

Chairman's and CEO's Address



Lantern Hotel Group Limited General Meeting 16 May 2017

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Good morning ladies and gentlemen, I would like to welcome you here today for the holding of a General Meeting of Lantern Hotel Group.

My name is Graeme Campbell and I am the Independent, Non-Executive Chairman of the Group.

It is now just past midday, the nominated time for the commencement of the meeting. I have been informed that a quorum is present and I am pleased to declare the General Meeting of Lantern Hotel Group open.

There are three components to today's meeting.

Firstly, our CEO, John Osborne, and myself will provide a status update of the Lantern Group and its net asset position.

Secondly, we will consider the giving of benefits to Executives, where the resolution provided in the Notice of Meeting will be put to Securityholders.

Lastly, at the conclusion of the meeting, I would like to invite you to join the directors and management for afternoon tea.

I would like to introduce to you the current directors of the Group.

- Shirley Liew, Non-Executive Director and Chair of the Audit & Risk Committee; and
- Matthew Stubbs, Non-Executive Director.

Also present are John Osborne, CEO, Leanne Ralph, Company Secretary, representatives from Dentons Australia, the Group's legal advisors, representatives from Link Market Services, the Group's Share Registry, and representatives from Lantern Group's management team.

I will now hand over to John Osborne, our CEO, who will outline the status of the Lantern Group and its net asset position.

STATUS OF THE LANTERN GROUP AND NET ASSET POSITION

Following approval of the Sell Down Strategy by Securityholders at the AGM held on 25 October 2016, Lantern has successfully sold all of its hotels.

Lantern has realised a total of \$206 million from the sale of its core and non-core hotels since February 2016. An outstanding result was achieved, with the core and non-core hotels sold at a 47% and 14% premium to book value respectively.

From these sale proceeds, distributions have been made to Securityholders of 14.1 cents per security, amounting to \$124.5 million, and bank debt has been fully repaid.

At the same time, operating costs have been progressively reduced to a minimum.

As at 30 April 2017 the pro forma net assets of the Group were \$15.4 million, which takes into account the distribution paid to Securityholders on 2 May 2017. The assets and liabilities shown on the balance sheet will be progressively settled and in due course the primary asset held will be cash.

I will now hand back to Graeme who will take you through the remainder of today's presentation.

SURPLUS CASH AND FUTURE DISTRIBUTIONS

The cash held by the Group, and reflected in the pro forma balance sheet at 30 April 2017, is required for the following items:

1. Settlement of the existing liabilities of the Group.
2. Future operating costs. As noted earlier, such costs have been reduced to a minimum. These costs include Executive bonuses that will crystallise on the payment of future distributions to Securityholders. I will discuss the Executive bonus arrangements further later in this presentation.
3. Costs that will be incurred to simplify the Group structure.

4. Taxation liabilities not yet accrued. While the balance sheet at 30 April 2017 incorporates a small tax liability that was accrued for the half year ended 31 December 2016, due to the significant profits arising from the sale of hotels in the period since then further tax liabilities will arise in this current financial year.

The Board has considered the potential cash requirements for each of these items and, after making certain assumptions, estimates that the surplus cash will be in the range of \$7.9 million and \$10.6 million. This equates to a range of 0.9 cents and 1.2 cents per security.

It is important for Securityholders to be aware that this range is based on a number of assumptions, which may not be met. It is possible that the actual surplus cash will be higher or lower than the range presented, and potentially materially so.

The Notice of Meeting provided to Securityholders for this meeting sets out the significant assumptions made.

The Board intends to consider further distributions to Securityholders once a review of the key assumptions underpinning current estimates for remaining liabilities (including tax) has been undertaken.

Any future distributions will also take into account the potential requirement to retain cash for capital to fund future opportunities, to the extent such opportunities are identified.

FUTURE INTENTIONS FOR LANTERN

The Board remains focussed on maximising Securityholder value.

The Board intends that Lantern continues as a stapled security capable of evaluating new opportunities. In parallel, the Board will continue to evaluate:

- Re-purposing the Group for alternate activities;
- Sale of the Group entities; and
- Wind up of the Group entities.

A further update of developments will be provided to Securityholders at the AGM for the 2017 financial year, which is expected to be held before the end of September 2017. Securityholder approval will be sought where applicable in the event an alternative option for Lantern is identified.

As previously disclosed to the market, ASX will, in the absence of any other reason to suspend the quotation of LTN's securities, allow LTN to continue trading for a period of 6 months from the date of sale of the last hotel, being 29 March 2017.

GIVING OF BENEFITS TO EXECUTIVES

I would now like to refer you to the resolution detailed in the Explanatory Notes contained in the Notice of Meeting in relation to the giving of benefits to Executives, and draw your attention to a number of key points.

The Board has given careful consideration to the incentives provided to the key Executives of the Group, in relation to the completion of the Sell Down Strategy, by way of cash bonuses. These cash bonuses are referred to as the Sell Down Incentive Bonus.

These incentives are outlined in detail in the Explanatory Notes contained in the Notice of Meeting, and are broadly consistent with the Executive incentive arrangements previously announced to the market on 21 October 2016.

The potential value of the Sell Down Incentive Bonus to be provided to the Executives, based on alternative Securityholder distribution scenarios, are detailed in the Explanatory Notes contained in the Notice of Meeting.

As the Sell Down Incentive Bonus to be provided to the Executives will be provided in connection with the sale of the Lantern property portfolio, the approval of Securityholders is required under section 200E of the Corporations Act.

UNANIMOUS RECOMMENDATION OF THE BOARD

The Executives have done an outstanding job driving the operating performance of Group and executing on the Sell Down Strategy.

The Sell Down Strategy has been completed earlier than originally anticipated and premium sales values for the hotels sold has been achieved, driving strong growth in Securityholder value.

It is for these reasons that the Directors unanimously recommend that Securityholders vote in favour of the resolution.

THANK YOU

The turnaround in the performance of the Group and delivery of Securityholder value over the last two years has been the primary focus of this Board and the Executive team. The results have been outstanding.

I would like to thank the Executive team led by CEO, John Osborne who has been ably assisted by the COO, Mark Ronfeldt and Financial Controller, Michael Thaler, along with my fellow Board members, Shirley Liew and Matthew Stubbs. Their work and dedication through what has been a very challenging period has been exemplary.

Finally I would like to thank our Securityholders for their positive feedback and support through this period.

ENDS: