Lantern Hotel Group

Annual Report

For the year ended 30 June 2014

Letter from the Chairman

Dear Security Holders welcome to the third annual report of Lantern Hotel Group, your company and trust.

Two years ago we set out our plan and priorities for Lantern, which were to:

1) Reinvigorate the business that we had created by turning what was a pure hotel asset owning business into one that is a fully operating and growing hotel business (save for 3 assets where we currently only own the freehold).
2) Upgrade the quality of our hotels in a planned and progressive manner, remembering that when we bought the operating leases and equipment of the Icon group it was in receivership
3) Restructure our balance sheet, including recovering the entire $88 million Panthers assets at full value.
4) Undertake a plan for capital management and buy back Lantern Group securities when the opportunity to buy at a significant discount to Net Asset Value exists
5) Exit our New Zealand asset portfolio in a structured way without significant value loss.

In essence we set out to build a business platform that is capable of sustainable growth and to use the cash flow generated to add to the Group through acquisitions.

Reinvigorating the business and upgrading the hotels:

We mentioned at the time that to achieve a point that we would be happy with could take 3-5 years. Currently we are well over half way through that plan and well ahead of schedule.

Renovations have been completed at 6 of our hotels with 2 others underway. These renovations are now beginning to contribute the earnings we anticipated, after falling short for a period due to the natural disturbance to business that occurs when capital works are in progress.

Despite these disruptions and our reported loss for the year ended June 30 2014 of $2.1 million, it is important to note that our hotels' operational measures are improving. For example:

- Overall gross margin increased 1% to 60% (up from 57% in the year to June 2012).
- Same hotels operating revenue increased 5% compared to the year ended 30 June 2013 to $42.6m
- Food revenue and quality has grown significantly as a result of a strong focus in this category over the past two years. We believe that the upgrading of each hotel's environment coupled with a high quality food offering are key elements to securing stable and long-term growth across all revenue categories.

We are still hampered by decisions of the past such as the $2.7m per annum cost of the interest rate swaps entered into by the previous Responsible Entity. We are also carrying some central costs that at this early stage in the growth of the business are as yet not generating sufficient return; however it is important to have this team building the promotional and support base for all our hotels, creating a platform for each hotel that once refurbished can gain immediate profitable operational and promotional benefits. As we buy further hotels and grow our pool of quality team members, we will gain the benefits of scale with our suppliers and we won't have to add to the central base.

Restructuring the balance sheet:

The Panthers loan was repaid last year and a full debt restructuring with our main banker CBA was completed. Also we are in favourable discussions with our other banker St George to renew and extend our existing loan of $12.2 million that currently sits within current liabilities on balance sheet. We are very confident that this loan will be renewed and extended. Our overall gearing level remains low at 38% of total assets and is anticipated to progressively increase to our target level of 40% -50% as we make additional acquisitions.

Capital Management:

Since June 2012, we have successfully bought back and cancelled 88,749,758 securities for $7 million at an average price of 7.9 cents, 29% below Lantern's NAV.

During the year the Borg Fund offered to sell the Group its 214,724,222 securities. Under the Corporations Act 2004 it is challenging to selectively buy-back units in a listed trust, and a transaction of this type was unprecedented in Australia. These regulatory challenges together with the fact that Borg Fund's willingness to complete the transaction appeared to diminish after their original offer was accepted meant going to Court to defend our position and ultimately paying an amount of $1.4m to settle the dispute in a manner which left all parties willing to continue to pursue the buy-back transaction.

We held a special security holders meeting on 31 July 2014. 98% of votes cast were in favour of the transaction however, against our expectations, ASIC did not approve the transaction. While we are seeking to overturn ASIC's decision, with a directions hearing set down in early October, even if we get a favourable decision in that case, executing a buy-back transaction with Millinium (as trustee of the Borg Fund) will be very challenging to complete, however we will continue to explore ways to achieve that while the terms of a transaction continue to be in the best interests of all security holders.

New Zealand assets:

We are progressing the sale of all remaining New Zealand assets and as previously announced, we intend to use the proceeds for buybacks.

Acquisitions:

During the year Lantern purchased the Crown Hotel in Surry Hills and since balance date has purchased the Waterworks Hotel in Botany and has agreed to purchase the Beaumont Exchange Hotel in Hamilton, Newcastle. We believe these are great hotels which will add real value to the group. We continue to undertake due diligence on a number of pre-screened quality assets.

In Conclusion:

Lantern is well positioned for solid profit growth over the next 3 years as the currently completed and planned refurbishments deliver the returns anticipated. We also plan to grow the portfolio this year through acquisitions.

My thanks to our team who have worked very hard over the past year, often in trying circumstances as tradesmen built around them and their patrons. This patience has been worth it and is now showing the benefits of their efforts and the quality of the work completed. Our patrons are enjoying their enhanced environment and new customers are coming to experience our upgraded surroundings.

My thanks also to you as security holders for your understanding as we continue restructuring the business to deliver sustainable long term profit growth.

I look forward to meeting you at this year's annual meeting and answering your questions.

Letter from the Managing Director

Dear Security holders,

The 2014 financial year continued our journey as an integrated operating company. Building on the work started in 2013 and consistent with our advice last year, we have continued to invest in our portfolio to ensure we have a stable platform to grow the business.

Financial Summary

Significant progress has been made over the last year with approximately $7m invested in our existing venues. Ongoing capital works across the group have continued (as expected) to negatively impact operational performance. This disruption was (and continues to be) necessary to ensure that the group is geared for growth from a solid base.

Highlights for FY14 include –

- Completing full renovations of Ambarvale, Bowral, Commodore, Uncle Bucks, General Gordon and Lawson Park.
- Capital works commenced at Crown and Dolphin
- Partial works commenced at El Toro, Five Dock and Courthouse pending completion of more holistic redevelopment plans for these sites.
- Significant investment in new gaming system (Ticket in/Ticket Out) and game upgrades/replacements.
- Ongoing progress with our exit from New Zealand. Over the past year we have sold 2 of the 7 New Zealand venues.

Following stabilisation of the balance sheet during FY13, the group has capacity to grow via acquisitions. We have maintained a disciplined approach in this respect completing only the acquisition of Crown Hotel during the last financial year and have recently acquired the Waterworks Hotel and have agreed to purchase the Beaumont Exchange Hotel.

We continue to look for quality acquisitions to expand the portfolio and expect to further add to the portfolio during the 2015 financial year.

Our strategy for the 2015 financial year is to continue to grow the business with a key focus on –

- Improving operational performance from completed venues
- Ongoing reinvestment in the existing portfolio
- Launch of our loyalty programme (Lantern Rewards)
- Acquisition of additional operating assets
- Finalising our exit from New Zealand
- Ongoing capital management via buy-backs
- Progressing redevelopment of Courthouse and Five Dock

Whilst we believe we have made good progress in repositioning the business, significant opportunities remain. Unlocking these will continue to negatively impact operational performance in the short term, however we believe that this will create sustainable long term value for our security holders.

Momentum in our completed venues is starting to build and we expect this to continue over the course of this financial year.

We are continuing to make progress towards our goal of being a leading hotel operator, providing a range of entertainment for all ages, and look forward to further growth over the course of the coming financial year.

Corporate Governance Statement

This Corporate Governance Statement relates to the stapled, listed securities Lantern Hotel Group (ASX: LTN). Each stapled security is made up of one share in Lantern Hotel Group Limited (**LHGL**), stapled to one unit in the Lantern Hotel Group, the Responsible Entity of which is Lantern RE Limited (**Lantern RE**).

In view of the LTN corporate structure both entities, LHGL and Lantern RE, collectively referred to as the Lantern Hotel Group, and are required to disclose their corporate governance framework and practices against the ASX Corporate Governance Principles and Recommendations.

This statement outlines the main corporate governance practices currently in place for the Lantern Hotel Group. This statement also addresses the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (**ASX Recommendations**). The Board believes that the Group accords with the majority of the principles and recommendation of the ASX Corporate Governance Council with the exception of two recommendations that are outlined in the report.

A reference to the Lantern Hotel Group should be read as a reference to LHGL and to Lantern RE, and a reference to 'Board' refers to the Board of each of these entities unless otherwise stated.

