

Executive Chairman's Address



Lantern Hotel Group Limited Annual General Meeting 29 November 2017

Executive Chairman's Address

Good afternoon ladies and gentlemen, I would like to welcome you here today – for the holding of two consecutive meetings – The General Meeting of Lantern Real Estate Trust and the Annual General Meeting of Lantern Hotel Group.

My name is Graeme Campbell and I am the Executive Chairman of the Group.

It is now just past 1.00pm, the nominated time for the commencement of the meetings. I have been informed that a quorum is present and I am pleased to declare the General Meeting of Lantern Real Estate Trust open.

There are two components to today's meetings.

Firstly, I will make an address which will focus on the status of Lantern Hotel Group and the future intentions of the Board.

Secondly, we will progress to the formal business of the meetings, where the resolutions provided in the Notice of Meeting will be put to Securityholders.

As set out in the Notice of Meeting, should Lantern receive a second strike against its remuneration report at this meeting then a Spill Resolution will be put to securityholders. If the Spill Resolution passes then a Spill Meeting will be held immediately after this meeting at 2.00pm. I will cover this in more detail later in my address.

Lastly, at the conclusion of the meetings, I would like to invite you to join the directors 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 Leanne Ralph, Company Secretary, representatives from Dentons Australia, the Group's legal advisor, representatives from our auditors HLB Mann Judd and representatives from Link Market Services, the Group's Share Registry.

STATUS OF LANTERN HOTEL GROUP AND FUTURE INTENTIONS

Following approval of the Sell Down Strategy by Securityholders at the 2016 AGM, Lantern successfully completed the sale of all of its hotels during the 2017 financial year.

Lantern has realised a total of \$206 million from the sale of its core and non-core hotels since February 2016, achieving a 47% and 14% premium to book value respectively.

These outstanding results have underpinned the reported profit for 2017 of \$40.9 million, up from \$7.0 million in the prior year, and the distributions to securityholders amounting to 15 cents per security, or \$132.4 million.

Since completion of the hotel sales the Board has been actively exploring the possible sale or re-purposing of the Group entities to create further securityholder value. While a number of opportunities have been considered, none have been capable of completing at this stage.

The Board will continue to consider opportunities and in the event a suitable opportunity is identified, securityholder approval will be sought as required.

In addition the Board has been simplifying the Group's operations, including progressively winding up the entities within the Group that hold no future value to reduce the cost and complexity of the group structure. Further, ongoing operating costs have been reduced to a minimum.

Given the reduced size and complexity of the Group, going forward the directors have decided to reduce director fees by half immediately following the AGM.

NET ASSET POSITION

As at 30 June 2017 the net assets of the Group amounted to \$3.7 million. The liabilities shown on the balance sheet will be progressively settled and in due course the primary asset held will be cash.

The cash held by the Group 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.
3. Costs incurred to simplify, and potentially wind up the Group structure.

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 \$2 million to \$3 million. This equates to a range of 0.2 cents and 0.3 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 Board intends to consider further distributions to securityholders once future opportunities for the Group entities have been fully explored.

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.

FINANCIAL PERFORMANCE

As noted earlier, the reported profit for 2017 was \$40.9 million, up from \$7.0 million in the prior year. This result has been driven by the profits achieved on the sale of hotels during the year.

As the Group has not had revenue generating operations since the conclusion of the sale of the hotels, the 2018 year is currently loss making. This has been taken into account in the estimate of surplus cash noted earlier.

RESOLUTIONS

At the 2016 AGM, Lantern received a first strike against its Remuneration Report. As detailed in the Notice of Meeting, should the resolution to approve the Remuneration Report not pass with approval by 75% or more of Securityholders entitled to vote, then this will result in a second strike and a Spill Resolution will be put to Securityholders.

The Spill Resolution will require Securityholders to vote on whether a Spill Meeting should be held. If the Spill Resolution passes with approval by more than 50% of Securityholders entitled to vote then a Spill Meeting must be held within 90 days of this AGM. At the Spill Meeting the Non-Executive Directors would resign and nominations for director appointments will be made, which will include the Non-Executive Directors that have resigned at the Spill Meeting. The Spill Meeting, if it is required, will be held immediately after this AGM at 2.00pm.

The Key Management Personnel have delivered significant Securityholder value in the last financial year. The Board believes that the remuneration provided to the Key Management Personnel has been appropriate and conforms to market practice. Furthermore, the sell down incentive bonus framework was approved at a General Meeting of Securityholders on 16 May 2017.

For these reasons, the Board unanimously recommends that Securityholders vote in favour of the Remuneration Report and the re-election of Ms Liew.

While the requirement for the Spill Resolution is conditional on the results of the resolution to approve the Remuneration Report, to allow the Company to progress the business of this AGM without the need for any adjournment to consider the results of the resolution to approve the Remuneration Report, the Company will put the Spill Resolution to a vote and a contingent poll will be held on this basis. The result of the vote on the Spill Resolution will only be valid if the resolution to approve the Remuneration Report is not passed. Conversely, if the resolution to approve the Remuneration Report passes on a majority of more than 75%, the Spill Resolution will be deemed withdrawn and any votes cast on the Spill Resolution will be treated as invalid.

The Board unanimously recommends that Securityholders vote against the Spill Resolution.

THANK YOU

The 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 that managed the Group through this period led by CEO, John Osborne who was 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: