VALUATION POLICY

Purpose

The purpose of this document is to outline Aspen Group's policy on the valuation of property assets. For the purposes of this policy, 'property' includes items classified in accordance with accounting standards as either:

- investment property;
- property plant and equipment; or
- goodwill pertaining to leasehold or freehold property assets.

The policy is to ensure that a consistent framework and methodology is applied to property valuations, and to ensure that assets are held at fair value in the accounts and that fair value is reliably and consistently calculated in compliance with applicable regulations.

Application

This policy applies to all properties owned by:

- Aspen Group and its subsidiaries;
- Aspen Property Trust and its subsidiaries;
- Managed funds for which Aspen Funds Management Limited acts as the responsible entity; and
- Entities for which Aspen Group acts as the manager except the Mill Hill Capital Affordable Accommodation & Land Fund and the Mill Hill Capital Marina Hindmarsh Island Fund.

For the purposes of this policy, unless otherwise stated, these entities are collectively or individually referred to as 'Aspen.'

Policy

Under this policy, property assets may be subject to an (i) independent valuation or (ii) directors' valuation.

1. Independent valuation

1.1 Frequency of independent valuation

i) All properties shall have an independent valuation prior to acquisition by Aspen;

ii) All properties are to be valued on an open market basis at least every three years;

iii) The rotation of properties for independent valuation will be determined, with the general objective that at least one third of properties (by percentage of the market value of the portfolio, not by number of properties) held by an entity being independently valued annually;

iv) In some situations, finance facilities may require more regular independent valuations. In a case where the financier requests such a valuation of an asset, this valuation may also be used to update the carrying value of an asset, subject to directors' approval of the valuation;

v) Independent valuations may be completed more frequently than every three years, if internal modelling identifies that there may have been a material movement in asset value from the last independent valuation.

vi) Details of the frequency, and method, of internally modelling is outlined in Section 1.2. As a general rule, if internal modelling suggests there may be a movement of:

   a. between 5-10%, the Audit, Risk and Compliance Committee is advised, and instructions are sought as to whether an independent valuation should be obtained.

   b. greater than 10%, an independent valuation is automatically carried out.

1.2 Internal modelling

i) On at least a half yearly basis, management will assess all properties to determine if there is a basis to suspect significant or material movement in property values, having regard for those factors which determine such values. These factors include (but are not limited to):

   - demand trends and change in customer profile;
   - economic and market conditions;
   - market and sector outlook;
   - change in revenue;
   - change in operating costs and cost structure;
   - existing and forecast occupancy levels;
   - development activities and other capital expenditure that has occurred since the last valuation assessment was conducted; and

- tenure (including material changes in leasehold term if applicable).

In performing the assessment, management will utilise the most recent management accounts and comparative performance data to analyse current and forecast earnings against budget / forecast and prior year earnings.

1.3 Selection of independent valuer

i) Independent valuations completed prior to acquisition by Aspen are not to be conducted by the incumbent valuer of the vendor.

ii) No independent valuation firm (except in exceptional circumstances where there are logistical, technical or geographical grounds to do so) should be engaged to perform valuations more than three times in succession or for a continuous period of 6 years on the same property;

iii) Aspen's finance facility providers will generally have a panel of approved valuers. Under this policy, for the purposes of consistency and efficiency, valuers from the financier's approved panel will be engaged for independent valuations.

iv) In exceptional circumstances where there are logistical, technical or geographic impediments to engagement of a valuer from the financier's approved panel, an alternative valuer may be engaged. When considering which valuer on the financier's panel to use, consideration will be given to:

    a. Their expertise in the property sector of the asset (e.g. motel, accommodation park);

    b. Their understanding of the local market as compared to other valuation firms (e.g. Mid North Coast specialty or location, versus a South Coast valuation firm); and

    c. Their availability to complete the valuation within Aspen's required timeframe (as applicable).

1.4 Engagement of independent valuer

i) All valuation instructions shall be issued in writing, authorised by Aspen's CEO or CFO.

ii) If the valuation is to be completed as part of a finance facility covenant, the valuation instructions shall be issued in writing jointly by Aspen's CEO or CFO.

iii) Valuation instructions should be materially consistent with Aspen standard engagement letter, a copy of which is included as Appendix A.

iv) If the valuation is to be completed as part of a finance facility covenant, the financier's most relevant standard instructions for the asset type shall also be issued in writing.

