



The Board of Directors S5.8(b)

Exemplar REITail Limited
Sokatumi Estate
Corner Lyttelton Road and Leyden Avenue
Clubview
Centurion
0014

2 February 2021 S5.8(c)

Dear Sirs

INDEPENDENT FAIRNESS OPINION IN RESPECT OF THE SMALL RELATED PARTY TRANSACTION RELATING TO THE ACQUISITION OF A 50.10% SHARE IN MALL OF THEMBSA PROPRIETARY LIMITED FROM MCCORMICK PROPERTY DEVELOPMENT PROPRIETARY LIMITED (“THE PROPOSED TRANSACTION”) S5.8(a)

INTRODUCTION AND SCOPE S5.8(d)(f)

In the announcement published by Exemplar REITail Limited (“Exemplar”) on 30 October 2020, Exemplar Shareholders were advised that Exemplar and McCormick Property Development Proprietary Limited (“McCormick Property Development”) had entered into an agreement, subject to certain conditions precedent, in terms of which Exemplar will acquire 50.10% of the shares in Mall of Thembisa from McCormick Property Development in addition to McCormick Property Development’s claims on loan account against Mall of Thembisa Proprietary Limited (“Mall of Thembisa”) in excess of R632,592,052 (“the excess claims on loan account”). The total purchase consideration payable for the acquisition of 50.10% of the shares in Mall of Thembisa and the excess claims on loan account is R78,584,805. R27,525,076 of the total purchase consideration payable is for the acquisition of 50.10% of the shares in Mall of Thembisa and R51,059,729 is payable for the excess claims on loan account (collectively, the “Sale Shares and Claims”).

The acquisition of the Sale Shares and Claims from McCormick Property Development will be settled through the issue of 7 262 921 new ordinary Exemplar shares (“Consideration Shares”) to McCormick Property Development at an issue price of R10.82 per Exemplar share.

The Seller, McCormick Property Development, is considered a related party of the Acquirer, Exemplar, in terms of section 10.1(b)(i) of the Listings Requirements of the JSE Limited (“JSE”) (“Listings Requirements”) as it is a material Shareholder of Exemplar.

The Proposed Transaction is a small related party transaction in terms of section 10.7 of the Listings Requirements and therefore requires a fairness opinion by an independent expert. S5.8(e) The Proposed Transaction is considered a small related party transaction as the total purchase consideration payable by Exemplar divided by the aggregate market value of all the listed equity securities of Exemplar represents 2.52% of Exemplar’s market capitalisation as at the the date of the Proposed Transaction. In addition, the Proposed Transaction is considered a small related party transaction as the number of listed equity securities to be issued as consideration for the proposed acquisition of the Sale Shares and Claims compared to those in issue, excluding treasury securities, prior to the transaction is equal to 2.23% of the number of shares in issue.

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Section 9.6 of the Listings Requirements requires a fairness opinion by an independent expert if the abovementioned ratios are less than 5% but greater than 0.25% of the market value of all its listed securities or the number of shares in issue, whichever is appropriate.

As a consequence of the aforementioned, we, PKF Octagon Incorporated (“PKF Octagon”), have been appointed by the Board of Directors (“Board”) of Exemplar to advise whether, in our Opinion, the Proposed Transaction, is fair in line with the Listings Requirements (our “Opinion”).

DEFINITION OF THE TERM 'FAIR' S5.8(f) (g)

For the purposes of our Opinion, fairness is primarily based on a quantitative assessment. The term 'fairness' is defined in Schedule 5 of the Listings Requirements as being primarily based on quantitative issues. Therefore, the Proposed Transaction would be considered fair to the Exemplar Shareholders if the fair value of the Sale Shares and Claims is equal to or greater than the fair value of the Consideration Shares, as determined in accordance with an accepted valuation approach, or unfair if the opposite would hold true.

RESPONSIBILITY

Compliance with the Companies Act, the Companies Regulations 2011 and the Listings Requirements in relation to the implementation of the Proposed Transaction is the responsibility of the Board of Exemplar. Our responsibility is to provide the requisite report to the Board on the fairness of the Proposed Transaction.

We confirm that our Opinion has been provided to the Board for the sole purpose of assisting the Board in forming and expressing an opinion for the benefit of the Exemplar Shareholders. We accept no responsibility to any party other than to the Exemplar Board.

