

ASX Announcement



LANTERN HOTEL GROUP (ASX: LTN)

30 June 2014

Notice of Meeting

We enclose for announcement on ASX an Explanatory Information Booklet, enclosing the Notices of Meeting, Independent Expert's Report and associated documents.

The Explanatory Booklet relates to proposed transactions pursuant to which Lantern Group proposes to acquire, by way of selective buy-back and accompanying trust scheme, the 24.31% of Lantern Securities on issue held by Millinium Asset Services Pty Limited as trustee for The Borg Fund ABN 79 145 380 971 (Proposed Transactions) for 7.5 cents per security. The Proposed Transactions have previously been announced to ASX, including on 4 April 2014.

The enclosed documents were despatched to Lantern Securityholders today.

Lantern Securityholders should note that the Proposed Transactions will not proceed unless relief from s 601FC(1)(d), 601GA(4) and Part 5C.6 of the Corporations Act is obtained from ASIC (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act) (Trust Relief) either prior to, or after, the securityholder meetings are held.

As at the date of this booklet, ASIC has made an in -principle decision to refuse the Trust Relief and the Lantern Board intends to vigorously pursue a review of this decision.

Accordingly, the proposed buy-back and trust scheme resolutions set out in the Notices of Meeting are conditional on the Trust Relief being obtained.

Further information on the Trust Relief is set out in Section 9.6 of the Explanatory Information Booklet.

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Lantern Hotel Group

Explanatory Information Booklet

30 June 2014

Lantern Hotel Group

a stapled entity comprising Lantern Hotel Group Limited (ABN 71 145 967 899) and Lantern Real Estate Trust (ARSN 108 982 627)

Explanatory Information Booklet

In relation to a recommended Proposed Transactions for Lantern Group to acquire, by way of selective buy-back and accompanying trust scheme, all of the Lantern Securities held by Millinium Asset Services Pty Limited as trustee for The Borg Fund ABN 79 145 380 971

Your non-executive directors unanimously recommend that you vote in favour of the Proposed Transactions.

The Independent Expert has concluded that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders.

This is an important document and requires your immediate attention.

You should read it in its entirety before voting on the Proposed Transactions.

If you are in any doubt about how to deal with this document, please consult your financial, legal, taxation or other professional adviser.

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Overview of this Explanatory Information Booklet

What is the purpose of this Explanatory Information Booklet?

This Explanatory Information Booklet contains information about Lantern's proposed buy-back of the Borg Fund Securities which comprises 24.31% of Lantern Securities on issue, by way of:

- selective buy-back, in relation to the shares held by Millinium in Lantern Hotel Group Limited; and
- accompanying trust scheme, to effect a selective buy-back of the units held by Millinium in the Lantern Real Estate Trust

(referred to in this Explanatory Information Booklet as the **Proposed Transactions**).

It provides Lantern Securityholders with information to consider before voting on the Proposed Transactions at the Meetings to be held at 11:00 am (Sydney time) on Thursday 31 July 2014.

Why you should vote?

If you are a Lantern Securityholder, you will have a say on whether the Proposed Transactions are implemented. Your vote is important to ensure that the Proposed Transactions are successful.

The Excluded Securityholders will not vote at the Meetings. Please refer to Section 4.2 for further information on voting exclusions.

Are the Proposed Transactions in the best interests of Lantern Securityholders?

The non-executive Lantern Directors unanimously recommend that Lantern Securityholders vote in favour of the Proposed Transactions.

The Independent Expert has concluded that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders.

However, you are not obliged to follow the recommendation of the non-executive Lantern Directors or the conclusions of the Independent Expert. There are certain factors that may lead you to vote against the Proposed Transactions. Some of these factors are set out in Section 2 of this Explanatory Information Booklet.

What if I have questions in relation to the Proposed Transactions?

If you have questions in relation to the Proposed Transactions, you should refer to Section 3 (Frequently asked questions), visit Lantern's website at www.lanternhotels.com.au or contact the Lantern Information Line on (02) 8223 3602 (within Australia) or +61 2 8223 3602 (outside Australia). Alternatively, you can contact your financial, legal, taxation or other professional adviser.

What should you do?

Read this Explanatory Information Booklet

You should read and carefully consider the information contained in this Explanatory Information Booklet to help you make an informed decision in relation to your Lantern Securities and on how to vote at the Meetings.

Vote on the Buy-Back

If you are entitled to vote on the Buy-Back, you can do so:

- by proxy, by completing and returning the Proxy Form in accordance with the instructions on the Proxy Form so that it is received by the Lantern Registry by no later than 11:00 am (Sydney time) on 29 July 2014 ; or
- in person, by attending the Buy-Back Meeting to be held at Level 22, MLC Centre, 19-29 Martin Place, Sydney on Thursday 31 July 2014 , commencing at 11.00 am (Sydney time).

Those persons who are registered as a Lantern Securityholder as at 7:00 pm (Sydney time) on Tuesday, 29 July 2014 will be entitled to vote at the Buy-Back Meeting.

Please refer to Section 4.3(e) in relation to the applicable voting exclusions.

The non-executive Lantern Directors unanimously recommend that you vote in favour of the Buy-Back.

Vote on the Trust Scheme

If you are entitled to vote on the Trust Scheme Meeting, you can do so:

- by proxy, by completing and returning the Proxy Form in accordance with the instructions on the Proxy Form so that it is received by the Lantern Registry by no later than 11.00 am (Sydney time) on 29 July 2014; or
- in person, by attending the Trust Scheme Meeting to be held at Level 22, MLC Centre, 19-29 Martin Place, Sydney on Thursday, 31 July 2014 , commencing at 11.00 am Sydney time).

Those persons who are registered as a Lantern Securityholder as at 7:00 pm (Sydney time) on Tuesday, 29 July 2014 will be entitled to vote at the Trust Scheme Meeting.

Please refer to Section 4.3(e) in relation to the applicable voting exclusions.

Your non-executive Lantern Directors unanimously recommend that you vote in favour of the Trust Scheme.

Important Notices

Purpose of Explanatory Information Booklet

The purpose of this Explanatory Information Booklet is to explain the terms of the Proposed Transactions for Lantern to buy-back the Borg Fund Securities from Millinium and the manner in which the Proposed Transactions will be implemented (if approved) and to provide information as is prescribed or otherwise material to the decision of Lantern Securityholders whether to approve each of the Proposed Transactions.

Read the entire Explanatory Information Booklet

Lantern Securityholders are encouraged to read this Explanatory Information Booklet in its entirety before voting on the Proposed Transactions. If they have any questions, they should refer to Section 3 (Frequently asked questions), visit Lantern's website at <http://www.lanternhotels.com.au/> or contact the Lantern Information Line on (02) 8223 3602 (within Australia) or +61 2 8223 3602 (outside Australia). Alternatively, they can contact their financial, legal, taxation or other professional adviser.

References to defined terms, time and currency

A number of terms used in this Explanatory Information Booklet have special meanings. These are listed in the Glossary at the back of this Explanatory Information Booklet. The documents reproduced in some of the Annexures to this Explanatory Information Booklet each have their own defined terms which are sometimes different from those in the Glossary. Unless otherwise specified, all data contained in charts, graphs and tables is based on information available at the date of this Explanatory Information Booklet. All references to time in this Explanatory Information Booklet are to time in Sydney, Australia. All references to \$, A\$ or AUD in this Explanatory Information Booklet are to Australian dollars, unless otherwise specified.

Effect of rounding

A number of figures, amounts, percentages, estimates and fractions in this Explanatory Information Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Explanatory Information Booklet.

Investment decisions

This Explanatory Information Booklet is intended for all Lantern Securityholders collectively and does not take into account the investment objectives, financial situation or particular needs of each security holder or any other particular person. This Explanatory Information Booklet should not be relied upon as the sole basis for any investment decision in relation to the Proposed Transactions or your Lantern Securities. Before making any investment decision in relation to the Proposed Transactions or your Lantern Securities, including any decision to vote in favour of or against either of the Proposed Transactions, you should consider whether that decision is appropriate in the light of your particular investment needs, objectives and financial circumstances. If you are in any doubt about what you should do, you should seek independent financial, legal, taxation or other professional advice before making any investment decision in relation to the Proposed Transactions or your Lantern Securities.

Future matters and intentions

Certain statements in this Explanatory Information Booklet relate to the future. The forward looking statements in this Explanatory Information Booklet reflect the current expectations of Lantern. These forward looking statements involve known and unknown risks, uncertainties, assumptions (including without limitation assumptions regarding the present and future business strategies of Lantern and the environment in which Lantern will operate in the future) and other important factors that could cause the actual results, performance or achievements to be materially different from expected future results, performance or achievements expressed or implied by those statements. Forward looking statements should, therefore, be construed in light of such factors and you are cautioned not to place undue reliance on any such statement. Lantern Securityholders should also note that the historical financial performance of Lantern is no assurance of the future performance of Lantern, whether or not the Proposed Transactions proceed.

Other than as required by law, neither Lantern nor any director of those entities nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Explanatory Information Booklet will actually occur. The forward looking statements in this Explanatory Information Booklet reflect the views held only at the date of this Explanatory Information Booklet. Subject to any continuing obligation under law of the ASX Listing Rules, Lantern and their directors disclaim any responsibility, obligation or undertaking to disseminate after the date of this Explanatory Information Booklet any updates or revisions to any forward looking statements to reflect any change in expectations in relation to those statements of any change in events, conditions or circumstances on which any such statement is based.

Responsibility for information

Lantern has provided, and is responsible for, the Lantern Information in this Explanatory Information Booklet, and its related bodies corporate, directors, officers, employees and advisers do not assume any responsibility for the accuracy or completeness of the Lantern Information. The Millinium Information has been sourced from publicly available information.

The Independent Expert, BDO Australia, has prepared and is responsible for the Independent Expert's Report and the summary of the Independent Expert's Report. None of Lantern, and their related bodies corporate, directors, officers, employees and advisers assume any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report, or its summary, except, in the case of Lantern in relation to the information given to the Independent Expert.

A summary of the Independent Expert's Report is set out in Section 5.8, and a copy of the complete Independent Expert's Report is set out in Annexure D to this Explanatory Information Booklet.

ASIC and ASX

A copy of this Explanatory Information Booklet has been lodged with ASIC. Neither ASIC nor any of its officers is responsible for the contents of this Explanatory Information Booklet.

A copy of this Explanatory Information Booklet has also been lodged with ASX. Neither ASX nor its officers take any responsibility for the contents of this Explanatory Information Booklet.

For the purpose of section 257D of the Corporations Act, this Explanatory Information Booklet contains all of the information known to Lantern that is material to Lantern Securityholder's decision of whether or not to approve the Proposed Transactions.

Privacy

Lantern may collect personal information in the process of implementing the Proposed Transactions. This personal information may include the names, contact details and security holdings of Lantern Securityholders and the names of persons appointed by Lantern Securityholders to act as proxy, corporate representative or attorney at the Meetings. The primary purpose of collecting this personal information is to assist Lantern to conduct the Meetings and implement the Proposed Transactions in the manner described in this Explanatory Information Booklet. The collection of this personal information is authorised by the Corporations Act.

Personal information may be disclosed to the Lantern Registry, to securities brokers, to third party service providers, including print and mail service providers and professional advisers, to related bodies corporate of Lantern, and their agents and contractors, and to ASX and other regulatory authorities, and in any case, where disclosure is required by law or allowed by law or where the relevant individual has consented.

Lantern Securityholders who are individuals and other individuals in respect of whom personal information is collected have certain rights to access personal information collected in relation to them. Such individuals should contact the Lantern Registry in the first instance if they wish to request access to that personal information.

Lantern Securityholders who appoint a named person to act as their proxy, corporate representative or attorney at the Meetings should ensure that they inform that person of the matters outlined above.

Lantern Securityholders outside of Australia

This Explanatory Information Booklet is subject to Australian disclosure requirements. Financial information in the Explanatory Information Booklet has been extract from Lantern's Interim Report for the half-year ended 31 December 2013 and Lantern's Annual Report for the year ended 30 June 2013. Both of these reports have been prepared in accordance with Australian Accounting Standards and the Corporations Act.

Lantern website

The content of Lantern Group's website does not form part of this Explanatory Information Booklet and investors should not rely on any such content.

Date of this Explanatory Information Booklet

This Explanatory Information Booklet is dated 30 June 2014.

Important Dates

Latest time and date for receipt of Proxy Forms or powers of attorney for the Meetings	11:00 am on 29 July 2014
Time and date for determining eligibility to vote at the Meetings, being the Record Date	7:00 pm on 29 July 2014
Buy-Back Meeting to be held at Level 22, MLC Centre, 19-29 Martin Place, Sydney	11:00 am on Thursday 31 July 2014]
Trust Scheme Meeting to be held at Level 22, MLC Centre, 19-29 Martin Place, Sydney	Immediately after the Buy-Back Meeting
<i>If the Proposed Transactions are approved by Lantern Securityholders:</i>	
Effective Date The Lantern Directors intend to implement the Proposed Transactions as soon as practicable after the Buy Back Meeting and Trust Scheme Meeting and with a target date of Tuesday, 5 August 2014. Matters impacting on timing of implementation include obtaining necessary ASIC relief (described in Section 9.6) and obtaining any necessary third party consents.	31 July 2014

This timetable is indicative only and, among other things, is subject to the satisfaction of or, where applicable, waiver of the Conditions Precedent, and to all necessary regulatory approvals.

Any variation to the timetable set out above will be announced to ASX and published on Lantern's website at www.lanternhotels.com.au.

All references to time in this Explanatory Information Booklet are references to Sydney time unless otherwise stated. Any obligation to do an act by a specified time in an Australian time zone must be done at the corresponding time in any other jurisdiction.

Letter from the Chairman of Lantern

30 June 2014

Dear Lantern Securityholder,

On 4 April 2014, Lantern announced the Proposed Transactions under which Lantern would acquire, subject to the approval of Lantern Securityholders and on certain other conditions, the Borg Fund Securities from Millinium for a fixed price of 7.5 cents per Lantern Security.

The Lantern Directors have considered and sought advice on the implementation of the Proposed Transactions and have decided to proceed with the transaction by way of:

- a selective Buy-Back, where Lantern Hotel Group Limited will acquire the Lantern Shares held by Millinium; and
- an accompanying Trust Scheme to effect a selective buy-back by Lantern RE of the Lantern Units held by Millinium,

on the terms and as otherwise outlined in this Explanatory Information Booklet.

In particular, the Proposed Transactions will allow Lantern to buy-back the Borg Fund Securities, immediately after obtaining relevant approvals, with the Cash Consideration being provided to Millinium on a deferred basis. Lantern must pay the Cash Consideration over a period of 2 years without being required to meet any pre-determined instalments or penalties for early payment. The outstanding amount of the Cash Consideration will accrue interest at the rate of 8% per annum from 31 July 2014.

The Lantern Board considers:

- the Proposed Transactions will provide Lantern with the opportunity to acquire the Borg Fund Securities at a material discount to net asset value of Lantern and the Proposed Transactions will create significant value for all remaining Lantern Securityholders;
- the commercial terms of the Proposed Transactions are attractive and would result in Lantern acquiring the Borg Fund Securities at a price which, while higher than the current market price, reflects a fair and reasonable price for the Lantern Securities especially given the recent low liquidity in Lantern Securities;
- the Proposed Transactions are in line with Lantern's previously announced medium term capital management strategy and represent an opportunity for Lantern to buy back a significant portion of Lantern Securities more quickly and with more certainty than would have been possible with the continued on-market buying back of securities;
- Lantern is in a position to proceed with the proposed transaction on the basis of its current financial position and the Proposed Transactions provide Lantern with the opportunity to acquire the Borg Fund Securities on a deferred consideration basis (allowing up to 2 years for Lantern to make payment in full), although Lantern will be subject to interest on the amount outstanding from 31 July 2014; and
- the acquisition and cancellation of the Borg Fund Securities will result in a material decrease in the number of Lantern Securities on issue and would positively impact Lantern Securityholders due to an increased net asset value per Lantern Security.

What will Millinium receive under the Proposed Transactions?

As consideration for the Borg Fund Securities, Millinium will be paid the Cash Consideration of \$16,104,316.65 under the Proposed Transactions. As noted above, the Cash Consideration is payable on a deferred basis, meaning that Lantern has up to 2 years to pay the consideration in full. Any outstanding Cash Consideration not paid by Lantern by 31 July 2014 will accrue interest at 8% per annum.

The Borg Fund Securities will be bought-back and cancelled immediately upon implementation of the Proposed Transactions. This means that the deferred consideration terms will not impact on the timing of the acquisition.

The Cash Consideration will be paid in addition to the \$1.4 million settlement payment payable to Millinium in relation to the Supreme Court Action, which settlement was disclosed to ASX on 4 April 2014.

A further \$600,000, in addition to the \$1.4 million settlement payment, will be payable by Lantern to Millinium if the Proposed Transactions are not approved by the Lantern Securityholders by 31 July 2014. This amount relates to the settlement of the Supreme Court Action and, if payable, must be paid by Lantern to Millinium by 7th August 2014. In turn, Millinium must then pay that amount to CVC and Totem by 8th August 2014.

Lantern may be entitled to a rebate of some or all of the \$600,000 (if paid) in the event Millinium disposes of the Borg Fund Securities, to someone other than Lantern, before 1 August 2016 for a price above 7.2 cents per Lantern Security. The rebate is calculated by multiplying the number of securities disposed of by Millinium by the amount the disposal price exceeds 7.2 cents per security.

If the Proposed Transactions are approved by Lantern Securityholders by 31 July 2014, Lantern will not be liable for the further \$600,000. Instead, Millinium is required to pay a settlement amount of approximately \$600,000 to CVC and Totem no later than 6 October 2014.

Lantern Securityholders, other than Millinium, will not receive any cash or other consideration and will retain the same number of Lantern Securities as they held prior to implementation of the Proposed Transactions (subject to any disposals by such Lantern Securityholders).

However, as a result of the cancellation of the Borg Fund Securities, every Lantern Securityholder's Relevant Interest in Lantern will increase in terms of the percentage of the total Lantern Securities on issue. Further disclosure in relation to this is contained in section 7.5 of the Explanatory Information Booklet.

Lantern Directors' Recommendation

The non-executive Lantern Directors unanimously recommend that you support the Proposed Transactions by voting in favour of the Proposed Transactions. The reasons for the non executive Lantern Directors' recommendation that you vote in favour of the Proposed Transactions are set out above.

Russell Naylor is an Executive Director and Investment Committee Member of Torchlight, the largest securityholder in Lantern Group, and on this basis has abstained from making a recommendation in relation to the Proposed Transactions.

Each Lantern Director intends to vote in favour of the Proposed Transactions in respect of their personal holdings of Lantern Securities and any proxies placed at their discretion.

Independent Expert's conclusion

The Independent Expert considers that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders. The summary of the Independent Expert's Report is included in Section 5.8 of this Explanatory Information Booklet.

Approval of the Proposed Transactions

The Buy-Back requires approval of Lantern Securityholders at a special meeting (being the Buy-Back Meeting) held at 11.00 am on Thursday 31 July 2014 at Level 22, MLC Centre, 19-29 Martin Place, Sydney .

The Trust Scheme requires approval of Lantern Securityholders at a special meeting (being the Trust Scheme Meeting) held immediately after the Buy-Back Meeting.

You are encouraged to vote either by attending the meetings or completing and returning the Proxy Form in accordance with the instructions on that form.

The Proposed Transactions are also subject to a number of conditions that are outlined in Section 5.9(a) of this Explanatory Information Booklet.

Trust Relief

Lantern has sought, amongst other things, ASIC relief from certain requirements under the Corporations Act which apply to LRET (including the requirement to treat all unitholders equally) in order to permit the selective buy-back of units and the Proposed Transactions to proceed.

On 27 June 2014, ASIC indicated to Lantern that it had made an in-principle decision to refuse the relief from s 601FC(1)(d), 601GA(4) and Part 5C.6 of the Corporations Act, being the Trust Relief. Lantern will continue to engage with ASIC in an attempt to seek a review of the decision and, if this proves unsuccessful, will seek legal advice on potential avenues for review of that decision on an urgent basis, including Court or tribunal intervention.

The Lantern Directors intend to pursue any relief available vigorously as they believe the Proposed Transactions are in the best interests of Lantern Securityholders and offer a significant increase in net asset value of Lantern. Further announcements relating to the Trust Relief and any progress in this respect will be made to ASX as and when appropriate, including prior to 31 July 2014.

The Proposed Transactions will not proceed unless the Trust Relief is obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act) either prior to, or after, the Meetings are held. Accordingly, the Buy-Back Resolutions and Trust Scheme Resolutions are conditional on the Trust Relief being obtained.

The Lantern Board has decided to proceed with the Meetings before the Trust Relief has been obtained (and notwithstanding Trust Relief may ultimately not be obtained) on the basis that, if Lantern Securityholder approval of the Proposed Transactions is not obtained by 31 July 2014, Lantern will be liable to pay the \$600,000 settlement fee to Millinium pursuant to the Settlement Deed.

If the Proposed Transactions are not implemented

If the Proposed Transactions are not implemented, Lantern will continue to trade as a listed entity on the ASX and the Lantern Directors will continue to explore investment opportunities, including the opportunity to buy-back Lantern Securities via an on-market buy-back. The Lantern Directors believe that the on-market buy-back price which can be achieved is likely to be higher than the price agreed with Millinium in relation to the Borg Fund Securities.

Millinium will continue to hold the Borg Fund Securities and will be free to deal with this holding, including disposing of the Borg Fund Securities (or any part of it), in any way it decides, subject to the Corporations Act and the law. If the Proposed Transactions do not proceed and Millinium elects to dispose of the Borg Fund Securities, the Lantern Directors expect that the Lantern Security price is likely to fall, at least in the short term. Lantern does not have any information about what Millinium might do with the Borg Fund Securities if the Proposed Transactions do not proceed.

Further information

This Explanatory Information Booklet contains important information in relation to the Proposed Transactions, including the reasons for your non-executive Lantern Directors' recommendation and a summary of the

findings of the Independent Expert. We encourage you to read it in full as it will assist you in making an informed decision.

If you have any questions in relation to the Proposed Transactions, please contact the Lantern Information Line on (02) 8223 3602 (within Australia) or +61 2 8223 3602 (outside Australia), or go to Lantern's website at www.lanternhotels.com.au. You may wish to contact your financial, legal, taxation or other professional adviser to discuss the implications of the Proposed Transactions for your individual circumstances.

On behalf of the non-executive Lantern Directors, I recommend the Proposed Transactions to you and thank you for your continued support as a Lantern Securityholder.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'B. Mogridge', written over the printed name.

Bryan Mogridge

Chairman, Lantern

1. Reasons to vote in favour of the Proposed Transactions -advantages of the Proposed Transactions

This Section should be read in conjunction with Section 2 which sets out a summary of the reasons why you may consider voting against the Proposed Transactions and Section 6 which sets out the risks associated with the Proposed Transactions.

- **The Proposed Transactions are unanimously recommended by the non-executive Lantern Directors to be in the best interests of Lantern Securityholders**
- **The Independent Expert has concluded that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders**
- **The acquisition of the Borg Fund Securities presents a great investment opportunity for Lantern as the acquisition price allows Lantern to acquire the Borg Fund Securities at a material discount to net asset value of Lantern**
- **Net asset value per Lantern Security will increase following implementation of the Proposed Transactions**
- **The Proposed Transactions are in line with Lantern's medium term capital management strategy and represent an opportunity for Lantern to buy back a significant proportion of its securities more quickly and with more certainty than is likely with an on-market buy-back**

The Proposed Transactions are unanimously recommended by the non-executive Lantern Directors to be in the best interests of Lantern Securityholders

- The non-executive Lantern Directors has unanimously recommended that Lantern Securityholders vote in favour of the Proposed Transactions.
- The Lantern Board has considered a range of options for Lantern, as well as the advantages, disadvantages and risks associated with the Proposed Transactions as set out in this Section 1 and Sections 2 and 6 of this Explanatory Information Booklet in arriving at this recommendation.
- Each Lantern Director intends to vote in favour of the Proposed Transactions in respect of their personal holdings of Lantern Securities and any proxies placed at their discretion.

The Independent Expert has concluded that the Proposed Transactions are fair and reasonable to the Non-participating Lantern Securityholders

- The Independent Expert, BDO Australia, has concluded that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders.
- The Independent Expert has concluded the Proposed Transactions are fair as the fair market value of a Lantern Security after the Proposed Transactions (on a minority basis) is towards the upper end of the range of assessed fair market values of a Lantern Security, as determined by the Independent Expert, before the Proposed Transactions (on a control basis).
- The Independent Expert has concluded the Proposed Transactions are reasonable to the Non-participating Lantern Securityholders after considering the factors which the Non-participating Lantern Securityholders may consider in their assessment of the Proposed Transactions.
- A full copy of the Independent Expert's Report is contained in Annexure D.

The Cash Consideration represents a discount to the net value asset price of Lantern

- The Cash Consideration represents a substantial discount to the net asset value of Lantern and the Proposed Transactions will create significant value for all remaining Lantern Securityholders.
- The commercial terms of the Proposed Transactions are attractive and would result in Lantern acquiring the Borg Fund Securities at a price that, while being higher than the current market price of Lantern Securities as at the date of this booklet, the Lantern Board consider to represent good value given recent low liquidity in Lantern Securities. The Proposed Transactions will allow Lantern to acquire the Borg Fund Securities on a deferred consideration basis payable over a 2 year period, with an 8% interest rate.

Lantern Securityholders will enjoy increased net asset value per Lantern Security

- The acquisition and cancellation of the Borg Fund Securities will result in a material decrease in the number of Lantern Securities on issue and would positively impact Lantern Securityholders due to the increased net asset value per security:

Date	Number of Securities Outstanding	Net Asset Value (\$millions)	Net Asset Value Per Security (\$)
30-Jun-12	971,951,888	103.8	0.1068
30-Jun-13	883,202,130	100.6	0.1139
31-Dec-13	883,202,130	102.0	0.1154
Pro Forma based on 31 December if transaction proceeds	668,477,908	84.5	0.1263
Pro Forma based on 31 December if transaction does not proceed	883,202,130	100.0	0.1132

- Lantern proposes to fund payment of the Cash Consideration over the 2 years following implementation with a mix of cash from ordinary operations and any net proceeds received from the proposed disposal of Lantern's New Zealand assets this approach will minimise any impact the acquisition of the Borg Fund Securities will have on Lantern's financial position. If Lantern's New Zealand assets are not sold within the 2 year period, cash flow from existing operations will fund the entire Cash Consideration.
- The Lantern Group is currently carrying out an active marketing campaign in relation to three of the five New Zealand assets and the Lantern Directors have a reasonable expectation of those assets being sold by 31 December 2014. Once these disposals have occurred, the Lantern Board will make the necessary decisions in relation to the remaining two New Zealand assets, including potential marketing programs for those assets. As at 31 December 2013 the New Zealand assets were carried in Lantern's financial statements at \$7.428 million.

The Proposed Transactions are in line with Lantern's medium term capital management strategy and represent an opportunity for Lantern to buy back a significant proportion of its securities more quickly and with more certainty than is likely with an on-market buy-back

- The Lantern Directors believe that the 7.5 cent per Lantern Security acquisition price agreed with Millinium is lower than the price Lantern would be required to pay if it implemented an on-market buy-back. An on-market buy-back is also likely to secure a lower number of Lantern Securities.

2. Reasons why you may consider voting against the Proposed Transactions - disadvantages of the Proposed Transactions

The non-executive Lantern Directors consider that the benefits of the Proposed Transactions outweigh the disadvantages and unanimously recommend that Lantern Securityholders vote in favour of the Proposed Transactions. In addition, the Independent Expert has concluded that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders. However, Lantern Securityholders are not obliged to follow the recommendation of the non-executive Lantern Directors or the conclusions of the Independent Expert. Set out below are some reasons that may lead you to vote against the Proposed Transactions. Section 6 also sets out a number of risks associated with, or disadvantages of, the Proposed Transactions.

Lantern Securityholders may disagree with the recommendation of the Lantern Directors and the Independent Expert

- Lantern Securityholders may disagree with the recommendation of the non-executive Lantern Directors and the findings of the Independent Expert and believe that the Proposed Transactions are not in their best interests. In particular, Lantern Securityholders may believe that Lantern will deliver greater returns over the long term by investing the amount of the Cash Consideration in other ways or retaining the Cash Consideration as cash on its balance sheet.

There is a possibility that a superior investment opportunity will emerge

- If the Proposed Transactions do not proceed, it is possible that an alternative superior proposal could emerge that offers a better investment opportunity to Lantern in respect of the use of the amount of the Cash Consideration and greater value for Lantern Securityholders than would be realised under the Proposed Transactions. The implementation of the Proposed Transactions may mean that Lantern was unable to pursue that alternative investment opportunity and that Lantern Securityholders may not obtain the benefit of any such alternative investment.
- Upon implementation of the Proposed Transactions, to the extent that Lantern pays the Cash Consideration there will be a decrease in Lantern's cash reserves as a result of the payment to Millinium and to the extent that Lantern defers payment of the Cash Consideration it will incur the additional interest debt at 8% per annum on any Cash Consideration which remains outstanding.
- The Lantern Directors have evaluated a number of alternatives available to Lantern Securityholders and have decided that the Proposed Transactions are the best alternative available at this point in time. The Lantern Directors are not currently aware of a superior investment opportunity and consider that the likelihood of one emerging is low. In the event that the Proposed Transactions do not proceed, Lantern Directors would consider an on-market buy-back of Lantern Securities which would likely result in a lesser number of Lantern Securities being acquired (compared to the Borg Fund Securities) at a price which Lantern directors expect to be a higher per security price.

Financial impact of the Proposed Transactions

- The Proposed Transactions provide Lantern with the opportunity to acquire the Borg Fund Securities on a deferred consideration basis (allowing up to 2 years for Lantern to make payment in full). Accordingly, Lantern's interest bearing liabilities will increase by up to \$16.1 million. If the Proposed Transactions are approved, Lantern's gearing ratio (calculated as total interest bearing liabilities less cash to total assets less cash) will increase from 31% to approximately 42%. This remains inside Lantern's target range of 35% to 50%. Given the headroom available in Lantern's current finance facility, the increase in debt and gearing is not expected to impact Lantern's ability to fund future acquisitions and capital expenditure.

- The Proposed Transactions require cash of \$16.1 million to be paid to buy back the Borg Fund Securities. This will potentially make Lantern a less attractive investment proposition for those investors that take into consideration asset size and market capitalisations in their investment decisions.
- Under the Proposed Transactions, any outstanding Cash Consideration not paid by Lantern by 31 July 2014 will accrue interest at 8% per annum. Interest will be payable quarterly. While this interest rate is not considered to be unreasonable for unsecured funding to Lantern, it will reduce Lantern's pro-forma earnings to the extent that the Cash Consideration remains unpaid.

The Relevant Interest of all Lantern Securityholders in Lantern will be increased, resulting in certain Lantern Securityholders having a significant interest

- If the Proposed Transactions are implemented, as a result of the cancellation of the Borg Fund Securities and consequent reduction in the total number of Lantern Securities on issue, the Relevant Interest of every Lantern Securityholder (other than Millinium) will increase. Millinium will cease to have a Relevant Interest in Lantern Securities.
- The Relevant Interest held by certain key securityholders in Lantern will increase as follows:
 - Torchlight's Relevant Interest in Lantern Securities will increase from 30.19% to 39.89% upon cancellation of the Borg Fund Securities.
 - The Relevant Interest held by Allan Gray Australia will also increase from 18.18% to 24.02%.

The increase in the Relevant Interest held by those parties will not permit either of those parties individually to pass any ordinary resolutions, those requiring a simple majority, or special resolutions (those requiring a 75% or more vote). However, those parties will have an increased ability to strategically block future securityholder resolutions they do not support and block future interested parties making a takeover for Lantern.

- Additionally, some potential bidders for Lantern may consider Torchlight's and Allan Gray Australia's increased securityholding to be a deterrent to making an offer for Lantern Securities.
- As noted above, the Relevant Interests of other Lantern Securityholders will also increase. This is disclosed further in the table in Section 7.5 of this Explanatory Information Booklet.

There is a possibility that the Trust Relief is not obtained

There is a possibility that Lantern will not obtain the Trust Relief, either before or after the Meetings and the Proposed Transactions will not proceed even though Lantern Securityholders approve the Proposed Transactions.

Lantern has sought, amongst other things, ASIC relief from certain requirements under the Corporations Act which apply to LRET (including the requirement to treat all unitholders equally) in order to permit the selective buy-back of units and the Proposed Transactions to proceed.

On 27 June 2014, ASIC indicated to Lantern that it had made an in-principle decision to refuse the relief from s 601FC(1)(d), 601GA(4) and Part 5C.6 of the Corporations Act, being the Trust Relief. Lantern will continue to engage with ASIC in an attempt to seek a review of the decision and, if this proves unsuccessful, will seek legal advice on potential avenues for review of that decision on an urgent basis, including Court or tribunal intervention.

The Lantern Directors intend to pursue any relief available vigorously as they believe the Proposed Transactions are in the best interests of Lantern Securityholders and offer a significant increase in net asset value of Lantern. Further announcements relating to the Trust Relief and any progress in this respect will be made to ASX as and when appropriate, including prior to 31 July 2014.

The Proposed Transactions will not proceed unless the Trust Relief is obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act) either prior to, or after, the Meetings are held. Accordingly, the Buy-Back Resolutions and Trust Scheme Resolutions are conditional on the Trust Relief being obtained.

The Lantern Board has decided to proceed with the Meetings before the Trust Relief has been obtained (and notwithstanding that Trust Relief may ultimately not be obtained) on the basis that, if Lantern Securityholder approval of the Proposed Transactions is not obtained by 31 July 2014, Lantern will be liable to pay the \$600,000 settlement fee to Millinium pursuant to the Settlement Deed.

Other potential disadvantages

- The closing ASX price of Lantern Securities on 27 June 2014 was 6.8 cents which is lower than the Buy-Back price (7.5 cents). However, we note that recent liquidity in Lantern Securities has been low, consistent with the low levels of trading activity generally in Lantern Securities since Lantern undertook its last on-market buy-back in June 2013.
- There are currently 883,202,130 Lantern Securities on issue. Of these, 214,724,222 will be bought back under the Proposed Transactions. There has been limited liquidity in Lantern Securities over the 12 months to June 2014. Therefore, for remaining Lantern Securityholders, the Proposed Transactions may result in a further reduction of liquidity.

3. Frequently asked questions

This Section answers some frequently asked questions about the Proposed Transactions. It is not intended to address all relevant issues for Lantern Securityholders. This section should be read together with all other parts of this Explanatory Information Booklet.

Question	Answer	More Information
QUESTIONS ABOUT THE PROPOSED TRANSACTIONS		
What is the Proposed Transactions?	<p>Under the Proposed Transactions, Lantern will acquire all of the Borg Fund Securities from Millinium for 7.5 cents per Lantern Security, being a total cash consideration of \$16,104,316.65. This will be done, subject to Lantern Securityholder approval, by implementing the Buy-Back and the Trust Scheme.</p> <p>The Cash Consideration will be payable by Lantern over a period of 2 years, at Lantern's election and with no fixed instalments. Any outstanding Cash Consideration which has not been paid to Millinium will incur interest at the rate of 8% per annum from 31 July 2014. Interest will be payable quarterly.</p> <p>Under the Buy-Back, Lantern Hotel Group Limited will acquire the Lantern Shares comprising the Borg Fund Securities from Millinium.</p> <p>Under the Trust Scheme implementing the selective buy-back of the Lantern Units, Lantern RE will acquire the Lantern Units comprising the Borg Fund Securities from Millinium.</p>	A summary of the Proposed Transactions is set out in Section 5.
What is a selective buy-back and what is a trust scheme?	<p>A selective buy-back is a means under the Corporations Act by which a company can acquire the interests of a specific shareholder or shareholders. It requires a vote in favour of the Buy-Back by certain majorities of the Lantern Securityholders at the Buy-Back Meeting. It does not require Court approval.</p> <p>A trust scheme is a means of implementing an acquisition of units in a unit trust under the Corporations Act and the trust constitution of the unit trust. In this instance, it is a manner in which Lantern proposes to implement the selective buy-back of the Lantern Units held by Millinium. It requires a vote in favour of the Trust Scheme Resolutions by certain majorities of the Lantern Securityholders at the Trust Scheme Meeting. Unlike a member's scheme of arrangement, it does not require Court approval.</p>	A summary of the Proposed Transactions is set out in Section 5.
Who is Millinium?	<p>Millinium Asset Services Pty Limited is an unlisted public company which is majority controlled by Millinium Capital Managers Limited.</p> <p>Based on publicly available information, Millinium Capital Managers Limited is a boutique fund manager with specialist expertise in fixed interest, securities,</p>	Refer to Section 7 for further information.

Question	Answer	More Information
	<p>corporate debt, structured finance and other unlisted transactions.</p> <p>The Borg Fund Securities held by Millinium currently represents 24.31% of the Lantern Securities on issue.</p>	
Who is entitled to vote in the Meetings?	<p>Lantern Securityholders as at the Record Date are entitled to vote at the Buy-Back Meeting and Trust Scheme Meeting.</p> <p>The Excluded Shareholders and Lantern RE and its associates are subject to the voting exclusions set out in Section 4.3(f).</p>	Refer to Section 4 for further information.
Why should I vote in favour of the Proposed Transactions?	<p>The non-executive Lantern Directors consider that the Proposed Transactions are in the best interests of Lantern Securityholders.</p> <p>In addition, the Independent Expert has concluded that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders.</p>	Further information regarding the reasons to vote in favour of the Proposed Transactions are set out in Section 1. A copy of the complete Independent Expert's Report is contained in Annexure D.
What do the Lantern Directors recommend?	<p>The non-executive Lantern Directors unanimously recommend that you vote in favour of the Proposed Transactions. Additionally, each Lantern Director who holds Lantern Securities, or on whose behalf Lantern Securities are held at the time of the Meetings intends to vote in favour of the Proposed Transactions.</p>	Section 5.7 provides further information as to the recommendation of the non-executive Lantern Directors.
What is the opinion of the Independent Expert?	<p>The Independent Expert considers that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders.</p> <p>A summary of the Independent Expert's Report is contained in Section 5.8.</p> <p>The complete Independent Expert's Report contains more detailed information in the Independent Expert's conclusions. A copy of the complete Independent Expert's Report is contained in Annexure D and you are encouraged to read the report in its entirety, including the assumption, qualifications and disclaimers on which the Independent Expert's conclusions are based.</p>	A summary of the Independent Expert's Report is contained in Section 5.8. A complete copy of the Independent Expert's Report is contained in Annexure D.
Am I obliged to follow the recommendation of the nonexecutive Lantern Directors or the conclusions of the Independent Expert?	<p>No. Whilst the non-executive Lantern Directors consider that the Proposed Transactions are in the best interests of Lantern Securityholders. Lantern Securityholders are not obliged to follow the recommendation of the non-executive Lantern Directors or the conclusions of the Independent Expert.</p>	Further information regarding the reasons why Lantern Securityholders may consider voting against the Buy-Back and the Trust Scheme are set out in Section 2. That Section should be read in

Question	Answer	More Information
What are the prospects of superior investment opportunity arising?	<p>The Lantern Directors have no basis for believing that a superior investment opportunity will be forthcoming.</p> <p>Lantern Securityholders should note that Lantern has agreed to certain settlement payments relating to the Supreme Court Action in favour of CVC and Totem, which are detailed in Section 9.1 of this Explanatory Information Booklet and include a \$600,000 payment payable by Lantern only if the Proposed Transactions are not approved by Lantern Securityholders by 31 July 2014.</p>	<p>conjunction with Section 6, which sets out a number of risks associated with the Proposed Transactions.</p> <p>Section 5.6 provides further information on the implications for Lantern Securityholders if the Proposed Transactions do not proceed. Section 7.6 provides information on the other alternatives considered by the Lantern Directors.</p>
What are the risks of the Proposed Transactions?	<p>There are a number of risk associated with the Proposed Transactions including:</p> <ul style="list-style-type: none"> • you may disagree with the recommendations of the non-executive Lantern Directors and the Independent Expert; • there is a possibility that a superior investment opportunity will emerge; • the Relevant Interest of all Lantern Securityholders, other than Millinium, will increase when the Borg Fund Securities is cancelled and this will result in an increase in the percentage of securities held by key shareholders such as Torchlight, Allan Grey Australia and Renaissance Property Securities Pty Limited; • some potential bidders may consider the increased securityholding of key securityholders to be a deterrent to making an offer. <p>The Proposed Transactions will not proceed unless the Trust Relief is obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act) either prior to, or after, the Meetings are held. As at the date of this booklet, ASIC has made an in -principle decision to refuse the Trust Relief and the Lantern Board intends to vigorously pursue a review of this decision. Accordingly, the Buy-Back Resolutions and Trust Scheme Resolutions are conditional on the Trust Relief being obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act).</p>	<p>Sections 2 and 6 provide further information on risks associated with the Proposed Transactions. Section 9.6 provides further information on the Trust Relief.</p>

Question	Answer	More Information
QUESTIONS ABOUT THE CASH CONSIDERATION		
What will Millinium receive if the Buy-Back and Trust Scheme are implemented?	If the Proposed Transactions are approved and implemented Millinium will receive the Cash Consideration, being 7.5 cents per Lantern Security and totalling \$16,104,316.65.	Section 5.10 provides further information regarding Cash Consideration.
When will Lantern be required to pay the Cash Consideration to Millinium?	If the Proposed Transactions are implemented, the Cash Consideration will be settled via deferred consideration payable over 2 years at such times and in such instalments as are determined by Lantern in its sole discretion. Any amount of Cash Consideration which remains outstanding after 31 July 2014 will incur interest at the rate of 8% per annum. Interest will be payable to Millinium quarterly. Lantern proposes to fund payment of the Cash Consideration over the 2 years following implementation with a mix of cash from ordinary operation and any net proceeds received from the disposal of Lantern's New Zealand assets. If Lantern's New Zealand assets are not sold within the 2 year period, cash from existing operations will be used to fund the entire Cash Consideration.	Section 5.10 provides further information about the payment of Cash Consideration.
QUESTIONS ABOUT THE MEETINGS, AGREEMENT AND APPROVALS		
When and where will the Buy-Back Meeting and Trust Scheme Meeting be held?	The Buy-Back Meeting will be held Thursday 31 July 2014 at Level 22, MLC Centre 19-29 Martin Place, Sydney commencing at 11.00 am (Sydney time). The Trust Scheme Meeting will be held immediately after the Buy-Back Meeting at the same location.	The Notice of Buy-Back Meeting set out in Annexure A contains further information on the Buy-Back Meeting. The Notice of Trust Scheme Meeting set out in Annexure B contains further information on the Trust Scheme Meeting.
Am I entitled to vote at the Meetings?	If you are registered as a Lantern Securityholder on the Lantern Register as at 7:00pm (Sydney time) on 29 July 2014, you will be entitled to vote at the Buy-Back Meeting and Trust Scheme Meeting. The Excluded Securityholders and Lantern RE are subject to the voting exclusions set out in Section 4.3(f) and in the Notices of Meetings.	Section 4 contains further details on how to vote.
Is voting compulsory?	Voting is not compulsory. However, the non-executive Lantern Directors believe that the Proposed Transactions are an important opportunity for all Lantern Securityholders and encourage you to read this Explanatory Information Booklet carefully and to vote in favour of the Proposed Transactions.	Section 1 and Section 7 contain details on the non-executive Lantern Directors' recommendation and the reasons for it.

Question	Answer	More Information
<p>What resolutions will be put before Lantern Securityholders at the Meetings?</p>	<p>At the Buy-Back Meeting, one resolution (conditional on the Trust Relief being obtained) will be proposed to Lantern Shareholders as follows:</p> <ul style="list-style-type: none"> • The terms and conditions of the selective buy-back agreement relating to the off-market buy-back by Lantern Hotel Group Limited of 214,724,222 Lantern Shares held by Millinium, as described in the Explanatory Information Booklet, be approved in accordance with section 257D of the Corporations Act and ASX Listing Rule 10.1. <p>At the Trust Scheme Meeting, two resolutions (both conditional on the Trust Relief being obtained) will be proposed to Lantern Unitholders as follows:</p> <ul style="list-style-type: none"> • Constitution amendment: a resolution to approve amendment of the LRET Constitution. The amendment will add a new Schedule 1 to the LRET Constitution, which gives Lantern RE, the responsible entity of LRET, powers to carry out the steps involved in implementing the Trust Scheme. It describes the mechanisms to deal with the payment for the Lantern Units and the transfer of Lantern Units held by Millinium to Lantern RE. • Approval of the Trust Scheme implementing the selective buy-back of units: a resolution to approve (including for the purposes of ASX Listing Rule 10.1) the Trust Scheme and the terms and conditions of the Buy-Back Agreement relating to the off-market buy-back by Lantern RE of 214,724,222 Lantern Units held by Millinium, as described in this Explanatory Information Booklet. <p>All the resolutions are inter-conditional and are conditional on the Trust Relief being obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act), in that one cannot pass without the others also passing. They have different voting thresholds, as described below.</p>	
<p>What vote is required to approve the Proposed Transactions?</p>	<p>For the resolution to approve the selective Buy-Back for the purposes of section 257D of the Corporations Act and ASX Listing Rule 10.1, by a special resolution (requiring a 75% majority) of the Lantern Securityholders present and voting (either in person or by proxy, attorney or corporate representative) on which no vote is cast in favour of the resolution by the</p>	<p>Section 4 and the Notices of Meetings in Annexures A and B contain further details with regards to voting requirements under the Meeting.</p>

Question	Answer	More Information
	<p>Excluded Securityholders, which includes Millinium.</p> <p>For the resolution to approve the LRET Constitution amendments to pass (and to therefore facilitate the Trust Scheme), at least 75% of the votes cast by Lantern Securityholders present and voting (either in person or by proxy, attorney or corporate representative) on the resolution must be cast in favour of the resolution, with no votes cast in favour of the resolution by the Excluded Securityholders, which includes Millinium.</p> <p>For the resolution to approve the acquisition of Lantern Units by Lantern RE by way of selective buy-back, at least 75% of the votes cast by Lantern Securityholders present and voting (either in person or by proxy, attorney or corporate representative) on the resolution must be cast in favour of the resolution, with no votes cast in favour of the resolution by the Excluded Securityholders, which includes Millinium.</p> <p>In addition, in accordance with section 253E of the Corporations Act, Lantern RE and its associates are not entitled to vote their interests (if any) on any resolution at a meeting of Lantern Unitholders if they have an interest in the resolution or matter other than as a Lantern Unitholder. Lantern RE does not have any such interests as at the date of this booklet and nor do any of its associates.</p> <p>If your Lantern Securities are jointly held, only one of the joint holders is entitled to vote. If more than one Lantern Securityholder votes in respect of jointly held Securities, only the vote of the Lantern Securityholder whose name appears first in the Lantern Register will be counted. You need not exercise all of your votes in the same way, nor do you need to cast all of your votes.</p>	
<p>How do I vote if I'm not able to attend the Meetings?</p>	<p>Even if you can't attend the Meetings in person, you can still vote by proxy, by completing and returning the proxy form accompanying this Explanatory Information Booklet so that it is received by the Lantern Registry by no later than 11:00 am (Sydney time) on 29 July 2014.</p>	<p>Section 4 contains further details on how to vote.</p>
<p>How will the Proposed Transactions be implemented?</p>	<p>Section 5 provides further information on how the Proposed Transactions will be implemented.</p>	<p>Refer to Section 5.</p>
<p>Are there any conditions to the Proposed Transactions?</p>	<p>The Proposed Transactions are subject to a number of Conditions Precedent, some of which have already been satisfied. The Conditions Precedent which have not yet been satisfied include:</p> <ul style="list-style-type: none"> • certain regulatory approvals; and 	<p>Further details of the Conditions Precedent of the Proposed Transactions are set out in Section 5.9(a).</p>

Question	Answer	More Information
	<ul style="list-style-type: none"> the consent of Lantern's senior lender. <p>If the Conditions Precedent are not satisfied or waived then the Proposed Transactions will not proceed.</p> <p>Lantern Securityholders should note that the Proposed Transactions will not proceed unless the Trust Relief is obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act) either prior to, or after, the Meetings are held. As at the date of this booklet, ASIC has made an in-principle decision to refuse the Trust Relief and the Lantern Board intends to vigorously pursue a review of this decision. Accordingly, the Buy-Back Resolutions and Trust Scheme Resolutions are conditional on the Trust Relief being obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act).</p>	
<p>When will the result of the Meetings be known?</p>	<p>The result of the Meetings will be available shortly after the conclusion of the Meetings and will be announced to ASX as soon as practicable. The results will be available online at www.lanternhotels.com.au and www.asx.com.au.</p>	
<p>What happens if the Proposed Transactions do not proceed?</p>	<p>If the Proposed Transactions are not approved at the Meetings or if the Trust Relief is not obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act), then the Proposed Transactions will not be effective and will not proceed. Millinium will not receive the Cash Consideration but will retain the Borg Fund Securities.</p> <p>If the Proposed Transactions are not implemented, Lantern will continue to trade as a listed entity on the ASX and the Lantern Directors will continue to explore investment opportunities.</p> <p>Millinium will continue to hold the Borg Fund Securities and will be free to deal with this holding, including disposing of the Borg Fund Securities (or any part of it), in any way it decides, subject to the Corporations Act and the law.</p> <p>If the Proposed Transactions do not proceed, Lantern will be liable to pay the settlement fee of \$600,000 to Millinium (who will then pay that amount to CVC and Totem). The settlement fee will instead be payable by Millinium to CVC and Totem if Lantern Securityholders approve the Proposed Transactions by 31 July 2014.</p> <p>The Lantern Directors will explore the option of undertaking an on-market buy-back of the Lantern Securities but expect that this will require Lantern to</p>	<p>Section 5.6 provides further information on the implications for Lantern Securityholders if the Scheme does not proceed. Section 7.6 provides information on the other alternatives considered by the Lantern Directors.</p>

Question	Answer	More Information
	pay a higher price per Lantern Security than the 7.5 cents per security agreed with Millinium and is likely to result in a lesser number of Lantern Securities being bought back by Lantern.	
What happens to my Lantern Securities if I do not vote, or if I vote against the Proposed Transactions and the Proposed Transactions proceed?	<p>Regardless of whether or not the Proposed Transactions proceed you will retain your Lantern Securityholding unless you elect to dispose of your holding on market or otherwise.</p> <p>If the Proposed Transactions proceed you will retain the same number of Lantern Securities but your percentage Relevant Interest in Lantern will increase as a result of the total reduction in Lantern Securities on issue (once the Borg Fund Securities is cancelled upon implementation of the Proposed Transactions).</p> <p>If the Proposed Transactions do not proceed then both the number of Lantern Securities that you hold and your percentage Relevant Interest in Lantern will remain the same.</p>	Section 5 provides further information regarding the Proposed Transactions.
OTHER QUESTIONS		
What should I do?	You should read this Explanatory Information Booklet carefully in its entirety and then vote by attending the Meetings, or by appointing a proxy to vote on your behalf.	Section 4 provides further information regarding voting on the Proposed Transactions.
What will happen to Lantern if the Proposed Transactions proceed?	<p>If the Proposed Transactions proceed, Lantern will continue to trade and will remain listed on the ASX.</p> <p>The financial impact of the transaction will be a reduction in the total number of Lantern Securities outstanding. The Proposed Transactions will not result in any franking credits being expended.</p> <p>Regardless of the Proposed Transaction Lantern is required to pay Millinium \$1.4 million to settle the Supreme Court Action. If the Proposed Transaction is not approved by Lantern Securityholders then Lantern will be required to pay Millinium an additional \$600,000 (in addition to the \$1.4 million).</p> <p>The Lantern Directors believe that the payments made as a result of the Proposed Transactions proceeding (including any Cash Consideration), will not prejudice Lantern's ability to pay its creditors. In addition, the Independent Expert's Report has concluded that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders.</p>	Lantern Board's intentions for Lantern if the Proposed Transactions proceed are set out in Section 5.5.
Can I sell my Lantern Securities now?	You can sell your Lantern Securities on market at any time before the close of trading on ASX. The Proposed Transactions will not in any way restrict you from disposing of your securityholding - either before	

Question	Answer	More Information
What are the taxation implications of the Proposed Transactions?	<p>or after the Proposed Transactions are implement and if the Proposed Transactions are not implemented.</p> <p>The implementation of the Proposed Transactions will not in itself have any impact on your taxation position.</p> <p>The implementation of the Proposed Transactions will also not in itself have a material impact on the taxation position of Lantern.</p> <p>Your decision on how to vote on the Proposed Transactions should be made only after consultation with a financial, legal, taxation or other professional adviser based on your own investment objectives, financial situation, taxation position and particular needs.</p>	Section 5.12 contains a discussion regarding the tax implications of the Proposed Transactions
What are the proxy forms accompanying this Explanatory Information Booklet?	<p>There is a Proxy Form accompanying this Explanatory Information Booklet.</p> <p>If you wish to appoint a proxy to vote on your behalf at any of the Meetings you should complete and sign the Proxy Form and return it to the Lantern Registry in accordance with the instructions on that form.</p>	Section 4.3(d) provides further details about the proxy form.
Where can I get further information?	<p>For further information, you can call the Lantern Information Line on (02) 8223 3602 (within Australia) or +61 2 8223 3602 (outside Australia).</p> <p>If you are in any doubt about anything in this Explanatory Information Booklet, please contact your financial, legal, taxation or other professional adviser.</p>	

4. Meeting details and how to vote on the Proposed Transactions

If you are registered as a Lantern Securityholder on the Lantern Register as at 7:00pm (Sydney time) on 29 July 2014, you will, subject to applicable voting exclusions described below, be entitled to vote on the Proposed Transactions.

4.1 Meeting details

On 31 July 2014 commencing at 11.00 am (Sydney time), the Buy-Back Meeting and the Trust Scheme Meeting will be held consecutively, one immediately following the other. The resolutions to be considered at each meeting are inter-conditional on each of the others being passed by the requisite majorities of Lantern Shareholders (for the Buy-Back Meeting) and Lantern Unitholders (for the Trust Scheme Meeting).

At the Buy-Back Meeting, one resolution (conditional on the Trust Relief being obtained) will be proposed to Lantern Shareholders as follows:

- **Selective Buy-back:** the terms and condition of the selective buy-back agreement related to the off-market buy-back by Lantern Hotel Group Limited of the 214,724,222 Lantern Shares held by Millinium be approved.

At the Trust Scheme Meeting, two resolutions (both conditional on the Trust Relief being obtained) will be proposed to Lantern Unitholders as follows:

- **Constitution amendment:** a resolution to approve amendment of the LRET Constitution. The amendment will add a new Schedule 1 to the LRET Constitution, which gives Lantern RE, the responsible entity of LRET, powers to carry out the steps involved in implementing the Trust Scheme. It describes the mechanisms to deal with the payment for the Lantern Units, the transfer of Lantern Units to Lantern RE and their cancellation.
- **Approval of the Trust Scheme implementing the selective buy-back of units:** a resolution to approve the Trust Scheme and the terms and conditions of the selective buy-back agreement relating to the off-market buy-back by Lantern RE of 214,724,222 Lantern Units held by Millinium, as described in this Explanatory Information Booklet.

All the resolutions are interconditional, in that one cannot pass without the others also passing. They have different voting thresholds, as described below. As noted above, all of the resolutions are also conditional on Lantern obtaining the Trust Relief (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act) either before or after the Meetings.

Please refer to the Notices of Meetings in Annexures A and B for further information.

4.2 Voting Thresholds for the Meetings

For the resolution to approve the selective Buy-Back for the purposes of section 257D of the Corporations Act, by a special resolution (requiring a 75% majority) of the Lantern Securityholders present and voting (either in person or by proxy, attorney or corporate representative) on which no vote is cast in favour of the resolution by the Excluded Securityholders, which includes Millinium.

For the resolution to approve the LRET Constitutional amendments to pass (and to therefore facilitate the Trust Scheme), at least 75% of the votes cast by Lantern Securityholders present and voting (either in person or by proxy, attorney or corporate representative) on the resolution must be cast in favour of the resolution, with no votes cast in favour of the resolution by the Excluded Securityholders, which includes Millinium.

For the resolution to approve the acquisition of Lantern Units by Lantern RE by way of selective buy-back, at least 75% of the votes cast by Lantern Securityholders present and voting (either in person or by proxy, attorney or corporate representative) on the resolution must be cast in favour of the resolution, with no votes cast in favour of the resolution by the Excluded Securityholders, which includes Millinium.

For the purposes of Listing Rule 10.10.1, Lantern will disregard any votes cast on any resolution at the Meetings by Millinium (being a party to the Proposed Transactions) and any of its associates.

However, the entity need not disregard a vote if:

- it is cast by a person or a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In addition, in accordance with section 253E of the Corporations Act, Lantern RE and its associates are not entitled to vote their interests (if any) on any resolution at a meeting of Lantern Unitholders if they have an interest in the resolution or matter other than as a Lantern Unitholder. Lantern RE does not have any such interest as at the date of this booklet and nor do any of its associates.

If your Lantern Securities are jointly held, only one of the joint holders is entitled to vote. If more than one Lantern Securityholder votes in respect of jointly held Lantern Securities, only the vote of the Lantern Securityholder whose name appears first in the Lantern Register will be counted. You need not exercise all of your votes in the same way, nor do you need to cast all of your votes.

4.3 How to vote on the Meetings

(a) Voting entitlements

If you are registered on the Lantern Register at 7.00 pm (Sydney time) on Tuesday 29 July 2014 as a Lantern Securityholder, you will be entitled to vote on each of the resolutions to be considered at the Meetings, unless you are subject to a voting restriction (see section 4.3(f) below). Accordingly, registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the Meetings.

If Lantern Securities are jointly held, only one of the joint Lantern Securityholders is entitled to vote. If more than one joint Lantern Securityholder votes, only the vote of the Lantern Securityholder whose name appears first on the Lantern Register will be counted.

(b) Notices of Meeting

The resolutions to approve the Proposed Transactions will be considered at the Meetings, which comprise the Buy-Back Meeting and the Trust Scheme Meeting. These meetings will be held consecutively on Thursday 31 July 2014 commencing at 11:00 am (Sydney time) at Level 22, MLC Centre, 19-29 Martin Place, Sydney.

Lantern Securityholders entitled to vote at the Meetings can vote in person, by attorney, by proxy or by corporate representative (in the case of a corporate shareholder). You will be counted as being present at the relevant Meeting if you vote in any of these ways.

Voting at each of the Meetings will be by poll.

(c) Voting in person

Lantern Securityholders who are entitled to vote and wish to do so in person should attend the Meetings. On arrival at the Meetings, you will be required to provide your name and address and will be given a voting card.

Persons who are attending as an attorney should bring the original power of attorney (or a certified copy), unless a certified copy has previously been provided to Lantern.

Persons who are attending as a corporate representative should bring evidence of their appointment, which must comply with the relevant requirements of the Corporations Act.

(d) Voting by proxy

Lantern Securityholders who are entitled to vote and who wish to appoint a proxy to vote on their behalf at either the Buy-Back Meeting and/or the Trust Scheme Meeting must complete and sign the Proxy Form accompanying this booklet and either:

- (1) send it to the Lantern Registry using the reply paid envelope provided or by facsimile in accordance with the instructions on the Proxy Form; or
- (2) return it in person to the Lantern Registry in accordance with the instructions on the Proxy Form.

To be effective, completed Proxy Forms must be received by the Lantern Registry (whether in person, by mail or facsimile) by no later than 11:00am (Sydney time) on 29 July 2014 (or if the relevant meeting is adjourned, at least 48 hours before the resumption of the relevant Meeting in relation to the resumed part of that meeting).

If an attorney signs the Proxy Form on behalf of a Lantern Securityholder, the original power of attorney (or a certified copy) must be received by the Lantern Registry at the same time as the Proxy Form (unless a certified copy has previously been provided to Lantern). A proxy will be admitted to the relevant meeting and given a voting card at the point of entry to the relevant meeting on providing written evidence of their name and address.

Lantern Securityholders who complete and return the Proxy Form as set out above will not be precluded from attending in person and voting at the Meetings. Any such vote by a Lantern Securityholder will override their previously submitted Proxy Form.

(e) Quorum requirements

For the Trust Scheme Meeting, the quorum for a meeting of Lantern Unitholders is holders representing 10% of the value of Lantern Units on issue.

For the Buy-Back Meeting, the quorum is two Lantern Shareholders who are present at the meeting and entitled to vote on a resolution at the meeting.

(f) Voting restrictions

The Corporations Act and the proposed ASIC relief (described in Section 9.6) require no votes to be cast in favour of any of the resolutions at the Meetings by a person whose Lantern Securities are proposed to be bought back, or by their associates. Accordingly, Lantern will disregard any votes cast in favour of any of the resolutions cast at the Meetings by the Excluded Securityholders, which includes Millinium.

Lantern Securityholders should note that there is no certainty that the Trust Relief will be obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act) either prior to, or after, the Meetings are held.

For the purposes of Listing Rule 10.10.1, Lantern will disregard any votes cast on any resolution at the Meetings by Millinium (being a party to the Proposed Transactions) and any of its Associates.

However, the entity need not disregard a vote if:

- it is cast by a person or a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In addition, in relation to all the resolutions to be considered at the Trust Scheme Meeting, under section 253E of the Corporations Act, Lantern RE Limited (the responsible entity of LRET) and its associates are not entitled to vote if they have an interest in the particular resolution other than as a member. Any votes cast in contravention of this restriction will be disregarded.

(g) How do you exercise your right to vote?

All votes on the resolutions at the Buy-Back Meeting and the Trust Scheme Meeting will be decided on a poll.

On a poll at the Buy-Back Meeting, each Lantern Shareholder present in person or by proxy has one vote for each Lantern Share they hold. On a poll at the Trust Scheme Meeting, each Lantern Unitholder present in person or by proxy has one vote for each dollar of the value of the Lantern Units they hold.

5. Summary of the Proposed Transactions

5.1 Background

On 18 March 2014 and April 2014, Lantern made announcements in relation to a proposal for the acquisition by Lantern of the Borg Fund Securities, which the parties proposed be carried out by way of a selective security buy-back and cancellation of the Borg Fund Securities. The second announcement was made immediately after Lantern, Millinium, Totem and CVC signed a commercial settlement in relation to the Supreme Court Action.

The Supreme Court Action has now been settled and Lantern remains liable to pay certain settlement payments namely:

- (a) \$1.4 million which must be paid to Millinium by no later than 31 July 2014, and out of which amount Millinium must pay CVC and Totem \$400,000 each within 1 Business Day;
- (b) a further \$600,000 will be paid as follows relating to the settlement of the Supreme Court Action:
 - if the Proposed Transactions are approved by Lantern Securityholders by 31 July 2014, by Millinium to CVC and Totem no later than 6 October 2014; and
 - if the Proposed Transactions are not approved by the Lantern Securityholders by 31 July 2014, by Lantern to Millinium by 7th August 2014 which Millinium must then pay to CVC and Totem by 8th August 2014.

Lantern may be entitled to a rebate of some or all of the \$600,000 (if paid) in the event Millinium disposes of the Borg Fund Securities, to someone other than Lantern, before 1 August 2016 for a price above 7.2 cents per Lantern Security. The rebate is calculated by multiplying the number of securities disposed of by Millinium by the amount the disposal price exceeds 7.2 cents per security.

A summary of the Supreme Court Action is contained in section 9.1 of this Explanatory Information Booklet.

As the Lantern Securities are stapled securities this presents some complications in relation to implementing a selective buy-back. Section 257A of the Corporations Act authorises an Australian company, such as Lantern Hotel Group Limited, to buy-back its own shares if the buy-back does not materially prejudice the company's ability to pay its creditors and it follows the procedures set out in Division 2 of Part 2J.1 of the Corporations Act. However, the Corporations Act does not contain equivalent provisions for interests in managed investments schemes, such as the Lantern Units. Therefore, specific relief from ASIC and ASX is required to implement the selective buy-back of the Lantern Units contemporaneously with the selective buy-back of the Lantern Shares. Section 9.6 provides further detail on the ASIC and ASX relief which has been sought.

If the Proposed Transactions are approved and implemented (which is conditional on the Trust Relief being obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act)), all of the Lantern Shares and Lantern Units (being the Borg Fund Securities) owned by Millinium will be transferred as follows:

- (a) the Lantern Shares - to Lantern Hotel Group Limited; and
- (b) the Lantern Units - to Lantern RE.

Once the buy-backs of the Borg Fund Securities have been implemented the relevant securities will then be immediately cancelled.

This Explanatory Information Booklet contains important information that you should consider before voting on the Proposed Transactions. The non-executive Lantern Directors encourage you to read this Explanatory Information Booklet in its entirety and recommend that you vote in favour of the Proposed Transactions.

5.2 Overview of Proposed Transactions implementation steps

The key steps to implement the Proposed Transactions are:

- (1) Lantern Securityholders will vote on whether to approve the Proposed Transactions at the Meetings. Lantern Shareholders will vote at the Buy-Back Meeting and Lantern Unitholders will vote at the Trust Scheme Meeting.
- (2) If Lantern Securityholders approve the Proposed Transactions, the Trust Relief has been obtained and all Conditions Precedent to the Proposed Transactions have been satisfied or waived, Lantern can proceed to implement the Proposed Transactions. The implementation of the Proposed Transactions will occur as soon as practicable after all relevant approvals have been obtained. The implementation date is the Effective Date and at present the target date for implementation is 5 August 2014 or as soon as practicable after that date.
- (3) On the Effective Date, Lantern will acquire all of the Borg Fund Securities and will incur the obligation to provide the Cash Consideration to Millinium on a deferred basis within a 2 year period from 31 July 2014. The Borg Fund Securities will be immediately cancelled.
- (4) Following implementation of the Proposed Transactions, Lantern will continue to trade on the ASX and the Lantern Directors will continue to operate Lantern as it had done prior to the Proposed Transactions.

These steps are discussed further below. The expected dates for the key steps are set out in the Important Dates section of this Explanatory Information Booklet (but those dates are indicative only and subject to change).

Lantern and Millinium are currently in the process of finalising the Buy-Back Agreement under which the parties agree to implement the Proposed Transactions. A summary of the key terms of the Buy-

Back Agreement is set out in section 5.9 and a copy of the current draft of the Buy-Back Agreement is provided in Annexure C.

The Trust Scheme is proposed to be implemented via the amendment to the LRET Constitution as set out in the Supplemental Deed. A copy of the current draft of the Supplemental Deed is provided in Annexure E.

5.3 Meetings

The purpose of the Buy-Back Meeting is for Lantern Shareholders to consider whether to approve the Buy-Back. Lantern Shareholders who are registered in the Lantern Register at 7.00pm (Sydney time) on Tuesday, 29 July 2014 are entitled to vote at the Buy-Back Meeting. Court approval is not required for the Buy-Back Meeting.

The voting exclusions set out in section 4.3(f) apply to the Buy-Back Meeting.

Further details on how to vote are provided in Section 4 and in the Notice of Buy-Back Meeting included as Annexure A.

The purpose of the Trust Scheme Meeting is for Lantern Unitholders to consider whether to approve the Trust Scheme. Lantern Unitholders who are registered on the Lantern Register at 7.00pm (Sydney time) on Tuesday, 29 July 2014 are entitled to vote at the Trust Scheme Meeting. The voting exclusions set out in section 4.3(f) apply to the Trust Scheme Meeting.

Court approval is not required for the Trust Scheme Meeting, however, Lantern RE reserves the right to seek judicial advice under section 63 of the *Trustee Act 1925* (NSW) in connection with the Proposed Transaction if deemed necessary or expedient.

Further details on how to vote are provided in Section 4 and in the Notice of Trust Scheme Meeting included as Annexure B.

5.4 Approvals required by Lantern Securityholders

Details on how to vote on the Buy-Back Meeting and the Trust Scheme Meeting are set out in Section 4, together with the applicable voting thresholds which must be met to secure approval of the Proposed Transactions.

5.5 If the Proposed Transactions proceed

If approved by Lantern Securityholders, and subject to the Conditions Precedent (discussed further below) and conditional on Lantern obtaining the Trust Relief (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act) the Proposed Transactions will be implemented on the Effective Date. The target Effective Date is currently 5 August 2014.

If approved and implemented, the Proposed Transactions will result in:

- the transfer of the Lantern Shares to Lantern Hotel Group Limited and the immediate cancellation of those shares;
- the transfer of the Lantern Units to Lantern RE and the immediate cancellation of those units;
- Millinium being paid the Cash Consideration over a period of up to 2 years; and
- Lantern continuing to trade on the ASX as a stand alone entity.

Interest on any outstanding Cash Consideration will be payable quarterly from 31 July 2014.

Lantern will remain in a strong financial position after implementation and on this basis the Proposed Transactions do not prejudice the company's ability to pay its creditors.

The impact of the Proposed Transactions, namely the buy-back and cancellation of the Borg Fund Securities, is described in Sections 7.5 and 7.10.

5.6 If the Proposed Transactions do not proceed

If the Proposed Transactions are not implemented, Lantern will continue to trade as a listed entity on the ASX and the Lantern Directors will continue to explore investment opportunities, including the opportunity to buy-back Lantern Securities via an on-market buy-back. The Lantern Directors believe that the on-market buy-back price which can be achieved is likely to be higher than the price agreed with Millinium in relation to the Borg Fund Securities.

Millinium will continue to hold the Borg Fund Securities and will be free to deal with this holding, including disposing of the Borg Fund Securities (or any part of it), in any way it decides, subject to the Corporations Act and the law. Lantern does not have any information about what Millinium might do with the Borg Fund Securities if the Proposed Transactions do not proceed.

5.7 Recommendation of Lantern Directors

The non-executive Lantern Directors consider that the Proposed Transactions are in the best interests of Lantern Securityholders and unanimously recommend that Lantern Securityholders vote in favour of the Proposed Transactions at the Meetings for the reasons set out in Section 1. As at the date of this Explanatory Information Booklet, no other proposal for Lantern's investment of the Cash Consideration has emerged.

The non-executive Lantern Directors consider that the reasons for Lantern Securityholders to vote in favour of the Proposed Transactions outweigh the reasons to vote against the Proposed Transactions.

Each Lantern Director intends to vote in favour of the Proposed Transactions in respect of their personal holdings of Lantern Securities and any proxies placed at their discretion.

In making their recommendation, the non-executive Lantern Directors have considered the following:

- the reasons for Lantern Securityholders to vote in favour of the Proposed Transactions, as set out in Section 1;
- the reasons for Lantern Securityholders to vote against the Proposed Transactions as set out in Section 2;
- the risks associated with the Proposed Transactions, as set out in Section 6; and
- the Independent Expert's Report (which has concluded that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders), a summary of which is set out in Section 5.8.

Before making your decision in relation to the Proposed Transactions, the Lantern Directors encourage you to:

- read this Explanatory Information Booklet in its entirety (including the Independent Expert's Report and the Buy-Back Agreement);
- have regard to your investment objectives, financial situation, tax position or particular needs; and
- obtain independent financial, legal, taxation or other professional advice if required.

The interests of Lantern Directors are disclosed in Section 9.2.

5.8 Independent Expert

Lantern engaged the Independent Expert to consider whether the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders and prepare a report with its findings and conclusions. The Independent Expert has concluded that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders.

The Independent Expert has concluded that the Proposed Transactions are fair as the fair market value of a Lantern Security after the Proposed Transactions (on a minority basis) is towards the upper end of the range of assessed fair market values of a Lantern Security, as determined by the Independent Expert, before the Proposed Transactions (on a control basis).

The Independent Expert has concluded the Proposed Transactions are reasonable to the Non-participating Lantern Securityholders after considering the factors which the Non-participating Lantern Securityholders may consider in their assessment of the Proposed Transactions.

A copy of the complete Independent Expert's Report (which sets out further details about the Independent Expert's conclusions) is set out in Annexure D.

5.9 Buy-Back Agreement

The draft Buy-Back Agreement sets out the rights and obligations of Millinium and Lantern in connection with the Proposed Transactions, including the Buy-Back for the purpose of section 257D of the Corporation Act and the Trust Scheme under the LRET Constitution.

The key terms of the Buy-Back Agreement are summarised below. The Buy-Back Agreement is subject to continued negotiation between the parties. A full copy of the current draft of the Buy-Back Agreement is also contained in Annexure C. A copy of the final Buy-Back Agreement will be disclosed to ASX prior to 31 July 2014.

(a) Conditions Precedent

The following conditions need to be satisfied or waived prior to the Effective Date and otherwise in accordance with the Buy-Back Agreement:

- approvals from all relevant Australian regulatory bodies such as FIRB, ASIC and ASX (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act);
- securityholders' approval at the Trust Scheme and the Buy-Back at the Meetings;
- consent from Lantern's senior lender;
- the Independent Expert has not withdrawn or changed its opinion;
- no action or prohibition by a Government Agency to prevent implementation of the Proposed Transactions; and
- the warranties given by Millinium remain correct.

(b) Break fee

There is no break fee payable by either party if the Proposed Transactions are not Implemented. However, please refer to Section 9.1 which summarises the settlement payments payable in relation to the settlement of the Supreme Court Action.

(c) Terms of the Buy Back

The current draft of the Buy-Back Agreement sets out the terms on which the Proposed Transactions will be implemented, as described in this booklet. It also obliges the parties to proceed with the implementation of the Proposed Transactions with a target date of 5 August 2014.

Under the current draft of the Buy-Back Agreement, Millinium gives certain warranties in relation to (amongst other things) its title and ownership of the Borg Fund Securities.

5.10 Cash Consideration

If the Proposed Transactions are approved at the Meetings and the Proposed Transactions become effective, Millinium will receive the Cash Consideration of 7.5 cents for each Lantern Security that is held on the Record Date, being \$16,104,316.65 cash consideration on a deferred basis over up to a maximum of 2 years bearing an interest rate of 8% from 31 July 2014. Interest will be payable to Millinium quarterly.

5.11 Effective Date

The Lantern Directors intend to implement the Proposed Transactions as soon as practicable. The implementation date is the Effective Date and at present the target date for implementation is 5 August 2014.

Matters impacting on timing of implementation include obtaining necessary ASIC relief (described in Section 9.6) and obtaining any necessary third party consents.

5.12 Tax implications of the Proposed Transactions

The Proposed Transactions will not in themselves have any taxation implications for Lantern or any of the Non-participating Lantern Securityholders. However, Lantern Securityholders should seek their own independent financial, tax and investment advice in relation to the Proposed Transactions.

5.13 Announcement of financial results –will not be released prior to Meetings

Lantern expects to announce its full year results to 30 June 2014 by the end of August 2014. This is a date after the Meetings.

Accordingly, Lantern Securityholders should refer to the audited financial statements for the half-year ended 31 December 2013 as lodged with ASX on 28 February 2014 and ASX market releases by Lantern for information relating to the financial results of Lantern.

5.14 If the Proposed Transactions do not proceed

If the Proposed Transactions are not approved at the Meetings, then the Proposed Transactions will not be Effective and will not proceed. Millinium will not receive the Cash Consideration but will retain the Borg Fund Securities. Lantern will continue to operate as a stand-alone company listed on ASX.

If the Proposed Transactions are not implemented, Lantern will continue to trade as a listed entity on the ASX and the Lantern Directors will continue to explore investment opportunities and manage its existing assets.

Millinium will continue to hold the Borg Fund Securities and will be free to deal with this holding, including disposing of the Borg Fund Securities (or any part of it), in any way it decides. If the Proposed Transactions do not proceed and Millinium elects to dispose of the Borg Fund Securities, the Lantern Directors expect that the Lantern Security price is likely to fall, at least in the short term.

If the Proposed Transactions do not proceed, Lantern will be liable to pay the settlement fee of \$600,000 to Millinium (who will then pay that amount to CVC and Totem). The settlement fee will

instead be payable by Millinium to CVC and Totem if Lantern Securityholders do approve the Proposed Transactions.

Lantern may be entitled to a rebate of some or all of the \$600,000 (if paid) in the event Millinium disposes of the Borg Fund Securities, to someone other than Lantern, before 1 August 2016 for a price above 7.2 cents per Lantern Security. The rebate is calculated by multiplying the number of securities disposed of by Millinium by the amount the disposal price exceeds 7.2 cents per security.

The Lantern Directors expect that, if the Proposed Transactions do not proceed, and no alternative proposal emerges, the Lantern Security price is likely to fall, at least in the short term, in particular if Millinium elects to dispose of the Borg Fund Securities on market.

5.15 Obtaining further information

Answers to various frequently asked questions in relation to the Proposed Transactions are set out in Section 3.

Alternatively, you can contact the Lantern Information Line on (02) 8223 3602 (within Australia) or +61 2 8223 3602 (outside Australia). If you are in any doubt about anything in this Explanatory Information Booklet, contact your financial, legal, taxation or other professional adviser.

6. Risks associated with the Proposed Transactions

6.1 Financial considerations - debt, gearing and cash reserves

The principal disadvantage of the Proposed Transactions will be an increase in liabilities as a result of the deferred consideration commitment payable to Millinium.

The Proposed Transactions provide Lantern with the opportunity to acquire the Borg Fund Securities on a deferred consideration basis (allowing up to 2 years for Lantern to make payment in full). Accordingly, Lantern's interest bearing liabilities will increase by up to \$16.1 million. If the Proposed Transactions are approved, Lantern's gearing ratio (calculated as total interest bearing liabilities less cash to total assets less cash) will increase from 31% to approximately 42%. This remains inside Lantern's target range which is 35% to 50%. Given the headroom available in Lantern's current finance facility, the increase in debt and gearing is not expected to materially impact Lantern's ability to fund future acquisitions and capital expenditure.

Under the Proposed Transactions, any outstanding cash consideration not paid by Lantern by 31 July 2014 will accrue interest at 8% per annum. Interest on outstanding Cash Consideration will be payable to Millinium on a quarterly basis. While this interest rate is not considered to be unreasonable for unsecured funding to Lantern, it will reduce Lantern's pro-forma earnings to the extent that the consideration remains unpaid.

Net proceeds from the sale of its assets in New Zealand previously intended to be used for on market buybacks will now be used towards payment of the deferred consideration. At this stage, it is not possible for Lantern to determine the proportion of the Cash Consideration which will be settled from the proceeds of sale of the New Zealand assets as the sales are yet to occur. The proportion will depend on the timing of the sales and the amount of sale consideration obtained for the New Zealand assets. As at 31 December 2013 the New Zealand assets were carried in Lantern's financial statements at \$7.428 million.

The Lantern Group is currently carrying out an active marketing campaign in relation to three of the five New Zealand assets and the Lantern Directors have a reasonable expectation of those assets being sold by 31 December 2014. Once these disposals have occurred, the Lantern Board will make the necessary decisions in relation to the remaining two New Zealand assets, including potential marketing programs for those assets.

The Proposed Transactions require cash of \$16.1 million to be paid to buy back the Borg Fund Securities. This will potentially make Lantern a less attractive investment proposition for those investors that take into consideration asset size and market capitalisations in their investment decisions.

The Lantern Directors believe that the increase in liabilities as a result of the deferred consideration obligation will not prejudice Lantern's ability to pay its creditors.

6.2 Increase in Relevant Interest

If the Proposed Transactions are implemented, as a result of the cancellation of the Borg Fund Securities and consequent reduction in the total number of Lantern Securities on issue, the Relevant Interest of every Lantern Securityholder (other than Millinium) will increase. Millinium will cease to have a Relevant Interest in Lantern Securities.

The Relevant Interest held by certain key securityholders in Lantern will increase as follows:

- Torchlight's Relevant Interest in Lantern Securities will increase from 30.19% to 39.89% upon cancellation of the Borg Fund Securities.

- Allan Gray Australia's Relevant Interest in Lantern Securities will increase from 18.18% to 24.02%.

The increase in the Relevant Interest held by those parties will not permit either of those parties individually to pass any ordinary resolutions, those requiring a simple majority, or special resolutions (those requiring a 75% or more vote). However, those parties will have an increased ability to strategically block future securityholder resolutions they do not support and block future interested parties making a takeover for Lantern.

Additionally, some potential bidders for Lantern may consider Torchlight's and Allan Gray Australia's increased securityholding to be a deterrent to making an offer for Lantern Securities.

As noted above, the Relevant Interests of other Lantern Securityholders will increase. This is disclosed further in the table in Section 7.5 of this Explanatory Information Booklet.

6.3 Impact on Liquidity

There are currently 883,202,130 Lantern Securities on issue. Of these, 214,724,222 will be bought back under the Proposed Transactions if they are implemented. There has been limited liquidity in Lantern Securities over the 12 months to June 2014. Therefore, for remaining Lantern Securityholders, the Proposed Transactions may result in a further reduction of liquidity.

6.4 Loss of Investment Opportunities

If the Proposed Transactions do not proceed, it is possible that an alternative superior proposal could emerge that offers a better investment opportunity to Lantern in respect of the use of the amount of the Cash Consideration and greater value for Lantern Securityholders than would be realised under the Proposed Transactions. The implementation of the Proposed Transactions may mean that Lantern was unable to pursue that alternative investment opportunity and that Lantern Securityholders may not obtain the benefit of any such alternative investment.

Upon implementation of the Proposed Transactions, to the extent that Lantern pays the Cash Consideration there will be a decrease in Lantern's cash reserves as a result of the payment to Millinium and to the extent that Lantern defers payment of the Cash Consideration it will incur the additional interest debt at 8% per annum on any Cash Consideration which remains outstanding from 31 July 2014.

7. Information about Lantern

In accordance with the responsibility statement in the Important Notices section of this Explanatory Information Booklet, Lantern has been solely responsible for preparing the information in this Section 7.

7.1 Background Information

Lantern is a stapled entity that is listed on the ASX comprising Lantern Units stapled on a one-for-one basis with Lantern Shares.

Lantern Group invests in the freehold title and management of various hotels and entertainment venues throughout Australia and New Zealand.

Lantern Group's registered office address is located at Level 10, 9 Castlereagh St, Sydney, NSW, Australia, 2000.

Lantern Group has approximately 300 employees.

A brief history of Lantern is set out below.

- ING Real Estate Entertainment Fund (“IEF”) was registered on 20 May 2004 as a managed investment scheme under Chapter 5C of the *Corporations Act 2001* (Cth) and listed that same year.
- On 6 December 2011, Lantern RE (which was formerly known as Bodiam RE Limited) a subsidiary of Lantern Hotel Group Limited (which was formerly known as Bodiam Hotel Group Limited) replaced ING Management Limited as the responsible entity of IEF.
- In early 2012, IEF undertook the process of stapling and internalisation of its management whereby the units of IEF were stapled to the shares of Lantern Hotel Group Limited. This process was completed on 26 April 2012.
- In June 2012, the Lantern Group purchased the operating assets of the Lantern Group's largest tenant marking the transformation of the Lantern Group's core business from a passive landlord to an integrated hotel owner and operator.
- Lantern Group adopted the name Lantern Hotel Group on 28 November 2012 at which point IEF was renamed the Lantern Real Estate Trust and Bodiam Hotel Group Limited was renamed Lantern Hotel Group Limited.

Lantern currently operates 11 hotels predominantly throughout New South Wales. Lantern also owns the freehold position of 3 other hotels located in Brisbane and Western Australia. In addition, Lantern owns 5 hotels in New Zealand which it intends to dispose. The Lantern Group generates the majority of its income from food, beverage and gaming machine revenue.

7.2 Recent strategic focus

The primary strategic focus for the 2014 financial year is continuing to build a stable platform and integrated operating structure to support sustainable business operations and future growth. This has involved conducting ongoing capital expenditure throughout most of the venues.

As announced to ASX and in line with its capital management strategy, Lantern has also actively undertaken an on-market buy-back and between the period of 3 April 2013 to 28 June 2013 has purchased 88,749,758 Lantern Securities on market at prices ranging between 7.5 cents and 8.0 cents per Lantern Security.

As well as the ongoing capital expenditure, a key strategic incentive for 2014 is the implementation of the Proposed Transactions.

7.3 Lantern Directors and senior management

The Lantern Board comprises the following persons:

Bryan Mogridge (Non-Executive Chairman)

Deborah Cartwright (Non-Executive Director)

Julian Davidson (Non-Executive Director)

Russell Naylor (Executive Director)

7.4 Capital structure

(a) Securities on issue

As at 27 June 2014, Lantern has on issue 883,202,130 stapled securities.

(b) Substantial Lantern Securityholders

Lantern's substantial securityholders as disclosed to ASX are set out below.

Please note that the information below is based on information disclosed to the ASX and may not disclose positions held through nominees, to the extent these are in fact held.

Securityholder	Number of Lantern Securities	Percentage held of total Lantern Securities
Torchlight	266,626,935	30.19%
Millinium	214,724,222	24.31%
Allan Gray Australia	160,593,723	18.18%
Renaissance Property Securities Pty Ltd	75,564,522	8.56%
Colonial First State Investment Limited	45,025,520	5.10%
Other	120,667,208	13.66%
Total	883,202,130	100.00%

(c) Torchlight and Allan Gray Australia

Torchlight (which currently holds 30.19% of the Lantern Securities) and Allan Gray Australia (which currently holds 18.18% of the Lantern Securities) will be permitted to vote on the Proposed Transactions.

The Lantern Directors do not consider any legal, regulatory or policy basis for excluding either Torchlight or Allan Gray Australia from voting on the Proposed Transactions. In this respect, we note:

- Neither Lantern Securityholder will have its Lantern Securities bought back or cancelled as a result of the Proposed Transactions and will not receive any benefit under the Proposed Transactions, except for any increase in its Relevant Interest which benefit is in line with that received by other Lantern Securityholders.

- Torchlight's Relevant Interest in Lantern will increase to 39.89% and Allan Gray Australia's interest in Lantern will increase to 24.02% as a result of the cancellation of the Borg Securityholding, which will not result in either securityholder having control of Lantern.
- Neither Torchlight nor Allan Gray Australia are associated with Millinium and are not associated with each other.
- While Lantern Director, Russell Naylor, is an Executive Director and Investment Committee Member of Torchlight he has not had, and will not have, any involvement in Torchlight's decision making process in relation to the Proposed Transactions.

(d) Range of Lantern Securityholders

As at 27 June 2014, the following table represents the distribution of Lantern Securityholders owning Lantern Shares.

Range	Lantern Securities	%	No of Holders
100,001 and Over	852,602,335	96.54	227
10,001 to 100,000	27,637,448	3.13	825
5,001 to 10,000	2,123,814	0.24	259
1,001 to 5,000	812,967	0.09	232
1 to 1,000	25,566	0.00	99
Total	883,202,130	100.00	1,642

The above table is based on the information from the Lantern Registry and may not be reflective of the true number and diversity of Lantern Securityholders. It is not always possible for Lantern to be able to distinguish between multiple security holders and one security holder that hold parcels of Lantern Securities through a number of different nominees.

The number of Lantern Securityholders holding less than a marketable parcel is 391, and these Lantern Securityholders hold a total of 1,193,567 Lantern Securities.

7.5 Impact of the Proposed Transactions on Relevant Interests held by Lantern Securityholders

The following table outlines the impact that the Proposed Transactions will have on the Relevant Interest held by the top 5 Lantern Securityholders.

Securityholder	Number of Securities	Current percentage held of total Lantern Securities	Percentage held of total Lantern Securities if the Transaction proceeds
Torchlight	266,626,935	30.19%	39.89%
Millinium	214,724,222	24.31%	0.00%
Allan Gray Australia	160,593,723	18.18%	24.02%
Renaissance Property Securities Pty Ltd	75,564,522	8.56%	11.30%
Colonial First State Investment Limited	45,025,520	5.10%	6.74%
Other	120,667,208	13.66%	18.05%
Total	883,202,130	100.00%	100.00%

7.6 Lantern Directors' intentions

If the Proposed Transactions proceed, it is intended that the Lantern Directors will continue to implement the current strategy of reinvesting in Lantern's core assets, making acquisitions and exiting New Zealand. It should not affect Lantern's current employees. It should not affect the Lantern Group's operations.

The Lantern Group is currently carrying out an active marketing campaign in relation to three of the five New Zealand assets and the Lantern Directors have a reasonable expectation of those assets being sold by 31 December 2014. Once these disposals have occurred, the Lantern Board will make the necessary decisions in relation to the remaining two New Zealand assets, including potential marketing programs for those assets.

If the Proposed Transactions do not proceed, and no superior investment opportunity arises, the Lantern Directors will continue to pursue on market buy backs and continue to implement the capital management strategy previously disclosed to the market.

The non-executive Lantern Directors believe that the Proposed Transactions are likely to deliver benefits to Lantern Securityholders greater than other alternatives which have been considered.

7.7 Historical financial information

(a) Basis of presentation

The following section sets out summaries of certain consolidated historical financial information about Lantern for the financial year ending June 2013 and the 6 months ending December 2013.

The financial information is presented in a summary form and consequently does not contain all of the disclosures that are usually provided in an annual report prepared in accordance with the *Corporations Act*. Further financial information is available in the Lantern Group 2013 annual report and the half year financial statements to 31 December 2013, which are available from the Lantern Group website at www.lanternhotels.com.au. These reports set out Lantern Group's significant accounting policies during these periods.

The historical financial information has been extracted from the Lantern Group audited financial statements, where HLB Mann Judd have issued an unqualified audit opinion.

(b) Financial summary

	6 Months ended December 2013 \$M	Financial Year ended June 2013 \$M
Revenue	26.0	50.6
Earnings before Interest and tax	6.5	12.9
Net Profit	(0.6)	3.7
Gross Assets	176.1	211.1
Total Bank Debt	56.7	90.2
Net Assets	102.0	100.6

(c) Consolidated Income Statement

Set out below is a summary of Lantern Groups' historical consolidated income statements for the financial years ended June 2012 and June 2013.

	6 Months Ended December 2013 \$'000	Year Ended June 2013 \$'000
Revenue from continuing operations	24,742	42,694
Cost of sales	(9,888)	(17,413)
Gross profit from continuing operations	14,854	25,281
Other revenue	1,213	7,911
Other income	3,912	7,047
Share of profits – associates	-	496
Hotel expenses	(11,958)	(19,281)
Administration expenses	(2,869)	(8,590)
Changes in fair value of property, plant, equipment and intangibles	(3,000)	
Finance costs	(4,312)	(9,714)
Net profit/(loss) from continuing operations from the year before income tax expense	(2,160)	3,150
Income tax expense		-
Profit from continuing operations after income tax expense	(2,160)	3,150
Discontinued operations		
Profit/(loss) from discontinued operations	1,545	581
Profit/(loss) for the period	(615)	3,731
Profit is attributable to:		
Stapled security holders as		
Equity holders of Lantern Real Estate Trust (parent interest)	(1,186)	3,232
Equity holders of Lantern Hotel Group Limited (non-controlling interest)	571	499
	(615)	3,731
	Cents	Cents
Distributions per security – there are no distributions expected	-	-
Profit/(loss) per stapled security attributable to the ordinary security holders of the Trust - basic and diluted	(0.07)	0.33
Profit/(loss) per stapled security attributable to the ordinary security holders of the Trust from continuing operations - basic and diluted	(0.24)	0.27
Revaluation surplus	2,884	750
Exchange rate differences on translation of foreign operations	(890)	(719)
Total comprehensive profit / (loss) for the period – stapled entity	1,379	3,762

(d) Consolidated Balance Sheet

Set out below is a summary of Lantern Group's historical consolidated balance sheets for the six months ended December 2013 and the financial year ended June 2013.

	December 2013 \$'000	June 2013 \$'000
Current assets		
Cash and cash equivalents	3,060	56,202
Trade and other receivables	2,075	2,322
Inventories	1,303	1,103
Assets of discontinued operations	7,428	9,367
Total Current Assets	13,866	68,994
Non-current assets		
Investment properties	20,400	19,100
Property, plant and equipment	112,123	95,545
Intangibles	29,090	26,640
Deferred tax asset	108	108
Other	526	755
Total Non-current Assets	162,247	142,148
Total Assets	176,113	211,142
Current liabilities		
Payables	7,626	9,076
Borrowings	66	64
Derivatives	2,421	3,419
Provisions	60	70
Total Current Liabilities	10,173	12,629
Non-current liabilities		
Payables	900	450
Borrowings	56,813	90,328
Derivatives	6,181	7,077
Provisions	85	76
Total Non-current Liabilities	63,979	97,931
Total Liabilities	74,152	110,560
Net Assets	101,961	100,582
Security holders interest attributable to stapled security holders as:		
Equity holders of Lantern Real Estate Trust (parent interest)		
Issued units	222,122	222,122
Reserves	1,866	(128)
Retained earnings/(accumulated losses)	(124,353)	(123,167)
Total unit holders' interest attributable to equity holders of Lantern Real Estate Trust (parent interest)	99,635	98,827
Equity holders of Lantern Hotel Group Limited (non-controlling interest)		
Issued shares	2,786	2,786
Retained earnings/(accumulated losses)	(460)	(1,031)
Total shareholders' interest attributable to equity holders of Lantern Hotel Group Limited (non-controlling interest)	2,326	1,755
Total Security Holders' Interest	101,961	100,582
Net Asset Value per security	11.5 cents	11.4 cents

(e) Consolidated Statement of Cash Flows

Set out below is a summary of Lantern Group's historical consolidated statements of cash flows for the financial years ended June 2012 and June 2013.

	December 2013 \$'000	June 2013 \$'000
Cash flows from operating activities		
Cash receipts from customers (inclusive of GST)	28,980	50,418
Proceeds from insurance claim	62	-
Cash paid to suppliers and employees (inclusive of GST)	(25,127)	(44,375)
Interest received	456	5,738
Interest paid	(3,595)	10,369
Net cash from operating activities	776	1,412
Cash flows from investing activities		
Proceeds from sale of discontinued operations	2,260	-
Payment for property, plant and equipment	(2,616)	(4,669)
Earnings from equity investment		932
Proceeds from sale of equity investment		24,000
Proceeds from loans repaid by third parties	200	63,090
Payment for acquisition of business, net of cash required	(16,325)	(51)
Payment for loans to third parties		-
Proceeds from loan extension fees		435
Net cash inflow from investing activities	(16,481)	83,737
Cash flows from financing activities		
Proceeds from issue of units		-
Unit issue costs		-
Payment for borrowing costs	(511)	(748)
Proceeds from borrowings	16,513	
Repayment of borrowings	(50,000)	(27,348)
Payment for cancelled interest rate swaps	(1,412)	
Repayment of finance leases	(32)	
Payment for securities bought back	(1,999)	(4,978)
Net cash inflow from financing activities	(37,441)	(33,074)
Net increase in cash or cash equivalents	(53,146)	52,075
Cash or cash equivalents at the beginning of the period	56,202	4,116
Cash acquired – Lantern		-
Effects of exchange rate changes on cash	2	11
Cash and cash equivalents at the end of the period	6	3,060

(f) Management discussion and analysis of historical performance

Since Lantern Group began operating its hotel assets its performance has been negatively impacted by the disruption caused by its capital expenditure programs. As a number of hotel's capital programs are completed, Lantern expects to see improved performance at those venues. This increase may be offset by further disruption at other venues where the capital expenditure is beginning or ongoing.