1.5 Review of independent valuation

i) Aspen's CFO and Portfolio Manager shall review the independent valuer's assumptions and the accuracy of factual data used in valuations, and seek CEO input if required.

ii) Where the factual data is incorrect, this is communicated in writing to the valuer so that changes can be made prior to accepting the valuation.

iii) If the assumptions made by the valuer are subjective, the valuer is required to substantiate their assumptions based on market research and also the interpretation of comparable market evidence. This shall be outlined within the valuation instructions.

2. Directors' valuations

2.1 Frequency of directors' valuations

The carrying values of all properties shall be reviewed at least every 6 months by the Board, in line with the statutory reporting periods of 30 June and 31 December;

2.2 Process of preparing directors' valuations

Directors' valuations are based on an assessment of the fair value[1] of the asset. When assessing fair value, the directors will consider input and recommendations from management which will include property cashflow projection valuation models, with appropriate factors such as:

- discounted cash flow of the property;
- capitalisation of net profit;
- the highest and best use of the property; and
- sales of similar properties.

- When presenting a recommendation to the Board for a directors' valuation, the management paper should include not only the valuation measurement approach, but also details of variances between the directors' valuation (including variances between assumptions in the property cash flow valuation models) to the last independent valuation, as well as variances to the current carrying value and last directors' valuation. Comparatives which may include Aspen prior-year NOI, forecast NOI and valuation NOI (including adjustments relating to Aspen's ownership making up the differences) will be prepared for each property.

3. Other property assets

There may exist other property assets classified in accordance with accounting standards as either:

- assets held for sale; or
- subsidiary assets held for sale.

These are held at a directors' valuation being fair value less costs to sell.

The determination of fair value is performed by the Aspen CFO and referred to the Audit Committee for approval in line with the statutory reporting periods of 30 June and 31 December.

Independent valuations are obtained for these properties as and when required.

4. Record maintenance

Valuations of all assets are recorded on a valuation schedule. Valuation reviews are recorded and maintained by the Finance team.

5. Conflicts of Interest

i) Any conflicts of interest must be referred to the Company Secretary / Compliance Manager. Such conflicts include the valuer owning similar properties, being the incumbent valuer to a vendor, or having a special relationship with Aspen staff.

ii) The resolution of such conflicts will generally require the appointment of an alternative valuer.

6. Consequences of non-compliance

Breaches of this policy may impact on correct preparation and presentation of financial statements, including the accuracy of Net Asset Value (NAV). Further impacts may include changes to management's decisions on capital allocation, a qualified audit report, or financial loss, and may result in disciplinary action being taken.

Reviewed by the Audit, Risk, and Compliance Committee: **12 August 2020**

Adopted by:

The Aspen Group Limited Board: **23 October 2020**

[1] Fair value is based on the price at which a property might reasonably be expected to be sold at the date of valuation assuming:

- A willing, but not anxious, buyer and seller on an arm's length basis;
- A reasonable period in which to negotiate the sale, having regard to the nature and situation of the property and the state of the market for property of the same kind;
- That the property will be reasonably exposed to that market; and
- That no account is taken of the value or other advantage or benefit to the buyer, additional to market value, that is incidental to ownership of the property being valued.

Appendix A

Aspen Group Ltd

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w aspengroup.com.au

[Date]

[Contact Name]
Acting on behalf of
[Valuation Firm]
[Address line 1]
[Address line 2]

Private & Confidential

VALUATION INSTRUCTION LETTER

We require a formal valuation of the current market value, for mortgage security and book value purposes, on the following basis:
As at [insert Statutory date required], a full valuation of:

- Asset Name

The valuation must be prepared strictly in accordance with the valuation instructions outlined below as well as the Westpac Bank Corporation Limited standard valuation requirements. Failure to address any condition of this instruction will result in the valuation being returned for rectification.
We will require a draft valuation number and draft report by [inset date] with the final valuation report to be provided no later than [inset date].
You must make your own investigation into the property and be satisfied that all information furnished and utilised in the assessment is verified to your satisfaction.
The valuation must be undertaken by a valuation professional with a minimum 6 years experience in the assessment of property of this magnitude and nature, co-signed by:

i) a Director (or equivalent) in the event that same did not undertake the valuation;
ii) any other person required to satisfy professional indemnity insurance requirements.

All signatories must have undertaken a full inspection (both interior and exterior) of the premises. If this is not possible, please contact advise.
We also require you to provide Insurance Certification reporting Reinstatement & Indemnity Values.
The following are the minimum valuation requirements; however, these should not be interpreted as limiting the extent of the report. It is expected that you will comment upon all items that you deem material given the purpose for which the valuation has been instructed.

