

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
 (Approved as a REIT by the JSE)
 ("Spear" or "the Company")

HIGHLIGHTS

- Maiden distribution per share of 23.51 cents increased to 16.75% over the forecast distribution
- TNAV per share increased from R9.37 to R10.03, being a 7.01% increase
- 3.79% increase in investment property fair value from R1.393 billion to R1.446 billion
- R250 million capital raised at listing date, 11 November 2016
- R119 million capital raised through a cash for share issue on 28 February 2017
- Gearing reduced from 42.11% to 33.09%
- In excess of R1 billion of new acquisitions concluded after period end to establish healthy pipeline to increase distributable earnings
- Envisaged move to the JSE Main Board on 22 May 2017

NATURE OF THE BUSINESS

Spear REIT Limited listed as a Real Estate Investment Trust ("REIT") on the AltX of the Johannesburg Stock Exchange ("JSE") on 11 November 2016. Its main business is the investment in high-quality income-generating real estate across all sectors within the Western Cape, predominantly in the Cape Town region.

The Company conducts its business directly and through a number of subsidiaries, collectively referred to as the "Group".

The Company's property and asset management functions are internally and directly managed by the Spear executive management team.

PROVISIONAL SUMMARISED AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE 4 MONTHS ENDED 28 FEBRUARY 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Group Audited 28 Feb 2017 R'000	Audited 29 Feb 2016 R'000
ASSETS		
Non-current assets		
Investment property (Including straight-line accrual)	1 445 715	-
Property, plant and equipment	128	-
Deferred taxation	6 533	-
	1 452 376	-
Current assets		
Trade and other receivables	8 092	-
Cash and cash equivalents	12 632	-
Loans to related parties	-	0.1
Other financial assets	1 714	-
Taxation receivable	11	-
Insurance claim receivable	18 687	-
	41 136	0.1
TOTAL ASSETS	1 493 512	0.1
EQUITY AND LIABILITIES		
Shareholders' interest		
Stated capital	917 538	0.1
Share-based payment reserve	3 939	-
Accumulated income	65 331	-
	986 808	0.1
Liabilities		
Non-current liabilities		
Financial liabilities	478 453	-
	478 453	-
Current liabilities		
Loans from related parties	3 881	-
Finance lease	113	-
Trade and other payables	21 554	-
Deferred revenue	2 703	-

TOTAL LIABILITIES	28 251	-
TOTAL EQUITY AND LIABILITIES	506 704	-
	1 493 512	0.1
Number of ordinary shares in issue	98 226 952	
Treasury shares	(464 591)	
Net ordinary shares in issue	97 762 361	
Gearing ratio	33.09%	
Net asset value per share (Cents)	1 009	
Tangible net asset value per share (Cents)	1 003	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 4-month period ended 28 February 2017

	Group Audited 28 February 2017 R'000
Property portfolio	
- Contractual rental income	51 916
- Tenant recoveries	9 905
- Straight-line rental income accrual	(2 647)
	59 174
Other income	2 088
Total revenue	61 262
Property operating and management expenses	(16 294)
Net property-related income	44 968
Administrative expenses	(4 558)
Net operating profit	40 410
Fair value adjustment - Investment properties	40 553
Depreciation and amortisation	(4)
Formation and listing cost	(1 873)
Share-based payment expense	(3 939)
Profit from operations	75 147
Net interest	(16 662)
- Finance costs	(20 487)
- Finance income	3 825
Profit before taxation	58 485
Taxation	6 846
Profit for the year	65 331
Other comprehensive income	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	65 331
Attributable to:	
Equity owners of parent	65 331
Non-controlling interest	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	65 331
Basic headline earnings per share (Cents)	96.65
Diluted headline earnings per share (Cents)	96.65
Distribution per share (Cents)	23.51
Interest cover ratio	2.58

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the 4-month period ended 28 February 2017

	share capital	Accumulated profit/(loss)	Equity reserve	Total equity
Group R'000				
Balance as at 01 March 2016	0.1	-	-	0.1
Changes in equity:				
Profit for the period	-	65 331	-	65 331
Shares repurchased from founders	(0.1)	-	-	(0.1)
Issue of shares	921 888	-	-	921 888
Acquisition of treasury shares	(4 350)	-	-	(4 350)
Share-based payment expense	-	-	3 939	3 939
Total changes	917 538	65 331	3 939	986 808
Balance as at 28 February 2017	917 538	65 331	3 939	986 808