INFORMATION AND SOURCES OF INFORMATION S5.8(f)(h)

In the course of our analysis, we relied upon financial and other information, obtained from Exemplar executive Management (“Exemplar Management”) together with industry related and other information available in the public domain. Our conclusion is dependent on such information being accurate in all material respects and accordingly we cannot express any opinion on the financial and other information in arriving at our Opinion.. The principle sources of information used in formulating our Opinion regarding the Proposed Transaction include:

- The Exchange Agreement between McCormick Property Development and Exemplar in respect of Mall of Thembisa;
- The summarised audited consolidated financial statements of Exemplar for the year ended 29 February 2020. The property values included in these financial statements are based on and agree to valuations prepared by Quadrant, the Independent Property Valuers, for Exemplar’s properties as at 29 February 2020;
- The condensed unaudited consolidated interim financial statements of Exemplar for the 6 months ended 31 August 2020;
- The Mall of Thembisa property valuation prepared by Quadrant, the Independent Property Valuers, as at 31 October 2020;
- Management Accounts (statement of financial position as at 31 October 2020) and budgeted information of Mall of Thembisa for the period December 2020 to November 2021, as the Mall of Thembisa only opened during December 2020;
- The normalised forecast financial information of Exemplar for the 12 months ending 28 February 2021;
- The forecast financial information of Mall of Thembisa for the 72 months from November 2020 to October 2026;
- Discussions with Exemplar Management on prevailing market, economic, legal and other conditions which may affect underlying value; and

- Publicly available information relating to Exemplar together with other competitors in the industry that we deemed to be relevant, including company announcements.

Where practical and where possible, we have corroborated the reasonability of the information provided to us for the purpose of forming our Opinion, including publicly available information, whether in writing or obtained in discussions with Exemplar Management, as applicable and appropriate.

LIMITING CONDITIONS AND RELATED PARTY RELATIONSHIPS S5.8(f)(l)

This Opinion is provided to the Board in connection with and for the purpose of the Proposed Transaction. This Opinion is prepared solely for the Board for their consideration of the Proposed Transaction in accordance with the Listings Requirements and should therefore not be regarded as suitable for use by any other party or give rise to third party rights. This Opinion does not purport to cater for each individual Shareholder's perspective or circumstances, but rather that of the general body of Shareholders.

We have relied upon and assumed the accuracy of information provided to us or otherwise reviewed by us, for the purposes of this Opinion, whether in writing or obtained through discussions with Exemplar Management. Our procedures and enquiries did not constitute an audit in terms of International Standards on Auditing. Accordingly, we cannot express any opinion on the financial data or other information used in arriving at our Opinion.

The forecast financial information of Exemplar and Mall of Thembisa relate to future events and are based on assumptions that may or may not remain valid for the forecast period. Consequently, such information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely the actual future results of Exemplar and Mall of Thembisa will correspond to those projected. Where practical, we compared the forecast financial information to past trends as well as discussing the assumptions with Exemplar Management, as applicable. On the basis of these enquiries and such other procedures we consider appropriate to the circumstances, we believe that the forecast financial information has been prepared with due care and consideration and that it is reasonable for the purposes of the independent valuations performed by us.

We have also assumed that the Proposed Transaction will have the legal, accounting and taxation consequences described in discussions with, and material furnished to us by, Exemplar Management and we express no opinion on such consequences.

There were no limiting conditions, or any restrictions of scope imposed by the client whilst this Opinion was being prepared.

Our Opinion is based on the known current economic, regulatory, market as well as other conditions. Subsequent developments may affect this Opinion, which we are under no obligation to update, review or re-affirm.

INDEPENDENCE, COMPETENCE AND FEES

We confirm that there is no relationship between PKF Octagon and any of the parties involved in the Proposed Transaction. PKF Octagon has no shares in Exemplar or any other party involved in the Proposed Transaction. We confirm that we have the necessary competence to provide this Opinion. We confirm that PKF Octagon's fee in respect of this Opinion is not payable in Exemplar shares and is not contingent or related to the outcome of the Proposed Transaction. S5.8(m) The fee payable to us for compiling this Opinion is R50,000.