All references to the Company's website are to: **www.lanternhotels.com.au**

ROLE OF THE BOARD

The Board of the Lantern Hotel Group has the responsibility to oversee the effective management and operation of the Group. The Board operates under a formal charter which can be found on the Group's website. In addition to the function prescribed by law, the Board has the following functions and responsibilities:

- Delegation of powers and authorities
- Nomination, appointment, termination of, and changes to the terms of employment or appointment of directors
- Membership and role of board committees
- Board performance
- Director remuneration
- Appointment, remuneration and removal of Managing Director and Company Secretary
- Managing Director delegation, including Managing Director limits
- Approval of all decisions or expenditure outside of the Managing Director limits
- Approval of corporate strategy and annual budgets/business plans
- Balance sheet strategy, including acquiring, selling or otherwise disposal of material Lantern Hotel Group assets and obtaining loans.
- Capital management, including issues, calls on, forfeiture of shares, declaration of dividends and share buybacks
- Acquiring or selling patent rights, rights in registered trademarks, licences or other intellectual property rights of the Lantern Hotel Group
- Significant mergers, acquisitions, restructures and divestments or initiating major changes to the Lantern Hotel Group's business operations
- Approving or altering the annual business plan and approval of Lantern Hotel Group policies
- Director and executive succession planning
- Appointments to subsidiary Lantern Hotel Group boards
- Evaluation of the Managing Director

- Remuneration of Managing Director and direct reports to the Managing Director
- All donations made by the Lantern Hotel Group

Generally, the Managing Director is responsible for all matters not specifically identified as the responsibility of the Board. The Board Charter outlines the authority that has been delegated to the Managing Director, of achieving the Lantern Hotel Group's corporate objectives and being accountable to the Board for the overall performance of the Lantern Hotel Group, within limits outlined in the Board Charter.

ROLE OF THE BOARD OF THE RESPONSIBLE ENTITY

As the Responsible Entity, the Board of Lantern RE has additional responsibilities for the operation of Fund. The Responsible Entity must exercise its powers and perform its obligations conferred on it under the Constitutions and the Corporations Act 2001 in the best interests of unit holders to ensure that the activities of the Group are conducted in a proper and efficient manner. The Responsible Entity must also ensure compliance with the conditions of the Australian Financial Services license and approve and monitor compliance with Compliance Plan.

BOARD SIZE AND COMPOSITION

The Constitution of the Group provides that there will be a minimum of three Directors and not more than ten Directors.

Directors are appointed with the aim of ensuring the Board has:

- An appropriate range of skills, experience and expertise;
- A proper understanding of, and competence to deal with, current and emerging issues in the industry in which it engages;
- The ability to effectively review and challenge the performance of Management and exercise independent judgement; and
- A majority of independent directors.

Terms of Appointment

Non-Executive Directors are appointed pursuant to formal letters of appointment which among other things, sets out the key terms and conditions of the appointment, the Board's expectations in relation to the performance of the Director, procedures for dealing with a Director's potential conflict of interest, and the disclosure obligations of the Director, together with the details of the Director's remuneration.

Director's Interests

Directors are required to keep the Board advised of any interest that may be in conflict with those of the Lantern Hotel Group, and restrictions are applied to Directors' rights to participate in discussion and to vote, as circumstances dictate. In particular, where a potential conflict of interest may exist, Directors concerned may be required to leave the Board meeting while the matter is considered in their absence.

Lantern Hotel Group has also entered into a deed of disclosure with each Director, which is designed to facilitate the Group's compliance with its obligations under the ASX Listing Rules relating to disclosure of changes in Directors' stapled security holdings. Directors and their nominated related party security holdings are also monitored to identify changes that may require urgent disclosure.

Independent Advice

The Board has a policy of enabling Directors to seek independent professional advice for Lantern Hotel Group related matters at the Group's expense, subject to the prior agreement of the Independent Directors and that the estimated costs are reasonable.

Directors Independence

The Board has considered specific principles in relation to directors' independence. The Board considers an independent Director to be a non-executive Director who is not a member of Lantern Hotel Group's management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the independent exercise of their judgement. The Board will consider the materiality of any given relationship on a case-by-case basis, having regard to both quantitative and qualitative principles.

At the date of this report, the Board comprises three Non-Executive Directors and one Executive Director. The Boards of LHGL and Lantern RE have the same Directors. The current members of the Board are

- Mr Bryan Mogridge (Chairman);
- Ms Deborah Cartwright (Non-Executive Director);
- Mr Julian Davidson (Non-Executive Director); and
- Mr Russell Naylor (Executive Director).

Mr Bryan Mogridge, Ms Deborah Cartwright and Mr Julian Davidson are considered by the Board to be independent. Lantern Hotel Group recognises that having a majority of independent Non-Executive Directors provides assurance that the Board is structured properly to fulfil its role in holding management accountable for the Group's performance.

The Board considers that the existing Board structure is appropriate for Lantern Hotel Group's current operations and stage of development.

Directors' details are listed on pages 3 to 7, including details of their other listed company directorships and experience.

Chairman

The role of Chairman and Managing Director is not occupied by the same individual. The Board has agreed that it should continue to have a majority of independent Non-Executive Directors, that the positions of Chairman and Managing Director must be separate, and that the Chairman should be an independent Non-Executive Director.

Mr Bryan Mogridge was appointed Chairman of the Group on 31 October 2011 and is considered an independent Director in accordance with recommendation 2.1 of the ASX recommendations.

Board Diversity

In appointing members to the new Lantern Hotel Group Board, consideration was given to the skills, business experience and educational backgrounds of candidates. The advantage of having a mix of relevant business, executive and professional experience on the Board, the importance of cultural and ethical values, and the benefits of diversity, including gender diversity is also recognised. These factors will also be considered in any future appointments to the Board including any identified skills 'gaps'.

A separate Nomination Committee to oversee the Director nomination process has not been formed as it is believed that the current size of the Board does not warrant this Committee. As a result, the full Board determines who is invited to fill a casual vacancy after extensive one-on-one and collective interviews with candidates and thorough due diligence and reference checking.

The Lantern Hotel Group Board has one woman Non-Executive Director out of four Directors. Ms Deborah Cartwright was appointed to the Board for her specific skills and experience including financial and treasury experience.

The Lantern Hotel Group has established a formal diversity policy having regard to the suggestions set out in the new ASX Corporate Governance Principles and Recommendations. The diversity policy covers gender, age, ethnicity and cultural background. Due to the current size and nature of the Group's operations, the Board has not established measurable objectives for achieving gender diversity. However the Group has always had a policy of actively encouraging gender diversity at all levels in the organisation and a culture that supports workplace diversity. This is evidenced by:

The proportion of women employees in the whole organisation:

The proportion of women employees in senior positions:

Board Meetings

The Board has currently scheduled meetings on a monthly basis, with additional meetings convened as required. Agendas for each meeting are prepared by the Company Secretary together with the Managing Director and input from the Chairman, and are distributed prior to the meeting together with supporting papers.

Standing items include the Managing Director's report and the Financial Report, as well as reports addressing matters of strategy, governance and compliance. Senior Executives are directly involved in Board discussions and Directors have a number of further opportunities to contact a wider group of employees, including visits to business operations.

Board papers include minutes of Board Committees and subsidiaries as well as papers on material issues requiring consideration. Significant matters are presented to the Board by Senior Executives and the Board may seek further information on any issue, from any Executive.

Board and Director Performance

The Board has only been in its current form, from internalization on 26 April 2012. The Board intends to review its performance, the performance of its committees and that of individual Directors at the appropriate time.

BOARD COMMITTEES

The ultimate responsibility for the oversight of the operations of the Group rests with the Board of Directors. However, the Board may discharge any of its responsibilities through Committees of the Board in accordance with the Constitutions and the Corporations Act 2001.

The Board has an established Audit and Risk Committee. Following review of the composition and effectiveness of the Committees during the year, the Risk and Compliance Committee was disbanded and the Audit Committee converted to and Audit and Risk Committee.

A new Charter for this Committee was approved by the Board which can be viewed on the Lantern Hotel Group website.

*Audit and Risk Committee (**Committee**)*

The Board Audit and Risk Committee, assists the Board in fulfilling its governance and disclosure responsibilities. The role and responsibility of the committee are outlined in its Charter.

The purpose of the Committee is to review the integrity of the Group's financial reporting practices, the external and any internal audit process, the framework established by management to identify, assess and manage risk, the framework established by management to ensure compliance with the company's legal, organisational, and contractual obligations, and any other matters referred to it by the Board.

The Committee has the following responsibilities.

Financial Reporting

- Evaluate and recommend for board approval the Company's financial statements

- Regularly review the appropriateness of the Company's accounting policies and procedures

- Obtain an independent judgment from the external auditor about the acceptability and appropriateness of accounting policies, procedures and disclosures adopted by the Company

- Ensure management responds to any audit management letters/recommendations by the external auditor.

