,506
	46,504	145,836

(a) Capitalised project costs

	2014	2013
At cost		
Balance as at 1 July	127,749	68,974
Additions	-	58,775
Balance as at 30 June	127,749	127,749
Accumulated amortisation and impairment		
Balance as at 1 July	48,419	15,299
Amortisation	32,826	33,120
Balance as at 30 June	81,245	48,419

Note 10 - Trade and other payables

	2014	2013
Trade payables and sundry creditors	61,092	92,163
	61,092	92,163

Note 11 - Borrowings

	2014	2013
Bank bill (secured)		
Current	7,388,749	19,760,908
	7,388,749	19,760,908

Summary of borrowing arrangements:

The Scheme holds a rolling bank bill secured by First Mortgage over the property held by the Scheme at a rate of 1.40% above the bank bill rate. The bank bill facility is a non-amortising facility 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 effective interest rate on the bill is 5.37% per annum (2013: 7%). The facility had an expiry date of 30 June 2014 however that term has been temporarily extended to allow negotiations in relation to a replacement facility to be finalised.

On 31 July 2014 a replacement loan facility was agreed with NAB at a margin of 1.51% above the bank bill rate for a term of 3 years maturing on 30 June 2017. Loan agreements were signed on 31 August 2014.

During the year the bank bill facility in relation to Lawley House was repaid following sale of the property with an early termination fee of $765,600 paid.

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.

	2014	2013
Auditing the financial statements	6,600	4,000
Compliance plan audit	3,425	2,375
	10,025	6,375

Notes to the Financial Statements for the year ended 30 June 2014

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

	2014 $	2013 $
Profit/(loss) from operating activities	**66,649**	(4,265,443)
Adjustments for:		
Net (gains)/losses on revaluation of investments	**445,494**	6,392,784
Amortisation of capital costs	**47,770**	151,632
Changes in assets and liabilities:		
Decrease/(increase) in trade and other receivables	**372,705**	(388,984)
Decrease/(increase) in prepayments	**66,506**	(66,506)
Decrease in trade and other payables	**(31,071)**	(351,646)
Net cash provided by operating activities	**968,053**	1,471,837

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.

The Scheme does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Scheme and this is considered the key management personnel.

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:

Phil Vernon
Kate Greenhill
Stephen Gibbs
Mara Bun
Tony Cole
Stephen Newnham (ceased 26 July 2013)
André Morony (ceased 20 November 2013)

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly and indirectly during or since the end of the financial year.

During the year the following amounts were paid to the Responsible Entity in accordance with the Scheme's Constitution. Percentage rate of fees charged did not change from 30 June 2013.

Management fees (1.28% of Net Assets)	**526,892**	718,114
Administration fees (0.892% of Net Assets)	**69,385**	72,386
Reimbursable expenses	**-**	19
	596,277	790,519

Fees payable to the Responsible Entity at 30 June 2014 were $23,455 (2013: $69,509).

Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733), a subsidiary of AEIL, is the Trustee of the Australian Ethical Retail Superannuation Fund (AERSF). Transactions with the AERSF are undertaken on commercial terms and conditions.

Notes to the Financial Statements for the year ended 30 June 2014

Note 14 - Related party disclosures - continued

Transactions between AERSF and the Scheme during the financial year were:

	2014	2013
	$	$
AERSF purchase of units	-	200,000
AERSF sale of units	-	200,000
Value of units held by AERSF	5,218,899	16,121,099
Return of capital payment to AERSF	10,938,712	-

	2014	2013
	Units	Units
Units purchased by AERSF	-	190,060
Units sold by AERSF	-	190,060

	2014	2013
	%	%
Percentage of units held by AERSF	49.32%	49.07%

Transactions between the Schemes where AEIL is the Responsible Entity during the financial year were:

	2014	2013
	$	$
Value of units held by Australian Ethical Balanced Trust	5,217,817	16,122,085
Return of capital payment to Australian Ethical Balanced Trust	10,936,446	-

	2014	2013
	%	%
Percentage of units held by Australian Ethical Balanced Trust	49.31%	49.06%

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

	2014	2013
Financial assets	$	$
Cash and bank balances	968,706	2,982,236
Loans and receivables	16,279	388,984
	984,985	3,371,220
Financial liabilities		
Trade and other payables	61,092	92,163
Borrowings	7,388,749	19,760,908
Amounts payable to unitholders	10,581,648	32,863,985
	18,031,489	52,717,056

(b) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Responsible Entity's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Fund's operations.

