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Market Briefing

Aspen Group Interim CEO provides an update following the recently completed equity raising and strategic review

Interview with Mr Hugh Martin (Interim CEO)

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Aspen Group ("Aspen") has recently completed a strategic review. Can you discuss what prompted this strategic review and what it will ultimately mean for securityholders?

Hugh Martin
During the 2012 financial year there was a significant change at Board level for Aspen, and as a result there was a critical examination of the business. It became apparent that the business model had become too complex. It was also apparent that the business had a potential liquidity issue which needed to be addressed in light of the significantly deteriorating industry conditions in the residential and commercial development segments.

Accordingly, the Board undertook a strategic review across all aspects of the business, and the purpose of the strategic review was to preserve in the first instance and then improve value for Aspen's securityholders. Acting on the initial findings of the review the Board and management has sought to simplify the structure and rationale of the business, effectively splitting the business, to retain a portfolio of assets that have strong potential to increase in value under Aspen management control, and divesting others.

The portfolio which we believe is suited to our objectives comprises our property portfolio and the Aspen Parks funds management business. The Board has decided to withdraw from the development side of the business, which is part of the process of simplifying our operations. There is a particular focus on debt reduction as a result of the strategic review that will be achieved through the divestment program.

While the focus is presently on simplifying the business to a solid platform, if the opportunity arises for the sale of any of our assets and this is deemed to be in the best interests of shareholders, the Board has a responsibility to pursue that opportunity.

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Can you discuss the need for Aspen's recent equity raising? At 17 cents per security (cps), why was the raising priced at such a large discount to the FY12 NTA of 41cps? What effect did the raising have on NTA?

Hugh Martin

The decision to withdraw from the development side of our operations and no longer capitalise interest on loans produced by the syndicates, as well as management fees, created certain liquidity pressures. After considering all options available to us to address this, the Board reached an agreement to undertake a pro-rata non-renounceable accelerated rights issue as a result of immediate liquidity pressures.

The decision to price the issue at 17cps provided an attractive yield to investors of around 9%. Although this represents a discount to our NTA, the pricing does compare favourably with other similar issues that have taken place.

Following the equity raising our gearing has reduced to around 40%, and we have also generated the required level of funding to address immediate issues in the business. The raising has provided us time to pursue sale of assets in a controlled and positive manner.

We acknowledge the inevitable dilution the raising caused to Aspen's existing securityholders. However, the raising was undertaken as a pro-rata rights offer to ensure all existing investors had the opportunity to participate at the discounted raising price and minimise their dilution.

An alternative to raising equity would have been a quick sale of assets. We believe potential acquirers would have viewed Aspen as a distressed seller and been opportunistic on pricing, an outcome that would have diluted securityholders more than the equity raising.

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Two months on from the equity raising, has Aspen's financial position improved as expected?

Hugh Martin

Aspen's financial position has been strengthened as a result of the equity raising, which has given us time and space to pursue the sale of non-core assets to pay down bank debt. To this end, we have recently achieved a small number of quality sales and are well progressed on a number of others.

Gearing has reduced by approximately 7ppt to 39.3% on balance sheet, and by around 8ppt to 41.3% on a look through basis. Buffers to debt covenants have also improved.

The Aspen Development Fund No. 1 investor put was exercised as expected and Aspen's $25 million funding requirement was covered by the equity raising proceeds.

Following the raising, Aspen's liquidity requirements are now fully funded for the remainder of the current financial year. The Board and management are also actively pursuing opportunities to further improve the capital structure, namely through the sale of assets.

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Is there any need for further work to be done regarding liquidity, and is the Telstra convertible note facility likely to be further utilised as part of the liquidity requirements?

Hugh Martin

Opportunities to improve our liquidity position are on the radar at all times.

With regards to the Telstra convertible note facility, $15 million has been drawn down for working capital purposes. At the moment the Board sees no reason why it would need to draw down on the remaining $20 million contained in the facility. In addition, the intention is to repay the facility within the terms of the arrangements as part of simplifying the debt structure around the asset and reducing the cost of funds

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What about Aspen's loans and the recent breach of the covenants? Following the capital raising, are there any issues that you are currently working through within Aspen's debt facilities?

Hugh Martin

Our previously documented Weighted Lease Duration breach has been waived and as previously mentioned, buffers to our debt covenants have improved, and are being closely managed to reduce the risk of covenant breaches in the future.

The current banking structure sees our senior debt facility linked to a number of syndicate facilities through the provision of limited corporate guarantees, so there is incentive to simplify the structure and in this respect we have agreed a repayment schedule with NAB, which we can look to satisfy through asset sales or refinancing. This sees a further reduction of debt across the senior facility and syndicate facilities of $38m by June 2013 and $33m by December 2013, of which the majority is at a syndicate level.

With regards to longer-term debt, we are poised to finalise a five-year term debt related to the ATO building.

As mentioned earlier, our gearing levels are below 40% and we anticipate gearing will remain at or below this level for the foreseeable future.

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What are your comments on recent press speculation that Aspen's Board is planning to liquidate all of Aspen's assets and wind up the vehicle?

Hugh Martin

Following a difficult period in the history of the Company, we are now preparing to see the positive results of the Board and management's recent stabilisation efforts on the business's future performance.

Recent speculative press coverage is unhelpful given the number of major decisions that have taken place concerning the Company's operations that have been designed to assure its future.

Speculation about liquidation of the Company's core assets would not offer a better outcome for securityholders than our proposed course of action of selling non-core assets and actively managing the core portfolio, from which we believe there will be opportunities that will maximise the return to securityholders.

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Can you provide an update on your progress selling non-core assets?

Hugh Martin

There has been considerable interest in the assets of the business and we have pursued an energetic and targeted sales process, exploring all the opportunities available to us. We have already sold the equity interests in, and management rights to, the St Leonards residential syndicate. In addition the divestment program within a number of syndicates is progressing well; however, it would be premature to announce any other imminent transactions until they are complete.

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Is Aspen on track to achieve its EPS and DPS guidance for FY13?

Hugh Martin

We confirm our FY13 guidance for 'core' operating EPS of 1.8cps and DPS of 1.5cps.

Pleasingly, we are also on track to achieve considerable cost savings. It should also be noted that while we have been reviewing our capital structure, we certainly have not lost focus on our core businesses and the office property market continues to perform well.

Whilst the past few months have been a particularly difficult period, the actions that have been taken to restore the capital base, improve the liquidity position, and return to a positive earnings and distribution outlook provide a more secure base from which our board and management can work to achieve improving returns for our shareholders. We look forward to providing securityholders a further update at our upcoming AGM on Friday 23rd of November

Market Briefing

Thank you, Hugh.

For further information, please contact Aspen Group on
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