CONSOLIDATED STATEMENT OF CASH FLOWS
For the 4-month period ended 28 February 2017

	Group Audited 28 Feb 2017 R'000
Cash generated from operations	
Profit before tax	58 485
Adjustments for:	

Straight-line rental income accrual	2 647
Fair value adjustments – Investment property	(40 553)
Depreciation	4
Finance income	(3 825)
Finance cost	20 487
Formation and listing cost	1 873
Rental loss credits	(1 101)
Share-based payment reserve	3 939
Changes in working capital	
Trade and other receivables	(8 092)
Trade and other payables	21 554
Cash generated from operating activities	55 418
Finance income	3 825
Finance cost	(20 487)
Taxation paid	(11)
Net cash generated from operations	38 745
Cash flows from investing activities	
Purchase of property, plant and equipment	(132)
Additions to investment property	(20 459)
Investment property cost capitalised	(1 009)
Movement in other financial assets	(1 714)
Proceeds from insurance claim	10 000
Net cash used in investing activities	(13 314)
Cash flow from financing activities	
Proceeds from share issue	354 350
Repayment of financial liabilities	(366 531)
Repayment of finance leases	(148)
Loan from related party	8 639
Repayment of related party loan	(4 758)
Purchase of treasury shares	(5 310)
Proceeds from sale of treasury shares	959
Net cash generated from financing activities	(12 799)
Total cash movement for the period	12 632
Cash beginning of the period	–
Cash end of period	12 632

SUMMARISED OPERATING SEGMENT INFORMATION

Period ended 28 February 2017

R'000	Revenue	Operating profit	Total assets
Industrial	10 997	8 742	299 249
Commercial	16 572	9 689	455 655
Retail	20 342	11 945	376 186
Hospitality	13 346	13 346	200 134
Residential	2 251	2 104	83 683
Non-property	401	(2 769)	47 798
Straight-line of leases	(2 647)	(2 647)	30 807
Total	61 262	40 410	1 493 512

SELECTED EXPLANATION NOTES TO THE RESULTS

1. Earnings per share

This note provides the obligatory information in terms of IAS 33, Earnings Per Share and SAICA Circular 2/2015 for the Group and should be read in conjunction with note 2, where earnings are reconciled to distributable earnings. Distributable earnings determine the distribution declared to shareholders, which is a meaningful metric for a stakeholder in a REIT.

1.1 Basic earnings per share

	2017
Shares in issue	Number of shares
Number of shares in issue at end of year	97 762 361
Weighted average number of shares in issue	25 636 517
Diluted weighted average number of shares in issue	25 636 517

Basic earnings per share	Cents
Earnings (profit attributable to owners of the parent)	65 331
Basic earnings per share	254.83
Diluted earnings per share	254.83

1.2 Headline earnings per share

Reconciliation between basic earnings and headline earnings	R'000	
Earnings (profit attributable to owners of the parent)	65 331	
Adjusted for:	Gross	Tax
Fair value adjustments to investment properties	(40 553)	0
Headline earnings	24 778	–

Headline earnings per share:	Cents
Headline earnings per share	96.65

Diluted headline earnings per share 96.65

2. Reconciliation between earnings and distributable earnings

2.1 Distributable earnings	4 months ended 28 February 2017 R'000
Earnings (profit attributable to owners of the parent)	65 331
Adjusted for:	
Fair value adjustments to investment properties	(40 553)
Headline earnings	24 778
Adjusted for:	
Straight-lining of leases adjustment	2 647
Depreciation	4
Formation and listing cost	1 873
Equity-settled share-based payment reserve	3 939
Deferred tax realisation	(6 846)
Less: Profit not distributed	(5 970)
Antecedent dividend	2 562 *
Distributable profit	22 987

* In the determination of distributable earnings, the Group elects to make an adjustment for the antecedent dividend arising as a result of the share for cash issue during the period for which the Company did not have full access to the cash flow from such issue.

Number of shares in issue at period end	98 226 952
Less: Treasury shares	(464 591)
Number of shares participating in distribution	97 762 361

DISTRIBUTION DECLARED AND DISTRIBUTION PER SHARE

Total distributions for the period – 2017	Cents per share
Maiden distribution recommended by the Board and approved on 17 May 2017 (Distribution number 1)	23.51
Total distributions for the period ended 28 February 2017	23.51

No distributions were declared for any period preceding the period ending 28 February 2017 as this current 4-month period ending on 28 February 2017 is the first period of operations of the Group.

