

Spear REIT Limited
(previously known as Arrow 2 Investments Proprietary Limited)
Incorporated in the Republic of South Africa
(Registration number: 2015/407237/06)
Share code: SEA
ISIN: ZAE000228995
("Spear" or "the Company")

Acquisition Of 15 On Orange Hotel

1. INTRODUCTION

- 1.1. Shareholders of the Company are hereby advised that the Company acting through its subsidiary, Spear Holdco Proprietary Limited ("Spear Holdco"), has entered into a subscription agreement and a share purchase agreement ("Agreements"), on or about 17 March 2017 ("Signature Date"), to subscribe for and acquire 100% of the share capital ("Acquisition") of Blend Property 15 Proprietary Limited ("Blend 15") from Blend Property 17 Proprietary Limited and Platinum Hospitality Corporation Proprietary Limited ("Platinum") (collectively, the "Sellers").
- 1.2. Blend 15 currently owns the immovable property comprising the portions of the 15 on Orange sectional title scheme that comprise the 15 on Orange Hotel and certain retail sections ("Property").
- 1.3. Certain condominiums currently owned by Blend 15 are effectively excluded from the transaction and will be transferred to Blend 17 ("Condo Sales") post the Acquisition.

2. RATIONALE FOR THE ACQUISITION

The Acquisition is in line with Spear's strategy to invest into high quality assets within the Western Cape and to furthermore increase its hospitality assets in the Cape Town area given the continued strong performance of the tourism market.

3. CONSIDERATION

- 3.1. The consideration for the Acquisition is an effective amount of R298 000 000 ("Consideration"), plus or minus any working capital adjustments.

3.2. The Consideration will be funded through a combination of loan funding and new equity that will be raised through a vendor consideration placement.

4. NET INCOME GUARANTEE

The Sellers have provided Spear with a guarantee in respect of the net income of the Property for a period of 365 days post the acquisition up to a maximum amount of R28 484 244.

5. EFFECTIVE DATE

The effective date of the entire Acquisition shall be the third business day following the registration of a mortgage bond over the Property in favour of the provider of the loan funding required for the Acquisition ("Effective Date"), which is expected to occur on or about 01 July 2017, subject to fulfilment or waiver, where applicable of all conditions precedent and the implementation of the Agreements.

6. THE PROPERTY

Details of the Property are as follows:

Property Name and Address	Geographical Location	Sector	GLA (m²)	Weighted Average Gross Rental/m² (R/m²)
15 on Orange	Cape Town	Hospitality	14 681	R161.68

7. PROPERTY SPECIFIC INFORMATION

Details regarding the Acquisition, as at the expected Effective Date, are set out below:

Property Name and Address	Weighted Average Escalation	Lease Duration (years)	Vacancy % by GLA
15 on Orange, 15 on Orange, Cape Town	Note b	16	0

Notes:

- a) The costs associated with the Acquisition are estimated at R3 500 000.
- b) A Weighted average escalation cannot be accurately calculated due to the variable nature of the lease being fully performance based, calculated on the revenue generated by the lessee.
- c) In determining the cost of the Acquisition, the value of the Property is considered to be its fair market value, as determined by the directors of the Company. The directors of the Company are not independent and are not registered as professional valuers or as professional associate valuers in terms of the Property Valuers Profession Act, No 47 of 2000.

8. FINANCIAL INFORMATION IN RESPECT OF THE ACQUISITION

The forecast financial information relating to the Acquisition for the financial periods ended 28 February 2018 and 28 February 2019 are set out below. The forecast financial information has not been reviewed or reported on by a reporting accountant in terms of section 8 of the JSE Listings Requirements and is the responsibility of the Company's directors.