PROCEDURES PERFORMED S5.8(k)

In arriving at our Opinion, amongst other things, we have undertaken the following procedures in evaluating the fairness of the Proposed Transaction:

- Reviewed and considered the terms and conditions of the Proposed Transaction;
- Considered information made available by and obtained from discussions held with the Exemplar Management;
- Considered the rationale for the Proposed Transaction;
- Considered the unpublished pro forma financial effects of the Proposed Transaction as well as the effect that the Proposed Transaction will have on Exemplar's loan-to-value ratio and loan covenants;
- Reviewed the summarised audited consolidated financial statements of Exemplar for the year ended 29 February 2020;
- Reviewed condensed unaudited consolidated interim financial statements of Exemplar for the 6 months ended 31 August 2020;
- Reviewed and assessed The Mall of Thembisa property valuation prepared prepared by Quadrant Properties Proprietary Limited ("Quadrant"), an independent property valuer (the "Independent Property Valuers") as at 31 October 2020;
- Reviewed publicly available information relating to Exemplar including company announcements;
- Performed a valuation of the shares in Exemplar utilising the capitalisation of earnings methodology as at 31 October 2020;
- Performed a valuation of the shares in Mall of Thembisa utilising the discounted cash flow ("DCF") methodology as at 31 October 2020;
- The date of the valuations of the shares in Exemplar and Mall of Thembisa correspond with the date that the announcement was published by Exemplar where Exemplar Shareholders were advised that Exemplar and McCormick Property Development had entered into the Proposed Transaction, subject to certain conditions precedent. Adjusting the date of the valuations to a more recent date (e.g. 31 January 2021) will have a negligible effect on the valuations of the shares in Exemplar and Mall of Thembisa using the capitalisation of earnings methodology and the DCF methodology respectively.
- Performed valuations of the shares in Exemplar and Mall of Thembisa utilising the Net Asset Value ("NAV") methodology as at 31 August 2020 and 31 October 2020, respectively;
- Inspecting whether the property values included in the swap ratio calculations of Exemplar shares for Mall of Thembisa shares agreed to the valuations performed by the Independent Property Valuers for the property owned by Mall of Thembisa;
- Recalculated the swap ratio of Exemplar shares for Mall of Thembisa shares based on the capitalisation of earnings methodology for Exemplar and the DCF methodology for Mall of Thembisa;
- Recalculated the swap ratio of Exemplar shares for Mall of Thembisa shares based on the NAV methodology; and corresponds with the date on which the announcement relating to the Proposed Transaction,
- Reviewed general economic, market and related conditions in which Exemplar and Mall of Thembisa operate.

We arrived at our opinion, inter alia, based on the following assumptions:

- That reliance can be placed on the publicly available information of Exemplar as listed below:
 - The summarised audited consolidated financial statements of Exemplar for the year ended 29 February 2020; and
 - The condensed unaudited consolidated interim financial statements of Exemplar for the 6 months ended 31 August 2020.
- That reliance can be placed on the Mall of Thembisa property valuation prepared by Quadrant, the Independent Property Valuers, as at 31 October 2020.

We satisfied ourselves as to the appropriateness and reasonableness of the information and assumptions underlying forecasts used to formulate our Opinion by: S5.8(j)

- Conducting analytical reviews on the financial statements, management accounts, budgeted and forecast financial information and considered the historical trends of such information and assumptions;

- Assessing the credentials, independence and qualifications of Quadrant, the Independent Property Valuers;
- Reviewed and performed an assessment of The Mall of Thembisa property valuation prepared by the appropriately qualified Independent Property Valuers comparing capitalisation rates to industry data bases and considering the reasonability of lease renewal assumptions to the same date bases and considered the valuation against information provided by Exemplar Management; the Mall of Thembisa Management accounts (statement of financial position as at 31 October 2020) and budgeted information for the period December 2020 to November 2021;
- We checked the Mall of Thembisa property valuation prepared by the Independent Property Valuers for mathematical accuracy by reperforming the calculations made in the property valuation; and
- Assessing whether replies from Exemplar Management on certain issues were corroborated by third parties and documentary evidence.

We believe the above procedures commercially justify the conclusion outlined below.

CONFIRMATION OF PERFORMANCE OF VALUATION AND VALUATION METHODOLOGIES TO DETERMINE FAIR VALUE S5.8(n)

The following methodologies were used by PKF Octagon to determine a range of fair value estimates:

- Determining the fair value of the Consideration Shares and the Sale Shares and Claims using the NAV methodology where net asset value was determined with reference to the most recent unaudited interim financial statements of Exemplar, dated 31 August 2020 and the Mall of Thembisa Management Accounts, dated 31 October 2020. Investment properties are recognised on the statement of financial position at market value, which market value is determined by the Independent Property Valuers. According to the valuation reports prepared by the Independent Property Valuers, the valuation of each property is based on market value, where market value means “the estimated amount for which a property should exchange at the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