External Audit

The Committee shall recommend whether the external audit is adequate for shareholder needs by advising the board on:

- Procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners

- The appointment and dismissal of the external auditor, including the terms of engagement and fees

- The performance of, and independence of the external auditor, including the monitoring of non-audit services in accordance with our policy.

For the purpose of supporting the independence of the external auditor, the external auditor shall have a direct line of reporting to this committee.

Internal Audit

If the Company undertakes an internal audit, the Committee shall:

- Review any audit plans or activities

- Assess the performance and objectivity of any audit function

- Recommend the appointment, and if necessary, the dismissal of any internal auditor

- Monitor management response to any internal audit recommendations

- Monitor the adequacy of arrangements for any internal audit function

Any internal auditor shall have a direct line of reporting to the audit committee.

Financial Risk Management & Control

The Committee shall review and report to the full board on:

- The Company's compliance with its accounting practices and standards.

Risk Management

The Committee shall review and report to the full board on:

- Lantern Group's risk management and internal control system, and risk management oversight policies including compliance with its accounting practices and standards
- Section 295A certificates from the CEO and CFO
- Lantern Group's Risk Profile

Compliance/Internal Control

The Committee shall review and report to the full board on:

- Lantern Group's compliance with its general statutory obligations
- Lantern Group's compliance with its obligations as a security listed on the Australian Securities Exchange
- Lantern RE Limited's compliance with its Australian Financial Services Licence
- Lantern RE Limited's compliance with its obligations as the Responsible Entity of its Registered Managed Investment Scheme.
- Lantern Group's compliance with its organisational policies and procedures
- Lantern Group's compliance with its key contractual obligations
- The CEO's compliance with his/her delegated authority
- Employee compliance with Lantern Group's Code of Conduct.

Insurance Program

The Committee shall review Lantern Group's insurance program at least annually having regard to the business and the insurable risks associated with Lantern Group's business.
The Audit and Risk Committee consists of two Non-executive Directors all of which are independent directors and is chaired by an independent director who is not chair of the Board. The Chair satisfies the test of independence.

The current members of the Audit and Risk Committee are:

- Ms Deborah Cartwright (Chair);
- Mr Bryan Mogridge; and
- Mr Julian Davidson.

At least one member of the Committee has relevant accounting qualifications and experience and all members have a good understanding of financial reporting. Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report.

The external auditor will attend the Annual General Meeting and be available to answer security holder questions about the conduct of the audit and the preparation and content of the audit report, accounting policies adopted by Lantern Hotel Group and the independence of the auditor in relation to the conduct of the audit.

RISK MANAGEMENT

The Board is responsible for ensuring that sound risk management strategy and polices are in place. The Board has delegated responsibility for identifying and overseeing major risk areas and that systems are in place to manage them to the Audit and Risk Committee.

The Lantern Hotel Group has established and documented an enterprise risk management program for the oversight and management of the Group's material business risks. This enterprise risk management program is based on the International Risk Standard AS/NZS ISO 31000:2009 and is complemented by our internal control program based upon the principles set out in the Australian Compliance Standard AS 3806:2006.

The Group has also established a Complaints Handling Program, based upon the international standard (AS ISO 10002-2006) that is designed to better enable IEF to manage its risk on an enterprise basis.

The Group has documented a common risk language through which it considers internal risks, such as human resources and those arising from the stapled security legal structure, as well as external risks such as those raising from dealings with key stakeholders. In assessing our material business risks, each identified risk is individually assessed in terms of the likelihood of the risk event occurring and the potential consequences in the event that the risk event was to occur. The Group's on-line governance, risk and compliance software system CompliSpace Assurance allows material business risks to be linked to mitigating controls so that the performance of the Group's enterprise risk and compliance programs can be monitored continuously.

The Group has established a compliance program based upon the principles set out in the Australian Compliance Standard AS3806:2006 which is designed to ensure compliance with a range of legal, regulatory and corporate governance obligations including the disclosure requirements set out in the ASX Listing Rule and the ASX Corporate Governance Principles and Recommendations. The Group monitors compliance with these obligations through the on-line governance, risk and compliance software system CompliSpace Assurance.

Compliance Plans

The Fund has a formal Compliance Plan in place that has been adopted by the Board and lodged with ASIC. The purpose of the Compliance Plan is to set out key processes, systems and measures the Responsible Entity will apply to ensure compliance with:

- The Corporations Act (Cth) 2001;
- Constitutions of the Fund and Trust;
- Industry practice standards relevant to the particular scheme; and
- Internal policies and procedures.

The Compliance Plan is a 'how to' document and has been prepared following a structure and systematic process to consider the Responsible Entity's key obligations under the Act and the Constitutions, the risk of non-compliance and measures required to meet the risks of non-compliance.

The Compliance Plan describes the key obligations that must be met by the Responsible Entity, and how compliance with these measures will be monitored. In addition, the Compliance Plan details the risk of not complying with these obligations, and how breaches are to be reported and addressed.

External Auditors

Compliance Plan audit

Our external auditors conduct annual audits on the Compliance Plan and report on:

- Whether the procedures and controls as set our in the Compliance Plan sufficiently address the requirements of the Law (including the framework, record keeping, valuations etc); and
- If the controls and procedures described in the Compliance Plan have been in place and operating effectively over the year.

Australian Financial Services Licence audit

The AFSL audit is conducted annually by the external auditor. The auditor reports on whether the internal control procedures of the AFSL holder are adequate and that internal procedures designed to ensure compliance with the conditions or restrictions applicable to the licence are adequate.

The Audit Committee also has the overall responsibility for recommending the appointment and removal of external auditors to the Board.

The Audit Committee has adopted the policy that:

- Any external audit engagement and review partner must be rotated every 5 years; and

- The statutory audit will be tendered at least every seven years.

Other External Review

ASIC

ASIC may undertake a review of the Responsible Entity's risk and compliance processes and systems at any time.

AUSTRAC

AUSTRAC may undertake a review of the Responsible Entity's compliance with the Anti-money Laundering laws at any time.

Executive Confirmations

In accordance with Lantern Hotel Group's legal obligations, Russell Naylor (Managing Director) and Michael Thaler (Financial Controller) have made the following certifications to the Board for the year ended 30 June 2014:

- Lantern Hotel Group's financial records have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
- Lantern Hotel Group's financial statements, and notes thereto, present a true and fair view, in all material respects, of the Consolidated Group's financial condition and operational results and are prepared in accordance with relevant Australian Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements;
- The statements made with respect to the integrity of Lantern Hotel Group financial reports are founded on a sound system of risk management and internal compliance and control systems which, in all material respects, implement the policies adopted by the Board; and
- The risk management and internal compliance and control systems, to the extent they relate to financial report, were operating efficiently and effectively in all material respects throughout the period.

Since 30 June 2014, nothing has come to the attention of the Managing Director or Financial Controller that would indicate any material change to any of the statements made above.

Executive Performance

Each member of the senior executive team, including the Executive Director, has signed a formal employment contracts at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. Each contract sets out the remuneration of the executive, including his or her entitlements to any rights under incentive plans.

The Group aims to have a clear process for evaluating the performance of senior executives. The Board directly oversees the annual performance evaluation of the Group's senior executives, and the performance evaluation of the Managing Director.

The evaluation for all executives will be based on specific criteria, including the business performance of the Company, whether strategic objectives are being achieved and the development of management and personnel.

Non-executive Directors receive director's fees outlined in their Letters of Appointment. No Non-executive Director has any entitlement to participate in any executive incentive plan.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading ''Remuneration Report''.

CODE OF CONDUCT AND ETHICAL BEHAVIOUR

The Board acknowledges the need for high standards of corporate governance practice and ethical conduct by all Directors and employees of Lantern Hotel Group.

The Group has established an organisational code of conduct having regard to the Australian Standard 8002-2003 and to the suggestions set out in the ASX Corporate Governance Principles and Recommendations – Recommendation 3.1. The Code of Conduct sets out our key corporate values, our commitment to compliance with laws and regulations, behavioural standards that are expected from our people and our commitment to act with honestly and integrity in our business dealings and in our dealings with the general community. Individuals have a positive obligation to report unethical behaviour and the Company has established procedures for investigating such reports.

Various measures have been established to ensure a high standard of ethical business behaviour is observed by all staff members, including policies and procedures for:

- Managing conflicts of interests;
- Personal security trading;
- Whistleblower procedures
- Acceptance of gifts and entertainment as part of the Gifts, Entertainment and Anti-Bribery Policy; and
- Handling confidential information.

In addition to their obligations under the Corporations Act 2001 in relation to inside information, all Directors, employees and consultants have a duty of confidentiality to Lantern Hotel Group in relation to confidential information they possess.

