

SPEAR REIT LIMITED
(previously 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 MEGA PARK RENTAL ENTERPRISE

1. INTRODUCTION

Shareholders are hereby advised that the Company and its subsidiary, Spear Holdco Proprietary Limited ("**Spear Holdco**"), have entered into sale of letting enterprise agreement and share sale agreements ("**the Agreements**") with Mega Park Investments Proprietary Limited ("**Seller**"). In terms of the Agreements, the Spear Holdco will acquire the property situated on Erf 40247 Bellville, City of Cape Town, known as Mega Park ("**the Property**") and the letting enterprise conducted by the Seller as a going concern ("**Letting Enterprise**") in respect of the Property ("**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 industrial assets in Cape Town.

3. PURCHASE CONSIDERATION

3.1. In terms of the Agreements, the purchase price for the Letting Enterprise is R379 157 000 ("**Purchase Consideration**").

3.2. The Purchase Price will be settled on the date of transfer of the Property into the name of the Spear Holdco, following the fulfilment or waiver of the conditions precedent ("**Transfer Date**").

3.3. In terms of the Agreements:

3.3.1. the Purchase Price will be settled by Spear Holdco assuming certain liabilities of the Seller owing to its lenders ("**Lenders**"), equal to a maximum aggregate amount of R219 177 468 ("**Assumed Liabilities**"), with effect from the Transfer Date, and by way of the allotment and issue by the Spear Holdco of such number of its ordinary shares to the Seller at an issue price of R10 per share, as is equal to the Purchase Consideration less the Assumed Liabilities on the Transfer Date ("**Consideration Shares**"), on an asset-for-share basis in terms of section 42 of the Income Tax Act, No 58 of 1962 ("**the Income Tax Act**"); and

3.3.2. on the Transfer Date and immediately after the Consideration Shares have been issued to the Seller, Spear shall acquire the Consideration Shares from the Seller in exchange for the allotment and issue of listed ordinary shares in Spear ("**Spear**").

Shares"), at an issue price of R10 per Spear Share, on a share-for-share basis in terms of section 42 of the Income Tax Act.

4. CONDITIONS PRECEDENT

4.1. The Acquisition is subject to the fulfilment or waiver of the following outstanding conditions precedent, namely that:

4.1.1. within a period of 21 business days following the signature date of the Agreements, the Spear Holdco confirms in writing that it is satisfied with its due diligence investigation of the Letting Enterprise, in its sole discretion;

4.1.2. within a period of 5 business days after the fulfilment of the condition precedent in paragraph 4.1.1 above, the investment committee of the board of directors of Spear, approves the Acquisition on the terms and conditions set out in the Agreements;

4.1.3. within a period of 20 business days after the fulfilment of the condition precedent in paragraph 4.1.1 above, the Lenders agree in writing, in terms reasonably acceptable to the Spear Holdco, to the assumption by the Spear Holdco of the Assumed Liabilities, with effect from the Transfer Date;

4.1.4. within a period of 21 business days after the fulfilment of the condition precedent in paragraph 4.1.1 above, the Spear Holdco obtains a loan from a bank or financial institution in an amount of not less than R211 000 000 (being an amount approximately equal to the Assumed Liabilities on the Transfer Date) against security of a mortgage bond over the Property; and

4.1.5. within a period of 120 days after the signature date of the Agreements, the Acquisition is approved unconditionally by the competition authorities in terms of the Competition Act, No 89 of 1998 or, in the event of a conditional approval, on terms acceptable to the parties to the Acquisition.

5. EFFECTIVE DATE

The Acquisition will become effective on the Transfer Date.

6. RENTAL GUARANTEE

6.1. In terms of the Agreements, the Seller guarantees the gross amount of rentals, storage income, tenant operating cost contributions and other recoveries ("**Income**") that the Spear Holdco will receive in respect of the Letting Enterprise pursuant to the implementation of the Acquisition ("**Rental Guarantee**"), for a period of 24 months commencing on the Transfer Date ("**Guarantee Period**").

6.2. In the event that the Income actually received by the Spear Holdco during the Guarantee Period:

6.2.1. is less than the amount guaranteed by the Seller, the Seller shall pay the Spear Holdco an amount equal to the shortfall; and

6.2.2. exceeds the amount guaranteed by the Seller, the Spear Holdco shall pay the Seller an amount equal to the excess.

6.3. As security for its obligations in terms of the Rental Guarantee, the Seller cedes all its right to receive any distributions paid in respect of 10 222 222 Spear Shares, with effect from the Transfer Date.

7. WARRANTIES AND OTHER TERMS

7.1. The Agreements contain representations and warranties by the Seller in favour of the Spear Holdco which are standard for a transaction of this nature.

7.2. Subject to such warranties, the Letting Enterprise is sold "voetstoots".

8. THE PROPERTY

8.1. Details of the Property are as follows:

Property Name and Address	Geographical Location	Sector	Gross Lettable Area (m²)	Weighted Average Gross Rental/m²
Mega Park, Corner of Mill & Peter Barlow Road	Bellville, City of Cape Town	Industrial	85 748	R41.10

8.2. Details regarding the Property, as at the anticipated Transfer Date, are set out below:

Purchase Yield Attributable to Shareholders	Weighted Average Escalation	Weighted Average Lease Duration (years)	Vacancy % by Gross Lettable Area
9.30%	9%	1.5	6%

Notes:

a) The costs associated with the Acquisition are estimated at R3 200 000.

- b) The Purchase Consideration payable in respect of the Letting Enterprise (which includes the Property) is considered to be its fair market value, as determined by the directors of Spear. The directors of Spear 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.

9. FORECAST FINANCIAL INFORMATION OF THE ACQUISITION

The forecast financial information relating to the Acquisition for the financial periods ending 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 Spear's directors.

	Forecast for the 9-month period ending 28 February 2018 (R)	Forecast for the 12-month period ending 28 February 2019 (R)
Revenue	32 114 139	45 462 697
Straight-line rental accrual	(47 356)	(58 612)
Gross revenue	32 066 782	45 404 085
Property expenses	(4 962 275)	(6 963 726)
Net property income	27 104 507	38 440 359
Administrative expenses	(990 000)	(1 389 300)
Operating profit	26 114 507	37 051 059
Finance cost	(15 081 812)	(20 164 327)
Profit before taxation	11 032 696	16 886 732
Taxation	0	0
Net profit after taxation	11 032 696	16 886 732
Adjusted For:		
Straight-line rental accrual	47 356	58 612
Distributable profit	11 080 052	16 945 344

Notes:

- a) Revenue 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 9-month period ended 28 February 2018 has been calculated from the anticipated Transfer Date, being on or about 01 June 2017.
- d) Contractual rental revenue constitutes 64% of the revenue for the 9-month period ended 28 February 2018 and 31% of the revenue for the 12-month period ended 28 February 2019.
- e) Uncontracted revenue constitutes 2% of the revenue for the 9-month period ended 28 February 2018 and 2% of the revenue for the 12-month period ended 28 February 2019.
- f) Near-contracted revenue constitutes 34% of the revenue for the 9-month period ended 28 February 2018 and 67% of the revenue for the 12-month period ended 28 February 2019.
- g) Leases expiring during the forecast period have been assumed to renew at the future value of current market related rates.

10. CATEGORISATION

The Acquisition constitutes a Category 2 transaction in terms of the JSE Listings Requirements.

Cape Town
31 March 2016

PSG Capital Proprietary Limited: Transaction Adviser and Sponsor
Cliffe Dekker Hofmeyr: Legal Advisor