COMMENTARY

Commentary on Results

Listing Success

Spear successfully listed on the AltX of the JSE (JSE:SEA) on 11 November 2016 and is the only regionally specialised REIT in Southern Africa. Spear only invests in high-quality real estate in the Western Cape. Spear has a market capitalisation in excess of R1.0 billion and assets under ownership in excess of R1.446 billion. Spear shares started trading at R9.00 per share on the listing date and have continued to perform strongly, with the share price trading up to levels of R10.40 per share (up 15.5% from the listing date). Spear issued a trading statement on 21 April 2017 to further advise the market that its results for the four months ending 28 February 2017 will be more than 15% higher than the 20.14 cents per share forecast per the Spear Pre-Listing Statement issued on 21 October 2016.

Institutional Investors & Strong Market Support

Spear has attracted strong support from the institutional investor market as demand for Spear stock has grown from the listing date. Over the last four months, management has welcomed two new institutional investors that participated in the Spear shares for cash placement on 28 February 2017 and have identified Spear as a long-term investment opportunity. In order for Spear to access an even greater pool of institutional investors, management has resolved to move Spear's listing from the AltX to the Main Board of the JSE on 22 May 2017.

Company and Focused Strategy

Spear actively manages all properties internally, with all asset management, property management and financial management in house. Spear aims to build investor wealth through the careful selection, acquisition and management of secure income-producing properties and portfolios.

Spear obtains its diversification through investment across the Commercial, Retail, Industrial, Hospitality and Residential sectors. Spear's key focus areas are creating shareholder value, growing income for all stakeholders and continuously acquiring high-quality assets within the western Cape whilst maintaining a high-quality core portfolio with a high percentage of occupancy.

Following a strong four months to year end, growth in distributable earnings increased in the four months to 28 February 2017 as a result of:

- higher than budgeted hotel-related income
- the acquisition concluded during the course of the period being yield accretive
- lower than budgeted finance costs due to budgeted interest rates increases not being implemented by the SARB.

DISTRIBUTABLE EARNINGS

The Board approved and declared a maiden distribution of 23.51 cents per share on 11 May 2017. The distribution declared is an increase of 16.75% over the forecast distribution of 20.14 cents per share as per the PLS dated 21 October 2016.

	PLS	28-Feb-17	% Change
Distribution 1	20.14	23.51	16.75

NET ASSET VALUE

The tangible net asset value per share increased by 7.01% from the pro forma R9.37 per the PLS to R10.03 per share.

The increase is driven by an increase in the fair value of investment property by 3.79% and reducing debt levels by 8.36%.

BORROWINGS & FUNDING

On 11 November 2016, the listing date, the Group raised R250 million by placing 30.22 million shares on the market at an average price of R8.26 per share. The Group's target was to raise a maximum of R300 million and a minimum of R200 million at listing.

The Group raised an additional R119 million through a share for cash issue on 28 February 2017 by placing 12.8 million shares at a price of R9.30 per share.

The Group's gearing level at 28 February 2017 was 33.09% and the Group had fixed borrowings of 59% of total borrowings at an average fixed rate of 9.78% and Group average cost of funding of 9.65%.

	Amount
	R'000
Variable borrowings	193 958
Fixed borrowings	284 495
Total borrowings	478 453
Percentage fixed	59

TENANT PROFILE

	Gross lettable area (m ²)	Gross lettable area %	Number of tenants	Number of tenants %
A - Large nationals, large listed and government	104 844	60.77	49	18
B - Smaller international and national tenants	40 999	23.77	173	64
C - Other local tenants and sole proprietors	19 987	11.59	50	18
Parking and storage	5 089	2.95		
Vacant	1 584	0.92		
	172 503	100	272	100

LEASE EXPIRY PROFILE

Lease expiry profile based on gross lettable area	Industrial %	Commercial %	Retail %	Hospitality %	Residential %	Total %
Vacant	0	2	2	0	0	1
Monthly	0	0	3	0	0	1
Expiry in the year to 28 February 2018	17	13	19	0	4	15
Expiry in the year to 28 February 2019	47	27	15	0	1	29
Expiry in the year to 28 February 2020	7	14	10	0	0	9
Expiry in the year to 28 February 2021	26	25	26	0	0	23
Thereafter	3	19	25	100	95	22
	100	100	100	100	100	100

Lease expiry profile based on revenue	Industrial %	Commercial %	Retail %	Hospitality %	Residential %	Total %
Monthly	0	1	4	0	0	1
Expiry in the year to 28 February 2018	12	13	26	0	5	16
Expiry in the year to						

28 February 2019	42	29	12	0	2	22
Expiry in the year to						
28 February 2020	13	13	10	0	0	10
Expiry in the year to						
28 February 2021	28	28	28	0	0	25
Thereafter	5	16	20	100	93	26
	100	100	100	100	100	100

Weighted average escalations per sector

	Escalation
Industrial	7%
Office	8%
Retail	8%
Hospitality	Note 1
Residential	9%

Note 1: Lease with 3rd party operator is based on a fixed (60% of budgeted EBITDA) and variable (95% of actual EBITDA less fixed rental).