EMPLOYEE AND DIRECTOR TRADING IN LANTERN HOTEL GROUP SECURITIES

The Group has established a securities trading policy that complies with ASX Listing Rules 12.9 - 12.12 and has regard to ASX Guidance Note 27 – "Trading Policies". The Securities Trading Policy, establishes closed periods between the end of the financial year and half year and the release of our financial results for these periods. All employees are restricted from trading in IEF securities during closed periods unless they have obtained written authority to trade. Such authority will only be provided in the event of severe financial hardship or the fact that a person's circumstances are otherwise exceptional and that the proposed sale or disposal of the relevant securities is the only reasonable course of action available. Directors, officers and certain other employees, who may be privy to inside information, ("restricted persons") have additional restrictions placed upon them and must not trade in the company's securities at any time during the year without first obtaining written authority to do so. All employees receive training with respect to insider trading prohibitions and the requirements of our securities trading policy.

The Group's Securities Trading Policy may be viewed on the Lantern Hotel Group website.

SECURITYHOLDER COMMUNICATION

The Board has adopted a Shareholder Communication Policy to ensure that security holders are kept well-informed of all major developments and business events that are likely to materially affect Lantern Hotel Group operations and financial standing and the market price of its securities. Information is communicated to security holders through:

- Annual and Half Year Financial Reports lodged with the ASX and made available to all security holders;
- Announcements of market-sensitive and other information, including Annual and Half Year results announcements and analyst presentations released to the ASX;

- The Chairman's and Managing Director's addresses to, and the results of, the Annual General Meeting; and
- Copies of announcements, presentations, past and current reports to security holders made available on the Lantern website.

The Group produces two sets of financial information each financial year: the Half Year Financial Report for the six months ended 31 December and the Annual Financial Report for the year ended 30 June. Both are made available to security holders and other interested parties.

Security holders have the right to attend the Lantern Hotel Group Annual General Meeting, usually held in November each year, and are provided with an explanatory memorandum on the resolutions proposed through the Notice of Meeting. A copy of the Notice of Meeting is also posted on the Lantern website and lodged with the ASX.

Security holders are encouraged to vote on all resolutions. Unless specifically stated otherwise in the Notice of Meeting, all security holders are eligible to vote on all resolutions. Security holders who cannot attend the Annual General Meeting may lodge a proxy in accordance with the Corporations Act 2001. Proxy forms may be lodged by facsimile or electronically.

Transcripts of the Chairman's and Managing Director's Reports to security holders are also released to the ASX upon the commencement of the Annual General Meeting. These transcripts, together with the results of the Annual General Meeting are also posted on the Lantern website.

Continuous Disclosure

The Group is committed to continuous disclosure of material information as a means of promoting transparency and investor confidence.

The Group has established a continuous disclosure policy having regard to the suggestions set out in the ASX Corporate Governance Principles and Recommendations and in ASX Guidance Note 8 – "Continuous Disclosure – Listing Rule 3.1". The continuous disclosure policy details legal obligations with regard to continuous disclosure and establishes materiality guidelines designed to assist the board in its decision making process. The Group has appointed a continuous disclosure manager who is responsible for ensuring that the specific processes and procedures outlined in our continuous disclosure policy are implemented properly.

The disclosure policy details legal obligations with respect to periodic disclosure such as half year and full year reporting. All periodic disclosure obligations are identified and allocated to individuals who are responsible for completion of these tasks. These tasks are then monitored through the Group's compliance program.

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Lantern Hotel Group is a stapled entity comprising the Lantern Real Estate Trust (the 'Trust') and its controlled entities and Lantern Hotel Group Limited ('Lantern') and its controlled entities.

Lantern Real Estate Trust (ARSN 108 982 627) is an Australian registered scheme. Lantern RE Ltd (ABN 54 145 968 574) is the Responsible Entity of the Lantern Real Estate Trust.

The registered office and principal place of business of the Responsible Entity is Level 10, 9 Castlereagh St, Sydney NSW 2001

CORPORATE INFORMATION

Directors	Bryan Mogridge Deborah Cartwright Julian Davidson Russell Naylor
Company Secretary	Leanne Ralph
Notice of annual general meeting (AGM)	The annual general meeting of Lantern Hotel Group will be held at 22nd Floor MLC Building 19-22 Martin Place Sydney NSW 2000 Time 10:30 AM Date 14th November 2014
Registered Office	Level 10, 9 Castlereagh Street Sydney NSW 2001 Phone : (02) 9225 6072
Principal Administration Office	Level 10, 9 Castlereagh Street Sydney NSW 2001 Phone : (02) 9225 6072
Share Register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Phone : (02) 8280 7552
Auditor	HLB Mann Judd Level 19 207 Kent Street Sydney NSW 2000
Stock exchange listing	Lantern Hotel Group stapled securities are listed on the Australian Securities Exchange (ASX code: LTN)
Website	www.lanternhotels.com.au

The directors of Lantern RE Ltd, the Responsible Entity of the Lantern Real Estate Trust, present their report together with the financial statements of the Group, for the year ended 30 June 2014.

The 'Group' consists of:

(i) The parent, Lantern Real Estate Trust (ARSN 108 982 627), which is an Australian registered scheme, and its controlled entities; and

(ii) Lantern Hotel Group Limited and its controlled entities.

Directors

The following persons were Directors of the Responsible Entity during the whole of the year ended 30 June 2014 and up to the date of this report:

Directors	Qualifications	Experience and special responsibilities
Bryan Mogridge Non-Executive Chairman Appointed 31 October 2011	BSC, ONZM, FNZID	29 years experience as a Managing Director/CEO including General Manager of Corban Wines, Managing Director of Montana Wines, and Managing Director and CEO of Corporate Investment Ltd. Bryan is Chairman of Rakon Limited, BUPA Cares Services Ltd andPyne Gould Corporation Limited. He is also a director of Mainfreight Ltd and BUPA Australia. He is a fellow of the Institute of Directors of New Zealand.
Deborah Cartwright Non-Executive Director Appointed 31 October 2011	B. Com, FCA, CTA, GAICD	Deborah Cartwright has over 30 years' experience as a Chartered Accountant with Pitcher Partners Sydney, where she is currently the head of Corporate Advisory and Transaction Services. She is a Fellow of the Institute of Chartered Accountants in Australia, a Graduate of the Institute of Company Directors, a Chartered Tax Advisor with the Tax Institute of Australia, a registered company auditor, a registered tax agent and has extensive experience working with the hospitality industry.
Julian Davidson Non-ExecutiveDirector Appointed 31 October 2011	PMD Harvard Member, New Zealand Institute of Chartered Accountants (NZICA)	Julian Davidson is a highly experienced Australasian senior executive with extensive business leadership experience within the liquor industry. Julian is currently the CEO of Independent Liquor (New Zealand, USA and Canada) and has over 20 years senior experience within the liquor industry including Managing Director of Lion Breweries Limited from 2002 to 2005. Julian is a director of a number of companies within the Asahi group.
Russell Naylor Executive Director Appointed 31 October 2011		Russell Naylor 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 and is a Director of NZX listed company Pyne Gould Corporation Limited.

Company Secretary

Leanne Ralph was appointed to the position of Company Secretary on 6 September 2012. Mrs Ralph has over 22 years experience in chief financial officer and company secretarial roles for various listed and unlisted entities. Mrs Ralph is a member of Chartered Secretaries Australia and the Australian Institute of Company Directors. Mrs Ralph is the principal of Boardworx Australia Pty Ltd, which supplies bespoke outsourced Company Secretarial services to a number of listed and unlisted companies.

Principal activity

During the financial year the principal activity of the Group was owning and operating hotel properties.

