

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Spear REIT Limited

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the consolidated financial statements of Spear REIT Limited and its subsidiaries ("the group") set out on pages 56 to 87, which comprise the consolidated statement of financial position as at 28 February 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Spear REIT Limited and its subsidiaries as at 28 February 2022, and its consolidated financial performance and consolidated cash flows for the year 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 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 corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*. 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 financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of Investment Properties (Notes 6 and 29)</b></p> <p>The group's investment property portfolio relates largely to Cape Town based properties, with a total value in the consolidated statement of financial position of R4 billion.</p> <p>It is group policy that investment property is stated at their fair values with a minimum of one third of the portfolio being valued by an independent external valuation expert, whilst the remaining properties are valued by management.</p> <p>The valuation of the group's investment property portfolio is inherently subjective due to the estimates and judgements used in determining the property fair values, such as the capitalisation rates, discount rates, forecasted rental income and property expenses and the growth rates of these rental income and property expenses. Among other factors, the individual nature of the properties, their location taking cognisance of the tenant occupying the properties, also affects the valuation of the investment property. Management also applies assumptions for yields and estimated market rent to arrive at the final valuation.</p>	<p>The audit procedures we performed included, amongst others, the following:</p> <ul style="list-style-type: none"><li>• We assessed the design, and tested the implementation of key controls over the valuation process.</li><li>• We assessed management's external valuer's ("management's expert's") competence, capabilities and objectivity. The expert independence was confirmed through written representation made in the valuation report.</li><li>• We inspected the valuation reports for the properties valued by management's expert in the current year and confirmed that the valuation approach was in accordance with International Financial Reporting Standards and suitable for use in determining the fair value for the purpose of the consolidated financial statements.</li><li>• Similarly, we confirmed that the valuation approach used internally by management was appropriate for the determination of fair values in the consolidated financial statements. In addition, we have satisfied ourselves that the techniques used by management's expert and management have been applied consistently.</li><li>• We confirmed that the valuation approach used by the auditor expert on a sample of investment properties was appropriate for the determination of the fair values in accordance with International Financial Reporting Standards.</li><li>• We agreed all investment property fair values to the underlying reports.</li></ul>

Key audit matter	How our audit addressed the key audit matter
The valuation of investment properties was regarded as a matter of most significance in our audit of the group financial statements in the current year due to the significance of the balance, the significance of the estimates and the level of judgement involved.	<ul style="list-style-type: none"> <li>We tested the key assumptions used in the determination of the fair values of all properties in respect of both management's expert and auditor's expert valuations, as well as the valuation performed internally by management as follows:                             <ul style="list-style-type: none"> <li>The forecast revenue applied in the first year of the discounted cash flow ("DCF") was assessed for reasonability. This was performed by agreeing the forecast revenue per the property management system to the amounts used in the DCF model. The inputs within the property management system used to generate the revenue forecast were agreed to underlying contracts and compared to the current year revenue for reasonability.</li> <li>The projected property expenses applied in the first year of the DCF model were assessed for reasonability. Forecasted expenses were compared to the current year expenses.</li> <li>We assessed the reasonability of revenue and expense growth rates subsequent to the initial forecast year based on our knowledge of the property, the history of the property, and by comparing to available industry data for similar investment properties.</li> <li>We assessed the reasonability of the discount and capitalisation rates applied by comparing it to prior years and available industry data for similar investment properties.</li> </ul> </li> <li>We evaluated whether the adequacy of the disclosures in the financial statements relating to the valuation of investment properties was in accordance with International Financial Reporting Standards.</li> </ul>

**Other Information**

The directors are responsible for the other information. The other information comprises the information included in the document titled "Spear REIT Limited Integrated Report 28 February 2022" and in the document titled "Spear REIT Limited Separate Financial Statements for the year ended 28 February 2022", which includes the Directors' Report, the Audit and Risk Committee Report and the Declaration by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the consolidated or the separate financial statements and our auditor's reports thereon.

Our opinion on the consolidated 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 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 financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Financial Statements**

The directors are responsible for the preparation and fair presentation of the consolidated 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group'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 or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 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 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 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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated 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 BDO South Africa Incorporated has been the auditor of Spear REIT Limited for seven years.



**BDO South Africa Incorporated**  
Registered Auditors

**Bernard van der Walt**  
Director  
Registered Auditor

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27 May 2022



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