The Lantern Group's balance sheet remains robust with total borrowings representing 32% of total assets at 31 December 2013.

While overall gearing is low, the Lantern Group's interest expense is significantly negatively affected by the out of the money swaps entered into by the previous responsible entity. These swaps are due to expire in 2017.

7.8 Recent security price history



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7.9 Material changes in Lantern Group's financial position since 31 December 2013

The last financial statements presented to Lantern Securityholders in a general meeting and sent to Lantern Securityholders were the audited financial statements for the half-year ended 31 December 2013, as lodged with ASX on 28 February 2014. To the knowledge of the Lantern Directors, there have been no material changes to the financial position of Lantern Group since 31 December 2013.

7.10 Financial Impact of Proposed Transactions on the Company and on Creditors

Pro-Forma Balance Sheets (\$'000)	December 2013 (audited)	Effect of the settlement of the Supreme Court Action	Pro-forma balance sheet including the effects of the settlement of the Supreme Court Action	Effect if the transaction proceeds	Pro-forma balance sheet assuming the transaction proceeds	Effect if the transaction does not proceed	Pro-forma balance sheet assuming the transaction does not proceed
Current assets							
Cash & cash equivalents	3,060	(1,400)	1,660		1,660	(600)	1,060
Trade & trade receivables	2,075		2,075		2,075		2,075
Inventories	1,303		1,303		1,303		1,303
Assets of discontinued operations	7,428		7,428		7,428		7,428
Total current assets	13,866	(1,400)	12,466	-	12,466	(600)	11,866
Non-current assets							
Investment properties	20,400		20,400		20,400		20,400
Property, plant and equipment	112,123		112,123		112,123		112,123
Intangibles	29,090		29,090		29,090		29,090
Deferred tax asset	108		108		108		108
Other	526		526		526		526
Total non-current assets	162,247	-	162,247	-	162,247	-	162,247
Total assets	176,113	(1,400)	174,713	-	174,713	(600)	174,113
Current liabilities							
Payables	7,626		7,626		7,626		7,626
Borrowings	66		66		66		66
Derivatives	2,421		2,421		2,421		2,421
Provisions	60		60		60		60
Total current liabilities	10,173	-	10,173	-	10,173	-	10,173
Non-current liabilities							
Payables	900		900	16,104	17,004		900
Borrowings	56,813		56,813		56,813		56,813
Derivatives	6,181		6,181		6,181		6,181
Provisions	85		85		85		85
Total non-current liabilities	63,979	-	63,979	16,104	80,083	-	63,979
Total liabilities	74,152	-	74,152	16,104	90,256	-	74,152
Net assets	101,961	(1,400)	100,561	(16,104)	84,457	(600)	99,961
Security holders' interest							
Issued securities	224,908		224,908	(16,104)	208,804		224,908
Reserves	1,866		1,866		1,866		1,866
Retained earnings	(124,813)	(1,400)	(126,213)		(124,813)	(600)	(126,813)
Total security holders' interest	101,961	(1,400)	100,561	(16,104)	85,857	(600)	99,961
Number of securities (000's)	883,202		883,202	(214,724)	668,477		883,202
Net assets per share (cents)	11.54		11.54		12.63		11.32

The financial impact of the Proposed Transactions will be a reduction in the share capital of the Lantern Hotel Group Limited. The Proposed Transactions will not result in any franking credits being expended.

Regardless of whether the Proposed Transactions are implemented and the timing of that implementation, Lantern is required to pay Millinium \$1.4 million to settle the Supreme Court Action.

If the Proposed Transactions do not proceed then Lantern will be required to pay Millinium an additional \$600,000 (in addition to the \$1.4 million).

Lantern may be entitled to a rebate of some or all of the \$600,000 (if paid) in the event Millinium disposes of the Borg Fund Securities, to someone other than Lantern, before 1 August 2016 for a price

above 7.2 cents per Lantern Security. The rebate is calculated by multiplying the number of securities disposed of by Millinium by the amount the disposal price exceeds 7.2 cents per security.

As disclosed in the Company's half-yearly report disclosed to the market on 28 February 2014, being the half-yearly as at 31 December 2013, the Company has \$3.06 million in cash assets and equivalents. The Lantern Directors believe that the payment of the Cash Consideration will not materially prejudice Lantern's ability to pay its creditors.

In addition, the Independent Expert's Report has concluded that the Proposed Transactions are fair and reasonable to Non-participating Lantern Securityholders.

7.11 Continuous disclosure and publicly available information

Lantern Group is committed to continuous disclosure of material information as a means of promoting transparency and investor confidence. The Lantern Group has established a continuous disclosure policy based on the ASX Corporate Governance Principles and Recommendations in ASX Guidance Note 8 - "Continuous Disclosure Listing Rule 3.1". The policy details legal obligations with regard to continuous disclosure and establishes guidelines to assist the board in its decision making. Lantern Group has appointed a continuous disclosure manager responsible for ensuring that specific procedures are implemented in accordance with the policy. The disclosure policy details legal obligations with respect to periodic disclosure and these tasks are monitored by the Lantern Group's compliance program.

Lantern Group is subject to regular reporting and disclosure obligations under the Corporations Act and Listing Rules. Lantern Group has an obligation (subject to limited exceptions) to notify ASX immediately upon becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of Lantern Securities. Copies of documents filed with ASX may be obtained from ASX's website at www.asx.com.au.

In addition, Lantern Group is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC in relation to Lantern Group may be obtained from, or inspected at, an ASIC office.

Certain Lantern corporate governance documents are available online at www.lanternhotels.com.au and/or www.asx.com.au.

Lantern will also make copies of these documents available, free of charge, to Lantern Securityholders. Requests can be made by contacting the Lantern Information Line on (02) 8223 3602 (within Australia) or +61 2 8223 3602 (outside Australia) between 9.00am and 5.00pm (Sydney time), Monday to Friday.

8. Information about Millinium

Information about Millinium has been sourced from publicly available information.

8.1 Background Information

Millinium Asset Services Pty Limited is an unlisted public company which is majority controlled by Millinium Capital Managers Limited, (ABN 32 111 283 357) (**Millinium Capital Managers**). Millinium Capital Managers holds an Australian Financial Services Licence, No. 284 336 and acts as a responsible entity to operate registered managed investment schemes within Australia under Chapter 5C of the *Corporations Act 2001* (Cth).

Millinium Capital Managers describes itself as a boutique fund manager with specialist expertise in fixed interest, securities, corporate debt, structured finance and other unlisted transactions.

Millinium holds the Borg Fund Securities in its capacity as trustee of the Borg Fund. The Borg Fund Securities currently represents 24.31% of the Lantern Securities on issue.

9. Additional Information

This section 9 sets out additional information required pursuant to the Corporations Act and the Corporations Regulations in respect of the Proposed Transactions, as well as some other relevant information.

9.1 Settlement of Supreme Court Action

On 4 February 2014, Millinium, via its adviser Three Pillars, made an offer to Lantern to sell to Lantern (via a buy-back) Millinium's entire 24.3% interest. The terms of the buy-back offer included that:

- the Borg Fund Securities would be bought back in three equal tranches;
- the buy-back price would be calculated by reference to the 20 day volume weighted average price for the stapled securities up to and including the settlement dates for each relevant tranche, with a minimum price floor and maximum price cap of 6.5 cents and 7.5 cents respectively;
- the proceeds of any sale or settlement of Lantern's New Zealand assets would be used predominately to fund the buy-back;
- the offer was "irrevocable" and was open for acceptance until 21 March 2014; and
- Lantern's acceptance of the offer was "conditional upon security holder approval and any necessary regulatory relief being obtained".

Under a deed dated 28 February 2014, Millinium granted a call option to Totem in respect of 111 million Lantern Securities (representing 12.6% of the stapled securities on issue).

Under a deed dated 5 March 2014, Millinium granted a call option to CVC in respect of 103,724,222 Lantern Securities (11.7%).

These two call option deeds, relating to all the Borg Fund Securities, were exercisable from the date each deed was executed until 30 September 2014 (unless extended).

On 7 March 2014, Lantern filed proceedings in the Equity Division of the Supreme Court of New South Wales seeking orders to, among other things, restrain Millinium from transferring the Borg Fund Securities to Totem and CVC in accordance with the call option deeds.

As announced to ASX on 4 April 2014, Lantern entered into a settlement deed with Millinium pursuant to which, amongst other things, Lantern agreed to make a \$1.4 million settlement payment to Millinium in relation to the Supreme Court Action to facilitate settlement by it with CVC and Totem and Millinium agreed to proceed with the buy-back transaction with Lantern. Millinium is required to pay out of that \$1.4 million amount, \$400,000 to each of CVC and Totem (being a total of \$800,000).

Under the settlement deed of the Supreme Court Action, an additional \$600,000 will be paid as follows relating to the settlement of the Supreme Court Action as follows:

- if the Proposed Transactions are approved by Lantern Securityholders by 31 July 2014, by Millinium to CVC and Totem no later than 6 October 2014; and
- if the Proposed Transactions are not approved by the Lantern Securityholders by 31 July 2014, it must be paid by Lantern to Millinium by 7th August 2014. Millinium must then pay that amount to CVC and Totem by 8th August 2014.

Lantern may be entitled to a rebate of some or all of the \$600,000 (if paid) in the event Millinium disposes of the Borg Fund Securities, to someone other than Lantern, before 1 August 2016 for a price

above 7.2 cents per Lantern Security. The rebate is calculated by multiplying the number of securities disposed of by Millinium by the amount the disposal price exceeds 7.2 cents per security.

9.2 Interests of Lantern Directors

(a) Interests of Lantern Directors in Lantern Securities

As at the date of this Explanatory Information Booklet, the following Lantern Directors had Relevant Interests in Lantern Securities:

Name	Number of Lantern Shares
Bryan Mogridge	11,086,119
Russell Naylor	10,750,085
Deborah Cartwright	1,228,240

Russell Naylor is the only executive director and has an extensive background in banking and finance and is the principal of Naylor Partners, a boutique Sydney-based Corporate Advisory business. Russell is an Executive Director and Investment Committee Member of Torchlight, the Largest securityholder in Lantern, and on this basis has abstained from making a recommendation in relation to the Proposed Transactions.

(a) Dealings in Lantern Securities

No Lantern Director has acquired or disposed of a Relevant Interest in any Lantern Securities in the 4 month period ending on the date immediately before the date of this Explanatory Information Booklet.

9.3 Interests of Lantern Directors in Millinium Securities

(a) Interests in Millinium Securities

As at the date of this Explanatory Information Booklet, none of the Lantern Directors have any Relevant Interests in Millinium Securities.

(b) Dealings in Millinium Securities

No Lantern Director acquired or disposed of a Relevant Interest in any Millinium Securities in the 4 month period ending on the date immediately before the date of this Explanatory Information Booklet.

9.4 Millinium's interests in Lantern Securities

(a) Millinium's interests

As at the date of this Explanatory Information Booklet, Millinium holds 214,724,222 Lantern Securities, representing approximately 24.31% of the issued Lantern Securities and, together with its associates, has a Relevant Interest in 24.31% of the Lantern Securities.

(b) Interests of Millinium Directors in Lantern Securities

As at the date of this Explanatory Information Booklet, none of the Millinium Directors had a Relevant Interest in Lantern Securities.

9.5 Benefits and agreements

(a) No collateral benefits offered by Lantern in the last four months

Other than as disclosed elsewhere in this Explanatory Information Booklet, during the 4 month period before the date of this Explanatory Information Booklet, neither Lantern, a Lantern Director or any associate of Lantern gave, or offered to give or agreed to give a benefit to another person which was likely to induce the other person or an associate of the other person to:

- (1) vote in favour of the Proposed Transactions; or
- (2) dispose of any Lantern Securities,

which benefit was not offered to all Lantern Securityholders.

(b) Arrangements connected with or conditional on the Proposed Transactions

Other than as set out below or as set out elsewhere in this Explanatory Information Booklet, there are no agreements or arrangements made between any Lantern Director and another person in connection with, or conditional on, the outcome of the Proposed Transactions other than in their capacity as a Lantern Securityholder.

(c) Benefits under the Proposed Transactions

Other than as set out in this Explanatory Information Booklet, no Lantern Director, secretary or executive officer of Lantern (or any of its Related Bodies Corporate) has agreed to receive, or is entitled to receive, any payment or benefit from Millinium which is conditional on, or is related to, the Proposed Transactions.

(d) Interests of Lantern Directors in Millinium contracts

Other than as described above or elsewhere in this Explanatory Information Booklet, no Lantern Director has an interest in any contract entered into by Millinium.

9.6 Status of regulatory conditions

Implementation of the Proposed Transactions is conditional upon the receipt of approval from certain regulatory bodies (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act), as set out below:

Section 257A of the Corporations Act authorises an Australian company, such as Lantern Hotel Group Limited, to buy-back its own shares if the buy-back does not materially prejudice the company's ability to pay its creditors and it follows the procedures set out in Division 2 of Part 2J.1 of the Corporations Act. However, the Corporations Act does not contain equivalent provisions for interests in managed investments schemes, such as the Lantern Securities. Therefore, specific relief from ASIC and ASX is required to implement the selective buy-back of the Lantern Securities contemporaneously with the Buy-Back of the Lantern Shares.

(a) ASIC

Lantern has made an application to ASIC for the following relief:

- exemption from s 601FC(1)(d) of the Corporations Act to the extent that it requires Lantern to treat members who hold interests of the same class equally;
- exemption from s 601GA(4) of the Corporations Act to enable Lantern to conduct the Trust Scheme without complying with the withdrawal procedures set out in the Lantern Constitution; and

- exemption from Part 5C.6 of the Corporations Act to enable Lantern to conduct the Trust Scheme without complying with the withdrawal procedures for non-liquid schemes in that part.

Relief has also been applied for, to Lantern RE (as responsible entity of LRET) in respect of the takeover provisions in Chapter 6 of the Corporations Act to the extent that Lantern RE and its associates obtain a Relevant Interest in 20% or more of the units in LRET as result of the selective buy-back of the Lantern Units held by Millinium.

Finally, relief was also been applied for by Lantern from ASIC to exempt from the takeover provisions in Chapter 6 of the Corporations Act any Lantern Securityholder who obtains a Relevant Interest in 20% or more of Lantern Securities as a consequence of the Proposed Transactions (particularly, by not participating in the selective buy-backs).

On 27 June 2014, ASIC indicated to Lantern that it had made an in-principle decision to refuse the relief from s 601FC(1)(d), 601GA(4) and Part 5C.6 of the Corporations Act. Lantern will continue to engage with ASIC in an attempt to seek a review of the decision and, if this proves unsuccessful, will seek legal advice on potential avenues for review of that decision on an urgent basis, including Court or tribunal intervention.

The Lantern directors intend to pursue any relief available vigorously as they believe the Proposed Transactions are in the best interests of Lantern Securityholders and offer a significant increase in net asset value of Lantern. The Trust Relief is only required because the Corporations Act does not currently facilitate the selective buy-back of units in LRET (as it does for shares). The Trust Relief simply seeks to permit a selective buy-back of units where the requisite securityholder approval thresholds have been met for a selective buy-back of shares and Lantern is currently seeking to understand the merits and basis for ASIC's in-principle decision. Further announcements relating to the Trust Relief and any progress in this respect will be made to ASX as and when appropriate, including prior to 31 July 2014.

The Proposed Transactions will not proceed unless the Trust Relief is obtained (at least to the extent necessary to permit the transactions to proceed without contravention of the Corporations Act) either prior to, or after, the Meetings are held. Accordingly, the Buy-Back Resolutions and Trust Scheme Resolutions are conditional on the Trust Relief being obtained.

The Lantern Board has decided to proceed with the Meetings before the Trust Relief has been obtained (and notwithstanding that Trust Relief may ultimately not be obtained) on the basis that, if Lantern Securityholder approval of the Proposed Transactions is not obtained by 31 July 2014, Lantern will be liable to pay the \$600,000 settlement fee to Millinium pursuant to the Settlement Deed.

There is a possibility that Lantern will not obtain the Trust Relief, either before or after the Meetings and the Proposed Transactions will not proceed even though Lantern Securityholders approve the Proposed Transactions.

(b) ASX

ASX had confirmed that it has no objection in relation to the following matters:

- Listing Rule 15.1: Statement of no objections in relation to changes to the LRET Constitution in connection with the Trust Scheme;
- Listing Rule 6.12.3: Confirmation, for the purposes of Listing Rule 6.12.3, that the changes to the LRET Constitution are approved, so far as they give rise to a divestment of units in LRET, on the basis that they are appropriate and equitable;
- Timetable: Confirmation that the timetable for implementation of the Trust Scheme is acceptable.

(c) Other

As at the date of this Explanatory Information Booklet, it is not anticipated that any other ASIC or ASX consents or approvals are necessary to implement the Proposed Transactions.

9.7 Consents and disclaimers

(a) Consent to be named

The following persons have given and have not, before the time of registration of this Explanatory Information Booklet with ASIC, withdrawn their consent to be named in this Explanatory Information Booklet in the form and context in which they are named:

- (1) Baker & McKenzie as legal adviser to Lantern;
- (2) BDO Australia as the Independent Expert; and
- (3) Link Market Services Pty Limited as the Lantern Registry.

(b) Consent to the inclusion of statements

This Explanatory Information Booklet contains statements made by, or statements said to be based on statements made by BDO Australia as the Independent Expert.

BDO Australia has consented to the inclusion of each statement it has made in the form and context in which the statements appear and has not withdrawn that consent at the date of this Explanatory Information Booklet.

(c) Disclaimers of responsibility

Each person named in Sections 9.7(a) and 9.7(b):

- (1) has not authorised or caused the issue of this Explanatory Information Booklet;
- (2) does not make, or purport to make, any statement in this Explanatory Information Booklet or any statement on which a statement in this Explanatory Information Booklet is based, other than BDO Australia, in relation to its Independent Expert's Report;
- (3) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation regarding, and takes no responsibility for, any part of this Explanatory Information Booklet other than a reference to its name and the statement (if any) included in this Explanatory Information Booklet with the consent of that party as specified in Sections 9.7 (a) and 9.7 (b)).

9.8 Fees and interests of advisers

Each of the persons named in Section 9.7 (a) and 9.7 (b) as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Explanatory Information Booklet will be entitled to receive professional fees charged in accordance with their normal basis of charging.

Other than as described above, no person named in this Explanatory Information Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Explanatory Information Booklet has, or had in the two years before the date of this Explanatory Information Booklet, an interest in Millinium and no amounts have been paid or agreed to be paid, and no one has given or agreed to give a benefit, to any such person for services rendered in connection with Millinium.

9.9 Creditors of Lantern

The Proposed Transactions, if implemented, are not expected to prejudice Lantern's ability to pay its creditors as it involves the acquisition of Lantern Securities for consideration on a deferred basis and in line with Lantern's planned capital management. No material new liability (other than the Cash Consideration and the transaction costs) is expected to be incurred by Lantern as a consequence of the implementation of the Proposed Transactions. Lantern has paid and is paying all of its creditors within normal terms and is solvent and trading in an ordinary commercial manner.

9.10 Other material information

Other than as set out in this Explanatory Information Booklet, as at the date of this Explanatory Information Booklet, there is no information material to the making of a decision in relation to the Proposed Transactions, being information which is in the knowledge of Lantern or any Lantern Director or director of any of its Related Bodies Corporate which has not been previously disclosed to Lantern Securityholders.

9.11 Supplementary disclosure

Lantern will issue a supplementary document to this Explanatory Information Booklet if it becomes aware of any of the following between the date of lodgement of this Explanatory Information Booklet with ASIC and the Meetings:

- a material statement in this Explanatory Information Booklet being false, misleading or deceptive;
- a material omission from this Explanatory Information Booklet;
- a material change affecting a matter that is referred to in this Explanatory Information Booklet; or
- a significant new matter arising which would be required to be included in this Explanatory Information Booklet.

The form which the supplementary document may take, and whether a copy will be sent to each Lantern Securityholder, will depend on the nature and timing of the new or changed circumstances. Any such supplementary document will be released to ASX and made available online from both ASX's website (www.asx.com.au) and from Lantern's website at www.lanternhotels.com.au.

10. Glossary and interpretation

The meanings of the terms used in this Explanatory Information Booklet are set out below.

Term	Meaning
\$, A\$ or AUD, cents or c	Australian currency.
AIFRS	Australian equivalent of International Financial Reporting Standards.
Allan Gray Australia	Allan Gray Australia Pty Limited (ABN 48 112 316 168).
ASIC	the Australian Securities and Investments Commission.
Associate	has the meaning given in sections 12 and 16 of the Corporations Act.
ASX	ASX Limited.
ASX Listing Rules	the Listing Rules of ASX.
Borg Fund Securities	the 214,724,222 Lantern Securities held by Millinium.
Business Day	a day that is not a Saturday, Sunday or public holiday in Sydney.
Buy-Back	the selective buy-back of the shares in Lantern Hotel Group Limited held by Millinium as set out in the Notice of Buy-Back Meeting.
Buy-Back Agreement	the draft Buy-Back Agreement to be entered into by Lantern and Millinium, the key terms of which are summarised in Section 5.9 and a complete version of which is included in the Explanatory Information Booklet Supplement.
Buy-Back Meeting	the meeting of Lantern Securityholders set out in the Notice of Buy-Back Meeting.
Cash Consideration	Cash Consideration means \$16,104,316.65.
Conditions Precedent	the conditions precedent set out in clause 3.1 of the draft Buy-Back Agreement as summarized in Section 5.9(a).
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Corporations Regulations	the <i>Corporations Regulations 2001</i> (Cth).
Court	the Supreme Court of New South Wales or such other Court of competent jurisdiction under the Corporations Act.
CVC	CVC Limited (ACN 002 700 361).
Effective	when the Proposed Transactions have been approved at each respective Meeting.
Effective Date	the date on which the Proposed Transactions become Effective.
End Date	31 July 2014 or such later date as Lantern and Millinium may agree in writing.

Term	Meaning
Excluded Securityholder	any Lantern Securityholder who is Millinium, a Related Body Corporate of Millinium or Associate of Millinium.
Explanatory Information Booklet	this document.
Explanatory Information Booklet Supplement	the supplementary document to this Explanatory Information Booklet which contains a full copy of the Independent Expert's Report, Investigating Accountant's Report and the Buy-Back Agreement. Details on how to obtain a copy of the Explanatory Information Booklet Supplement are set out in Section 7.11.
FIRB	the Foreign Investment Review Board.
GST	Australian goods and services tax.
Independent Expert	BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170).
Independent Expert's Report	the report prepared by the Independent Expert dated 27 June 2014, a summary of which is set out in Section 5.8 and a complete copy of which is set out in Annexure D to this Explanatory Information Booklet.
Lantern	a stapled entity comprising Lantern Hotel Group Limited (ABN 71 145 967 899) and Lantern Real Estate Trust (ARSN 108 982 627).
Lantern Board	the board of directors of Lantern.
Lantern Constitution	the constitution of Lantern.
Lantern Directors	the directors of Lantern from time to time.
Lantern Group	a stapled entity comprising Lantern Hotel Group Limited (ABN 71 145 967 899) and Lantern Real Estate Trust (ARSN 108 982 627) and their subsidiaries.
Lantern Information	the information contained in this Explanatory Information Booklet except for the: <ol style="list-style-type: none"> 1 Millinium Information; and 2 Independent Expert's Report.
Lantern Information Line	(02) 8223 3602 (within Australia) or +61 2 8223 3602 (outside Australia).
Lantern RE	Lantern RE Limited ABN 54 145 968 574 Licence 386569, the responsible entity of LRET.
Lantern Register	the share register of Lantern.
Lantern Securities	a stapled security in Lantern Group comprising a share in Lantern Hotel Group Limited and a unit in LRET.
Lantern Securityholders	the holders of Lantern Securities.
Lantern Share	an ordinary fully paid share in the capital of Lantern.

Term	Meaning
Lantern Shareholders	holders of Lantern Shares.
Lantern Registry	Link Market Services Limited of Level 12, 680 George Street, Sydney, NSW.
Lantern Unit	a unit in the LRET.
Lantern Unitholders	holders of Lantern Units.
LRET	Lantern Real Estate Trust (ARSN 108 982 627), whose responsible entity is Lantern RE.
LRET Constitution	the constitution of LRET.
Meetings	The Buy-Back Meeting and the Trust Scheme Meeting.
Millinium	Millinium Asset Services Pty Limited (ABN 79 145 380 972)as trustee for the Borg Fund, and, where the context requires, includes Millinium and the members of the Millinium Group.
Millinium Directors	a member of the board of directors of Millinium.
Millinium Group	Millinium and each of its subsidiaries.
Millinium Securities	securities in Millinium.
Non-participating Securityholders	Lantern Lantern Securityholders not participating in the Proposed Transactions, being all Lantern Securityholders other than the Excluded Securityholders.
Notice of Buy-Back Meeting	the notice set out in Annexure A of this Explanatory Information Booklet.
Notice of Trust Scheme Meeting	the notice set out in Annexure B of this Explanatory Information Booklet.
Notices of Meetings	the Notice of Buy-Back Meeting and the Notice of Trust Scheme Meeting.
Proposed Transactions	the proposed acquisition by the Lantern Group of all of the Lantern Securities held by Millinium to be undertaken by way of a Buy-Back and Trust Scheme.
Proxy Form	the proxy form for the Meetings which accompanies the version of the Explanatory Information Booklet to be dispatched to each Lantern Securityholder.
Record Date	7:00pm (Sydney time) on Tuesday 29 July 2014.
Related Body Corporate	the meaning given in the Corporations Act.
Relevant Interest	the meaning given in sections 608 and 609 of the Corporations Act.
Supplemental Deed	a supplemental deed in the form set out in Annexure E to this Explanatory Information Booklet.
Supreme Court Action	the Supreme Court of NSW Proceeding No. 72776 of 2014 between

Term	Meaning
	Lantern, Millinium, Totem and CVC.
Torchlight	Torchlight GP Limited in its capacity as general partner of the Torchlight Fund No.1 LP.
Totem	Totem Holdings Pty Limited (ACN 168 266 742).
Trust Relief	relief from s 601FC(1)(d), 601GA(4) and/or Part 5C.6 of the Corporations Act, to the extent such relief is required to implement the Proposed Transactions without a contravention of the Corporations Act.
Trust Scheme	the arrangements under which LRET acquires all of the units in LRET from the Lantern Securityholders facilitated by amendments to the LRET Constitution as set out in the Supplemental Deed, subject to the requisite Lantern unitholder approval.
Trust Scheme Meeting	the meeting of Lantern Securityholders convened pursuant to the LRET Constitution to consider the Trust Scheme Resolutions and includes any adjournment of that meeting.
Trust Scheme Resolutions	the resolutions of Lantern Securityholders set out in the Notice of Trust Scheme Meeting in Appendix E of this Explanatory Information Booklet.

Interpretation

In this Explanatory Information Booklet:

- (1) other words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (2) words of any gender include all genders;
- (3) words importing the singular include the plural and vice versa;
- (4) an expression importing a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (5) a reference to a section or annexure, is a reference to a section of or annexure of, this Explanatory Information Booklet as relevant;
- (6) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;
- (7) headings and bold type are for convenience only and do not affect the interpretation of this Explanatory Information Booklet;
- (8) a reference to time is a reference to Australian Eastern Standard Time;
- (9) a reference to dollars, \$, A\$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia;
- (10) an accounting term is a reference to that term as it is used in accounting standards under the Corporations Act, or, if not inconsistent with those standards, in accounting principles and practices generally accepted in Australia; and
- (11) the words “include”, “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind.

Annexure A- Notice of Buy-Back Meeting

Notice of General Meeting

Lantern Hotel Group Limited (ACN 145 967 899) (Company)

Notice is given that a general meeting of the shareholders of the Company will be held at Level 22, MLC Centre, 19-22 Martin Place Sydney NSW on Thursday 31 July 2014 at 11:00am Sydney time, to transact the following business.

Item 1: Approval of selective buy-back

To consider and, if thought fit, to pass the following as a special resolution:

"That subject to the passing of resolution by Lantern Unitholders in respect of the amendments to the Lantern RE Constitution and the resolution in respect of the Trust Scheme implementing the corresponding selective buy-back of Lantern Units and conditional on the Trust Relief being obtained, the terms and conditions of the selective buy-back agreement relating to the off-market buy-back by the Company of the 214,724,222 Lantern Shares held by Millinium, as described in the Explanatory Information Booklet, be approved in accordance with section 257D of the Corporations Act and Listing Rule 10.1 of the ASX Listing Rules."

Important notice

To enable you to make an informed decision on the resolution, further information on the Buy-Back Meeting resolution is set out in the Explanatory Information Booklet, of which this Notice of Buy-Back Meeting forms part. Terms used in this Notice of Buy-Back Meeting have the same meaning as set out in Section 10 of the Explanatory Information Booklet. Details about your entitlement to vote, how to vote and how to appoint a proxy, attorney or corporate representative are set out in Section 4 of the Explanatory Information Booklet.

By order of the Board of

Lantern Hotel Group Limited



Leanne Ralph

Company Secretary

Dated 30 June 2014

Annexure B- Notice of Trust Scheme Meeting

Notice of General Meeting

Lantern RE Limited (ACN 145 968 574) as Responsible Entity for Lantern Real Estate Trust (ARSN 108 982 627) (Company)

Notice is given that a meeting of holders of units in Lantern Real Estate Trust will be held at Level 22, MLC Centre, 19-22 Martin Place Sydney NSW on Thursday, 31 July 2014 starting immediately after the Buy-Back Meeting (shortly, after 11.00am Sydney time).

Item 1: Amendment of LRET Constitution

To consider and, if thought fit, to pass the following as a special resolution:

"That subject to the passing of resolution by Lantern Shareholders in respect of the corresponding selective buy-back of Lantern Shares and the resolution by Lantern Unitholders in respect of the Trust Scheme implementing the corresponding selective buy-back of Lantern Units and conditional of the Trust Relief being obtained, the LRET Constitution be amended on the terms set out in the Supplemental Deed."

Item 2: Approval of Trust Scheme implementing the selective buy-back of Lantern Units

To consider and, if thought fit, to pass the following as a special resolution:

"That subject to the passing of a resolution by Lantern Shareholders in respect of the corresponding selective buy-back of Lantern Shares and the resolution by Lantern Unitholders in respect of the amendments to the LRET Constitution and conditional of the Trust Relief being obtained, the terms and conditions of the selective buy-back agreement relating to the off-market buy-back by the Company of the 214,724,222 Lantern Units held by Millinium, as described in the Explanatory Information Booklet, be approved in accordance with the LRET Constitution (as amended) and Listing Rule 10.1 of the ASX Listing Rules."

Important notice

To enable you to make an informed decision on the resolutions, further information on the Trust Scheme Resolutions is set out in the Explanatory Information Booklet, of which this Notice of Trust Scheme Meeting forms part. Terms used in this Notice of Trust Scheme Meeting have the same meaning as set out in Section 10 of the Explanatory Information Booklet. Details about your entitlement to vote, how to vote and how to appoint a proxy, attorney or corporate representative are set out in Section 4 of the Explanatory Information Booklet.