Directors' security holdings

Securities in the Group in which directors had a relevant interest at the date of this report were:

	Stapled Securities in the Group
Bryan Mogridge	11,086,119
Deborah Cartwright	1,228,240
Julian Davidson	-
Russell Naylor	10,750,085

Directors' meetings

The number of Directors meetings held by the Board of Directors of the Responsible Entity (including meetings of committees of Directors) and the number of meetings attended by each of the Directors during the year:

	Board		Audit and Risk Committee	
Director	A	B	A	B
Bryan Mogridge	11	11	7	7
Deborah Cartwright	11	11	7	7
Julian Davidson	11	11	7	7
Russell Naylor	11	11	-	-

A: Meetings eligible to attend **B**: Meetings attended

Review of operations

Net loss from continuing operations for the year to 30 June 2014 was $2.2 million, down from a profit of $3.2m in the previous corresponding period. The decrease in profit was largely due to:

- Writedown of goodwill of $2.8m (2013: $nil). Refer Note 4
- Reduction in gain on sale of equity accounted investment $nil (2013: $3.1m)
- Reduction in finance expenses to $7.3m (2013: $9.7m) due to debt repayment from proceeds of Panthers funds
- Reduction in interest income to $0.3m (2013 $5.8m) due to early repayment of loan to Panthers
- Increase in rental income to $2.4m (2013: $1.4m)
- Decrease in administration expenses to $6.3m (2013: $8.6m)
- Increase in fair value of Investment Property and Property, plant and equipment of $2.6m (2013: $Nil)
- Net gain on fair value of interest rate swaps of $2.5m (2013: $4.0m)

Revenue on a same hotel basis (excluding Bowral and Crown) grew 5.2% compared to the previous corresponding period despite the operating performance of a number of hotels being impacted by the disruption to trade whilst capital works were being carried out.

Significant changes in the state of affairs

1. On 10 July 2013 Lantern paid $1.4m to terminate interest rate swaps with a face value of $63.7m. These swap agreements were entered into by the previous Responsible Entity during 2007 and 2008. There was no financial impact on the profit & loss for the current full year reporting period as the realised loss on this transaction was matched by a reversal of part of the unrealised loss recognised in prior periods.

2. On 12 July 2013 the group sold the discontinued New Zealand asset Exchange Hotel for NZ$2.2m (A$1.9m) (in line with its carrying value as at 30 June 2013).

3. On 30 August 2013, Lantern Hotel Group entered into a new 3 year finance facility with its principal financier. The key terms are as follows:

   - Balance of Panthers proceeds, held in cash at 30 June 2013, has been used to reduce debt.
   - Revised facility limit of $78m with revolving terms.
   - Facility can be redrawn for acquisitions of freehold going concern hotels and other capital expenditure.
   - Proceeds from the sale of NZ investment property assets (discontinued operations) will be available for use in the ordinary course of business, including but not limited to acquisitions, capital expenditure and security buybacks.

4. 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 $16.4m. See Note 21 for additional information

5. On 25 October 2013 the group sold a part of the discontinued New Zealand asset Realm Hotel for NZ$540k (A$467k) (in line with its carrying value as at 30 June 2013).

6. On 25 June 2014 the group exchanged a contract for sale for the remainder of the discontinued New Zealand asset Realm Hotel for NZ$825k (A$767k) (a slight premium to its carrying value as at 31 December 2013). Settlement occurred on 25 July 2014.

7. A program of replacement of existing gaming machines across all our venues commenced in November 2013. Gaming machines replacement will be ongoing to ensure gaming machines are kept current.

Likely developments and expected results of operations

Refer to the Managing Director's letter to security holders for further information on likely developments and the expected results of the Group.

Distributions and dividends

No distributions were made by the Trust or dividends declared by Lantern during the year. The Directors do not propose to recommend any distribution or dividend at this time.

Remuneration Report

Refer to pages 61 and 62 for details on the remuneration of key management personnel.

Significant events after balance date

(a) On 25 July 2014 the Group sold the remainder of the discontinued operations asset Realm Hotel for NZ$825k (AUD $767k).

(b) On 29 July 2014 the Group sold the discontinued operations asset Murphy's Hotel for NZ$300k (AUD $279k) at a 50% discount to its June 2013 carrying value.

(c) On 31 July 2014 an Extraordinary General Meeting was held to allow security holders to vote on a proposal to allow the group to buy back Lantern securities held by the Borg Fund. To facilitate the transaction, $1.4m was due to be paid to Millinium Asset Services Pty Limited as trustee for the Borg Fund. At its direction, $400,000 was paid to each of CVC Limited and Totem Holdings Pty Ltd and $600,000 was paid to Millinium Capital Managers Limited. All resolutions for the proposal were passed unanimously.

ASIC, however, has refused to grant the trust relief necessary for the transaction to proceed. The Group has begun proceedings in the Administrative Appeals Tribunal ("AAT") to challenge this decision. If successful in its appeal the Group will seek to implement the proposed transaction, however there will be additional hurdles in relation to that transaction, which would make its ultimate implementation uncertain. If unsuccessful in its appeal or the proposed transaction is not otherwise implemented, the Group intends to revert to pursuing an on-market buyback.

(d) On 11 August 2014 the Group exchanged contracts for the purchase of Waterworks Hotel, Botany for $8.25m.

(e) On 16 September 2014 a conditional contract was exchanged for the purchase of the Beaumont Exchange Hotel in Hamilton, Newcastle for $9.25m. This contract went unconditional on 26 September 2014.

Registered scheme

A total of $1,043,748 (2013: $1,386,828) was paid and payable to the Responsible Entity (which is a wholly owned subsidiary of the Lantern Hotel Group Ltd) out of scheme assets for services for the year ended 30 June 2014. For consolidation purposes the amount paid to the Responsible Entity for the period is eliminated and is therefore not recognised in the accounts of the consolidated entity.

The Responsible Entity held no interests in the scheme during the year.

No interests in the scheme were issued during the year.

At the end of the financial year the number of units in the scheme totalled 883,202,130 (2013: 883,202,130) (refer Note 19).

The gross value of the scheme assets (excluding those attributable to Lantern Hotel Group Limited and its controlled entities) as at the end of the financial year totalled $169,564,493 (2013:$205,976,760). These assets are valued in accordance with applicable accounting standards as noted in the annual report.

Insurance and indemnification of officers

During the financial year the Group paid a premium in respect of a contract to insure the directors and executives of the company against liabilities to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the true nature of liabilities covered and amount of the premium.

Non-audit services

The Group has not engaged the services of the auditors, HLB Mann Judd (NSW Partnership), on any assignments other than audit and review services.

Rounding of amounts

The Group is an entity of a kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the “rounding off” of amounts in the directors’ report and financial statements. Amounts in the directors’ report and financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 25.

Signed in accordance with a resolution of the directors of the Responsible Entity.

Bryan Mogridge	Deborah Cartwright
Non-Executive Chairman	Non-Executive Director
Dated in Auckland this 30th of September 2014	Dated in Sydney this 30th of September 2014

HLB Mann Judd

Accountants | Business and Financial Advisers

LANTERN REAL ESTATE TRUST

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Lantern Real Estate Trust for the year ended 30 June 2014 I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

This declaration is in relation to the Lantern Real Estate Trust and the entities it controlled during the year.

HLB Mann Judd

Sydney, NSW
30 September 2014

D K Swindells
Partner

CONSOLIDATED INCOME STATEMENT

	Note	June 2014 $'000	June 2013 $'000
Revenue from continuing operations	3	**49,105**	42,694
Cost of sales		**(19,562)**	(17,413)
Gross profit from continuing operations		**29,543**	25,281
Other revenue	3	**2,897**	7,911
Other income	3	**4,105**	7,047
Share of profits - associates		**-**	496
Hotel expenses	4	**(23,468)**	(19,281)
Administration expenses	4	**(6,280)**	(8,590)
Changes in fair value of property, plant, equipment and intangibles	4	**(1,839)**	-
Finance costs	4	**(7,275)**	(9,714)
Net profit/(loss) from continuing operations before income tax expense		**(2,317)**	3,150
Income tax expense	5	**-**	-
Profit/(loss) from continuing operations after income tax expense		**(2,317)**	3,150
Discontinued operations			
Profit/(loss) from discontinued operations	20	**167**	581
Profit/(loss) for the period		**(2,150)**	3,731
Profit is attributable to:			
Stapled security holders as:			
Equity holders of Lantern Real Estate Trust (parent interest)		**(1,942)**	3,232
Equity holders of Lantern Hotel Group Limited (non-controlling interest)		**(208)**	499
		(2,150)	3,731
		Cents	Cents
Distributions per security		**-**	-
Profit/(loss) per stapled security attributable to the ordinary security holders of the trust - basic and diluted	6	**(0.24)**	0.33
Profit/(loss) per stapled security attributable to the ordinary security holders of the Trust from continuing operations - basic and diluted	6	**(0.26)**	0.27
Profit/(loss) per stapled security attributable to the ordinary security holders of the Trust from discontinued operations - basic and diluted	6	**0.02**	0.06

The above consolidated income statement should be read in conjunction with the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	June 2014 $'000	June 2013 $'000
Parent interest - Lantern Real Estate Trust			
Net profit for the year		**(1,942)**	3,232
Other comprehensive income:			
Amounts that will not be reclassified to profit or loss			
Revaluation surplus		-	750
Amounts that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	22	**773**	(719)
Total comprehensive profit/(loss) for the year - parent interest		**(1,169)**	3,263
Non-controlling interest - Lantern Hotel Group Limited			
Net profit for the year		**(208)**	499
Total comprehensive profit/(loss) for the year - non-controlling interest		**(208)**	499
Stapled Entity			
Net profit/(loss) for the year		**(2,150)**	3,731
Other comprehensive income:			
Amounts that will not be reclassified to profit or loss			
Revaluation surplus		-	750
Amounts that may be reclassified to profit or loss			
Exchange rate differences on translation of foreign operations	22	**773**	(719)
Total comprehensive profit/(loss) for the year - stapled entity		**(1,377)**	3,762

The components of profit or loss and other comprehensive income shown above are presented net of related income tax effects of $Nil (2013: $Nil).

