

Independent Auditor's Report

to the shareholders of Spear REIT Limited

Report on the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Spear REIT Limited ("the group") set out on pages 31 to 85, which comprise the statements of financial position as at 28 February 2017, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 28 February 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors ("IRBA Code") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the

current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters relating to the consolidated and separate financial statements are set out on the next page.

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

The following key audit matters relate to the consolidated and separate financial statements:

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>Valuation of investment properties</p> <p>The group's investment property portfolio relates mainly to Cape Town properties, with a total valuation in the consolidated statement of financial position of R1 445 million. The fair value gain recorded for the current financial period amounts to R40.5 million.</p> <p>The investment properties are stated at their fair values based on the directors' valuations and external valuations as deemed appropriate. The valuation of the group's investment property portfolio is inherently subjective due to the estimates used in determining the property fair values, such as the capitalisation rates and the market-related net operating incomes. Among other factors, the individual nature of the property, its location and expected future rentals for that property, taking cognisance of the tenant occupying the property, also affect the valuation of the investment property.</p> <p>In determining a property's valuation, the directors and the external valuers take into account property-specific information such as the current tenancy agreements and rental income. They apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation.</p> <p>The valuation of investment properties was considered to be a matter of most significance to the current period audit due to the significance of the estimates and the level of judgement involved. The sensitivity of the investment property fair values to changes in the related inputs could potentially result in a material misstatement.</p> | <p>We read the valuation reports for the properties valued externally in the current period and confirmed the valuation approach was in accordance with IFRS and suitable for use in determining the carrying value for the purpose of the consolidated and separate financial statements.</p> <p>We assessed the valuers' qualifications and expertise and read their terms of engagement with the group to determine whether there were any matters that may have affected their objectivity or may have imposed scope limitations upon their work. We found no evidence to suggest that the objectivity of the valuers in their performance of the valuations was compromised.</p> <p>We tested the data inputs in the directors' valuation as well as the valuation prepared by the valuers. We focused on the data inputs underpinning the investment property valuation, including rental income and property-related operating expenditure, to assess the reliability and reasonability of the capitalised net operating income. Our audit procedures included assessing the reasonability of the capitalisation rates used by comparisons against the market-related rates for the particular property types in a similar location as per market benchmarks.</p> <p>We further reviewed the appropriateness of the disclosures in the consolidated and separate financial statements concerning the key assumptions to which the valuations are most sensitive, and the inter-relationship between the assumptions and the valuation amounts.</p> <p>Based on the procedures performed, we obtained evidence that the assumptions used in the valuations were supportable in light of available and comparable market evidence.</p> |

Independent Auditor's Report (continued)

to the shareholders of Spear REIT Limited

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.


As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also do the following:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit 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 group's and the company's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
 - Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficiently appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Grant Thornton Cape Inc. has been the auditor of Spear REIT Limited for two years.

The logo for Grant Thornton, featuring the company name in a stylized, handwritten-style font.

GRANT THORNTON CAPE INC.

Registered Auditors

Registration number: 2010/016204/21

B Jackson

Director

Registered Auditor

Chartered Accountant (SA)

17 May 2017

6th Floor, Grant Thornton House,
123 Hertzog Boulevard, Foreshore
Cape Town 8001