By order of the Board of

Lantern RE Limited



Leanne Ralph

Company Secretary

Dated 30 June 2014

Annexure C- Buy-Back Agreement

Buy-Back Agreement

Lantern Hotel Group Limited

**Lantern RE as responsible entity for the
Lantern Real Estate Trust**

**Millinium Asset Services Pty Limited as
trustee for The Borg Fund**

BAKER & MCKENZIE

Solicitors
AMP Centre
Level 27
50 Bridge Street
SYDNEY NSW 2000
Tel: (02) 9225-0200
Fax: (02) 9225-1595
Email: maria.pawelek@bakermckenzie.com

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Title **Buy-Back Agreement**

Date <date>

Parties **Lantern Hotel Group Limited** (ABN 71 145 967 899) of Level 10, 9
Castlereagh Street, Sydney NSW 2000 (**Company**)

**Lantern RE Limited (ACN 145 968 574) as responsible entity for
the Lantern Real Estate Trust** (ARSN 108 982 627) of Level 10, 9
Castlereagh Street, Sydney NSW 2000 (**Responsible Entity**)

Millinium Asset Services Pty Limited (ACN 145 380 972) as trustee for
the Borg Fund of Level 22, 300 Queen Street, Brisbane QLD 4000 (**Millinium**)

Recitals

- A Millinium is the registered holder of the Sale Securities.
- B Millinium agrees to sell, and Lantern agrees to buy back, the Sale Securities on the terms and conditions contained in this Agreement.
- C The buy-back of the Sale Securities will be implemented in the form of the Share Buy-Back and Trust Scheme and this Agreement sets out a number of key matters relating to the implementation.
- D The Agreement is subject to a number of conditions precedent, including that the Company carries out the buy-back approval procedure under Part 2J.1 Division 2 of the *Corporations Act 2001* so as to permit it to enter into and complete this Agreement and the Responsible Entity obtains certain ASIC relief in relation to the buy-back of the Units.

Operative provisions

1 Definitions

1.1 In this Agreement:

Business Day means a day on which banks are open for business in Sydney, excluding a Saturday or Sunday or a public holiday.

Buy-Backs means the Trust Scheme and the Share Buy-Back.

Buy-Back Securities means all of the Stapled Securities as at the Record Date held by Millinium.

Buy-Back Share means a Share held by Millinium as at the Record Date.

Buy-Back Unit means the 214,724,222 fully paid ordinary unit in the Trust held by Millinium.

Claim means any claim, cost (including legal costs on a solicitor and client basis), damages, debt, expense, tax, Liability, loss, obligation, allegation, suit, action, demand, cause of action, proceeding or judgment of any kind however calculated or caused, and whether direct or indirect, consequential, incidental or economic.

Company means Lantern Hotel Group Limited (ABN 71 145 967 899).

Company Constitution means the constitution of the Company.

Consideration means 7.5 cents per Buy-Back Security.

Corporations Act means the *Corporations Act 2011 (Cth)*.

Dollars and **A\$** means the lawful currency of the Commonwealth of Australia.

Effective means when used in relation to the Buy-Backs, is both of the following events taking place:

- (a) the coming into effect of the Share Buy-Back, pursuant to section 257(H) of the Corporations Act; and
- (b) the coming into effect of the Trust Scheme in accordance with the Trust Constitution, as amended including by the insertion of this Schedule 1, pursuant to section 601GC(2) of the Corporations Act.

Effective Date means the date on which the Buy-Backs become Effective.

Explanatory Information Booklet means the notices of meeting and accompanying explanatory information statements relating to the Buy-Backs prepared by Lantern.

Fund means the Borg Fund [insert other details].

Fund Deed means the trust deed that established the Fund [insert other details].

Government Agency means, whether foreign or domestic:

- (a) a government, whether federal, state, territorial or local or a department, office or minister of a government acting in that capacity; or
- (b) a commission, delegate, instrumentality, agency, board, or other government, semi-government, judicial, administrative, monetary or fiscal body, department, tribunal, entity or authority, whether statutory or not, and includes any self-regulatory organisation established under statute or any stock exchange.

Implementation Date means the Effective Date, which will be as soon as practicable after all conditions precedent under clause 3.1 of this Agreement have been satisfied.

Lantern means a stapled entity comprising the Company and the Trust.

Liabilities means all liabilities, whether actual or contingent, present or future, quantified or unquantified, or incurred jointly or severally with any other person.

Listing Rule means a listing rule of the Australian Securities Exchange Limited.

Millinium means Millinium Asset Services Pty Limited as trustee for The Borg Fund (ABN 79 145 380 971).

Regulatory Consents has the meaning in clause 3.1(e).

Related Body Corporate has the meaning given in the Corporations Act.

Representative of a party includes an officer, employee, agent, auditor, adviser, financier, insurance broker, partner, associate, consultant, joint venturer or sub-contractor of that party or of a Related Body Corporate of that party.

Responsible Entity means Lantern RE Limited (ABN 54 145 968 574) as responsible entity of Lantern Real Estate Trust

Security Interest includes any mortgage, charge, bill of sale, pledge, deposit, lien, encumbrance, hypothecation, arrangement for the retention of title and any other right, interest, power or arrangement of any nature having the purpose or effect of providing security for, or otherwise protecting against default in respect of, the obligations of any person.

Share Buy-Back means the selective buy-back by the Company of the Buy-Back Shares.

Share means an issued fully paid ordinary share in the Company.

Stapled Security means a Share stapled to a Unit, in accordance with the provisions of the Company Constitution and the Trust Constitution.

Sunset Date means [insert date] or such other date as is agreed by the parties in writing.

Supplemental Deed means the Supplemental Deed Poll to which the Responsible Entity is a party and which sets out the amendments required to the Trust Constitution in order to implement the Trust Scheme.

Third Party Interest includes any Security Interest, option, voting arrangement, easement, covenant, notation, restriction, interest under any agreement, interest under any trust, or other right, equity entitlement or other third party interest of any nature.

Trust means the Lantern Real Property Trust established under the Constitution.

Trust Constitution means the constitution of the Trust.

Trust Meeting means the meeting of the Unitholders convened by the Responsible Entity pursuant to clause 17 of the Trust Constitution to consider the Trust Scheme Resolutions, and includes any adjournment of that meeting.

Trust Scheme means the arrangement under which the Responsible Entity acquires and cancels all of the Buy-Back Units as at the Record Date, facilitated by the amendment of the Trust Constitution to provide the Responsible Entity such powers.

Trust Scheme Resolutions means the resolutions of the Unitholders to approve the Trust Scheme, including:

- (a) a resolution to approve the acquisition and cancellation of all the Buy-Back Units by the Responsible Entity; and
- (b) a resolution for the purposes of section 601GC(1) of the Corporations Act to approve amendments to the Trust Constitution to facilitate the Trust Scheme.

Unit means: a fully paid ordinary unit in the Trust.

Unitholders means a person registered as the holder of a unit in the Trust, including any persons jointly registered.

1.2 In this Agreement, unless the context otherwise requires:

- (a) a reference:
 - (i) to the singular includes the plural and vice versa;
 - (ii) to a gender includes all genders;
 - (iii) to a document (including this Agreement) is a reference to that document (including any Schedules and Annexures,) as amended, consolidated, supplemented, novated or replaced;
 - (iv) to an agreement includes any deed, agreement or legally enforceable arrangement or understanding whether written or not;
 - (v) to parties means the parties to this Agreement and to a party means a party to this Agreement;
 - (vi) to a notice means all notices, approvals, demands, requests, nominations or other communications given by one party to another under or in connection with this Agreement;
 - (vii) to a person (including any party) includes:
 - (A) a reference to an individual, company, body corporate, association, partnership, firm, joint venture, trust or Government Agency as the case requires; and
 - (B) the person's successors, permitted assigns, executors and administrators;
 - (viii) to a law:
 - (A) includes a reference to any constitutional provision, subordinate legislation, treaty, decree, convention, statute, regulation, rule, ordinance, proclamation, by-law, judgment, rule of common law or equity or rule of any applicable stock exchange;
 - (B) is a reference to that law as amended, consolidated, supplemented or replaced; and
 - (C) is a reference to any regulation, rule, ordinance, proclamation, by-law or judgment made under that law;
 - (ix) to liquidation includes official management, appointment of an administrator, compromise, arrangement, merger, amalgamation, reconstruction, winding-up, dissolution, assignment for the benefit of creditors, scheme, composition or arrangement with creditors, insolvency, bankruptcy, or any similar procedure or, where applicable, changes in the constitution of any partnership or person, or death; and

- (x) to a body, other than a party to this deed (including, without limitation, an institute, association or authority), whether statutory or not:
 - (A) which ceases to exist; or
 - (B) whose powers or functions are transferred to another body,
 is a reference to the body which replaces it or which substantially succeeds to its powers or functions.
- (b) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and any Governmental Agency;
- (c) headings are for convenience only and are ignored in interpreting this Agreement;
- (d) a warranty, representation, covenant or obligation given or entered into by more than one person binds them jointly and severally;
- (e) if a period of time is specified and dates from, after or before, a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (f) if a payment or other act must (but for this clause) be made or done on a day which is not a Business Day, then it must be made or done on the next Business Day;
- (g) the words "including" or "includes" mean "including but not limited to" or "including without limitation";
- (h) where a word or phrase is defined, its other grammatical forms have a corresponding meaning; and
- (i) this Agreement must not be construed adversely to a party solely because that party was responsible for preparing it.

Best and reasonable endeavours

- 1.3 Any provision of this Agreement which requires a party to use best endeavours, or reasonable endeavours, or to take all steps reasonably necessary or desirable, (including to procure that something is performed or occurs) does not include an obligation:
- (a) to pay any significant sum of money or to provide any significant financial compensation, valuable consideration or any other incentive to or for the benefit of any person, except for payment of any applicable fee for the lodgement or filing of any relevant application with any Government Agency or fees to any professional advisers; or
 - (b) to commence any legal proceeding against any person,
- except in accordance with the express terms of this Agreement.

2 Agreement to propose Buy-Backs

- 2.1 Lantern will propose and seek to implement the Buy-Backs in accordance with this Agreement, the Corporations Act, the ASX Listing Rules and any regulatory relief obtained in respect of the Buy-Backs.
- 2.2 Millinium will comply with its obligations in relation to the Buy-Backs and provide reasonable assistance to Lantern in proposing and implementing the Buy-Backs in accordance with this Agreement.

3 Conditions

Conditions

- 3.1 Subject to this clause 3, the obligations of the parties to proceed to completion of the Buy-Backs (including the obligations of Lantern to pay the Consideration) will not become binding, and the Buy-Backs will not become effective, until each of the following conditions is satisfied or waived in accordance with clauses 3.4 to 3.9:
 - (a) **(Company Shareholder Approval)** the approval of the Company's shareholders is obtained in accordance with section 257D of the Corporations Act in relation to the Share Buy-Back.
 - (b) **(Trust Scheme Approval)** Unitholders approve the Trust Scheme by passing the Trust Scheme Resolutions by the requisite majorities in accordance with the Corporations Act.
 - (c) **(No prohibitive orders)** no Government Agency takes any action, or imposes any legal restraint or prohibition, to prevent the implementation of the Buy-Backs (or any transaction contemplated by the Buy-Backs), which remains in force at 8.00 am on the Implementation Date.
 - (d) **(Regulatory Consents)** All approvals or consents required from any Government Agency to implement the transactions envisaged by this Agreement are obtained (or deemed obtained) on terms reasonably acceptable to Lantern not withdrawn by 8.00 am on the Implementation Date (**Regulatory Consents**), including:
 - (i) ASIC and ASX provide all consents and approvals (at least to the extent necessary to permit the Buy-Backs to proceed without contravention of the Corporations Act) and do all other acts which Lantern considers are necessary or reasonably desirable to implement the Buy-Backs ; and
 - (ii) Torchlight receives a notice, on terms reasonably acceptable to Torchlight, from the Treasurer (or his agent) to the effect that there is no objection under the Commonwealth Government's foreign investment policy, or the period provided for under the FATA during which the Treasurer may make orders prohibiting the acquisition elapses without any such order being made.

- (e) **(Financier consent** - consent in writing to proceed with the Buy-Backs being received from the Commonwealth Bank of Australia (as financier of Lantern);
- (f) **(Independent Expert's report)** The Independent Expert concludes that the Buy-Backs are in the best interest of Lantern Securityholders (and does not change that conclusion prior to 8.00 am on the Implementation Date).
- (g) **(Millinium Warranties)** Each of the Millinium Warranties is true and correct on the date or dates specified in clause 5.2.

Reasonable endeavours

- 3.2 Each of Lantern and Millinium must use its reasonable endeavours to procure that:
- (a) each of the conditions in clause 3.1 is satisfied as expeditiously as possible and in any event on or before the Sunset Date and continues to be satisfied at all times until the last time it is required to be satisfied (as the case may require), including providing all reasonable assistance to the other party which is necessary to satisfy such conditions; and
 - (b) there is no occurrence within the control of Lantern or Millinium (as the context requires) that would prevent the conditions in clause 3.1 from being satisfied.
- 3.3 Without limiting clause 3.2, Lantern or Millinium (as the context requires) must:
- (a) promptly apply for all relevant Regulatory Consents; and
 - (b) take all the steps for which it is responsible as part of the Regulatory Consent process, including responding to requests for information at the earliest practicable time.

Waiver of conditions

- 3.4 The condition in clause 3.1(a) is for the joint benefit of Lantern and Millinium and may only be waived jointly by them.
- 3.5 The condition in clauses (e), (f) and (g) is for the sole benefit of Lantern and may only be waived by Lantern.
- 3.6 The conditions in clauses 3.1(b), (c) and (d) cannot be waived.
- 3.7 To be effective any waiver of the breach or non-fulfilment of any condition in clause 3.1 must be in writing and a copy of the waiver must be provided to the other party prior to 8.00 am on the Implementation Date to be effective.
- 3.8 Subject to clause 3.9, a waiver of any condition in clause 3.1 precludes the party who has the benefit of the condition from suing the other party for any breach of this Agreement that resulted from any breach or non-fulfilment of the condition.
- 3.9 A party entitled to waive a condition under this clause 3 may do so in its absolute discretion. If the party who has the benefit of a condition in clause 3.1 waives a breach or non-fulfilment of the condition on one or more terms, and the other party agrees to those terms, then those terms will apply notwithstanding any inconsistency with clause 3.7. If the other party does not agree to the terms of any waiver, the relevant condition will not be waived.

Failure of condition

3.10 If a condition in clause 3.1:

- (a) is not satisfied or (where capable of waiver) waived by the date specified for its satisfaction; or
- (b) becomes incapable of being satisfied by the date specified for its satisfaction and is not waived,

then Lantern and Millinium must consult in good faith with a view to determining whether:

- (c) the Buy-Backs may proceed by way of alternative means or methods;
- (d) to extend the relevant time or date for satisfaction of the Conditions; or
- (e) to extend the Sunset Date.

3.11 If Lantern and Millinium are unable to reach agreement under clause 3.10 within five Business Days of the date on which they both become aware that the condition is not satisfied or has become incapable of being satisfied (or, if earlier, by 11.59 pm on the Sunset Date), or the parties are not required in the circumstances to consult under clause 3.10, then unless the relevant condition is waived (and subject to clause 3.12) the party entitled to the benefit of that condition, or either Lantern or Millinium in the case of a condition which is for the benefit of both of them, may terminate this Agreement at any time prior to 11.59 pm on the Sunset Date with immediate effect by written notice to the other party.

3.12 A party may not terminate this Agreement under clause 3.11 if the relevant condition in clause 3.1 has not been satisfied, or is incapable of being satisfied, or there is an occurrence that will prevent the relevant condition being satisfied by the date specified in this Agreement for its satisfaction, as a result of an act or omission by that party or any of its Related Bodies Corporate which results in a breach of this Agreement and either alone or together with other circumstances prevents that condition being satisfied or capable of being satisfied.

3.13 Subject to the rights of the parties under clauses 6, 7 and 10 of this Agreement, following any termination under clause 3.11 no party will have any liability to the other parties in respect of this Agreement, other than in respect of a breach of this Agreement occurring prior to that termination.

Notice of changes

3.14 Lantern must promptly notify Millinium, and Millinium must promptly notify Lantern, after it becomes aware that any condition in clause 3.1 has been satisfied, has become incapable of being satisfied or is not reasonably capable of being satisfied (having regard to the respective obligations of each party under clauses 3.2 and 3.3).

- 3.15 Lantern must promptly notify Millinium, and Millinium must promptly notify Lantern, of any change, matter, event or circumstance causing, or which is reasonably likely to cause:
- (a) a representation or warranty in this Agreement to be breached; or
 - (b) a material breach of this Agreement,
- and must provide Millinium or Lantern (as applicable) with reasonable details of the relevant breach.

4 Buy-Back of the Sale Securities and Completion

Sale and purchase

- 4.1 Subject to the Conditions Precedent, Millinium agrees to sell the Buy-Back Securities for the Consideration, free from all Third Party Interests on the Implementation Date as follows:
- (a) the Buy-Back Units to be transferred to Responsible Entity; and
 - (b) the Buy-Back Shares to be transferred to the Company,
- and then all Buy-Back Securities will be immediately cancelled.
- 1.1 Lantern must pay the Consideration by [1 August 2016], together with any interest due and payable pursuant to clause 4.3.
- 1.2 Lantern must pay interest on the Consideration which remains outstanding at the rate of 8% per annum, accruing monthly on and from 1 August 2014.
- 4.2 All payments required to be made under this agreement must be made, at the option of the recipient in respect of each payment, either by:
- (a) a draft or cheque drawn by a bank as defined in the *Banking Act 1959* (Cth); or
 - (b) way of direct transfer of immediately available funds to the bank account nominated by Millinium to Lantern in writing,
- and by not later than 5.00 pm on the due date for payment. Any payment made under this Agreement after 5.00 pm on any date will be taken to have been made on the next succeeding Business Day after the date on which payment was made.

Implementation of the Buy-Backs

- 4.3 Lantern and Millinium must do all things and execute all deeds, instruments, transfers or other documents as may be necessary, desirable or reasonably incidental to give full effect to the Buy-Backs and the transactions contemplated by them.
- 4.4 Subject to the Corporations Act, Lantern or any of its directors, officers, employees or associates, may do any act, matter or thing described in or contemplated by this Agreement even if they have an interest (financial or otherwise) in the outcome of such exercise.

Covenants and representations by Millinium

- 4.5 Millinium, subject to the Conditions Precedent being satisfied or varied in accordance with clause 3:
- (a) irrevocably acknowledges that the Trust Scheme binds the Responsible Entity and Millinium;
 - (b) irrevocably agrees to the transfer and cancellation of all of the Buy-Back Units to the Responsible Entity in accordance with the Trust Scheme;
 - (c) irrevocably agrees to the modification or variation (if any) of the rights attaching to the Buy-Back Units arising from the Supplemental Deed;
 - (d) irrevocably agrees to the transfer and cancellation of all of the Buy-Back Shares to the Company in accordance with the Share Buy-Back; and
 - (e) irrevocably consents to the Responsible Entity and/or the Company doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the Buy-Backs.

Appointment of the Responsible Entity as attorney and as agent for implementation of the Buy-Backs

- 4.6 Millinium, without the need for any further act by Millinium, irrevocably appoints the Responsible Entity as its attorney and as its agent for the purpose of doing all things and executing all deeds, instruments, transfers or other documents as may be necessary or desirable to give full effect to the terms of the Buy-Backs, including effecting a valid transfer or transfers and cancellation of the Buy-Back Units by the Responsible Entity and a valid transfer and cancellation of the Buy-Back Shares by the Company.
- 4.7 The Responsible Entity, as attorney and as agent of Millinium, may sub-delegate its functions, authorities or powers under clause 4.6 to all or any of its directors and officers (jointly, severally, or jointly and severally) or to the Company. Millinium indemnifies the Responsible Entity and each of its directors and officers against all losses, liabilities, charges, costs and expenses arising from the exercise of powers under clause 4.6.

5 Warranties and Indemnity

Mutual Warranties

- 5.1 Each party (*Warrantor*) represents and warrants to the other party as at the Implementation Date that:
- (a) subject to the Conditions Precedent, to the extent a party is a body corporate, it has the corporate power to enter into this agreement and has taken all necessary action (including all shareholder approvals and authorisations) to authorise the execution, delivery and performance of this agreement;
 - (b) the agreement constitutes a legally valid and binding obligation of the Warrantor enforceable in accordance with its terms; and

- (c) the execution, delivery and performance of this agreement will not violate any provision of:
 - (i) any law, regulation, order, rule or decree of any governmental agency of the Commonwealth of Australia or any state or territory or any recognised stock exchange on which its shares or the shares of any Related Body Corporate are listed; and
 - (ii) any security agreement, deed, contract, undertaking or other instrument to which the Warrantor is a party or which is binding on it and does not and will not result in the creation or imposition of any security over any of its assets pursuant to the provision of any such security agreement, deed, contract, undertakings or other instrument.

Millinium Warranties

5.2 Millinium represents and warrants to each of the Responsible Entity and the Company that:

- (a) the Sale Securities are legally owned by Millinium as trustee for the Fund and are free and clear of all Third Party Interests;
- (b) Millinium is the only trustee of the Fund;
- (c) Millinium has the power under the Fund Deed and law to:
 - (i) execute and deliver this Agreement; and
 - (ii) perform his obligations under this Agreement;
- (d) all action required by the Fund Deed and law to authorise:
 - (i) Millinium's execution and delivery of this Agreement; and
 - (ii) the performance of Millinium's obligations under this Agreement, has been taken;
- (e) the execution by Millinium of this Agreement and the performance by Millinium of his obligations or the exercise of his rights under this Agreement does not contravene the Fund Deed or law;
- (f) no action is currently taking place or pending to remove Millinium as trustee of the Fund or appoint a new or additional trustee of the Fund;
- (g) Millinium has a right to be fully indemnified out of the Fund (subject to law) in respect of the obligations incurred by it under this Agreement;
- (h) Millinium is not and has never been in breach of the Fund Deed or the law (including his general duties as trustee of the Fund) in a way that would limit the amount recoverable under the trustee's indemnity referred to at (h) above; and
- (i) the Fund has not been terminated and no action is pending to terminate the Fund.

Indemnity

- 5.3 Without restricting the ability of Lantern to claim damages on any other basis, Millinium indemnifies Lantern from and against all Claims which may be made or brought against or suffered or incurred by Lantern arising directly or indirectly out of or in connection with any warranty in clause 5.2 being untrue, inaccurate or misleading or arising out of, or in connection with, any breach of this Agreement by Millinium.

6 Public announcements

Announcement of the Buy-Backs

- 6.1 Immediately after the execution of this Agreement, Lantern must issue a public announcement in a form previously agreed to in writing by Millinium.

Public announcements

- 6.2 Except as permitted under clause 6, Millinium may not make a public announcement about this Agreement (including any termination of this Agreement), the Explanatory Information Booklet or the Buy-Backs unless:
- (a) Lantern has given its prior approval to form of the announcement (acting reasonably); or
 - (b) applicable law or the Listing Rules requires an announcement to be made, subject to clause 6.4.
- 6.3 The parties must use all reasonable endeavours to participate constructively and promptly with respect to the approvals and consultation contemplated by clauses 6.2 and 6.4.

Required disclosure

- 6.4 If applicable law or the Listing Rules require Millinium to make an announcement or disclosure about the subject of this Agreement, the Explanatory Information Booklet or the Buy-Backs, it may only do so after it has given the other party prior notice (of at least one Business Day if possible, subject to complying with all applicable laws and the Listing Rules) and consulted with the other party about the form and content of the announcement or disclosure.

Statements on termination

- 6.5 Without limiting clause 6.2, the parties must act in good faith and use all reasonable endeavours to issue an agreed statement or announcement in respect of any termination of this Agreement.

7 Confidentiality

Provisions to remain confidential

- 7.1 Except as permitted under clause 7.2, each party must not, and must procure that its Representatives do not, without the prior written consent of the other party, disclose:
- (a) the existence, content or effect of this Agreement or any other agreement entered into in connection with this Agreement;
 - (b) the fact or content of negotiations leading up to or relating to this Agreement; or
 - (c) any information received or obtained by it or its Representatives regarding any of the other parties or their Representatives.

Permitted disclosures

- 7.2 A party may make disclosures:
- (a) as agreed by Lantern and Millinium in writing;
 - (b) to those of its Representatives or Related Bodies Corporate as the party reasonably thinks necessary to give effect to or enforce this Agreement but only on a confidential basis;
 - (c) if required by law or a Government Agency, but only as far as practicable and lawful after the form and terms of that disclosure have been notified to:
 - (i) in the case of disclosure by Lantern, Millinium; or
 - (ii) in the case of disclosure by Millinium, to Lantern, and Lantern and Millinium (as applicable) have had a reasonable opportunity to comment on the form and terms; or
 - (d) if the information to be disclosed has already come into the public domain through no fault of that party, its Representatives, shareholders, investors or Related Bodies Corporate.
- 7.3 Lantern may make amendments it reasonably considers necessary, appropriate or desirable in order to implement the Buy-Back.

8 Conduct of Court proceedings

- 8.1 Nothing in this Agreement gives any party any right or power to make undertakings to the Court for or on behalf of another party without that party's written consent.
- 8.2 Each party agrees to give all undertakings to the Court in all Court proceedings which it is reasonably required to give (on an individual basis) to obtain Court approval and confirmation of the Buy-Backs as contemplated by this Agreement.

9 Exclusivity

Termination of existing discussions

- 9.1 Millinium represents and warrants that, as at the date of this Agreement, it has terminated all negotiations or discussions in respect of any transactions relating to the Buy-Back Securities other than in relation to the Buy-Back.

No-shop restriction

- 9.2 From the date of this Agreement until the Sunset Date, Millinium must ensure that neither it, nor any of its Representatives, directly or indirectly, solicits, invites, encourages or initiates any enquiries, negotiations or discussions, or communicates any intention to do any of these things, with a view to obtaining any expression of interest, offer or proposal from any other person in relation to any transactions relating to the Buy-Back Securities.

10 Costs

Each party must bear its own costs and expenses (including professional fees and stamp duty) incurred by it in connection with the negotiation, preparation and execution of this Agreement and the implementation or attempted implementation of the Buy-Backs.

11 Notices

Requirements

11.1 All notices must be:

- (a) in legible writing and in English;
- (b) addressed to the recipient at the address or fax number set out below or to any other address or fax number that a party may notify to the other:

to Lantern:

Address:	<address>
Attention:	<attention details>
Fax no:	<fax number>

to Millinium:

Address:	<address>
Attention:	<attention details>
Fax no:	<fax number>

- (c) signed by the party making the communication or by a person duly authorised by that party; and
- (d) sent to the recipient by hand, prepaid post (airmail if to or from a place outside Australia), email or facsimile.

Receipt of notices

11.2 Without limiting any other means by which a party may be able to prove that a notice has been received by the other party, a notice will be considered to have been received:

- (a) if sent by hand, when left at the address of the recipient;
- (b) if sent by pre-paid post, three Business Days (if posted within Australia to an address in Australia) or 10 Business Days (if posted from one country to another) after the date of posting; or
- (c) if sent by fax, on receipt by the sender of an acknowledgment or transmission report generated by the sender's machine indicating that the whole fax was sent to the recipient's fax number;

but if a notice is served by hand, or is received by the recipient's fax, on a day that is not a Business Day, or after 5.00 pm (recipient's local time) on a Business Day, the notice will be considered to have been received by the recipient at 9.00 am (recipient's local time) on the next Business Day.

12 General

Entire agreement

- 12.1 To the extent permitted by law, in relation to the subject matter of this Agreement, this Agreement:
- (a) embodies the entire understanding of the parties and constitutes the entire terms agreed on between the parties; and
 - (b) supersedes any prior agreement (whether or not in writing) between the parties <other than the Confidentiality Agreement>.

Further assurances

- 12.2 Each party will promptly do everything necessary, including executing and delivering all further documents required by law or reasonably requested by the other party, to implement this Agreement and the Buy-Backs.

No merger

- 12.3 The rights and obligations of the parties do not merge on completion of any transaction contemplated under this Agreement. They survive the execution and delivery of any assignment or other document entered into to implement any transaction contemplated under this Agreement.

Assignment

- 12.4 A party cannot assign, novate or otherwise transfer or deal in any other way with any of its rights or obligations under this Agreement without the other party's prior written consent.

Invalid or unenforceable provisions

- 12.5 If a provision of this Agreement is invalid or unenforceable in a jurisdiction:
- (a) it is to be read down or severed in that jurisdiction to the extent of the invalidity or unenforceability; and
 - (b) that fact does not affect the validity or enforceability of that provision in another jurisdiction or the remaining provisions.

Waiver and exercise of rights

- 12.6 A waiver by a party of a provision of, or of a right under, this Agreement is only binding on the party granting the waiver if it is given in writing and is signed by the party or an authorised officer of the party granting the waiver.
- 12.7 A waiver is effective only in the specific instance and for the specific purpose for which it is given.
- 12.8 A single or partial exercise of a right by a party does not preclude another exercise of that right or the exercise of another right.
- 12.9 The failure to exercise, or the delay in exercising, a right does not operate as a waiver or prevent the party so failing or exercising its right from later doing so.

Amendment

12.10 Except as expressly provided to the contrary in this Agreement, this Agreement may only be amended by a document signed by or on behalf of each party.

Counterparts

12.11 This Agreement may be signed in counterparts and all counterparts taken together constitute one document.

Rights cumulative

12.12 Except as expressly provided to the contrary in this Agreement or as permitted by law, the rights, powers and remedies provided in this Agreement are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this Agreement.

Consents or approvals

12.13 A party may give its approval or consent conditionally or unconditionally, or withhold its approval or consent, in its absolute discretion unless this Agreement expressly provides otherwise.

Severability

12.14 If a provision of this Agreement is invalid or unenforceable in a jurisdiction:

- (a) it is to be read down or severed in that jurisdiction to the extent of the invalidity or unenforceability; and
- (b) that fact does not affect the validity or enforceability of that provision in another jurisdiction, or the remaining provisions of this Agreement.

GST

12.15 Unless expressly included, the consideration for any supply under or in connection with this Agreement does not include GST.

12.16 To the extent that any supply made by a party to another party (**Recipient**) under or in connection with this Agreement is a taxable supply and a tax invoice has been provided to the Recipient, the Recipient must pay, in addition to the consideration to be provided under this Agreement for that supply (unless it expressly includes GST) an amount equal to the amount of that consideration (or its GST exclusive market value) multiplied by the rate at which GST is imposed in respect of the supply.

12.17 The amount of GST payable in accordance with clause 12.16 will be paid at the same time and in the same manner as the consideration otherwise payable for the supply is provided.

Governing law and jurisdiction

12.18 This Agreement is governed by the laws of New South Wales.

12.19 Each party irrevocably and unconditionally:

- (a) submits to the non-exclusive jurisdiction of the courts of New South Wales; and
- (b) waives, without limitation, any claim or objection based on absence of jurisdiction or inconvenient forum.

Service of process

12.20 Each party agrees that a document required to be served in proceedings about this Agreement may be served:

- (a) by being delivered to or left at its address for service of notices under clauses 11.1 and 11.2; or
- (b) in any other way permitted by law.

13 Execution

Executed as an agreement.

Signed by

<Lantern>

by a director and secretary/director:

Signature of director

Signature of director/secretary

Name of director (please print)

Name of director/secretary (please print)

Signed by

<Responsible Entity>

by a director and secretary/director:

Signature of director

Signature of director/secretary

Name of director (please print)

Name of director/secretary (please print)

Signed by

<Millinium>

by a director and secretary/director:

Signature of director

Signature of director/secretary

Name of director (please print)

Name of director/secretary (please print)

Annexure D- Independent Expert's Report



INDEPENDENT EXPERT'S REPORT

Lantern Hotel Group's proposed buy-back of stapled securities held by Millinium Asset Services Pty Limited (as trustee for the Borg Fund)

27 June 2014

This Financial Services Guide is issued in relation to an independent expert's report ("IER") prepared by BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) ("BDOCF") at the request of the directors ("Directors") of Lantern Hotel Group Limited and Lantern RE Limited, as responsible entity for Lantern Real Estate Trust, (together "Lantern").

Engagement

The IER is intended to accompany the notice of meeting and Explanatory Information Booklet ("Documents") that is to be provided by the Directors to the stapled securityholders of Lantern to assist them in deciding whether to approve the proposal by Lantern to acquire all of the stapled securities in Lantern held by Millinium Asset Services Pty Limited as trustee for the Borg Fund, by way of a selective buy-back and trust scheme ("Proposed Transactions").

Financial Services Guide

BDOCF holds an Australian Financial Services Licence (License No: 247420) ("Licence"). As a result of our IER being provided to you BDOCF is required to issue to you, as a retail client, a Financial Services Guide ("FSG"). The FSG includes information on the use of general financial product advice and is issued so as to comply with our obligations as holder of an Australian Financial Services Licence.

Financial services BDOCF is licensed to provide

The Licence authorises BDOCF to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues, to carry on a financial services business to provide general financial product advice for securities and certain derivatives (limited to old law securities, options contracts and warrants) to retail and wholesale clients.

BDOCF provides financial product advice by virtue of an engagement to issue the IER in connection with the issue of securities of another person.

Our IER includes a description of the circumstances of our engagement and identifies the party who has engaged us. You have not engaged us directly but will be provided with a copy of our IER (as a retail client) because of your connection with the matters on which our IER has been issued.

Our IER is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in the IER.

General financial product advice

Our IER provides general financial product advice only, and does not provide personal financial product advice, because it has been prepared without taking into account your particular personal circumstances or objectives (either financial or otherwise), your financial position or your needs.

Some individuals may place a different emphasis on various aspects of potential investments.

An individual's decision in relation to voting on the Proposed Transactions described in the Documents may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

Benefits that BDOCF may receive

BDOCF will receive a fee based on the time spent in the preparation of the IER in the amount of approximately \$45,000 (plus GST and disbursements). BDOCF will not receive any fee contingent upon the outcome of the Proposed Transactions, and accordingly, does not have any pecuniary or other interests that could reasonably be

regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transactions.

Remuneration or other benefits received by our employees

All our employees receive a salary. Employees may be eligible for bonuses based on overall productivity and contribution to the operation of BDOCF or related entities but any bonuses are not directly connected with any assignment and in particular are not directly related to the engagement for which our IER was provided.

Referrals

BDOCF does not pay commissions or provide any other benefits to any parties or person for referring customers to us in connection with the reports that BDOCF is licensed to provide.

Associations and relationships

BDOCF is the licensed corporate finance arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. The directors of BDOCF may also be partners in BDO East Coast Partnership, Chartered Accountants and Business Advisers.

BDO East Coast Partnership, Chartered Accountants and Business Advisers is comprised of a number of related entities that provide audit, accounting, tax and financial advisory services to a wide range of clients.

BDOCF's contact details are as set out on our letterhead.

BDOCF is unaware of any matter or circumstance that would preclude it from preparing the IER on the grounds of independence under regulatory or professional requirements. In particular, BDOCF has had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and Australian Securities and Investments Commission ("ASIC").

Complaints resolution

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, BDO Corporate Finance (East Coast) Pty Ltd, Level 11, 1 Margaret Street, Sydney NSW 2000.

On receipt of a written complaint we will record the complaint, acknowledge receipt of the complaint and seek to resolve the complaint as soon as practical. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Ombudsman Service Limited ("FOS"). FOS is an independent body established to provide advice and assistance in helping resolve complaints relating to the financial services industry. BDOCF is a member of FOS. FOS may be contacted directly via the details set out below.

Financial Ombudsman Service Limited

GPO Box 3

Melbourne VIC 3001

Toll free: 1300 78 08 08

Email: info@fos.org.au

The Directors
Lantern Hotel Group Limited
Lantern RE Limited, as responsible entity for Lantern Real Estate Trust
Level 10
9 Castlereagh St
SYDNEY NSW 2000

27 June 2014

Dear Directors

INDEPENDENT EXPERT'S REPORT IN RELATION TO THE PROPOSED TRANSACTIONS

Introduction

BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) ("**BDOCF**", "**we**" or "**us**") has been engaged by the directors of Lantern Hotel Group Limited and Lantern RE Limited, as responsible entity for Lantern Real Estate Trust, (together "**Lantern**") ("**Directors**") to prepare an independent expert's report ("**our Report**") to express an opinion as to whether or not the proposal by Lantern to acquire 214,724,222 stapled securities in Lantern ("**Lantern Securities**") held by Millinium Asset Services Pty Limited ("**Millinium**") as trustee for the Borg Fund ("**Borg Fund Securityholding**") by way of:

- a selective buy-back (in relation to the shares in Lantern held by Millinium) ("**Buy-back**"); and
- a trust scheme (in relation to the units in Lantern held by Millinium)

(together the "**Proposed Transactions**")

are fair and reasonable to Lantern Securityholders ("**Lantern Securityholders**") not participating in the Proposed Transactions ("**Non participating Securityholders**").

Our Report is to be included in the Explanatory Information Booklet for Lantern to be sent to Lantern Securityholders to assist them in deciding whether to vote in favour of the Proposed Transactions. We note that Millinium or any party who is related to Millinium or the Borg Fund Securityholding will be excluded from voting.

Proposed Transactions

On 4 April 2014, Lantern announced it had entered into a deed of settlement with certain securityholders, being Millinium, Totem Holdings Pty Limited ("**Totem**") and CVC Limited ("**CVC**") in relation to Supreme Court of NSW action relating to the Borg Fund Securityholding. Please refer to Section 1 of the Report for further details in relation to the legal action.

The parties agreed to do all things necessary to implement a transaction that would result in the Borg Fund Securityholding being validly cancelled.

The key terms of the Proposed Transactions to implement the buy-back and cancellation are as follows:

- Lantern is to buy back the Borg Fund Securityholding at 7.5 cents per Lantern Security ("**Buyback Price**");
- The acquisition of the Borg Fund Securityholding will be on a deferred consideration basis; and
- Interest at 8% per annum will be paid by Lantern based on the balance of the deferred consideration. Interest will only be payable from 31 July 2014.

In addition, under the terms of the deed of settlement:

- Lantern will pay Millinium \$1.4 million to facilitate settlement with Totem and CVC; and
- Totem and CVC will receive \$600,000 from Millinium (if the Proposed Transactions are approved) or Lantern (if the Proposed Transactions are not approved).



The Proposed Transactions are to be implemented by way of a selective buy-back of shares pursuant to Section 257D of the Corporations Act 2001 (Cth) (Corporations Act) and an accompanying trust scheme.

Full details of the Proposed Transactions are set out in the notice of meeting and Explanatory Information Booklet (“Documents”) to be sent to the Lantern Securityholders in respect of the Lantern Securityholder meeting to be convened (“Meeting”).

Purpose of Report

Section 257D of the Corporations Act deals with the shareholder approval process for selective buybacks. Under Section 257D, a selective buyback must be approved by a special resolution passed at a general meeting of the company, with no votes cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates, or alternatively, a resolution passed at a general meeting by all ordinary shareholders. Section 257D does not require the provision of an independent expert’s report. However, Australian Securities and Investments Commission (“ASIC”) Regulatory Guide 110 *Share Buy-backs* (“RG 110”) sets out the information to be disclosed to shareholders by companies seeking shareholder approval for a buy-back. RG110, paragraph 18 states that if a company proposes to buy-back a significant percentage of shares it should consider providing an independent expert’s report with a valuation of the shares.

Australian Securities Exchange (“ASX”) Listing Rule 10 deals with transactions between a listed company and persons in a position of influence over that company. In particular, ASX Listing Rule 10.1 prohibits an entity from acquiring a substantial asset from a related party or a substantial shareholder without the approval of non associated shareholders. Substantial assets are defined as assets with a value exceeding 5% of shareholders’ funds. Substantial shareholders are defined as persons entitled to at least 10% of the voting rights at any time in the six months prior to the transaction.

As Millinium is a substantial securityholder in Lantern and the Borg Fund Securityholding is a substantial asset, the buy-back of the Borg Fund Securityholding requires securityholder approval pursuant to ASX Listing Rule 10.1. ASX Listing Rule 10.10 requires an entity to provide an independent expert’s report to securityholders to enable them to assess the merits of a proposed acquisition of a ‘substantial asset’ for the purposes of ASX Listing Rule 10.1. Such an independent expert’s report must state the expert’s opinion as to whether the transaction is fair and reasonable to securityholders who are not associated with the proposed acquisition.

Accordingly, the Directors of Lantern have engaged us to prepare a Report in relation to the Proposed Transactions to opine whether they are fair and reasonable to Non participating Securityholders. Our Report is to be included in the Documents to be sent to all Lantern Securityholders to assist them in deciding whether to vote in favour of the Proposed Transactions.

Summary of Opinion

We have considered the terms of the Proposed Transactions as outlined in the body of this Report and have concluded that the Proposed Transactions are fair and reasonable to the Non participating Securityholders of Lantern.

A summary of our analysis in forming the above opinion is provided below.

Approach

In undertaking our analysis in relation to the Proposed Transactions, we have had regard to ASIC Regulatory Guide 111 *Content of expert reports* (“RG 111”).

We note that RG 111 defines a control transaction as when a controlling stake in a company is acquired or increased by way of a number of different legal mechanisms, including a selective buy-back. The Proposed Transactions will result in Torchlight GP Limited increasing its current holding in Lantern from 30.19% to 39.89%, and Allan Gray Australia Pty Limited increasing its current holding in Lantern from 18.18% to 24.02%. Therefore, we consider that the Proposed Transactions represent a control transaction.



In relation to control transactions, RG 111 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The comparison must be made assuming:

- A knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.
- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

From discussions with ASIC in relation to the interpretation of RG111.11, they have advised that the appropriate assessment is to compare:

- The fair market value of a security pre transaction on a control basis (being the value of the securities the subject of the offer per RG111.11)
- The fair market value of a security post transaction on a minority basis (being the offer price or consideration per RG111.11)

The basis for the above form of comparison is to ensure our analysis is in line with RG111.5 to RG111.7 which includes statements as follows:

- The main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the proposed transaction.
- The form of analysis an expert uses to evaluate a transaction should address the issues faced by security holders.

An offer is 'reasonable' if it is fair. An offer may also be reasonable if, despite not being fair, the expert believes that there are sufficient reasons for the securityholders to accept the offer in the absence of any higher bid before the close of the offer.

The Proposed Transactions are Fair to the Non participating Securityholders

We have formed our opinion in relation to fairness by comparing the:

- Fair market value of a Lantern Security pre the Proposed Transactions (including a premium for control); and
- Fair market value of a Lantern Security post the Proposed Transactions (on a minority basis).

The Proposed Transactions are fair if the value of a Lantern Security after the Proposed Transactions on a minority basis is equal to or greater than the fair market value of a Lantern Security before the Proposed Transactions (including a premium for control).

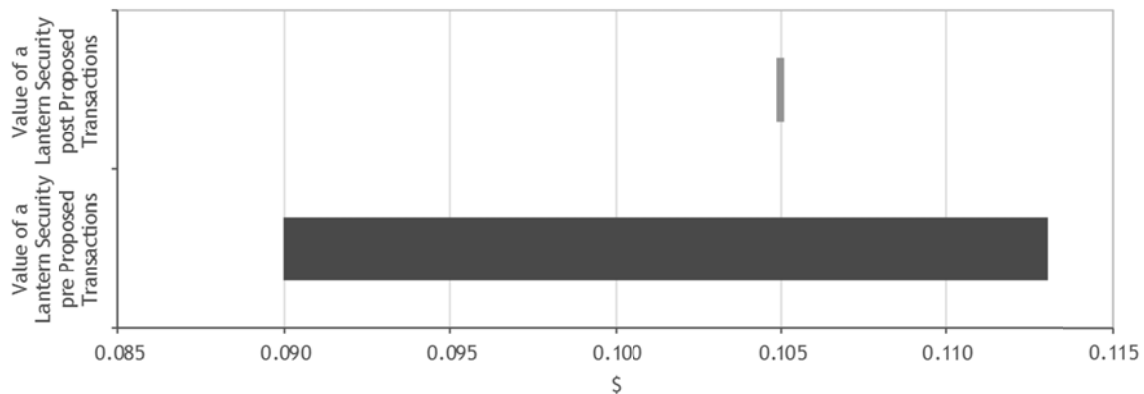
The results of our fairness analysis are summarised below.

Table 1: Fairness assessment (per Lantern Security)

\$ per Security	Ref	Low	High
Value of a Lantern Security pre Proposed Transactions	6.1	0.090	0.113
Value of a Lantern Security post Proposed Transactions	7.1	0.105	0.105

Source: BDOCF Analysis

Figure 1: Comparison between a Lantern Security before the Proposed Transactions on a control basis and a Lantern Security after the Proposed Transactions on a minority basis



Source: BDOCF analysis

From the above, the fair market value of a Lantern Security after the Proposed Transactions (on a minority basis) is towards the upper end of the range of assessed fair market value of a Lantern Security before the Proposed Transactions (on a control basis). Accordingly, the Proposed Transactions are considered to be fair to the Lantern Securityholders.

The Proposed Transactions are Reasonable to the Non participating Securityholders

In accordance with RG 111, an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, the expert believes that there are sufficient reasons for Non participating Securityholders to accept the offer in the absence of a superior offer.

In our opinion the Proposed Transactions are reasonable to the Non participating Securityholders. We have considered the factors which the Non participating Securityholders may consider in their assessment of the Proposed Transactions. A summary of the factors considered in our reasonableness assessment are as follows:

Table 2: Summary of factors considered in the reasonableness assessment

Advantages	
Increase in NAV per Security	If the Proposed Transactions are approved, and the Borg Fund Securityholding is bought back and cancelled, the number of Lantern Securities on issue will decrease from 883,202,130 to 668,477,908. As the buy-back consideration is at a discount to the NAV per Lantern Security, the buy-back will increase the pro forma NAV per Lantern Security from 11.54 cents to 12.63 cents which should benefit Non participating Securityholders.
Execution of capital management strategy	Lantern's medium term capital management strategy is to maintain a ratio of total interest bearing liabilities less cash to total assets less cash in the range of 35% to 50%. As detailed in Section 5.3, in the 12 months to 30 June 2013, Lantern purchased 88.7 million Lantern Securities as part of their focus on capital management. At the Lantern Annual General Meeting (November 2013) Management foreshadowed their intention to continue with their ongoing capital management strategy via buy-backs. The Proposed Transactions represent an opportunity for Lantern to buy back a significant portion of its Securities, consistent with its stated strategy. The Proposed Transactions achieve this more quickly and with more certainty than the on-market buy-back.
Non participating Securityholders will have an increased holding	Lantern Securities bought back under the Proposed Transactions will be cancelled, and as a result the Non participating Securityholders will have a greater proportional interest in Lantern. This will be at no cost to Non participating Securityholders.
Delayed acquisition terms	Lantern has up to 2 years to pay the consideration in full. This provides Lantern with additional time to secure the funding required to repay the deferred consideration. However, Lantern will be required to pay interest on the outstanding balance of the deferred consideration.
Avoids \$600k payment	If the Proposed Transactions are rejected, Lantern will be liable to pay an additional fee of \$600,000 to Totem and CVC.
Disadvantages	
Increase in debt and gearing	The Proposed Transactions provide Lantern with the opportunity to acquire the Borg Fund Securityholding on a deferred consideration basis (allowing up to 2 years for Lantern to make payment in full). Accordingly, Lantern's interest bearing liabilities will increase by up to \$16.1 million. If the Proposed Transactions are approved, Lantern's gearing ratio (calculated as total interest bearing liabilities less cash to total assets less cash) will increase from 31% to approximately 42%. This remains inside Lantern's target range. Given the headroom available in Lantern's current finance facility, the increase in debt and gearing is not expected to impact Lantern's ability to fund future acquisitions and capital expenditure.

Table 2: Summary of factors considered in the reasonableness assessment

Advantages	
Decreased asset and equity base	The Proposed Transactions require cash of \$16.1 million to be paid to buy back the Borg Fund Securityholding. This will potentially make Lantern a less attractive investment proposition for those investors that take into consideration asset size and market capitalisations in their investment decisions.
Increased controlling stakes	The completion of the Proposed Transactions will result in Torchlight GP Limited increasing its current holding in Lantern from 30.19% to 39.89%, and Allan Gray Australia Pty Limited increasing its current holding in Lantern from 18.18% to 24.02%. This may have an adverse impact on the voting power of other Lantern Securityholders. Torchlight and Allan Gray will have an increased ability to strategically block future interested parties making a takeover for Lantern. As Lantern is less likely to be a target for takeover, there is potentially less possibility of Lantern Securityholders participating in a premium payable in a takeover. We note however that this disadvantage needs to be considered in light of the controlling stake in Lantern already held by Torchlight, and the removal of the Borg Fund's controlling stake as a result of the Proposed Transactions.
Buy-back Price is above ASX market price	We note that the closing ASX price of Lantern Securities on 11 June 2014 was 6.7 cents which is lower than the Buy-back Price (7.5 cents). However, we note that recent liquidity in Lantern Securities has been low, consistent with the low levels of trading activity generally in Lantern Securities since Lantern undertook their last on-market buy-back in June 2013.
Potential decrease in liquidity	There are currently 883,202,130 Lantern Securities on issue. Of these, 214,724,222 will be bought under the Proposed Transactions. We noted in Section 5.3, the limited liquidity in Lantern Securities over the 12 months to June 2014. Therefore, for remaining Lantern Securityholders, the Proposed Transactions may result in a further reduction of liquidity.
Increase in funding costs	Under the Proposed Transactions, any outstanding cash consideration not paid by Lantern by 31 July 2014 will accrue interest at 8% per annum. While this interest rate is not considered to be unreasonable for unsecured funding to Lantern, it will reduce Lantern's pro-forma earnings to the extent that the consideration remains unpaid.

Source: BDOCF analysis

Other Matters

Securityholders' individual circumstances

Our analysis has been undertaken, and our conclusions are expressed at an aggregate level. Accordingly, BDOCF has not considered the effect of the Proposed Transactions on the particular circumstances of individual Lantern Securityholders. Some individual Lantern Securityholders may place a different emphasis on various aspects of the Proposed Transactions from that adopted in this IER. Accordingly, individual Lantern Securityholders may reach different conclusions as to whether or not the Proposed Transactions are fair and reasonable in their individual circumstances.

The decision of an individual Lantern Securityholder in relation to the Proposed Transactions may be influenced by their particular circumstances and accordingly Lantern Securityholders are advised to seek their own independent advice.

Approval or rejection of the Proposed Transactions are a matter for individual Lantern Securityholders based on their expectations as to the expected value and future prospects and market conditions and their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Lantern Securityholders should carefully consider the Documents. Lantern Securityholders who are in doubt as to the action they should take in relation to the Proposed Transactions should consult their professional adviser.

Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this IER. Such conditions can change significantly over relatively short periods of time.

Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. We reserve the right to revise any valuation or other opinion, in the light of material information existing at the valuation date that subsequently becomes known to us.

Glossary

Capitalised terms used in this Report have the meanings set out in the glossary. A glossary of terms used throughout this IER is set out in **Appendix 1**.



Sources of Information

Appendix 2 to the IER sets out details of information referred to and relied upon by us during the course of preparing this IER and forming our opinion.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by Lantern.

Under the terms of our engagement, Lantern agreed to indemnify the partners, directors and staff (as appropriate) of BDO East Coast Partnership and BDOCF and their associated entities, against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided by Lantern which is false or misleading or omits any material particulars, or arising from failure to supply relevant information.

Limitations

This IER has been prepared at the request of the Directors for the sole benefit of the Directors and Lantern Securityholders to assist them in their decision to approve or reject the Proposed Transactions. This IER is to accompany the Documents to be sent to the Lantern Securityholders to consider the Proposed Transactions and was not prepared for any other purpose.

Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and Lantern Securityholders without our written consent. We accept no responsibility to any person other than the Directors and Lantern Securityholders in relation to this IER.

This IER should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our IER, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of the IER with the Documents. Apart from this IER, we are not responsible for the contents of the Documents or any other document associated with the Proposed Transactions. We acknowledge that this IER may be lodged with regulatory authorities.

Summary

This summary should be read in conjunction with the attached IER that sets out in full the purpose, scope, basis of evaluation, limitations, information relied upon, analysis and our findings.

Financial Service Guide

BDOCF holds an Australian Financial Services Licence which authorises us to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues. A financial services guide is attached to this IER.

Yours faithfully

BDO CORPORATE FINANCE (EAST COAST) PTY LTD

Sebastian Stevens
Director

David McCourt
Director



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1. PURPOSE AND BACKGROUND

1.1. Initial Offer

On 4 February 2014, Three Pillars Portfolio Managers Pty Ltd (as investment manager for the Borg Fund) made an offer to Lantern under which Lantern could buy-back Millinium's 214,724,222 Lantern Securities (24.3% securityholding) pursuant to a staged settlement. The offer was due to expire on 21 March 2014.

The price for each tranche was to be set as the VWAP over the 20 day period up to and including each of the relevant settlement dates subject to a minimum price of 6.5c and a maximum price of 7.5c for each Lantern Security.

On 28 February 2014, Millinium entered into a call option with Totem in relation to approximately 111 million Lantern Securities (12.6% of Lantern Securities on issue). On 5 March 2014, Millinium entered into another call option with CVC in relation to approximately 104 million Lantern Securities (11.7% of Lantern Securities on issue).

Lantern advised Millinium that it considered these option agreements an attempt to nullify the initial offer to buy back Millinium's 24.3% holding in Lantern Securities made on 4 February 2014. On 7 March 2014, Lantern commenced proceedings in the Supreme Court of New South Wales to protect Lantern's right to accept the buy-back offer.

1.2. Deed of Settlement and Proposed Transactions

On 18 March 2014, Lantern announced to the ASX that it had accepted a revised buy-back offer for the 214,724,222 Lantern Securities held by Millinium. On 4 April 2014, Lantern announced that it had agreed a commercial settlement with Millinium, Totem and CVC. The key settlement terms varied from the initial offer. Key terms negotiated by the parties were:

- Lantern was to pay Millinium \$1.4 million to facilitate settlement with Totem and CVC;
- Totem and CVC were to receive \$600,000 from Millinium or Lantern depending on the approval of Lantern Securityholders of the Proposed Transactions;
- A fixed acquisition price of 7.5 cents per Lantern Security;
- The acquisition of the Borg Fund Securityholding will be on a deferred consideration basis;
- Interest at 8% per annum will be paid by Lantern based on the balance of the deferred consideration. Interest will only be payable from 31 July 2014; and
- Lantern has until 31 July 2016 to pay the deferred consideration.

1.3. Implementation of Proposed Transactions

Due to the stapled structure of Lantern, the Proposed Transactions are to be implemented by way of a selective buy-back pursuant to Section 257D of the Corporations Act, and an accompanying trust scheme.

This IER is to accompany the Documents required to be provided to the Lantern Securityholders. We have been appointed by the Directors to prepare an IER setting out our opinion as to whether the Proposed Transactions are fair and reasonable to Non participating Securityholders.

The IER has been prepared to assist the Directors in fulfilling their obligation to provide Lantern Securityholders with full and proper disclosure to enable them to assess the merits of the Proposed Transactions and to decide whether to approve the Proposed Transactions.

1.4. Securityholdings pre and post the Proposed Transactions

If the Proposed Transactions are approved, the number of Lantern Securities on issue will reduce, and there will be changes to the percentage of Securityholdings of Non participating Securityholders.

A summary of the percentage holdings of Lantern Securityholders pre and post the Proposed Transactions are set out below.

Table 3: Top Securityholders pre and post Proposed Transactions

Securityholders	Interest - pre Proposed Transactions		Interest - post Proposed Transactions	
	%	No. of Securities	%	No. of Securities
Torchlight	30.19	266,626,935	39.89	266,626,935
Millinium	24.31	214,724,222	-	-
Allen Gray Australia Pty Ltd	18.18	160,593,723	24.02	160,593,723
Renaissance	7.51	66,297,246	9.92	66,297,246
CBA - Colonial First State Investment Limited	5.10	45,025,520	6.74	45,025,520
B Mogridge	1.26	11,086,119	1.66	11,086,119
R Naylor	1.22	10,750,085	1.61	10,750,085
D Cartwright	0.14	1,228,240	0.18	1,228,240
Other	12.10	106,870,040	15.99	106,870,040
Total	100.00%	883,202,130	100.00%	668,477,908

Source: Management and BDO

If the Proposed Transactions are approved, Torchlight's controlling stake of 30.19% will increase to 39.89%.

2. SCOPE AND LIMITATIONS

2.1. Scope

The scope of the procedures we undertook in forming our opinion on whether the Proposed Transactions are fair and reasonable to the Lantern Securityholders has been limited to those procedures we believe are required in order to form our opinion. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards.

The assessment of whether the Proposed Transactions are fair and reasonable to the Lantern Securityholders involved determining the fair market value of various securities, assets and liabilities.

For the purposes of our opinion, the term fair market value is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length.

2.2. Purpose

Section 257D of the Corporations Act deals with the shareholder approval process for selective buybacks. Under Section 257D, a selective buyback must be approved by a special resolution passed at a general meeting of the company, with no votes cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates, or alternatively, a resolution passed at a general meeting by all ordinary shareholders. Section 257D does not require the provision of an independent expert's report. However, ASIC's RG110 Share Buy-backs sets out the information to be disclosed to shareholders by companies seeking shareholder approval for a buy-back. RG110, paragraph 18 states that if a company proposes to buy-back a significant percentage of shares it should consider providing an independent expert's report with a valuation of the shares.

Listing Rule 10 deals with transactions between a listed company and persons in a position of influence over that company. In particular, Listing Rule 10.1 prohibits an entity from acquiring a substantial asset from a related party or a substantial shareholder without the approval of non associated shareholders. Substantial assets are defined as assets with a value exceeding 5% of shareholders' funds. Substantial shareholders are

defined as persons entitled to at least 10% of the voting rights at any time in the six months prior to the transaction.

As Millinium is a substantial security holder in Lantern, the buy-back of the Borg Fund Securityholding requires Securityholder approval pursuant to ASX Listing Rule 10.1. ASX Listing Rule 10.10 requires an entity to provide an independent expert's report to securityholders to enable them to assess the merits of a proposed acquisition of a 'substantial asset' for the purposes of ASX Listing Rule 10.1. Such an independent expert's report must state the expert's opinion as to whether the transaction is fair and reasonable to securityholders who are not associated with the proposed acquisition.

As the mechanism to implement the Proposed Transactions includes a trust scheme, and as the Proposed Transactions represent a control transaction, we have also considered the Takeover Panel guidance on disclosure for a trust scheme (Guidance Note 15). The guidance proposes that the independent expert opine on whether, in the independent expert's opinion, the terms of the trust scheme are fair and reasonable for the holders of the target other than the acquirer and its associates.

Accordingly, the Directors of Lantern have engaged us to prepare a Report in relation to the Proposed Transactions to opine whether they are fair and reasonable to Non-participating Securityholders.

Our Report is to be included in the Explanatory Information Booklet for Lantern to be sent to all Lantern Securityholders to assist them in deciding whether to vote in favour of the Proposed Transactions.

2.3. Regulatory Requirements and Basis of Evaluation

In preparing our Report, we have considered the requirements of:

- RG 110 *Share Buy-backs*
- RG 111 *Content of expert reports*
- RG 112 *Independence of experts*

RG 111 establishes guidelines in respect of independent expert reports under the Corporations Act. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

RG 111 suggests that where the transaction is a control transaction the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it and that it should be analysed on a basis consistent with a takeover bid.

Paragraph 8 of RG111 defines a control transaction as when a person acquires, or increases, a controlling stake in a company, which can be achieved by way of a number of different legal mechanisms, including a selective capital reduction or selective buy-back under Ch 2J. The Proposed Transactions will result in Torchlight GP Limited increasing its current holding in Lantern from 30.19% to 39.89%, and Allan Gray Australia Pty Limited increasing its current holding in Lantern from 18.18% to 24.02%. Therefore, we consider that the Proposed Transactions represent a control transaction.

RG 111 establishes two distinct criteria for an expert analysing a control transaction. The tests are:

- Is the offer 'fair'
- Is it 'reasonable'

Fair

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The comparison must be made assuming:

- A knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

- 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

From discussions with ASIC in relation to the interpretation of RG111.11, they have advised that in relation to control transactions, the appropriate fairness assessment is to compare:

- The fair market value of a security pre transaction on a control basis (being the value of the securities the subject of the offer per RG111.11).
- The fair market value of a security post transaction on a minority basis (being the offer price or consideration per RG111.11).

The basis for the above form of comparison is to ensure our analysis is in line with RG111.5 to RG111.7 which includes statements as follows:

- The main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by a proposed transactions.
- The form of analysis an expert uses to evaluate a proposed transaction should address the issues faced by security holders.

Accordingly, as the Proposed Transactions are a control transaction, they are fair if the value of a Lantern Security after the Proposed Transactions (on a minority basis) is equal to or greater than the fair market value of a Lantern Security before the Proposed Transactions (including a premium for control).

Reasonable

In accordance with paragraph 12 of RG111, an offer is 'reasonable' if it is 'fair'. An offer could be considered 'reasonable' if there are valid reasons to approve it (in the absence of any higher bid before the close of the offer), notwithstanding that it may not be regarded as 'fair'.

RG110

RG110 sets out the information to be disclosed to shareholders by companies seeking shareholder approval for a buy-back. RG110, paragraph 18 states that if a company proposes to buy-back a significant percentage of shares it should consider providing an independent expert's report with a valuation of the shares.

To best satisfy the requirements of RG110 we consider our Report should assess whether, in our opinion, the Proposed Transactions are fair and reasonable to Non participating Securityholders.

General requirements in relation to the IER

In preparing the IER, ASIC requires the independent expert when deciding on the form of analysis for a report, to bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated by those persons affected by the Proposed Transactions. In preparing the IER we considered the necessary legal requirements and guidance of the Act, ASIC regulatory guides and commercial practice.

The IER also includes the following information and disclosures:

- Particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time within the last two years, between BDO East Coast Partnership or BDOCF and any of the parties to the Proposed Transactions.
- The nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER.
- We have been appointed as independent expert for the purposes of providing an IER for the Documents.

- That we have relied on information provided by the Directors and management of Lantern and that we have not carried out any form of audit or independent verification of the information provided.
- That we have received representations from the Directors in relation to the completeness and accuracy of the information provided to us for the purpose of our IER.

2.4. Special Value

We have not considered special value in forming our opinion. Special value is the amount that a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the particular potential acquirer of potential economies of scale, reduction in competition, other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

2.5. Reliance on Information

This IER is based upon financial and other information provided by the Directors and management of Lantern. We have considered and relied upon this information. Unless there are indications to the contrary, we have assumed that the information provided was reliable, complete and not misleading, and material facts were not withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Proposed Transactions are fair and reasonable to Non participating Securityholders.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.

Where we relied on the views and judgement of management the information was evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation.