	Forecast for the 8 month period ended 28 February 2018	Forecast for the 12 month period ended 28 February 2019
Rental income	25 572 765	40 907 989

Straight-line rental accrual	165 407	399 442
Gross revenue	25 738 172	41 307 431
Property expenses	(6 717 278)	(10 595 330)
Net property income	19 020 894	30 712 101
Finance cost	(10 753 582)	(16 152 500)
Profit before taxation	8 267 312	14 559 601
Taxation	0	0
Profit after taxation	8 267 312	14 559 601
Adjusted for:		
Straight-line rental accrual	(165 407)	(399 442)
Total comprehensive income attributable to shareholders	8 101 905	14 160 159
Forecast distribution	8 101 905	14 160 159

Notes:

- a) Rental income includes gross rentals and other recoveries, but excludes any adjustment applicable to the straight lining of leases.
- b) Property expenses include all utility and council charges applicable to the Property.
- c) The forecast information for the 8 month period ended 28 February 2018 has been calculated from the anticipated Effective Date, being on or about 01 July 2017.
- d) The forecast distribution excludes straight-line rental accrual.
- e) Contracted revenue constitutes 98% of the revenue for the 8 month period ended 28 February 2018 and 98% of the revenue for the 12 month period ended 28 February 2019.
- f) Near-contracted revenue constitutes 0% of the revenue for the 8 month period ended 28 February 2018 and 0% of the revenue for the 12 month period ended 28 February 2019.
- g) Uncontracted revenue constitutes 2% of the revenue for the 8 month period ended 28 February 2018 and 2% of the revenue for the 12 month period ended 28 February 2019.
- h) Leases expiring during the forecast period have been assumed to renew at the future value of current market related rates.

9. CONDITIONS PRECEDENT

9.1. The Acquisition is subject to fulfilment of the following remaining conditions precedent -

9.1.1. by not later than 14 days after the Signature Date, the board of directors of Blend 15 authorised the entering into of the transaction agreements;

9.1.2. by not later than 14 days after the Signature Date, all agreements necessary to give effect to the Condo Sales have been entered into, in the agreed form as between the parties thereto, and such agreements have become unconditional and of full force and effect in accordance with their terms, save for any condition that the subscription agreement must become unconditional and that the shares to be issued in terms of the subscription agreement ("Subscription Shares") have been issued, and that Spear has reconstituted the board of directors of Blend 15;

9.1.3. by not later than 21 days after the signature date, the relevant debt funders of Blend 15 have consented to the transaction, to the extent required;

9.1.4. by not later than 21 days after the Signature Date, the shareholders of Blend 15 have passed a resolution to increase the authorised ordinary share capital of Blend 15 to enable the issue of the Subscription Shares and all relevant special resolutions and any applicable notices of amendment required in terms of the Companies Act No. 71 of 2008 ("Companies Act") have been filed in the manner prescribed in the Companies Act;

9.1.5. by not later than 21 days after the Signature Date, the shareholders of Blend 15 have passed resolutions in accordance with section 41(3) of the Companies Act authorising the issue and allotment of the Subscription Shares;

9.1.6. by not later than 21 days after the Signature Date, the shareholders of Blend 15 have passed resolutions in accordance with sections 44 and 45 of the Companies Act

authorising the implementation of the loan funding to be utilised for the Acquisition ("Loan Funding");

- 9.1.7. by not later than 10 April 2017, the Company and/or Spear Holdco have notified Blend 15 in writing that legally binding agreements have been entered into in respect of the Loan Funding and that the loan funding facilities are capable of being drawn down subject only to (i) the fulfilment or waiver, as applicable, of the remaining conditions precedent, and (ii) the registration of a mortgage bond over the Property;
 - 9.1.8. by not later than 120 days after the Signature Date, the transactions contemplated in the subscription agreement (to the extent necessary) have been approved by the competition authorities in accordance with the Competition Act No 89 of 1998 either unconditionally or conditionally on such terms and conditions acceptable to Spear and the Sellers, as applicable; and
 - 9.1.9. by no later than 120 days after the Signature Date, the subscription agreement has become unconditional in accordance with its terms and the Subscription Shares have been issued.
- 9.2. Save for the condition precedent in paragraph 9.1.7, all the conditions precedent are not capable of being waived.

10. OTHER SIGNIFICANT TERMS OF THE AGREEMENTS

The Sellers have provided the Company with warranties and indemnities standard for a transaction of this nature.

11. CATEGORISATION

The Acquisition qualifies as a Category 2 acquisition for the Company in terms of the JSE Listings Requirements.

23 March 2017

Cape Town

Designated advisor

PSG Capital

Legal Advisor

Cliffe Dekker Hofmeyr

Corporate advisor to sellers
Java Capital