The objective of the Responsible Entity of the Fund is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Notes to the Financial Statements for the year ended 30 June 2014

Note 15 - Financial risk management and financial instruments - continued

(c) 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.

(d)(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.

(d)(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 has 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 (2013: 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 balance date, 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:

	2014	2013
	$	$
Increase in interest rate by 1%	**(64,200)**	(167,787)
Decrease in interest rate by 1%	**64,200**	167,787

(d)(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.

(d)(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.

Notes to the Financial Statements for the year ended 30 June 2014

Note 15 - Financial risk management and financial instruments - continued

(e) 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 2014 (2013 AA-)

No financial assets carried at amortised cost were past due or impaired at 30 June 2014 (2013: 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.

	2014	2013
	$	$
Cash and cash equivalents	**968,706**	2,982,236
Loans and receivables	**16,279**	388,984
Total	**984,985**	3,371,220

(f) 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 amounts payable to unit holders upon redemption and borrowings.

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.

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 borrowings by having its bank bill facility with National Australia bank resetting every 3 months

The table below details the financial instruments currently in a liability position based on contractual maturities.

Notes to the Financial Statements for the year ended 30 June 2014

Note 15 - Financial risk management and financial instruments - continued

(f) Liquidity risk management - continued

Financial instrument composition and maturity analysis

	2014					
	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	**2.40**	**968,706**	**-**	**-**	**-**	**968,706**
Non-interest bearing						
Trade receivables	**N/A**	**16,279**	**-**	**-**	**-**	**16,279**
Total financial assets		**984,985**	**-**	**-**	**-**	**984,985**
Fixed interest rate instruments						
Borrowings	**5.37**	**7,388,749**	**-**	**-**	**-**	**7,388,749**
Non-interest bearing						
Trade and other payables	**N/A**	**61,092**	**-**	**-**	**-**	**61,092**
Amounts payable to unitholders	**N/A**	**10,581,648**	**-**	**-**	**-**	**10,581,648**
Total financial liabilities		**18,031,489**	**-**	**-**	**-**	**18,031,489**

	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

Notes to the Financial Statements for the year ended 30 June 2014

Note 16 - Events subsequent to the reporting date

In July 2014 an existing Allara Street tenant broke contractual arrangements incurring a $335,652 surrender of lease fee. A new tenant moved into premises on 1 August and has agreed to a 7 year arrangement which includes a rent free 10 month inducement. This lease incentive has been valued at $600,000 and will be amortised over the term of the lease.

On 31 August 2014 the Responsible Entity entered into a loan facility agreement with National Australia Bank being a 1st ranking registered mortgage over the Allara Street property. The loan is a floating rate interest only facility resetting every 90 days. The expiry date is 30 June 2017.

Except as outlined above, 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.

Note 17 - Contingencies

There are no contingent liabilities or contingent assets as at 30 June 2014 (30 June 2013: 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 annual financial statements and notes that are set out on pages 3 to 20 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 2014 and of its performance for the financial year ended on that date; and
ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and 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
26 September 2014

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 2014 there have been:

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

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

KPMG

KPMG

Karen Hopkins
Partner

Sydney
26 September 2014

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 Australian Ethical Property Trust ('the Scheme'), which comprises the statement of financial position as at 30 June 2014, the statement of profit and loss and other 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 entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of 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 2014 and of its performance for the year ended on that date; and

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

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

KPMG

KPMG

Karen Hopkins
Partner

Sydney
26 September 2014