INTEREST TO BE VALUED

The Current Market Value of the property on the basis of:

i) Freehold 'Going Concern' of the Operating Business;
ii) Contingent Claims Available (underutilised land, inventory, approvals, recent major capital improvements not full reflected in 'going concern' valuation etc);
iii) Land only as highest and best use as a Development Site;
iv) Buildings & Improvements;

PURPOSE OF VALUATION

To establish the Current Market Value (CMV) in accordance with the API definition of CMV as detailed below:

> "Market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buy and a willing seller in an arms length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion."

The valuation is to be relied upon by Westpac Banking Corporation Limited (and other finance institutions from time to time) for mortgage security purposes and may be adopted to contribute to the Book Value of Aspen Group Limited (ASX: APZ).

We also seek to have your advice on the apportionment of the Freehold 'Going Concern' value between

EXECUTIVE SUMMARY

We require an Executive Summary that should include the following;

A statement that includes:

i) A declaration that you were willing and able to undertake the valuation in accordance with the valuation policies and standards of Aspen Group Limited and Westpac Banking Corporation (or other), unencumbered by past experience with the property, or its owners, that would exclude you from participation in this unbiased valuation of the premises;

ii) All investigations have been conducted independently and without influence from a third-part in any way;

iii) The ownership structure has been fully analysed;

iv) The information sources utilised;

v) A comment/acknowledgement of instruction noting:
   - The valuation has been prepared for Aspen Living Villages…….
   - The valuation report meets the Practise Standards of the Australian Property Institute, the standards of Westpac Banking Corporation and instructions issued by Aspen Group Limited.

vi) A summary of the following details in table format;
   - Owner
   - Tenure and Interest being valued
   - Zoning and confirmation of compliance;
   - Summary of Local Authorities;
   - Total number of units of inventory in operation (income generating) and confirmation of compliance/reconciled with the relevant approvals broken down as follows:
     - Long-Stay (also known as "Permanents");
     - Short-Stay Annuals;
     - Short-Term Cabins/Rooms (by type / booking system classification / PAX);
     - Short-Stay Sites (by type / booking system classification / PAX);
     - Other;
   - Outline of the major ancillary serviced provided by the premises;
   - Current market value (as a single number not a range);
   - Current Earnings before Interest, Taxation, Depreciation and Amortisation (EBTIDA) with reasoning for line-item adjustments;
   - Following 12-months forecast EBITDA;
   - Immediate past 12-months EBITDA (or last 12-months audited accounts);
   - Forecast compounding EBITDA growth over ensuing five-year period;
   - Capitalisation rate, discount rate and terminal yield utilised;
   - Major ownership issues confronting the premises e.g. significant CAPEX required, design and/or obsolescence factors, new competition entering the market, irrational pricing or other behaviour from existing competitors, reputation of the premises etc.

vii) Brief summation of the premises including perceived market demand for premises (from an investment and Operator's perspective).

TITLE PARTICULARS

i) All Titles (or ground leases) relevant to the property must be full searched;
ii) Tenure;
iii) Name of the last Registered Proprietor(s);
iv) Specify Title Particulars including any easements, encumbrances, caveats, restrictive covenants etc.
v) Commentary on adverse impact on value from the above (if any).

Note a disclaimer advising that the "Title has not been fully searched and the valuation is on the basis that the property is free of any encumbrances", is not sufficient. In the event that the relevant document is not available, please contact us.

TOWN PLANNING ISSUES

Indicate the current zoning of the site and list the name of the Responsible Authority and/or Planning Instrument application. Indicate the date of gazettal.

Provide commentary on the following:

i) Zoning and confirmation of compliance of current usage. In the event that the premises is a non-complying use, advice on the area of non-compliance and the impact on the market if the premises is not covered under existing use rights;
ii) Permitted uses under the zoning;
iii) Significant development controls within zone e.g. floor ratio, height controls, road widening designations, flood affectation etc;
iv) On whether a change of zoning is anticipated, and if so, what the likely affect of such re-zoning will be;

Provide details of any recent Development or Planning applications and Approvals/Permits, Building Application and Approvals/Permits, applicable to the property.