VACANCY PROFILE

	Gross lettable area (m ²)	Vacant area (m ²)	Vacancy %
Industrial	73 818	-	0.00
Commercial	40 559	861	2.12
Retail	38 320	723	1.89
Hospitality	11 339	-	0.00
Residential	8 467	-	0.00
	172 503	1 584	0.92

VACANCIES

The vacancy level decreased from 1.5% to 1.0% at period end.

PROSPECTS

The continued strong performance of the western Cape property sector and the regional specialisation of Spear insulates the Company to a degree from the current weak economic climate. The western Cape focus of the Company and management's proximity to assets will continue to stand the Company in good stead well into the future, given the continued and successful implementation of the Company strategy to only invest in high-quality assets in the western Cape along with its healthy pipeline of greenfield and brownfield development opportunities. The Board is confident that demand for quality rental properties across the various sectors within the western Cape will continue as the effects of semigration will create additional demand for rental properties. Along with strong property fundamentals, and in line with the PLS issued on 21 October 2016, management's distribution forecast for the year ending 28 February 2018 is 74 cents per share. In the light of recent acquisitions and other operational efficiencies created within the Company, management advises that distribution per share for the year ending 28 February 2018 is anticipated to be higher than the original forecast of 74 cents per share by 2-4%. The latter revision is premised upon the following assumptions:

- that a relatively stable macro-economic environment will prevail
- that lease renewals are concluded as per the Company forecast
- that no major tenant failures will take place
- that tenants will successfully absorb rising costs associated with utility consumption charges and municipal rates
- that all acquisitions successfully transfer to Spear as per the subsequent events disclosure.

The revised forecast is the sole responsibility of the directors and has not been reviewed by Spear's auditors.

SUBSEQUENT EVENTS

The directors are not aware of any events, other than those listed below, that have occurred since the end of the financial period, which have a material impact on the results and disclosures in the provisional summarised audited consolidated financial statements.

The Group took transfer of the following properties after year end:

	Transfer date	Acquisition value R'000
- Selective House, Tygervalley	14 Mar 17	13 200
- werksmans, Tygervalley	1 Mar 17	41 200

The Group entered into agreement to acquire the following properties:

	Expected transfer date R'000	Acquisition value R'000	Debt funding R'000	Equity funding	
- 2 Long Street, Cape Town	1 Jul 17	389 000	210 000	179 000	Note 1
- 15 on Orange, Cape Town	1 Jul 17	298 000	175 000	123 000	Note 2
- Mega Park, Bellville					

- Virgin Active George,	1 Jun 17	379 157	224 000	155 157	Note 3
George	1 Jul 17	22 000	12 000	10 000	Note 4
		1 088 157	621 000	467 157	

Note 1 Equity funding will consist of a capital raise by way of placing Spear shares on the general market after Competition Commission approval is received. Approval is expected to occur in May 2017.

Note 2 Equity funding will consist of a capital raise by way of placing Spear shares on the general market after Competition Commission approval. The Competition Commission approval was received on 25 April 2017.

Note 3 Equity funding will consist of a direct issue of Spear shares to the seller after Competition Commission approval is received. Approval is expected to occur in May 2017.

Note 4 The remaining R10 million of the Virgin Active George property will be settled in cash and has been included in the capital commitments note in the financial statements.

BASIS OF PREPARATION

The provisional summarised consolidated financial statements are prepared in accordance with the JSE Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34, Interim Financial Reporting. Except for the adoption of revised and new standards that became effective during the year, all accounting policies applied in the preparation of the provisional summarised consolidated financial statements are in terms of IFRS and are consistent with those applied in the pro forma consolidated financial statements as per the pre-listing statement. There was no material impact on the annual financial statements as a result of the adoption of these standards.