Under the terms of our engagement, Lantern has agreed to indemnify BDOCF and BDO East Coast Partnership, and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

2.6. Limitations

This IER may be lodged by the Directors with regulatory and statutory bodies and will be included in the Documents to be sent to the Lantern Securityholders. The Directors acknowledge that our IER has been prepared solely for the purposes noted previously in the document and accordingly we disclaim any responsibility from reliance on the IER in regard to its use for any other purpose. Except in accordance with the stated purposes, no extract, quote or copy of the IER, in whole or in part, should be reproduced without our prior written consent, as to the form and context in which it may appear.

Our procedures in the preparation of the IER have involved an analysis of financial information and accounting records. This did not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards and consequently has not enabled us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or review. Accordingly, we have not expressed an audit or review opinion.

It was not our role to undertake, and we have not undertaken any commercial, technical, financial, legal, taxation or other due diligence, other similar investigative activities in respect of Lantern. We understand that the Directors has been advised by legal, accounting and other appropriate advisors in relation to such matters as necessary. We provide no warranty or guarantee as to the existence, extent, adequacy, effectiveness and/ or completeness of any due diligence or other similar investigative activities by the Directors or their advisors.

We note that the IER does not deal with the individual investment circumstances of Lantern Securityholders and no opinion has been provided in relation to same. Some individual Lantern Securityholders may place a different emphasis on various aspects of the Proposed Transactions from that adopted in our IER. Accordingly, individuals may reach different conclusions on whether or not the Proposed Transactions are fair and reasonable to them. An individual Lantern Securityholder's decision in relation to the Proposed Transactions may be influenced by their particular circumstances and, therefore, Lantern Securityholders are advised to seek their own independent advice.

Apart from the IER, we are not responsible for the contents of the Documents or any other document. We have provided consent for inclusion of the IER in the Documents. Our consent and the Documents acknowledge that we have not been involved with the issue of the Documents and that we accept no responsibility for the Documents.

2.7. Assumptions

In forming our opinion, we have made certain assumptions and outline these in our IER including:

- Assumptions outlined in the valuation sections.
- That matters such as title to all relevant assets, compliance with laws and regulations and contracts in place are in good standing, and will remain so, and that there are no material legal proceedings, other than as publicly disclosed.
- Information sent out in relation to the Proposed Transactions to Lantern Securityholders or any regulatory or statutory body is complete, accurate and fairly presented in all material respects. Additionally, publicly available information relied on by us is accurate, complete and not misleading.
- If the Proposed Transactions are implemented, that they will be implemented in accordance with the stated terms and that the legal mechanisms to implement the Proposed Transactions are correct and effective.
- There are no undue changes to the terms and conditions of the Proposed Transactions or complex issues unknown to us.

3. PROFILE OF LANTERN

3.1. Overview

Lantern is a stapled entity that is listed on the ASX, comprising units in Lantern Real Estate Trust stapled on a one-for-one basis with shares in Lantern Hotel Group Limited.

The group invests in the freehold title and management of various hotels and entertainment venues throughout Australia and New Zealand.

Lantern receives income through its major business activities in the sale of goods, gaming revenue and rental income from operating leases. As at 31 December 2013, Lantern had total hotel assets of \$169 million with investments located throughout Australia and New Zealand. However, Lantern is actively engaging with sales agents in relation to the New Zealand portfolio which is expected to be sold in the next 12 months.

Lantern listed on the ASX on 8 January 2004.

3.2. Hotel Investments

Lantern's hotel investments are split between the following categories (being a combination of operated and leased properties).

Table 4: Lantern Hotel Investments

Property	Latest external valuation \$'000	Carrying amount Dec 2013 \$'000
Freehold - Operated	141,500	141,185
Freehold - Leased	20,700	20,400
Total Australian Assets	162,200	161,585
New Zealand Assets (NZD) ¹	12,430	8,360
New Zealand Assets (AUD)	11,119	7,478
Total Hotel Assets	173,319	169,063

Source: Management

Note 1: External valuation of NZ assets includes a property that has since been sold

We have reviewed the valuations of the individual hotel assets held by Lantern, but note that these have not been separately disclosed due to their commercial sensitivity.

As set out in the balance sheet in Table 5 below:

- The carrying value of the hotels at 31 December 2013 operated by Lantern (\$141m) reflects a combination of intangible assets (\$29m: gaming licenses and goodwill associated with the Icon business) and tangible assets (\$112m: land, property and plant and equipment).
- Freehold properties not operated by Lantern are recorded as investment properties.
- The New Zealand assets are intended to be sold in the next 12 months and are recorded as "discontinued operations". These assets are carried at fair value.

3.3. Historical Financial Statements

3.3.1. Historical Balance Sheets of Lantern

A summary of Lantern's audited balance sheets at 30 June 2012 and 30 June 2013 and reviewed balance sheet at 31 December 2013 are set out in Table 5.

Table 5: Lantern Historical Balance Sheets

	Note	Dec 2013 \$'000	Jun 2013 \$'000	Jun 2012 \$'000
Current assets				
Cash and cash equivalents	1	3,060	56,202	4,116
Trade and other receivables	2	2,075	2,322	65,250
Inventories		1,303	1,103	785
Assets of discontinued operations	3	7,478	9,367	8,704
Other assets		-	-	1,054
		13,866	68,994	79,909
Non-current assets				
Investment properties	4	20,400	19,100	24,500
Property, plant and equipment	5	112,123	95,545	87,370
Intangibles	6	29,090	26,640	25,680
Equity accounted investments		-	-	21,377
Deferred tax asset		108	108	108
Other		526	755	1,842
		162,247	142,148	160,877
Total assets		176,113	211,142	240,786
Current liabilities				
Payables		7,626	9,076	5,046
Borrowings		66	64	8,704
Derivatives		2,421	3,419	4,682
Provisions		60	70	-
		10,173	12,629	18,432
Non-current liabilities				
Payables		900	450	525
Borrowings	7	56,813	90,328	108,076
Derivatives		6,181	7,077	9,803
Provisions		85	76	157
		63,979	97,931	118,561
Total liabilities		74,152	110,560	136,993
Net assets		101,961	100,582	103,793
Net asset value per Security (\$)		0.1154	0.1139	0.1175
Net tangible asset per Security (\$)		0.0825	0.0837	0.0794

Source: Lantern Interim Report December 2013 and Annual Report 2013

Notes:

- 1) Cash and cash equivalents declined by \$53 million at 31 December 2013 due to \$50 million in repayments of borrowings and payments for acquisition of businesses
- 2) Trade and other receivables were significantly higher in June 2012 reflecting loans to Panthers entities that were repaid in FY13
- 3) New Zealand operations
- 4) Freehold properties leases to operators
- 5) Lantern operated properties
- 6) Gaming Licenses and goodwill related to the acquisition of hotel operating businesses from the Icon Hospitality Group on 15 June 2012
- 7) Borrowings decreased by \$33.515 million from the 2013 financial year to the 2014 half year in part due to the application of the Panthers and Panthers Unit Property Trust proceeds against borrowings.

We also note that on 30 August 2013, Lantern entered into a new 3 year finance facility with its principal financier. The key terms were:

- Balance of Panthers proceeds, held in cash at 30 June 2013, to be used to reduce debt;
- Revised facility limit of \$78m with revolving terms; and
- Facility can be redrawn for acquisitions of freehold going concern hotels and other capital expenditure.

3.3.2. Historical Income Statements of Lantern

A summary of Lantern's audited income statements for FY12 and FY13 and reviewed income statements for HY14 are set out in Table 6.

Table 6: Lantern Historical Income Statements

		HY14 \$'000	FY13 \$'000	FY12 \$'000
Revenue from continuing operations	1	24,742	42,694	2,424
Cost of sales		(9,888)	(17,413)	(623)
Gross profit from continuing operations		14,854	25,281	1,801
Other revenue		1,213	7,911	18,603
Other income		3,912	7,047	(7,060)
Share of profits- associates		-	496	(462)
Expenses				
Hotel Expenses	1	(11,958)	(19,281)	(1,952)
Administrative expenses		(2,869)	(8,590)	(5,201)
Changes in fair value of property, plant, equipment and intangibles		(3,000)	-	-
Finance costs		(4,312)	(9,714)	(11,347)
Net profit/(loss) from continuing operations before income tax expense		(2,160)	3,150	(5,618)
Income Tax Expense		-	-	-
Net profit/(loss) from continuing operations after income tax expense		(2,160)	3,150	(5,618)
Discontinued operations		1,545	581	(3,777)
Profit/Loss for the period		(615)	3,731	(9,395)

Source: Lantern Interim Report December 2013 and Annual Report 2013

Notes:

1. Until the acquisition of the Icon Hospitality business, Lantern derived revenue primarily from rent and interest. Following the Icon Hospitality purchase, Lantern generates revenues from hotel operations, being gaming machines, and food and beverage sales as well as rental from operating leases.

3.3.3. Historical Cash Flow Statements of Lantern

A summary of Lantern's audited cash flow statements for FY12 and FY13 and reviewed cash flow statements for HY14 are set out in Table 7.

Table 7: Lantern Historical Cash Flow Statements

	Notes	HY14 \$'000	FY13 \$'000	FY12 \$'000
Cash flows from operating activities				
Cash receipts from customers (inclusive of GST)		28,980	50,418	12,854
Proceeds from insurance claim		62	-	4,000
Cash paid to suppliers and employees (inclusive of GST)		(25,127)	(44,375)	(11,873)
Interest received		456	5,738	6,233
Interest paid		(3,595)	(10,369)	(10,822)
		776	1,412	332
Cash flows from investing activities				
Additions to investment properties		-	-	(952)
Proceeds from sale of investment properties		2,260	-	1,321
Payment for property, plant and equipment		(2,616)	(4,669)	(12,129)
Earnings from equity investment		-	932	1,832
Proceeds from sale of equity investment		-	24,000	-
Proceeds from loans repaid by third parties		200	63,090	-
Payment for acquisition of business, net of cash required	1	(16,325)	(51)	-
Payment for loans to third parties		-	-	310
Proceeds from loan extension fees		-	435	-
		(16,481)	83,737	(9,618)
Cash flows from financing activities				
Proceeds from borrowings		16,513	-	-
Proceeds from issue of units		-	-	14,990
Unit issue costs		-	-	(618)
Payment for borrowing costs		(511)	(748)	-
Repayment of borrowings		(50,000)	(27,348)	(7,450)
Repayment of finance leases		(32)	-	-
Payment for cancelled interest rate swaps		(1,412)	-	-
Payment for securities bought back		(1,999)	(4,978)	-
		(37,441)	(33,074)	6,922
Net increase/(decrease) in cash		(53,146)	52,075	(2,364)
Cash at the beginning of the year		56,202	4,116	6,272
Cash acquired - Lantern		-	-	208
Effects of exchange rate changes on cash		4	11	-
Cash at the end of the year		3,060	56,202	4,116

Source: Lantern Interim Report December 2013 and Annual Report 2013

Notes 1: On 23 October 2013 the Group purchased the property, plant, equipment and intangibles of the Crown Hotel, Surry Hills. Total cost of the acquisition was \$16m

3.4. Capital Structure and Securityholdings

Lantern's medium term strategy is to maintain a ratio of total interest bearing liabilities less cash to total assets less cash in the range of 35% to 50%. During the year ended 31 December 2013, Lantern undertook an on market security buy-back, buying 88.7 million Lantern Securities for total consideration of \$7.0 million.

As at the date of this Report, there were 883,202,130 Lantern Securities on issue. Lantern Securities are currently held by the following Securityholders.

Table 8: Lantern Securityholders

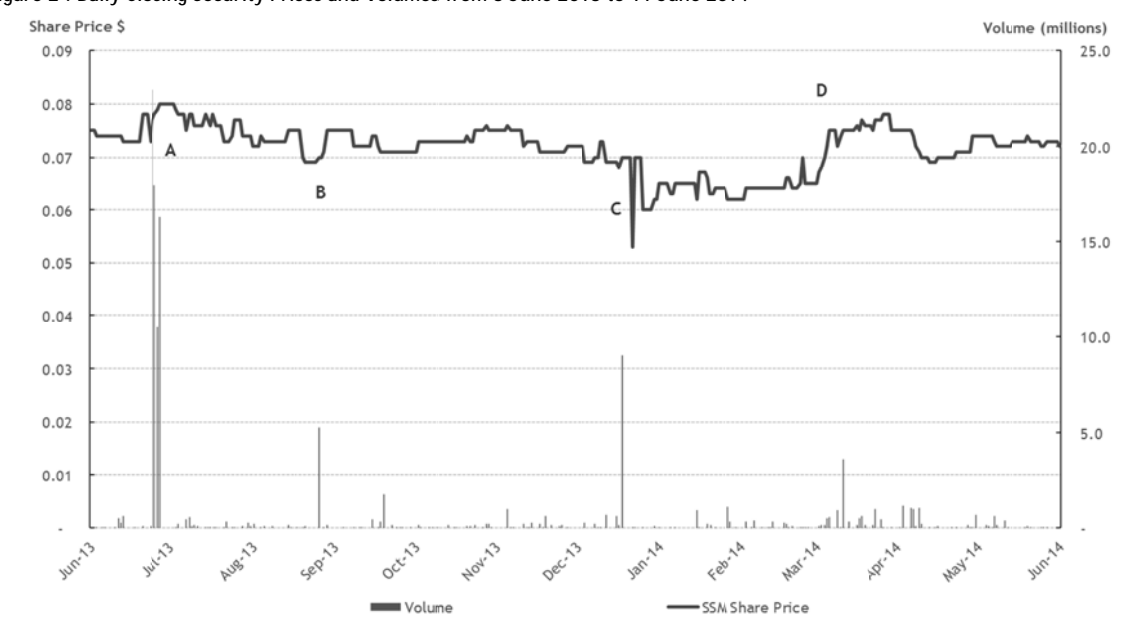
Unit holders	%	No. of Securities
Torchlight	30.19	266,626,935
Millinium	24.31	214,724,222
Allen Gray Australia Pty Ltd	18.18	160,593,723
Renaissance	7.51	66,297,246
CBA - Colonial First State Investment Limited	5.10	45,025,520
B Mogridge	1.26	11,086,119
R Naylor	1.22	10,750,085
D Cartwright	0.14	1,228,240
Other	12.10	106,870,040
Total	100.00%	883,202,130

Source: Management

3.5. ASX Trading

Set out below is a graph summarising the trading in Lantern Securities on the ASX over the 12 months to 11 June 2014. During this period 117.8 million Lantern Securities were traded on the ASX, representing 13.3% of Lantern’s Securities on issue. The Lantern Security price ranged between a low of \$0.05 on 23 December 2013 and a high of \$0.08 on 3 July 2013. The 12 months VWAP for the period ending 11 June 2014 was \$0.075.

Figure 2 : Daily Closing Security Prices and Volumes from 3 June 2013 to 11 June 2014



Source: Capital IQ; BDOCF analysis

Lantern’s announcements to the ASX which may have had an impact on trading volumes in Lantern Securities are detailed below (and referenced to Figure 2 above):

Table 9: Lantern ASX Announcements

Note	Date	Announcement Details	Prior Day Closing Security Price	Closing Security Price	% Movement	Volume (million)
A	24 Jun 2013	Lantern entered into a conditional contract to acquire the Crown Hotel subject to financier consent and the vendor satisfying pre-settlement conditions. Lantern advised that it had concluded discussions with its principal financier and received an offer to restructure current finance arrangements. Lantern advised of the increase in the maximum number of Securities permitted to be bought-back.	0.08	0.07	(12.5)	0.1
B	27 Aug 2013	Release of Preliminary Financial Report. Additionally, Lantern advised that it had finalised discussions with their principal financier and entered into a new 3 year facility.	0.07	0.07	-	5.3
C	19 Dec 2013	Change of interests of substantial holder.	0.07	0.07	-	9.0
D	12 Mar 2014	Totem made an application to the Takeovers Panel in regards to the effect of the buy-back offer on Torchlight’s control stake.	0.07	0.08	14.3	3.6

Source: ASX

4. INDUSTRY OVERVIEW

4.1. Industry Description

As discussed in Section 3.1, Lantern operates a diversified portfolio of pubs and other entertainment and leisure venues in Australia and New Zealand. As Lantern intends to discontinue its New Zealand operations, it is therefore primarily exposed to the operating performance of its Australian venues.

According to IBIS World (IBISWorld Report: *Pubs, Taverns and Bars in Australia*, February 2014), the Pubs, Taverns and Bars industry recorded annualised annual revenue growth of 2.2% in the five years to 2014. Industry growth has been impacted by the following:

- declining beer consumption;
- strong competition from independent liquor retailers; and
- weak economic activity in Australia and subsequent collapse of certain highly leveraged pub operators.

4.2. Industry Characteristics

Competition in the Pubs, Taverns and Bars industry is high and becoming increasingly competitive.

- Competition within the industry has recently been on the basis of price, with discounted liquor prices during happy hours and various other incentives and schemes to attract patrons. However, this has been constrained due to more stringent regulations on drink deals.
- The positioning of the industry within the changing alcohol consumption market, sees pubs moving more towards providing cocktail bars, licensed restaurant and bistro facilities, and providing good quality food at value-for-money prices, in a clean and fresh environment.
- Competition not only occurs within the pub industry but against the wider on and off-premises alcohol consumption market, from licensed restaurants and cafes, to supermarkets, casinos, clubs, and retail liquor stores. Many of these compete with pub/tavern off-premises alcohol sales on a price-basis, particularly for high turnover products.

Barriers to entry into the industry are relatively low, given the large number of small business establishments and generally fragmented nature of the industry. Less than half of the establishments employed fewer than 20 employees. Entry to the industry is also available through lease arrangements.

The acquisition of liquor licences poses the main barrier to entry, however, there has been a large increase in the number of small bar openings over the past five years, as liquor licence fees and trading restrictions have been lowered.

4.3. Key Players

The majority of operators in this industry are subject to a low level of concentration, largely stemming from the large number of small business operators and, therefore, the fragmented nature of this industry.

The overall concentration level has increased in recent years, due to the consolidation activities of Woolworths Ltd and Wesfarmers Ltd and of other property and fund managers.

According to IBISWorld, the level of concentration for the top four operators is expected to be under 15% in FY14; however it is dominated by the two major retailers, Woolworths Ltd and Wesfarmers Ltd, as set out in Table 10 below.

Table 10: Australian Pub Operators

Company	Estimated Market Security (IBISWorld)	IBISWorld Comments
Woolworths Ltd	9.2%	<ul style="list-style-type: none"> Woolworths is Australia's largest pub owner, owning around 300 pubs nationwide through its joint venture with the Bruce Mathieson Group - Australian Hospitality and Leisure (AHL). For FY13, hotel segment sales increased by 22.5% to \$1.47 billion
Wesfarmers Limited	2.4%	<ul style="list-style-type: none"> In 2007, Wesfarmers acquired Coles Group Ltd. As part of the takeover, Wesfarmers acquired 78 pubs, all located in Queensland. Queensland liquor licensing regulations prohibit the sale of alcohol from bottle shops attached to supermarkets. IBISWorld estimates revenue from pub operations was about \$385.4 million in FY13.
Independent Pub Group	1.0%	<ul style="list-style-type: none"> Independent Pub Group has a total of 21 pubs, with a combined 774 gaming machines, and 39 retail liquor outlets.
Merivale Group	Less than 1%	<ul style="list-style-type: none"> Merivale Group is a privately owned company which owns and operates a portfolio of pubs, bars and restaurants in Sydney. As a private company, financial information is not disclosed.

Source: IBISWorld

4.4. Industry Performance and Outlook

Until recently, the industry's performance was driven by the increasing proliferation of gaming machines. However, many state governments have introduced caps on the total number of gaming machines allowed in each pub, alongside other operational restrictions. Competition for gaming machine activity is present from other industries, including clubs and casinos.

The trend towards premium food and beverages should result in stronger patronage and revenue growth for operators that diversify beverage offerings and interesting, healthy and high-quality food. Operators can also seek new consumer segments through social networking and online reviews.

The fall in beer consumption poses a significant threat to the industry. According to the Australian Bureau of Statistics, beer consumption has reached its lowest recorded level in more than 60 years. Pubs, bars and nightclubs will also be affected by competition from the liquor retailing industry, as Woolworths and Coles increase their dominance in the industry and continue aggressive price discounting.

Further state government restrictions on gaming machines will significantly affect the performance of the industry over the medium-term. The Federal Government is also investigating the options for limiting gambling total spin and daily spending by individuals on gaming machines. This may have a dramatic effect on revenue gained from gaming machines by industry operators. IBISWorld forecasts industry revenue to increase at an annualised 1.6% over the next five years, to \$17.5 billion in FY19.

The key external drivers of the industry performance according to IBISWorld are set out in Table 11 below.

Table 11: Drivers of Pub Performance

Drivers	IBISWorld Comments
Real household disposable income	<ul style="list-style-type: none"> Changes to real household disposable income affect discretionary expenditure, including on alcoholic beverages and entertainment. Research has shown that gambling is relatively inelastic and will not be significantly affected.
Competition from cafes and restaurants	<ul style="list-style-type: none"> Cafes and restaurants are increasingly being licensed to sell alcohol and in some states alcohol can be served from these premises without serving a meal. Cafes and bars are, therefore, a significant and direct competitor to this industry.
Competition from clubs (hospitality)	<ul style="list-style-type: none"> Clubs are direct competitors to hotels and pubs, through their offers of food, beverages and gaming machines, to members and to the general public.
Regulation	<ul style="list-style-type: none"> More stringent liquor licensing laws to combat the excess consumption of alcohol by patrons, binge drinking by young adults and increasing violence outside of some venues, is having an adverse affect on this industry in terms of its public image, and a fall off in patrons.

Table 11: Drivers of Pub Performance

Drivers	IBISWorld Comments
Alcohol consumption	<ul style="list-style-type: none"> Changing attitudes to alcohol consumption (i.e. drink driving laws, excess consumption of liquor, violence associated with excess liquor consumption etc.) along with the ageing of the population (with lower alcohol consumption generally by older citizens), is starting to affect overall per capita alcohol consumption and expenditure at licensed establishments – both on-premises and from associated bottle shops.
Gambling	<ul style="list-style-type: none"> IbisWorld estimates that in FY14, about one-quarter of industry revenue will be generated by this segment. Over the past five years, community opposition to gaming machines has risen, with proposed mandatory precommitment legislation. However, opposition from hotel and club industry groups has delayed the rollout until at least 2016.

Source: IBISWorld

5. VALUATION OF LANTERN SECURITIES

5.1. Valuation Methodologies Considered for Lantern

In order to assess the Proposed Transactions we have valued Lantern Securities.

We have formed our opinion in relation to fairness by comparing the:

- Fair market value of a Lantern Security before the Proposed Transactions (including a premium for control); and
- Fair market value of a Lantern Security after the Proposed Transactions (on a minority basis).

The Proposed Transactions are fair if the value of a Lantern Security after the Proposed Transactions on a minority basis is equal to or greater than the fair market value of a Lantern Security before the Proposed Transactions (including a premium for control).

Details of common valuation methodologies for businesses and assets are included at *Appendix C*. In addition, Paragraph 53 of RG111 sets out the valuation methodologies that ASIC consider an expert should use in valuations for expert reports.

Having considered Paragraph 53 of RG111, our view of the most appropriate valuation methodologies to apply to Lantern are summarised in Table 12 below.

Table 12: Summary of Possible Valuation Methodologies

Methodology	Adopted	Explanation
DCF	x	<ul style="list-style-type: none"> Management has not prepared long term forecast financial results for Lantern. Given the lack of long term forecasts for Lantern (5 years or more), we are unable to prepare a DCF valuation using forecasts.
FME	x	<ul style="list-style-type: none"> The extent of Lantern's recent asset divestments, impairments and capital management initiatives as well as Lantern's proposed asset divestments and capital management initiatives, have impacted the stability of Lantern's earnings. Therefore, given the lack of stability in relation to Lantern's historical and forecast earnings, we have been unable to adopt an earnings based valuation methodology to value Lantern.
NAV	✓	<ul style="list-style-type: none"> The NAV Methodology is appropriate where the majority of assets consist of cash or passive investments such as Lantern's freehold interest in entertainment and leisure venues. Lantern's financial statements for the half year ended 31 December 2013 have been reviewed providing a basis for an NAV valuation.
ASX Market Price	✓	<ul style="list-style-type: none"> Lantern is listed on the Australian Securities Exchange and has sufficient market history for an ASX market price valuation. Whilst there is not a very deep market for Lantern Units, there is sufficient liquidity to use this methodology to value Lantern. We have also considered the pricing of on market Security buy-back's undertaken by Lantern in our analysis.

For the reasons outlined in Table 12 above, it is our view that the most appropriate valuation methodologies to apply to Lantern are the NAV and ASX market price methodologies.

5.2. NAV Methodology

The NAV valuation is based on the value of Lantern's assets and liabilities. A-REITs (including Lantern) are required to regularly value the property assets in their portfolio. Properties are generally valued by independent valuers every two to three years, whilst internal valuations are undertaken at those balance dates where independent valuations have not been carried out. Based on these property valuations and the carrying value of other balance sheet items, the net asset value (NAV) can be calculated (on a per security basis).

In valuing Lantern Securities, we have considered the current carrying value of Lantern's assets and liabilities and any adjustments required to be made to the carrying values.

5.3. ASX Market Price

In order to provide additional evidence of the fair market value of Lantern, we have considered recent ASX trading prices of Lantern Securities as a secondary valuation method. We have also considered Lantern's on market buy-back of Lantern Securities in our assessment of the ASX market price.

5.4. Premium for Control

Investment fundamentals dictate that the value of 100% of a company is normally greater than the sum of values attributable to the individual shares of that company based on transactions in minority share holdings.

The difference between the value of 100% of a company and the total value of minority share holdings is referred to as a premium for control taking into account control and synergistic benefits for the acquirer. Control of a company by a shareholder gives that shareholder rights to which minority shareholders are not entitled, including control of the company's policies and strategies, and use of cash flows of the company.

The level of premium for control paid in a takeover bid will vary across industries and is dependent upon the specifics of the company being acquired. We have reviewed Australian public company acquisitions over the past three years. This review indicates a premium for control range of 20% to 35%.

RG 111.11 indicates that an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. The comparison must be made assuming 100% ownership of the target company, irrespective of the percentage holding of the bidder or its associates in the target company.

Therefore when valuing a Lantern Security before the Proposed Transactions we are required to value Lantern on a control basis. Our primary valuation methodology (NAV) is based on the fair value of Lantern's assets and liabilities (which reflect all the cash flows of the underlying hotel assets) and therefore represents a controlling interest position (the fair value of the hotel assets should reflect the price of an acquisition transaction of the hotel assets between a willing buyer and willing seller).

Our secondary valuation methodology, based on the ASX market pricing of Lantern, is on a minority interest basis, and therefore we apply a control premium of 20% to the minority interest ASX valuation. We have adopted a control premium at the low end of the observed range given Lantern is currently not in the position to distribute earnings (reducing the cash flow benefits of obtaining 100% of Lantern) and the limited potential synergistic benefits that would be available in the acquisition of Lantern.

When valuing a Lantern Security post the Proposed Transactions, we are required to value Lantern on a minority interest basis. Based on the above, we have considered the inverse of the control premium (which equates to a minority discount of 16.7%) in our NAV valuation of Lantern Securities.

5.5. Valuation in Accordance with APES 225

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services, as issued by the Australian Professional and Ethical Standards Board.

6. VALUATION OF LANTERN PRIOR TO THE PROPOSED TRANSACTIONS

6.1. Valuation Summary

Set out in the table below is a summary of our assessment of the fair value of Lantern per Security, prior to the Proposed Transactions, on a control basis. We consider both the NAV and ASX market price methodologies to have merit in determining the fair value of Lantern Securities. Therefore we have adopted a valuation range that reflects both the NAV and ASX market price valuations.

Table 13: Fair value of Lantern per Security on a control basis

\$ per Share	Ref.	Low	High
NAV Methodology	6.2	0.113	0.113
ASX market pricing method	6.3.3	0.084	0.096
BDOCF selected valuation		0.090	0.113

Source: BDOCF analysis

6.2. Fair market value of Lantern using the NAV method (pre transaction control basis)

Our assessment of the fair market value of a Lantern Security using the NAV method is set out below:

Table 14: Valuation Summary

\$'000s unless stated otherwise	Ref.	
NAV - 31 December 2013	3.3.1	101,961
Settlement Costs	6.2.4	(1,400)
Transaction Costs	6.2.4	(400)
Adjusted NAV		100,161
Existing Securities on issue (units)	1.4	883,202,130
Value per Security (\$) - control basis (before Proposed Transactions)		0.113

Source: BDOCF analysis

Based on the above, the fair market value of Lantern per security using the NAV method on a control basis is \$0.113 per security.

6.2.1. Approach

In utilising the NAV method to value Lantern, we have considered the following:

- The carrying value of Lantern's assets and liabilities;
- Adjustments to carrying values subsequent to 31 December 2013; and
- Adjustments for any sunk costs in relation to the Proposed Transactions.

6.2.2. Carrying value of Lantern's assets and liabilities

A summary of the carrying value and latest independent valuation for Lantern's hotel investments is set out in Section 3.2.

It is Lantern's policy to have all investment properties externally valued at intervals of not more than three years and that those valuations be reflected in the financial statements of Lantern. Lantern reviews the fair value of each investment property every six months, and where required, investment properties will have revaluations to fair values whenever their carrying value differs materially from fair value.

Fair value represents the amount at which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. It is based on current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts, adjusted for any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

In the absence of current prices in an active market, Lantern considers information from a variety of sources, including current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences, recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

Goodwill arising on the acquisition of a business is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Gaming licences are valued at cost or at fair value at acquisition date when recognised in a business combination. They are tested for impairment annually and whenever an event or change in circumstances indicate an impairment may exist.

We have reviewed certain of the hotel valuations to verify whether there are any issues or anomalies that would materially impact the values of these hotel investments disclosed in the balance sheet. Our review included a general assessment of the methodologies and key underlying assumptions adopted in each of the valuations. In our review, we considered the following (where applicable):

- date of valuation, property valuation amount and book value;
- local market / geographical conditions;
- current and forecast revenues and earnings; and
- yields, discount rates and capitalisation rates.

In relation to our review, we note the following:

- The independent valuations adopted by Lantern were undertaken at "fair value", as required by AASB 140 Investment Property. The valuation methodologies applied in the valuations appear to be appropriate and consistent with market practice.
- The external property valuers who prepared the independent valuations are from reputable and well established organisations and are independent from Lantern and do not have any interest in the properties based on the pecuniary interest disclosures in the valuation reports.
- The external valuations have been undertaken primarily using a capitalisation method. The key assumptions adopted under these methods include assessment of the capitalisation rate, discount rate and forecast net annual cash flows and EBITDA receivable from the properties. The valuations have been valued in accordance with the Australian Property Valuation guidelines.

6.2.3. Adjustments to carrying values subsequent to 31 December 2013

As stated in the Documents, to the knowledge of the Directors, there have been no material changes to the financial position of Lantern since 31 December 2013. As discussed above, the 31 December 2013 balance sheet has been subject to fair value adjustments.

We have discussed movements in balance sheet items subsequent to 31 December 2013 with Management. We understand that the Directors are commissioning independent valuations of certain hotel properties which are to be revalued at 30 June 2014. At the date of the Report, these valuations have not been completed and it is uncertain as to the quantum (if any) of any potential changes to the carrying value as at 31 December 2013.

Based on the above, except as discussed below, we do not consider any adjustments are required to be made to the carrying value of Lantern's assets and liabilities at 31 December 2013.

6.2.4. Transaction Costs

In accordance with the Settlement terms, Lantern will pay \$1.4 million to Millinium to facilitate settlement with Totem and CVC (regardless of the Proposed Transaction, Lantern is required to pay Millinium this amount). As this is a committed sunk cost, we have adjusted for this amount in our assessment of the fair market value of Lantern.