ENVIRONMENTAL ISSUES

In the even that a full environmental assessment of the site is not available, please provide commentary on the following;

i) Is the property listed on the Local (or relevant) Authority's contaminated site register? In the even that such a list does not exist, please confirm this in writing.
ii) Ascertain past use of the site and the likelihood of contamination from those uses.
iii) In the event that the site suffers from any contamination please discuss the impact on the pro

LOCATION AND SITE DESCRIPTION

Address the following points:

i) Locality and respective location of the property
ii) Estimate of population within region and location relative to major town centres/cities.
iii) Surrounding development
iv) Suitability of location for use
v) Location attributes relative to the premises defined competitive set
vi) Availability of public transport.
vii) Number of car parks and comment on adequacy of provision.
viii) Ease of car accessibility and road frontage.
ix) Describe any site problems that may impact future business operations and value e.g. regular minor/major flooding events, mine subsidence, earthquake fault-line, regular bushfire threat, cyclones etc.

HISTORICAL OR HERITAGE LISTING

Indicate the nature of any heritage listing or status of the improvements/buildings on the property.

DESCRIPTION OF IMPROVEMENTS

i) Summary of units of inventory by classification / type / offering / PAX;
ii) Construction including internal finishes;
iii) The improvements considered in the context of their specialist use, with the following being examples of relevant factors;
    a. Location , size and functionality of kitchen(s) (if applicable)
    b. Appropriateness of food and beverage outlets;
    c. Size, location and appearance of entrance lobby and front desk;
    d. Layout and capacity of meeting rooms and other function space;
    e. Back of house, laundry, maintenance shed and storage facilities.
iv) Perceived state of repair, including commentary on immediate maintenance requirements.
v) Quality of mechanical requitement provided and the suitability and adequacy for continued long term use;
vi) Capital expenditure items outstanding or required in the near future;
vii) Comment on functionality of premises, the residual economic life of the property and its asset (equipment, unit of inventory, common facilities, etc) and the ability to meet changing demands e.g. room layout and size, car parking access etc.
viii) Generic SWOT analysis of the premises and associated business.

MARKET/COMPEITITOR INFORMATION

The Report should include but not be limited to the following:

i) Historic Average Daily Rate (ADR), occupancy, RevPAR and yield performance achieved in the broader market for that type and quality of property with commentary provided explaining major fluctuations in market conditions;
ii) Definition of the premise's competitive set and ADR, occupancy, RevPAR and yield performance achieved same where available;
iii) Expectations and impact of future supply (including serviced apartments);
iv) Identification of market demand (i.e. market segmentation) and the outlook for each segment.
v) The conclusions from the above will for the basis of the ADR and occupancy projections of a fair market share assessment;

BUSINESS OPERATING PERFORMANCE

i) Accounts should be re-organised, normalised for non-recurring items and adjusted for items not included the presented in the standard AGL P&L to be provided and returned in Excel (note the adjustments should consider any/all costs associated with running normal course of operations, including fixed and variable costs, despite the company structure or the distribution of costs to other associated entities e.g. costs being distributed to a trust etc);
ii) Accounts should be analysed and commentary is to be provided to explain movement in key line items to understand what is driving results or underperformance and opportunity for growth or risk of cost increases;
iii) Key financial ratios should then be provided and compared against benchmarks (historic, target and peers /competitors) – key ratios include but are not limited to:
    a. EBITDA / Gross Revenue (ex GST)
    b. Total Expenses / Gross Revenue (ex GST)
    c. Employee Expenses / Gross Revenue (ex GST)
    d. Fixed Costs / Gross Revenue (ex GST)
    e. Variable Costs / Gross Revenue (ex GST)
iv) State whether the figures that have been relied upon have been audited. Make a specific notation where relying upon information provided without being able to verify it, and clearly state any consequent limitations to the advice as a result.

The Valuer should:

i) Provide a summary of detailed figures for the business, showing trading performance for the last 3 years in departmentalised basis, together with the year-to-date trading figures against year-to-date budget. Appropriate periodic occupancy and ADR statistics should be considered and commented upon;
ii) Itemise all expenses/outgoings in schedule form including management, all fixed costs, capital expenditure, and FF&E/SIBC/R&M allowances, in accordance with the standard AGL P&L format. Compare and contrast the current trading with previous year's actuals, YTD figures versus budget, and comment upon any major variances. These figures should also be compared with appropriate industry bench marks;
iii) Comment in detail on the current level of trading being achieved, the stability of the income and the projected maintainable trading performance of the property compared to the operator's projections and in comparison to the subject's competitive set;
iv) Comment upon the business mix for the subject property, typically analysed by geographic sources and guest type;
v) Whilst the Valuer is not expected to carry out a detailed operation review, he/she would be expected to make appropriate upon:
    a. The marketing plan/performance;
    b. Budget vs actual performance;
    c. Potential efficiencies to the operations based on benchmark comparisons;
    d. Effectiveness of referrals within the operating group; and
    e. A fair market share analysis;
vi) Calculate the net return to the owner after reflecting the appropriate outgoings. Providing a detailed analysis of the cash flow is an essential requirement. The calculations should be completely self-explanatory.
vii) Fees and FF&E/SIBC provision should reflect any existing plans or forecast requirement. The net return should also be expressed before depreciation, interest, tax and capital expenditure. Any projections should be presented in accordance with the standard AGL P&L and preferably be undertaken for a period of 5 years.
viii) Comment on any aspects of the property or immediate surrounds, which will impact positively or negatively on the subject premises or its revenue generating capacity. This should include any works considered necessary to upgrade the property to maintain or improve the income capacity and / or marketability;
ix) Provide a statement that "the proper in his/her opinion appears to have been adequately maintained, having regard to its age and purpose for which is used".
x) Comment upon anticipated changes to outgoings, timing of capital expenditure and particularly significant items (e.g. major contract renewals, ratings changes, etc)
xi) Comment on variations between the operator's projections and those assumed by the Valuer, with rationale supporting any variations.

SALES EVIDENCE

Analyse an appropriate level of sales in order to derive an informed opinion of current market value. To simply quote a yield or a room rate from a sale, without first seeking the information to analyse the sale (e.g. additional spare land component, mix between income stream types, growth from historic underperformance, CAPEX requirements etc), is not acceptable. Further, the relativity of each comparable sale must be commented on and explained.
If the subject property has recently transacted (including management right, leasehold and freehold interests) include details of transaction, the contract for sale should be sighted and commented upon.

VALUATION RATIONALE OF CORE BUSINESS

The valuation must be based upon a discounted cashflow analysis and direct capitalisation approach. Full disclosure of all calculations performed must be provided (and detailed in the main body of the report as outlined below) and the rationale adopted for any assumptions used, which should also be detailed and assessed as reasonable, in arriving at a particular value.

In presenting summary of the discounted cashflow valuation analysis we require the following to be clearly shown and discussion where appropriate:

- Business revenue forecasts using the standard AGL P&L;
- Annual room and occupancy rates;
- Revenue growth rates and assumptions;
- Market value (PV) of the net cash-flows (including separate assessment of the terminal value);
- Terminal yield and discount rate (and associated risk premium) utilised siting market expectations and forecast movements in cap rates due to unfolding economic conditions;
- Sensitivity table of market values (PV of net cash-flows);
- Acquisition and selling costs;
- CPI estimates utilities per annum over investment horizon (comment on whose projections);
- Breakdown of capital expenditure allowance(s);
- Investment activity including depth of market and identification of key "players" in terms of investment and the level of investor demand for an asset of this type;

VALUATION RATIONAL OF CONTINGENT CLAIMS (REAL OPTIONS)

The valuation may also consider the value of utilised real assets or options that the subject property may not be taking advantage. These may include but are not limited to:

- Under utilisation of land either allowing intensification of operations/units of inventory to be developed or spare land that could be developed under highest and best use;
- Value of underlying residual land developed as highest and best use compliant with planning constraints;
- Non-income generating assets that could be further utilised to increase revenues;
- Missing offering for guests that could assist in increasing EBITDA;
- Any other item of value not directly attributable to the current income generation of the business as stated under core business valuation.

APPENDICES

- Photographs
- All calculations and analysis requested
- Certificate of Title
- Location map
- Relevant authority development approvals (if applicable)
- Letter of Instruction
- Professional Indemnity Insurance certificate of currency

VALUATION REPORT

Please initially forward a draft valuation to Aspen Group Limited and ultimately an electronic copy of the finalised valuation will be required for distribution.

The valuation report for the subject property should be able to be relied upon by the following companies:

- Aspen Group Limited (ASX: APZ) or any of its group entities
- Aspen Property Trust
- Westpac Banking Corporation

FEE
The fee for the valuation of the subject will be charged at [insert contract price] inclusive of travel and associated expenses but exclusive of GST.
Please send invoice to josse@aspengroup.com.au.
Should you have any queries or if you require further information please do not hesitate to contact me on (+612) 425 218 532.

Yours sincerely,
[INSERT SIGNATURE]
[INSERT NAME]
Portfolio Manager