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	June 2014 $'000	June 2013 $'000
Current assets			
Cash and cash equivalents	7	**2,747**	56,202
Trade and other receivables	8	**1,820**	2,322
Inventories	9	**1,155**	1,103
Assets of discontinued operations	20	**7,498**	9,367
Total Current Assets		**13,220**	68,994
Non-current assets			
Investment properties	11	**20,700**	19,100
Property, plant and equipment	12	**112,048**	95,545
Intangibles	13	**28,298**	26,640
Deferred tax asset		**108**	108
Other	10	**412**	755
Total Non-current Assets		**161,566**	142,148
Total assets		**174,786**	211,142
Current liabilities			
Payables	15	**10,060**	9,076
Borrowings	17	**12,265**	64
Derivatives	18	**2,627**	3,419
Provisions	16	**54**	70
Total Current Liabilities		**25,006**	12,629
Non-current liabilities			
Payables	15	**1,225**	450
Borrowings	17	**44,965**	90,328
Derivatives	18	**5,666**	7,077
Provisions	16	**119**	76
Total Non-current Liabilities		**51,975**	97,931
Total liabilities		**76,981**	110,560
Net assets		**97,805**	100,582
Security holders interest attributable to stapled security holders as:			
Equity holders of Lantern Real Estate Trust (parent interest)			
Issued units	19	**220,763**	222,122
Reserves	22	**645**	(128)
Retained earnings/(accumulated losses)		**(125,109)**	(123,167)
Total unit holders' interest attributable to equity holders of Lantern Real Estate Trust (parent interest)		**96,299**	98,827
Equity holders of Lantern Hotel Group Limited (non-controlling interest)			
Issued shares	19	**2,745**	2,786
Retained earnings/(accumulated losses)		**(1,239)**	(1,031)
Total shareholders' interest attributable to equity holders of Lantern Hotel Group Limited (non-controlling interest)		**1,506**	1,755
Total security holders' interest		**97,805**	100,582

The above consolidated statement of financial position should be read in conjunction with the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	June 2014 $'000	June 2013 $'000
Cash flows from operating activities			
Cash receipts from customers (inclusive of GST)		**56,885**	50,418
Proceeds from insurance claim		**61**	-
Cash paid to suppliers and employees (inclusive of GST)		**(48,672)**	(44,375)
Interest received		**466**	5,738
Interest paid		**(6,566)**	(10,369)
Net cash from operating activities	34	**2,174**	1,412
Cash flows from investing activities			
Proceeds from sale of assets of discontinued operations		**2,260**	-
Payment for property, plant and equipment		**(4,943)**	(4,669)
Earnings from equity investment		**-**	932
Proceeds from sale of equity investment		**-**	24,000
Proceeds from loans repaid by third parties		**700**	63,090
Payment for acquisition of business, net of cash acquired	21	**(16,325)**	(51)
Payment for loans to third parties		**(234)**	-
Proceeds from loan extension fees		**-**	435
Net cash inflow from investing activities		**(18,542)**	83,737
Cash flows from financing activities			
Proceeds from borrowings		**16,900**	-
Payment for borrowing costs		**(511)**	(748)
Repayment of borrowings		**(50,000)**	(27,348)
Repayment of interest rate swaps		**(1,412)**	-
Repayment of finance leases		**(69)**	-
Payment for securities bought back		**(1,999)**	(4,978)
Net cash inflow from financing activities		**(37,091)**	(33,074)
Net increase in cash or cash equivalents		**(53,459)**	52,075
Cash or cash equivalents at the beginning of the year		**56,202**	4,116
Effects of exchange rate changes on cash		**4**	11
Cash and cash equivalents at the end of the year	7	**2,747**	56,202

The above consolidated statement of financial position should be read in conjunction with the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Issued Capital $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total $'000
Carrying amounts at 1 July 2013		**222,122**	**(128)**	**(123,167)**	**1,755**	**100,582**
Lantern Real Estate Trust						
Net profit/(loss) for the year		-	-	(1,942)	-	(1,942)
Other comprehensive income	22	-	773	-	-	773
		-	773	(1,942)	-	(1,169)
Lantern Hotel Group Limited						
Net profit/(loss) for the year		-	-	-	(208)	(208)
		-	-	-	(208)	(208)
Total stapled entity						
Net profit/(loss) for the year		-	-	(1,942)	(208)	(2,150)
Other comprehensive income		-	773	-	-	773
Total comprehensive profit/(loss) for the year		-	773	(1,942)	(208)	(1,377)
Transactions with unit holders in their capacity as equity holders:						
Security holders of Lantern Real Estate Trust						
Payment to facilitiate future buyback of units	19	(1,359)	-	-	-	(1,359)
		(1,359)	-	-	-	(1,359)
Security holders of Lantern Hotel Group Limited						
Payment to facilitiate future buyback of shares	19	-	-	-	(41)	(41)
		-	-	-	(41)	(41)
Total stapled entity						
Payment to facilitiate future buyback of securities	19	(1,359)	-	-	(41)	(1,400)
		(1,359)	-	-	(41)	(1,400)
Carrying amounts at 30 June 2014		**220,763**	**645**	**(125,109)**	**1,506**	**97,805**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Issued Capital $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total $'000
Carrying amounts at 1 July 2012		**228,746**	**(159)**	**(126,399)**	**1,605**	**103,793**
Lantern Real Estate Trust						
Net profit/(loss) for the year		-	-	3,232	-	3,232
Other comprehensive income	22	-	31	-	-	31
		-	31	3,232	-	3,263
Lantern Hotel Group Limited						
Net profit/(loss) for the year		-	-	-	499	499
		-	-	-	499	499
Total stapled entity						
Net profit/(loss) for the year		-	-	3,232	499	3,731
Other comprehensive income		-	31	-	-	31
Total comprehensive profit/(loss) for the year		-	31	3,232	499	3,762
Transactions with unit holders in their capacity as equity holders:						
Security holders of Lantern Real Estate Trust						
Unit buyback	19	(6,624)	-	-	-	(6,624)
		(6,624)	-	-	-	(6,624)
Security holders of Lantern Hotel Group Limited						
Share buyback	19	-	-	-	(349)	(349)
		-	-	-	(349)	(349)
Total stapled entity						
Security buyback	19	(6,624)	-	-	(349)	(6,973)
		(6,624)	-	-	(349)	(6,973)
Carrying amounts at 30 June 2013		**222,122**	**(128)**	**(123,167)**	**1,755**	**100,582**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the consolidated financial statements.

1. Significant Accounting Policies

Reporting Entity

The Lantern Real Estate Trust ('the Trust') was constituted on 20 April 2000. The responsible entity for the Fund is Lantern RE Ltd ('Lantern RE'), an Australian company limited by shares that was registered on 24 August 2010. The Responsible Entity has an Australian Financial Services License (Licence No. 386569).

On 26 April 2012 the units issued by Lantern Real Estate Trust were stapled to shares issued by Lantern Hotel Group Limited ('Lantern'). The Stapling Deed ensures that, for as long as the two entities remain jointly quoted, the number of units in the Trust and the number of shares in Lantern shall be equal and that Unit holders and Shareholders shall be identical. The issued securities in these entities trade as one listed security on the Australia Securities Exchange ('ASX') under the ticker code 'LTN'. The stapled securities cannot be traded or transferred independently and are quoted at a single price.

The consolidated financial statements include:

(i) Lantern Real Estate Trust and its controlled entities
(ii) Lantern Hotel Group Limited and its controlled entities
collectively referred to as 'Lantern Hotel Group' or 'the Group'.

The consolidated financial statements of the Group have been prepared with the Trust identified as the Parent.

Basis of preparation of the financial report

These consolidated general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* .

The financial statements cover the Trust and its controlled entities and Lantern Hotel Group Limited and its controlled entities as a consolidated entity. The Trust is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue by the Board of Directors of Lantern RE on 30th September 2014. The directors have the power to amend and reissue the financial statements.