Management have advised that Lantern will incur costs associated with the Proposed Transactions of approximately \$400k. These costs relate to legal fees, consultancy fees, and fees associated with the preparation of this Report. These costs will be incurred by Lantern regardless of whether the Proposed Transactions proceed. As such, we have adjusted for the amount of \$400k to reflect these sunk costs.

Accordingly, we consider that the adjusted net asset value of Lantern (based on the 31 December 2013 net asset value adjusted for the costs of the Proposed Transactions and the \$1.4m settlement payment) represents the best indication of the value of Lantern (on a control basis) as at the date of this Report.

6.3. ASX Market Pricing

6.3.1. Share trading analysis

We have also considered the ASX quoted market price for Lantern Securities which reflects a minority interest price for Lantern Securities.

Set out in Figure 2 (Section 3.4) is a graph summarising the trading in Lantern Securities on the ASX over the 12 months to 11 June 2014.

The table below summarises trading activity in Lantern Securities over the year up to 11 June 2014.

Table 15: Volume Weighted Average Security Price of Daily Trades

	Low (\$)	High (\$)	VWAP (\$)	Total Volume Traded (M's)	Annualised Turnover (Note 1) (%)	Average Bid/Ask Spread (%)
As at 11 Jun 2014	0.067	0.067	0.067	0.01	0.29	4.55
5 days to 11 Jun 2014	0.065	0.072	0.069	0.06	0.58	0.91
1 month to 11 Jun 2014	0.065	0.074	0.072	1.19	1.89	1.77
3 months to 11 Jun 2014	0.065	0.078	0.074	14.80	6.73	1.64
6 months to 11 Jun 2014	0.053	0.078	0.071	32.59	7.35	2.31
12 months to 11 Jun 2014	0.053	0.080	0.075	117.84	13.34	2.11

Sources: Capital IQ; BDOCF analysis

Note 1: Annualised turnover is calculated as period turnover divided by trading days in the period, multiplied by trading days in the year.

Legend: VWAP denotes volume weighted average Security price.

We note the following with respect to Lantern Securities during the 12 months up to 11 June 2014:

- Lantern Securities traded between \$0.05 per Security and \$0.08 per Security.
- Over 3 separate trading periods over the 12 month period analysed, the daily volume traded was greater than 3 million Securities.
- VWAP prices (for the periods greater than 1 month) are observed to be generally stable at between \$0.070 and \$0.075.
- The total traded volume of Lantern Securities over the 12 months to 11 June 2014 was approximately 13.34% of the total number of Lantern Securities on issue. Generally, there is little liquidity of trading in Lantern Securities, however, we note that a significant volume of trading occurred in specific trading spikes.
- Over the year analysed, there were 182 days of trading activity out of a total of 253 trading days.

- When assessing the fair market value of a Lantern Security, we consider \$0.070 to \$0.075 to best reflect the ASX market pricing for Lantern.

Table 16: Lantern Security - ASX Market pricing (minority basis)

	Low	High
Lantern Security - ASX Market pricing (minority basis) per Security (\$)	0.070	0.075

Source: BDOCF analysis

Note: The above may have rounding differences

6.3.2. On Market Buy-back

On 5 November 2012, Lantern announced an on market buy-back program as part of its capital management strategy. In total, Lantern purchased 88,749,758 million Lantern Securities between April 2013 and June 2013.

Table 17 provides a summary of Lantern's buy-back of Lantern Securities.

Table 17: Lantern Security - ASX Market Pricing

Date	Average Price Paid (\$)	Total Price Paid (\$'000)	Number of Securities Purchased	Total number of Securities Purchased to date	Total Number of Securities Remaining	% of Securities Purchased
Total before buy-back program					971,951,888	
3 Apr 2013	0.0759	180,588	2,379,295	2,379,295	969,572,593	0.25%
5 Apr 2013	0.0750	1,500	20,000	2,399,295	969,552,593	0.00%
9 Apr 2013	0.0797	713,275	8,949,500	11,348,795	960,603,093	0.93%
10 Apr 2013	0.0799	965,949	12,089,471	23,438,266	948,513,622	1.27%
11 Apr 2013	0.0800	120,000	1,500,000	24,938,266	947,013,622	0.16%
25 Jun 2013	0.0770	1,616,769	21,000,000	45,938,266	926,013,622	2.27%
26 Jun 2013	0.0780	1,380,279	17,700,000	63,638,266	908,313,622	1.95%
27 Jun 2013	0.0788	828,306	10,511,492	74,149,758	897,802,130	1.17%
28 Jun 2013	0.0799	1,166,455	14,600,000	88,749,758	883,202,130	1.65%
Total		6,973,121	88,749,758			10.05%
Average	0.0782	774,791	9,861,084			
Weighted Average	0.0786					

Source: BDOCF analysis

Note: The above may have rounding differences

Over the period 3 April 2013 to 28 June 2013, Lantern bought back Lantern Securities at prices of between 7.5 cents and 8.0 cents per Security. The average and the volume weighted average were 7.82 cents and 7.86 cents per Security respectively.

We have considered the on market buy-back pricing in our assessment of Lantern's fair market value due to the fact that the buy-back program formed a significant portion of securities traded in the previous twelve months. It provides an indication of the pricing at which a meaningful number of Lantern Securityholders were willing to transact at.

Table 18: Lantern Security - Buy-back pricing

	Low	High
Lantern On market buy-back pricing per Security (\$)	0.075	0.080

Source: BDOCF analysis

Note: The above may have rounding differences

6.3.3. ASX Market Pricing Summary

In determining our ASX market pricing, we have considered both the ASX trading results, and the pricing of the on market buy-back.

ASX market pricing of Lantern is on a minority interest basis, therefore we apply a control premium of 20% to the minority interest ASX valuation.

Table 19: Lantern Security - ASX Pricing

	Ref	Low	High
Lantern Security - ASX Pricing (minority interest) per Security (\$)	6.3.1	0.070	0.075
Buy-back pricing	6.3.2	0.075	0.080
Adopted Lantern Price per Security (\$) (minority interest)		0.070	0.080
Control premium (%)	5.4	20%	20%
Lantern Security - ASX Pricing (control basis) per security (\$)		0.084	0.096

Source: BDOCF analysis

Note: The above may have rounding differences

7. VALUATION OF LANTERN POST TRANSACTION ON A MINORITY BASIS

7.1. Valuation summary

Section 7 sets out our assessment of the fair market value of Lantern after the Proposed Transactions on a minority interest basis (including transaction costs and changes to the capital structure).

The Proposed Transactions would result in increased debt (being deferred consideration to fund the buy back) of \$16 million and incurred transaction and settlement costs of \$1.8 million.

Our assessment of the fair market value of Lantern post transaction on a minority basis is set out below.

Table 20: Valuation Summary

\$'000s unless stated otherwise	Ref.	
NAV	3.3.1	101,961
Additional Debt	7.1.1	(16,104)
Settlement Costs	6.2.4	(1,400)
Transaction Costs	7.1.2	(400)
Adjusted NAV		83,457
Existing Securities on issue (units) (following Proposed Transactions)	1.4	668,477,908
Value per Security (\$) (after Proposed Transactions)		0.126
Minority Discount	7.1.3	(16.7%)
Value per Security (\$) - minority basis (after Proposed Transactions)		0.105

Source: BDOCF analysis

Based on the above, we have determined the value of a Lantern Security after the Proposed Transactions on a minority basis to be \$0.105.

7.1.1. Additional Debt

Lantern will incur debt (being deferred consideration) of \$16.1 million to purchase Millinium's Securities.

7.1.2. Transaction Costs

In accordance with the Settlement terms, Lantern will pay \$1.4 million to Millinium to facilitate settlement with Totem and CVC. As this is a committed sunk cost, we have adjusted for this amount in our assessment of the fair market value of Lantern.

Management have advised that Lantern will incur costs associated with the Proposed Transactions of approximately \$400k. These costs relate to legal fees, consultancy fees, and fees associated with the preparation of this Report. These costs will be incurred by Lantern regardless of whether the Proposed Transactions proceed. As such, we have adjusted for the amount of \$400k to reflect these costs.

7.1.3. Minority Discount

We have considered Lantern's NAV to be reflective of the value of Lantern on a control basis. Based on a control premium of 20% we have applied the corresponding minority discount (being 16.7%) to Lantern's value per Security post transaction.

8. FAIRNESS ASSESSMENT

In order to determine whether the Proposed Transactions are "fair", we have compared the fair market value of a Lantern Security after the Proposed Transactions (on a minority basis) with our assessed fair market value of a Lantern Security before the Proposed Transactions (including a premium for control).

The result of our fairness analysis is summarised below.

Table 21: Fairness assessment (per Security)

\$ per Security	Ref	Low	High
Fair market value of a Lantern Security before the Proposed Transactions on a control basis	6.1	0.090	0.113
Fair market value of Lantern Security after the Proposed Transactions on a minority basis	7.1	0.105	0.105

Source: BDOCF Analysis

The fair market value of a Lantern Security after the Proposed Transactions (on a minority basis) is towards the upper end of the range of assessed fair market values of a Lantern Security before the Proposed Transactions (on a control basis).

Accordingly, the Proposed Transactions is considered to be fair to the Non participating Securityholders.

9. REASONABLENESS ASSESSMENT

RG 111 provides that a proposal is considered to be "reasonable", if it is "fair". On this basis, as we have concluded that the Proposed Transactions are "fair", it is also considered to be "reasonable" under RG 111.

Nevertheless, we have also considered various factors that we believe Non participating Securityholders should consider when deciding whether or not to approve the Proposed Transactions. Set out below is a summary of our assessment of these factors.

9.1. Advantages

9.1.1. Increase in NAV per Security for Non participating Securityholders

If the Proposed Transactions are approved, and the Borg Fund Securityholding is bought back and cancelled, the number of Lantern Securities on issue will decrease from 883,202,130 to 668,477,908. As the buy-back consideration is at a discount to the NAV per Lantern Security, the buy-back will increase the pro forma NAV from 11.54 cents to 12.63 cents per Lantern Security which should benefit Non participating Securityholders.

9.1.2. Execution of capital management strategy

Lantern's medium term capital management strategy is to maintain a ratio of total interest bearing liabilities less cash to total assets less cash in the range of 35% to 50%. As detailed in Section 6.3.2, in the 12 months to 30 June 2013, Lantern purchased 88.7 million Lantern Securities as part of their focus on capital management. At the Lantern Annual General Meeting (November 2013) Management foreshadowed their intention to continue with their ongoing capital management strategy via buy-backs.

The Proposed Transactions represent an opportunity for Lantern to buy back a significant portion of its Securities, consistent with its stated strategy. The Proposed Transactions achieve this more quickly and with more certainty than the on-market buy-back.

Given the illiquid nature of Lantern Securities, Management consider that if they were to acquire a similar sized quantity of Lantern Securities through the on-market buy-back, it is likely that there would be considerable upward pressure on the Lantern Security price resulting in a cost greater than \$0.075 per Lantern Security.

Notwithstanding the Proposed Transactions, Management have confirmed that on-market buy-backs will continue to be undertaken whilst Lantern Securities trade at a material discount to their net asset value.

9.1.3. Non participating Securityholders will have an increased stake in Lantern

Lantern Securities bought back under the Proposed Transactions will be cancelled, and as a result the Non participating Securityholders will have a greater proportional interest in Lantern. This will be at no cost to Non participating Securityholders.

9.1.4. Delayed acquisition terms

Lantern has up to 2 years to pay the consideration in full. This provides Lantern with additional time to secure the funding required to repay the deferred consideration. However, Lantern will be required to pay interest on the outstanding balance of the deferred consideration.

9.1.5. Avoids payment of \$600k

If the Proposed Transactions are not approved, Lantern will be liable to pay the fee of \$600,000 to Totem and CVC.

9.2. Disadvantages

9.2.1. Increase in debt and gearing

The Proposed Transactions provide Lantern with the opportunity to acquire the Borg Fund Securityholding on a deferred consideration basis (allowing up to 2 years for Lantern to make payment in full). Accordingly, Lantern's interest bearing liabilities will increase by up to \$16.1 million. If the Proposed Transactions are approved, Lantern's gearing ratio (calculated as total interest bearing liabilities less cash to total assets less cash) will increase from 31% to approximately 42%. This remains inside Lantern's target range.

However, given the headroom available in Lantern's current finance facility, the increase in debt and gearing is not expected to impact Lantern's ability to fund future acquisitions and capital expenditure.

9.2.2. Increased controlling stakes

The completion of the Proposed Transactions will result in Torchlight GP Limited increasing its current holding in Lantern from 30.19% to 39.89%, and Allan Gray Australia Pty Limited increasing its current holding in Lantern from 18.18% to 24.02%. This may have an adverse impact on the voting power of other Lantern Securityholders. Torchlight and Allan Gray will have an increased ability to strategically block future interested parties making a takeover for Lantern. As Lantern is less likely to be a target for takeover, there is potentially less possibility of Lantern Securityholders participating in a premium payable in a takeover.

We note however that this disadvantage needs to be considered in light of the controlling stake in Lantern already held by Torchlight, and the removal of the Borg Fund's controlling stake as a result of the Proposed Transactions.

9.2.3. Decreased asset and equity base

The Proposed Transactions require \$16.1 million to be paid to buy back the Borg Fund Securityholding. Lantern proposes to fund the payment with a mix of cash from ordinary operation and any net proceeds received from the disposal of Lantern's New Zealand assets. If Lantern's New Zealand assets are not sold within the 2 year period, cash from existing operations will be used to fund the payment. This will reduce the net assets of Lantern. Lantern's pro-forma market capitalisation will also reduce by approximately one third. This will potentially make Lantern a less attractive investment proposition for those investors that take into consideration asset size and market capitalisations in their investment decisions.

9.2.4. Buy-back Price less than ASX market price

We note that the closing ASX price of Lantern Securities on 11 June 2014 was 6.7 cents which is lower than the Buy-back Price (7.5 cents). However, we note that recent liquidity in Lantern Securities has been low, consistent with the low levels of trading activity in Lantern Securities since Lantern undertook their last on-market buy-back in June 2013.

9.2.5. Potential decrease in liquidity

There are currently 883,202,130 Lantern Securities on issue. Of these, 214,724,222 will be bought under the Proposed Transactions. We noted in Section 6.3, the limited liquidity in Lantern Securities over the 12 months to 11 June 2014. Therefore for remaining Lantern Securityholders, the Proposed Transactions may result in a further reduction of liquidity.

9.2.6. Potential increase in funding costs

Under the Proposed Transactions, any outstanding cash consideration not paid by Lantern by 31 July 2014 will accrue interest at 8% per annum. While this interest rate is not considered to be unreasonable for unsecured funding to Lantern, it will reduce Lantern's pro-forma earnings to the extent that the consideration remains unpaid.

9.3. Other - Transaction Costs

Lantern will incur \$1.4 million in fees to facilitate settlement and additional transaction costs of \$400,000 (legal fees, independent expert and others) regardless of whether the Proposed Transactions are approved or not.

10. QUALIFICATIONS, DECLARATIONS AND CONSENTS

10.1. Qualifications

BDOCF is the licensed corporate finance arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. BDOCF provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities and provision of expert's reports.

Mr Sebastian Stevens, BBus, CPA and ACA, is a director of BDOCF. Mr Stevens is also a partner of BDO East Coast Partnership. Mr Stevens has been responsible for the review of this IER.

Mr Stevens has over 20 years experience all aspects of corporate advisory including mergers and acquisitions, valuations and transaction advisory services. He also has significant experience in providing international and cross-border services including international coordination of assignments. Accordingly, Mr Stevens is considered to have the appropriate experience and professional qualifications to provide the advice offered.



Mr David McCourt, BBus, CA, is a director of BDOCF. Mr McCourt is also a partner of BDO East Coast Partnership.

Mr McCourt is the director responsible for the preparation of this IER. Mr McCourt has over 14 years experience in a number of specialist corporate advisory activities including company valuations, financial modelling, preparation and review of business feasibility studies, accounting, advising on mergers and acquisitions and advising on independent expert reports. Accordingly, Mr McCourt is considered to have the appropriate experience and professional qualifications to provide the advice offered.

10.2. Independence

We are not aware of any matter or circumstance that would preclude us from preparing this IER on the grounds of independence either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

We consider ourselves to be independent in terms of RG 112 Independence of experts, issued by ASIC. Neither BDOCF, nor its owner practice, BDO East Coast Partnership, has acted in any capacity for Lantern with regard to any matter in the past.

BDOCF was not involved in advising on, negotiating, setting, or otherwise acting in any capacity for Lantern in relation to the Proposed Transactions. Further, BDOCF has not held and, at the date of this IER, does not hold any Securityholding in, or other relationship with Lantern or the other parties to the buy-back that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transactions.

BDOCF will receive a fee of approximately to \$45,000, plus Goods and Services Tax for the preparation of this IER. BDOCF will not receive any fee contingent upon the outcome of the Proposed Transactions, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transactions.

10.3. Disclaimer

This IER has been prepared at the request of the Directors and was not prepared for any purpose other than that stated in this IER. This IER has been prepared for the sole benefit of the Directors and Lantern Securityholders. Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and Lantern Securityholders without our written consent. We accept no responsibility to any person other than the Directors and Lantern Securityholders in relation to this IER.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by the Directors, executives and management of all the entities.

APPENDIX 1: GLOSSARY

<i>AFSL</i>	Australian Financial Services Licence	<i>Lantern Securityholders</i>	Holders of Lantern Securities
<i>A-REIT</i>	Australian Real Estate Investment Trust	<i>Millinium</i>	Millinium Asset Services Pty Limited, trustee for the Borg Fund
<i>ASIC</i>	Australian Securities and Investments Commission	<i>Meeting</i>	Meeting of Securityholders convened by the NoM
<i>ASX</i>	Australian Securities Exchange	<i>Non participating Securityholders</i>	Securityholders not participating in the Proposed Transactions
<i>BDOCF</i>	BDO Corporate Finance (East Coast) Pty Ltd	<i>NoM</i>	Notice convening the meeting of Lantern Securityholders
<i>BDO Australia</i>	BDO Australia Limited	<i>NZ</i>	New Zealand
<i>Borg</i>	Three Pillars Portfolio Managers Pty Limited as Investment Managers of the Borg Fund	<i>NAV</i>	Net asset value
<i>Borg Fund Securityholding</i>	214,724,222 Lantern Securities held by Millinium	<i>NTA</i>	Net tangible asset
<i>Buy-back Price</i>	7.5 cents per Security	<i>Proposed Transactions</i>	Proposal by Lantern to acquire all of the shares in Lantern held by Millinium as trustee for the Borg Fund by way of a selective buy-back and to acquire all of the units in Lantern held by Millinium by way of a trust scheme
<i>CAGR</i>	Compound annual growth rate	<i>Report</i>	This Independent Expert's Report prepared by BDOCF
<i>Capex</i>	Capital expenditure	<i>RG</i>	ASIC Regulatory Guideline
<i>CVC</i>	CVC Limited	<i>sqm</i>	Square metres
<i>DCF</i>	Discounted cash flows	<i>The Act</i>	The Corporations Act 2001
<i>FME</i>	Future maintainable earnings	<i>Torchlight</i>	Torchlight (GP) 1 Limited (in its capacity as general partner of Torchlight Fund No. 1 LP)
<i>FYxx</i>	Financial year ended 30 June 20xx	<i>Totem</i>	Totem Holdings Pty Limited
<i>HY14</i>	6 months to 31 December 2013	<i>VWAP</i>	Volume Weighted Average Price
<i>Lantern</i>	Lantern Hotel Group Limited and Lantern RE Limited, as responsible entity for Lantern Real Estate Trust		
<i>Lantern Security</i>	A stapled security in Lantern comprising a share in Lantern Hotel Group Limited and a unit in Lantern Real Estate Trust		



APPENDIX 2: SOURCES OF INFORMATION

In preparing this IER, we had access to and relied upon the following principal sources of information:

- Final draft notice of meeting and Explanatory Information Booklet
- Public announcements in relation to the Proposed Transactions
- Annual reports, half yearly reports, and ASX market releases for Lantern
- Details of Securityholders' register
- Various discussions with the Board and management of Lantern
- ASIC guidance notes and regulatory guides as applicable
- Information sourced from Capital IQ and Connect4
- Other generally available public information

APPENDIX 3: VALUATION METHODS - BUSINESSES AND ASSETS

In conducting our assessment of the fair market value of Lantern Securities the following commonly used business valuation methods have been considered:

Discounted Cash Flow Method

The discounted cash flow (“DCF”) method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- the forecast of future cash flows of the business asset for a number of years (usually five to 10 years); and
- the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value (“NPV”).

DCF is appropriate where:

- the businesses’ earnings are capable of being forecast for a reasonable period (preferably 5 to 10 years) with reasonable accuracy;
- earnings or cash flows are expected to fluctuate significantly from year to year;
- the business or asset has a finite life;
- the business is in a 'start up' or in early stages of development;
- the business has irregular capital expenditure requirements;
- the business involves infrastructure projects with major capital expenditure requirements; or
- the business is currently making losses but is expected to recover.

Capitalisation of Earnings Method

This method involves the capitalisation of normalised earnings by an appropriate multiple. Normalised earnings are the assessed sustainable profits that can be derived by the vendor’s business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

Net Realisable Value of Assets

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- separating the business or entity into components which can be readily sold, such as individual business Securities or collection of individual items of plant and equipment and other net assets; and
- ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- *orderly realisation*: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;

- *liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- *going concern*: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.

The net realisable value of a trading company's assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The net realisable value of assets is relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

Security Market Trading History

The application of the price that a company's Securities trade on the ASX is an appropriate basis for valuation where:

- the Securities trade in an efficient market place where 'willing' buyers and sellers readily trade the company's Securities; and
- the market for the company's Securities is active and liquid.

Constant Growth Dividend Discount Model

The dividend discount model works best for:

- firms with stable growth rates;
- firms which pay out dividends that are high and approximate free cash flow to equity;
- firms with stable leverage; and
- firms where there are significant or unusual limitations to the rights of Securityholders.

Annexure E- Supplemental Deed

Lantern Real Estate Trust

Supplemental Deed Poll

Lantern RE Limited

Fourteenth Supplemental Deed

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Title **Lantern Real Estate Trust**

Date

Parties **Lantern RE Limited** (ABN 15 006 065 032) of Level 6, 345 George Street,
Sydney NSW 2000 (**Responsible Entity**)

Recitals

- A The Responsible Entity declared a trust deed dated 20 April 2000 (as amended) (**Trust Constitution**) under which the Lantern Real Estate Trust (**Trust**) was created.
- B In accordance with section 601GC(1)(b) of the Corporations Act and clause 15.1 of the Trust Constitution, the Responsible Entity wishes to amend the Trust Constitution as set out in clause 1.2 of this Deed Poll.
- C In proposing the amendments referred to in Recital B, the Responsible Entity has sought and obtained the approval of the Unitholders in accordance with section 601GC(1)(a) of the Corporations Act.
- D This Deed Poll is executed by the Responsible Entity in accordance with clause 15.1 of the Trust Constitution and will take effect as a supplemental deed to the Trust Constitution.

Operative provisions

1. Definitions and interpretation

- 1.1 The definitions and rules of interpretation set out in clause 1 of the Trust Constitution apply to this Deed Poll as though those definitions and rules of interpretation were set out in full.

The amendments

- 1.2 The Trust Constitution is amended by adding schedule 1 to this Deed Poll as a schedule to the Trust Constitution.

Effect of amendments

- 1.3 The amendments made to the Trust Constitution by this Deed Poll take effect, and are binding on the Responsible Entity and each present and future Unitholders and any person claiming through any of them.
- 1.4 This Deed Poll is supplemental to the Trust Constitution, and the amendments made to the Trust Constitution by this Deed Poll are not to affect the validity or enforceability of the Trust Constitution.

2. Trust not redeclared, etc

- 2.1 The Responsible Entity declares that nothing expressly or impliedly contained in this Deed Poll is to:
- (a) redeclare the trust declared under the Trust Constitution;
 - (b) cause the transfer to, or vesting in, any person of property held on trust as at the date of this deed poll.

3. Effect

- 3.1 The amendments to the Trust Constitution set out in clause 1.2 take effect upon lodgement of this Deed Poll with the Australian Securities and Investments Commission in accordance with section 601GC(2) of the Corporations Act.

4. General Provisions

Governing law

- 4.1 This Deed Poll is governed by the laws of New South Wales.

Execution

Executed as a Deed Poll.

**The Common Seal of
Lantern RE Limited**

was fixed to this document in accordance
with its constitution in the presence of:

Signature of director

Signature of director//secretary

Name of director (please print)

Name of director//secretary (please print)

Schedule 1

Scheme

1. Interpretation

Definitions

1.1 Unless the contrary intention appears, in this schedule capitalised terms not defined have the following meanings, and terms not defined in this clause 1.1 have the same meaning as in clause 1.1 (a) of the Trust Constitution. In the case of any inconsistency in the definitions between the body of the Trust Constitution and this Schedule 1, this Schedule 1 prevails.

Business Day means a day that is not a Saturday, Sunday, public holiday or bank holiday in Sydney.

Buy-Backs means the Trust Scheme and the Share Buy-Back.

Buy-Back Securities means all of the Stapled Securities as at the Record Date held by Millinium.

Buy-Back Share means a Share held by Millinium as at the Record Date.

Buy-Back Unit means the 214,724,222 fully paid ordinary unit in the Trust held by Millinium.

Company means Lantern Hotel Group Limited (ABN 71 145 967 899).

Company Constitution means the constitution of the Company.

Consideration means 7.5 cents per Buy-Back Security.

Corporations Act means the *Corporations Act 2011 (Cth)*.

Effective means when used in relation to the Buy-Backs, is both of the following events taking place:

- (a) the coming into effect of the Share Buy-Back, pursuant to section 257(H) of the Corporations Act; and
- (b) the coming into effect of the Trust Scheme in accordance with the Trust Constitution, as amended including by the insertion of this Schedule 1, pursuant to section 601GC(2) of the Corporations Act.

Effective Date means the date on which the Buy-Backs become Effective.

Implementation Date means the Effective Date, or such other day as the Company and Millinium agree in writing.

Lantern means a stapled entity comprising the Company and the Trust.

Millinium means Millinium Asset Services Pty Limited as trustee for The Borg Fund (ABN 79 145 380 971).

Record Date means Tuesday 29 July 2014.

Responsible Entity means Lantern RE Limited (ABN 54 145 968 574) as trustee for Lantern Real Estate Trust.

Share Buy-Back means the selective buy-back by the Company of the Buy-Back Shares.

Share means an issued fully paid ordinary share in the Company.

Stapled Security means a Share stapled to a Unit, in accordance with the provisions of the Company Constitution and the Trust Constitution.

Trust means the Lantern Real Estate Trust established under the Trust Constitution.

Trust Constitution means the constitution of the Trust.

Trust Scheme means the arrangement under which the Responsible Entity acquires and cancels all of the Buy-Back Units as at the Record Date, facilitated by the amendment of the Trust Constitution to provide the Responsible Entity such powers.

Trust Scheme Resolutions means the resolutions of the Unitholders to approve the Trust Scheme, including:

- (a) a resolution to approve the acquisition and cancellation of all the Buy-Back Units by the Responsible Entity; and
- (b) a resolution for the purposes of section 601GC(1) of the Corporations Act to approve amendments to the Trust Constitution to facilitate the Trust Scheme.

Unit means a fully paid ordinary unit in the Trust.

Unitholders means a person registered as the holder of a unit in the Trust, including any persons jointly registered.

Interpretation

1.2 In this document:

- (a) unless the context requires otherwise, a reference:
 - (i) to the singular includes the plural and vice versa;
 - (ii) to a gender includes all genders;
 - (iii) to a document or instrument is a reference to that document or instrument as amended, consolidated, supplemented, novated or replaced;
 - (iv) to a clause, paragraph, Schedule or Annexure is to a clause, paragraph, Schedule or Annexure of or to this document;
 - (v) to a law includes any legislation, judgment, rule of common law or equity or rule of any applicable stock exchange, and is a reference to that law as amended, consolidated, supplemented or replaced and includes a reference to any regulation, by-law or other subordinate legislation;
 - (vi) to any time is to Sydney time;
 - (vii) to "\$" is to the lawful currency of Australia;

- (b) the words "including" or "includes" means "including, but not limited to", or "includes, without limitation" respectively;
- (c) where a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (d) headings are for convenience only and do not affect interpretation of this document;
- (e) if a payment or other act must (but for this clause) be made or done on a day that is not a Business Day, then it must be made or done on the next Business Day; and
- (f) if a period must be calculated from, after or before a day or the day of an act or event, it must be calculated excluding that day.

2. Share Buy-Back and Trust Scheme

Consideration

- 2.1 Millinium will be entitled to receive for the Buy-Back Securities held by Millinium the Consideration, which must be paid in the manner referred to in clauses 2.2 to 2.5.
- 2.2 The Responsible Entity must procure that the Company pays the Consideration by [1 August 2016], together with any interest due and payable pursuant to clause 2.3.
- 2.3 The Responsible Entity must procure that the Company pays interest on the Consideration which remains outstanding at the rate of 8% per annum, accruing monthly on and from 1 August 2014.
- 2.4 If any amount is required under any Australian law or by any Australian government or any Australian governmental, semi-governmental or judicial entity or authority to be:
 - (a) withheld from the amount payable under clause 2.2 or 2.3 and paid to that entity or authority; or
 - (b) retained by the Responsible Entity out of an amount payable under clause 2.2 or 2.3, its payment or retention by the Responsible Entity will constitute the full discharge of the Responsible Entity's obligations under clauses 2.2 or 2.3 with respect to the amount so paid or retained until, in the case of clause 2.4(b), it is no longer required to be retained.
- 2.5 If a fractional entitlement to part of a cent in cash arises from the calculation of the total amount of cash to be paid to Millinium, then that fractional entitlement will be rounded:
 - (a) where the fraction is 0.5 or more – up; and
 - (b) where the fraction is less than 0.5 – down to the nearest whole cent.
- 2.6 The Buy-Back Securities are valued at 7.5 cents per Buy-Back Security.

Transfer and cancellation of Buy-Back Securities

- 2.7 On the Implementation Date, subject to all agreed conditions precedent having been satisfied or waived, and subject to the Buy-Backs becoming Effective, the Buy-Back Shares and the Buy-Back Units, together with all rights and entitlements attaching to them as at the Implementation Date, will be transferred to the Company and the Responsible Entity respectively and immediately cancelled by the Company and the Responsible Entity respectively.

Effect of this Schedule 1

- 2.8 This Schedule 1:
- (a) binds the Responsible Entity and all Unitholders, including Millinium; and
 - (b) overrides the other provisions of the Trust Constitution to the extent of any inconsistency, other than clause 24.2 (Statutory requirements).

Responsible Entity's limitation of liability

- 2.9 Subject to the Corporations Act, without derogating from any limitation of the Responsible Entity's liability in the Trust Constitution, the Responsible Entity has no liability of any nature whatsoever to the Unitholders beyond the assets of the Trust arising, directly or indirectly, from the Responsible Entity doing or refraining from doing any act (including the execution of a document), matter or thing pursuant to or in connection with the implementation of the Buy-Backs in accordance with this Schedule 1.

Amendment of this Schedule 1

- 2.10 The Responsible Entity may amend the terms of this Schedule 1 if such amendment is not inconsistent with the approval given by Unitholders at the Trust Scheme Meeting and such amendment does not adversely affect the rights of Millinium, and this Schedule 1 will apply as amended.

Corporate Directory

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Baker & McKenzie

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