The auditors, Grant Thornton Cape Inc., have issued their opinion on the Group's provisional summarised consolidated financial statements for the period ended 28 February 2017. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. These provisional summarised consolidated financial statements have been derived from the Group financial statements and are consistent, in all material respects, with the Group financial statements. The directors take full responsibility for the preparation of the provisional summarised consolidated financial statements and for ensuring that the financial information has been correctly extracted from the underlying audited annual financial statements. This provisional report has been audited by Grant Thornton Cape Inc. and an unmodified audit opinion has been issued. The auditors' report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditors' engagement, they should obtain a copy of that report together with the accompanying financial information from Spear's registered address.

Christiaan Barnard (CA) SA, in his capacity as Financial Director, was responsible for the preparation of the provisional summarised consolidated financial statements.

MAIDEN DISTRIBUTION

Notice is hereby given of the approval and declaration of the maiden distribution of 23.51363 cents per share for the 4 months ended 28 February 2017, from income reserves. As Spear is a REIT, the distribution meets the definition of a 'qualifying distribution' for the purposes of section 25BB of the Income Tax Act, No. 58 of 1962 ("Income Tax Act"). Qualifying distributions received by South African tax residents will form part of their gross income in terms of section 10(1)(k)(i)(aa) of the Income Tax Act. Consequently, these distributions are treated as income in the hands of the shareholders and are not subject to dividends withholding tax. The exemption from dividends withholding tax is not applicable to non-resident shareholders, but they may qualify for relief under a tax treaty.

South African tax residents

The dividend received by or accrued to South African tax residents must be included in the gross income of such shareholders and will not be exempt from income tax (in terms of the exclusion to the general dividend exception, contained in paragraph (aa) of section 10(1)(k)(i) of the Income Tax Act) because it is a dividend distributed by a REIT. The dividend is exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident shareholders provide the following forms to the CSDP or broker

in respect of uncertificated shares, or to the Company in respect of certificated shares:

- a) A declaration that the dividend is exempt from dividend tax; and
- b) A written undertaking to inform the CSDP, broker or the Company, should the circumstances affecting the exemption change or the beneficial owner ceases to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service.

Shareholders are advised to contact their CSDP, broker or the Company to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Non-resident shareholders

Dividends received by non-resident shareholders will not be taxable as income and instead will be treated as an ordinary dividend which is exempt from income tax in terms of the general dividend exemption in section 10(1)(k)(i) of the Income Tax Act. It should be noted that up to 31 December 2013, dividends received by non-residents from a REIT were not subject to dividend withholding tax. Since 1 January 2014, any dividend received by a non-resident from a REIT will be subject to dividend withholding tax at 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder concerned. Assuming dividend withholding tax will be withheld at a rate of 20%, the net dividend amount due to non-resident shareholders is 18.81090 cents per share. A reduced dividend withholding rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following form to their CSDP or broker in respect of uncertificated shares, or the Company in respect of certificated shares:

- a) A declaration that the dividend is subject to a reduced rate as a result of the application of DTA; and
- b) A written undertaking to inform their CSDP, broker or the Company, should the circumstances affecting the reduced rate change or the beneficial owner ceases to be the beneficial owner, both in the form prescribed by the Commissioner for the South African Revenue Service.

Non-resident shareholders are advised to contact their CSDP, broker or the Company to arrange for the above-mentioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

The Company's tax reference number is: 9068437236.

Holders of uncertificated shares have to ensure that they have verified their residence status with their Central Securities Depository Participant ("CSDP") or broker. Holders of certificated shares will be asked to complete a declaration to the Company. The distribution is payable to shareholders in accordance with the timetable set out below.

	2017
Last day to trade cum dividend distribution	Tuesday, 06 June
Shares trade ex dividend distribution	Wednesday, 07 June
Record date	Friday, 09 June
Payment date	Monday, 12 June

Share certificates may not be dematerialised or rematerialised between Wednesday, 07 June 2017 and Friday, 09 June 2017, both days inclusive.

In respect of dematerialised shareholders, the distribution will be transferred to the CSDP account / broker accounts on Monday, 12 June 2017. Certificated shareholders' distribution payments will be paid to certificated shareholders' bank accounts on Monday, 12 June 2017.

On behalf of the Board
Abu Varachhia
Chairman

Cape Town
17 May 2017

Directorate and Administration
Directors of Spear
Abubaker Varachhia * (Chairman)
Michael Naftali Flax (Chief Executive Officer)
Quintin Michael Rossi (Managing Director)
Christiaan Barnard (Financial Director)
Brian Leon Goldberg *#
Jalaloodien Ebrahim Allie *# (Lead Independent Director)
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