Compliance with IFRS

The consolidated financial statements of the Trust also comply with the International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

Comparative information

Comparative information may have been reclassified to enhance disclosures and match current year classifications.

Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets & liabilities as described in the accounting policies.

Critical accounting estimates

The preparation of the financial statements requires the use of certain estimates and judgements in applying the consolidated entity's accounting policies. Those estimates and judgements significant to the financial statements are disclosed in Note 2.

The financial statements are presented in Australian dollars.

1. Significant Accounting Policies (continued)

Adoption of new and revised accounting standards

In the current year the Group has adopted all the new and revised accounting standards and interpretations that are relevant to its operations and effective for the current annual reporting period. There was no material effect on the financial statements as a result of this adoption.

Principles of consolidation

Subsidiaries

The consolidated financial statements are those of the consolidated entity, comprising the assets and liabilities and results of the parent entity and of all subsidiaries, which are entities where the parent is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

All inter-company balances and transactions, including any unrealised profits and losses, have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

As a consequence of the stapling arrangement involving no acquisition and no ownership interest being acquired by the combining entities, no goodwill is recognised in relation to the stapling arrangement and the interest of the equity holders in Lantern are treated as non-controlling interests ('NCI').

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

The acquisition method of accounting is used to account for acquisition of subsidiaries by the parent.

Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Associates

Associates are those entities over which the Group has significant influence but not control or joint control. Investments in associates are referred to as 'equity accounted investments'. Investments in associates are accounted for in the consolidated financial statements using the equity method after initially being recognised at cost. The Group's share of an associate's post-acquisition profit or loss is recognised in the consolidated income statement and its share of any post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying value of the investment. Distributions received or receivable are recognised as a reduction of the carrying value of the investment.

Discontinued operations and assets held for sale

The Group has classified certain components as discontinued operations. A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations or is part of a single coordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately on the face of the income statement.

Non-current assets of discontinued operations are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as investment property which are carried at fair value.

1. Significant Accounting Policies (continued)

Discontinued operations and assets held for sale (continued)

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition. Such non-current assets are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

Distributions

A liability for distribution for any distribution declared on or before the end of the reporting period is recognised in the statement of financial position in the reporting period in which the distribution is declared.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The financial statements are presented in Australian dollars, which is the functional and presentation currency of the Trust.

(i) Foreign currency transactions and balances

Transactions in foreign currency are initially recorded in the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into Australia dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the exchange rate prevailing on the date of the transaction. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that foreign operation is recognised in the income statement.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the term.

Leases included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

1. Significant accounting policies (continued)

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired.

The consideration transferred for the acquisition of a controlled entity comprises the fair values of the assets transferred, the liabilities incurred and any equity interest issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the controlled entity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the consolidated entity recognises any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlled interest and the acquisition-date fair value of any previous equity interest over the fair value of the consolidated entity's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the controlled entity acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a discount on business combination. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

In the case of a stapling arrangement involving no acquisition consideration and no ownership interest being acquired, no goodwill is recognised and the interest of the equity holders in the non-controlled entity is treated as a non-controlling interest.

Financial assets and liabilities

Current and non-current financial assets and liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as at fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale. The Group determines the classification of its financial assets and liabilities at initial recognition with the classification depending on the purpose for which the asset or liability was acquired or issued. Financial assets and liabilities are initially recognised at fair value, plus directly attributable transaction costs unless their classification is at fair value through profit or loss. They are subsequently measured at fair value or amortised cost using the effective interest method. Changes in fair value of available-for-sale financial assets are recorded directly in equity. Changes in fair values of financial assets and liabilities classified as at fair value through profit or loss are recorded in the income statement.

The fair values of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For those with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

1. Significant accounting policies (continued)

Property Plant and equipment

Property, plant and equipment includes the Group's freehold going concern ownership of hotels (which includes hotel licences) along with any plant and equipment used in operating the hotels and in Group administration. The freehold properties are shown at fair value, based on periodic, but at least triennial, valuations prepared by an independent valuation firm. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revaluation amount of the asset.

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Land is not depreciated. The depreciable amounts of all other property, plant and equipment are depreciated using the straight-line method over their estimated useful life commencing from the time the asset is held ready for use. Estimates of remaining useful lives are made on a regular basis for all assets.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives of each class of assets are:

	2014	2013
Buildings	40 years	40 years
Plant and equipment	4 to 15 years	4 to 15 years
Motor vehicles	8 years	8 years
Furniture and fittings	11 years	11 years

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Restricted cash comprises cash received from Panthers settlement which was available for use subject to approval from our primary lender.

Trade and other receivables

Trade and other receivables are recognised at fair value. An allowance for impairment is made when there is objective evidence that collection of the full amount is no longer probable. Trade receivables are generally due for settlement within 30 days.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivatives is designated as a hedging instrument, and if so, the nature of the item being hedged.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss as income or other expenses.

Changes in the fair value of any derivative instrument that does qualify for hedge accounting are recognised immediately in other comprehensive income and in accumulated reserves in equity.

Derivatives are classified as current or non-current depending on the expected period of realisation.

1. Significant accounting policies (continued)

Intangibles

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill 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. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Gaming licences

Gaming licences are valued at cost or at fair value at acquisition date when recognised in a business combination. Gaming licences are considered to have an indefinite useful life and are not amortised. They are tested for impairment annually and whenever an event or change in circumstances indicate that an impairment may exist. Any impairment is recognised immediately in profit or loss.

Investment property

Land, buildings, liquor and gaming licences subject to operating leases to third parties have the function of an investment and are regarded as composite assets. In accordance with applicable accounting standards the buildings, including fixtures and fittings, are not depreciated.

It is the Group'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 the Group. It is the policy of the Group to review 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 price that would be recognised to sell an asset or paid to transfer a liability in an orderly transaction betwen market participants at the measurement date. 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, the Responsible Entity 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.

In determining fair values, expected net cash flows are discounted to their present value using a market determined risk adjusted discount rate. Changes in the fair value of an investment property are recorded in the income statement.

Inventories

Finished goods, consisting of primarily food and beverage items for re-sale, are stated at the lower of cost and net realisable value. Cost comprises purchase price and associated delivery costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to make the sale.

Payables

Trade and other payables are carried at amortised cost and due to their short-term nature are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and are recognised when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

1. Significant accounting policies (continued)

Borrowings

Borrowings are recorded at fair value. Transaction costs directly attributable to borrowings are classified as an asset and amortised over the term of the loan.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Finance costs are expensed as incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. When this is the case, they are capitalised as part of the acquisition cost of that asset.

Employee benefits

Wages and salaries, annual leave
Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date, are recognised in Other Payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefit obligations
The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured at current values. The liability is recognised as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributed equity

Stapled securities, including units issued by the Trust and shares issued by Lantern, are classified as equity. Incremental costs directly attributable to the issue of new stapled securities are shown in equity as a deduction, net of tax, from the proceeds.

Going concern

The Group's Statement of Financial Position shows a deficiency of current assets to current liabilities of $11.786m as at 30 June 2014 as part of an overall net assets position of $97.8m. This has occurred as the Group's secondary facility ($12.2m) is due for repayment on 22 June 2015. The Group expects to reach agreement with the lender to roll over the facility into a new agreement prior to this date. Should that not occur, the Group expects that it would be able to sell assets to enable it to repay this debt on the due date.

The financial statements have been prepared on a going concern basis, except for discontinued operations.

1. Significant accounting policies (continued)

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and amounts collected on behalf of third parties.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity, the revenue can be reliably measured and specific criteria have been met for each of the Group's activities as described below. The Group bases its probability on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue brought to account but not received at balance date is recognised as a receivable.

Revenue is recognised for the major business activities as follows:

Sale of goods - retail

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Gaming revenue

Gaming revenue is recognised as the net funds received (cash invested less wins to players) before payment of government taxes.

Interest income

Interest income is recognised as the interest accrues using the effective interest method.

Rent

Rental income from operating leases is recognised as and when due under the lease. Rental income from discontinued operations is recognised on a cash received basis.

Distributions

Distributions are recognised as revenue when the right to receive payment is established.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

Lantern Real Estate Trust and its subsidiaries (other than Lantern Hotel Group Limited and its controlled entities) account for their own current and deferred tax amounts as if each entity continues to be a stand-alone taxpayer. Lantern Hotel Group Limited and its wholly owned subsidiaries have formed a group for tax consolidation purposes and account for their current and deferred tax amounts on a consolidated level.