The Mall of Thembisa’s Shares are not publicly traded and the mall only opened during December 2020. Exemplar Shares are currently trading at a significant discount to its underlying attributable net asset values, in line with most of its listed peers with a South African investment focus. Certain entities are trading at discounts greater than others, for a variety of reasons relating to, inter alia, size, liquidity, sectoral spread or sectoral focus, exposure to financial risk, quality of portfolio and perceived sustainability of distribution growth, particularly the latter. Nonetheless the values of the Consideration Shares and the Sale Shares and Claims is underpinned by:

- The market values of the properties under Exemplar and Mall of Thembisa’s control (as determined by the Independent Property Valuers); plus
 - Their net investment in working capital, where the recorded value is assumed to represent fair value; less
 - Their long-term debt funding arrangements,
 on the assumption that Exemplar and Mall of Thembisa are going concerns.
- The capitalisation of earnings methodology, using the normalised forecast distributable income of Exemplar for the 12 months to 28 February 2021 as a proxy for sustainable distributable income and applying a capitalisation rate with reference to the forward yields of selected peer companies listed on the JSE, and making adjustments for perceived differences in sustainability and growth of Exemplar’s distributable income.

- Given that Exemplar distributes the vast majority of its distributable income to its shareholders, and indeed will be required to distribute at least 75% thereof in order to be classified as a REIT, this valuation methodology is considered appropriate.
- The DCF methodology, using the forecast distributable income of Mall of Thembisa for the 72 months from November 2020 to October 2026 and applying a discount rate with reference to the forward yields of selected peer companies listed on the JSE, and making adjustments for perceived differences in sustainability and growth of Mall of Thembisa's distributable income (i.e. locality, building nature and current tenant profile).

The capitalisation of earnings methodology has been used as our primary valuation methodology to determine the fair value of the Consideration Shares and the DCF methodology has been used as our primary valuation methodology to determine the fair value of the Sale Shares and Claims, with our review of the NAV of the Consideration Shares and the Sale Shares and Claims providing corroboratory evidence of fairness.

Key value drivers identified were, inter alia, inflation rates, insofar as fixed expenses are concerned and interest rates (both "external value drivers"), contracted income and escalations as embodied in existing lease agreements, vacancy assumptions and lease renewal assumptions (all "internal value drivers").

The largest non-property related expense contained in the forecasts of both Exemplar and Mall of Thembisa is interest. It should be noted that, whilst fluctuating interest rates may impact value, Exemplar manages their exposure to fluctuating interest rates through hedging activities. Interest has been forecast according to these hedging arrangements and, accordingly, no sensitivity analysis has been performed as interest has been included in the forecasts as per existing contractual arrangements.

With regards to inflation rates, the assumptions used in the forecasts of both companies were corroborated with analysts' views as well as publicly available economic forecasts to assess reasonableness.

The forecast financial information for both Exemplar and Mall of Thembisa has been prepared on a property-by-property basis, commencing with contracted rentals and escalations, where different assumptions are made for each individual property in relation to current and expected vacancies arising from the termination of the leases, lease renewals, cost recoveries, etc.

We performed a sensitivity analysis on key assumptions included in the capitalisation of earnings valuation of Exemplar specifically relating to total revenue, total expenses and the capitalisation rate. The sensitivity analysis did not indicate a sufficient effect on the valuation of Exemplar to alter our opinion in respect of the fairness of the Proposed Transaction as the movement up and down was less than 2.5%.

We performed a sensitivity analysis on key assumptions included in the DCF valuation of Mall of Thembisa specifically relating to total revenue, total expenses, discount and terminal growth rates. The sensitivity analysis did not indicate a sufficient effect on the valuation of Mall of Thembisa to alter our opinion in respect of the fairness of the Proposed Transaction as the movement up and down was less than 2.5%.

OPINION S5.8(q)

Based on the outcome of the valuation work performed in the manner described above, and subject to the conditions set out herein, PKF Octagon is of the Opinion that, the Proposed Transaction is fair to the Exemplar Shareholders as the fair value of the Sale Shares and Claims applying the DCF valuation methodology is greater than the fair value of the Consideration Shares when applying the capitalisation of earnings methodology. Accordingly, we are of the view that the terms of the Proposed Transaction are fair.

Our Opinion is necessarily based upon the market, regulatory and trading conditions as they currently exist and can only be evaluated at the date of this letter. It should be understood that subsequent developments may affect our Opinion, which we are under no obligation to update, revise or re-affirm.

CONSENT

We hereby consent to the inclusion of this letter and references thereto, in the form and context in which they appear in any required regulatory announcement or document.

Yours faithfully, S5.8(r)



Per: Matthew Visser
Chartered Accountant (SA)
Registered Auditor

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