Under current tax legislation, the Trust is not liable to pay Australian income tax provided that its taxable income (including any assessable capital gains) is fully distributed to unit holders each year. Tax allowances for buildings and fixtures depreciation are distributed to unit holders in the form of the tax deferred components of distributions.

The subsidiaries that hold the Group's foreign properties may be subject to corporate income tax and withholding tax in the countries in which they operate. Under current Australian income tax legislation, unit holders may be entitled to receive a foreign tax credit for this income tax and withholding tax.

1. Significant accounting policies (continued)

Income tax (continued)

(i) Current income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Earnings per security

Basic earnings per security is calculated as net profit or loss attributable to holders of stapled securities of the Group divided by the weighted average number of issued stapled securities. Diluted earnings per security is calculated as net profit attributable to holders of stapled securities, adjusted for preference distributions and interest associated with dilutive potential securities, divided by the weighted average number of securities and dilutive potential securities outstanding during the year.

Goods and services tax ("GST")

Revenue, expenses and assets (with the exception of receivables) are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable, it is recognised as part of the cost of the acquisition, or as an expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from or payable to the tax authority is included in the statement of financial position as an asset or liability.

The GST components of cash flows arising from investing and financing activities are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

1. Significant accounting policies (continued)

Pending Accounting Standards

A number of new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the current reporting period. These are not expected to have any material impact on the Group's financial report in future reporting periods.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Maker ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Parent financial information

These financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 29.

Investments in subsidiaries are accounted for at cost in the financial statements of the Parent.

Rounding of amounts

The Group is an entity of a kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

2. Accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Responsible Entity to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The Group has investment properties and property, plant and equipment with carrying values of $20,700,000 (2013: $19,100,000) (see note 11) and $112,048,000 (2013: $95,545,000) (see note 12) respectively, representing estimated fair value. The Group also has purchased goodwill in relation to the hotel operating businesses carried at $4,208,000 (2013: $6,000,000) (see note 13) representing estimated fair value; and other intangibles with a carrying value of $24,090,000 (2013: $20,640,000) (see note 13) representing gaming licences . These carrying amounts reflect certain assumptions about expected future rental cash flows, rent-free periods, operating revenues and costs and appropriate discount and capitalisation rates. In forming these assumptions, the Group considered information about current and recent sales activity, current market rents, and discount and capitalisation rates, for assets similar to those owned by the Group, as well as independent valuations of the Group's properties.

(b) Critical judgements in applying the entity's accounting policies

There were no judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that had a significant effect on the amounts recognised in the financial statements.

3. Revenue	2014 $'000	2013 $'000
(a) Revenue from operations		
Sale of goods	**49,105**	42,694
	49,105	42,694
(b) Other revenue		
Rental income	**2,432**	1,449
Interest income	**334**	5,817
Other	**131**	645
	2,897	7,911
(c) Other income		
Gain on sale of equity accounted investment	**-**	3,058
Net gain/(loss) in fair value of:		
Interest rate swaps	**2,505**	3,989
Property, plant and equipment	**1,003**	
Investment property	**1,600**	-
	5,108	7,047

4. Expenses	2014 $'000	2013 $'000
Expenses		
Depreciation		
Buildings	**(870)**	(750)
Plant and equipment	**(1,406)**	(871)
Motor vehicles - under finance lease	**(10)**	(5)
	(2,286)	(1,626)
Amortisation		
Borrowing costs	**(904)**	(1,789)
	(904)	(1,789)
Total depreciation and amortisation	**(3,190)**	(3,415)
Changes in fair value of Property, plant, equipment and intangibles		
Write down of Goodwill	**(2,842)**	-
Employee benefits expense	**(14,321)**	(11,472)
Loss on disposal of 3rd party loan (refer Note 27)	**(234)**	-
Net loss on disposal of property, plant and equipment	**(290)**	(879)
Finance costs		
Realised loss on cancelled interest rate swaps	**(1,412)**	-
Interest paid or payable	**(5,863)**	(9,714)
Total finance expenses	**(7,275)**	(9,714)

No finance costs were capitalised to qualifying assets during the year (2013: $Nil)

5. Income tax	2014 $000	2013 $000
(a) Income tax expense		
Reconciliation of profit/(loss) from continuing operations before income tax to income tax expense:		
Profit/(loss) from continuing operations before income tax	**(2,317)**	3,150
Profit/(loss) from discontinued operations before income tax	**167**	581
	(2,150)	3,731
Tax at the Australian tax rate of 30%	**(645)**	1,119
Add/(deduct):		
Trust operations not taxable	**(402)**	(1,665)
Other deductible amounts	**1,122**	295
Non-deductible expenses	**(174)**	(29)
Deferred tax assets in relation to losses not recognised	**99**	280
Income tax expense	**-**	-
(b) Unused tax losses		
Unused tax losses for which no deferred tax asset has been recognised - Trust These unused tax losses are available to offset future taxable distributions of the Trust.	**11,298**	4,660
Unused tax losses for which no deferred tax asset has been recognised - Lantern	**2,617**	2,286
Potential tax benefit at 30%	**785**	686

These unused tax losses are available to offset future taxable income of Lantern.

Lantern Hotel Group Limited and its wholly owned resident entities have formed a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Lantern Hotel Group Limited.

6. Earnings per security	2014 $000	2013 $000
Profit attributable to ordinary security holders of the Trust:		
From continuing operations	**(2,317)**	2,651
From discontinued operations	**167**	581
	(2,150)	3,232
	'000	**'000**
Weighted average number of ordinary securities used in calculating basic and diluted earnings per security	**883,202**	967,716
	Cents	**Cents**
Basic and diluted earnings per security attributable to the security holders of the Trust		
From continuing operations	**(0.26)**	0.27
From discontinued operations	**0.02**	0.06
	(0.24)	0.33

7. Cash and cash equivalents	2014 $000	2013 $000
Cash at bank and on hand	**2,747**	4,375
Restricted cash	**-**	51,827
Total Cash and cash equivalents	**2,747**	56,202

Restricted cash comprised cash received from Panthers settlement and was available for use subject to approval from our primary lender. Subsequent to the 30 June 2013 balance date, these funds were used to reduce debt.

8. Trade and other receivables	2014 $'000	2013 $'000
Current		
Other debtors	**592**	1,531
Accrued income, prepayments and deposits	**994**	791
Loans to lessees	**234**	-
Total Trade and other receivables	**1,820**	2,322

9. Inventories	2014 $'000	2013 $'000
Finished goods at cost	**1,155**	1,103

10. Other assets	2014 $'000	2013 $'000
Non-current		
Unamortised borrowing costs	**412**	755

11. Investment properties	2014 $'000	2013 $'000
Investment properties	**20,700**	19,100
Reconciliation		
Investment property at fair value		
Non-Current		
Carrying amount at beginning of the period	**19,100**	24,500
Revaluation increment	**1,600**	-
Transfer to Intangibles (note 13)	**-**	(960)
Transfer to Property, plant and equipment for hotels now operated (note 12)	**-**	(4,440)
Investment properties carrying value at the end of the period	**20,700**	19,100

On 17 October 2012 the Group acquired the business assets of the Bowral Hotel (freehold already owned). The Land and Buildings of the Bowral Hotel previously recognised at $5.4m were transferred to property, plant and equipment and intangibles as they were no longer investment properties.

Leasing arrangements

The investment properties are leased to tenants under long-term operating leases. Lease terms vary between tenants.

Future minimum rentals receivable under these leases are due:		
Within one year	**1,912**	1,854
Later than one year but not later than five years	**8,290**	8,033
Later than five years	**2,640**	4,809
	12,842	14,696

12. Property, plant and equipment	2014 $'000	2013 $'000
Land and buildings - at fair value	**102,364**	89,869
Plant and equipment - at cost or fair value at acquisition date	**12,509**	7,085
Less: Accumulated depreciation	**(2,886)**	(1,480)
	9,623	5,605
Motor vehicles - at cost	**76**	76
less: accumulated depreciation	**(15)**	(5)
	61	71
Total Property, plant and equipment	**112,048**	95,545

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Total $'000
Balance at 1 July 2012	81,850	5,520	-	87,370
Acquisitions	3,579	1,837	76	5,492
Transfers from Investment Property (note 11)	4,440	-	-	4,440
Disposals	-	(881)	-	(881)
Gains recognised in other comprehensive income	750	-	-	750
Depreciation expense	(750)	(871)	(5)	(1,626)
Balance at 30 June 2013	**89,869**	**5,605**	**71**	**95,545**
Acquisitions	**12,362**	**5,714**	**-**	**18,076**
Disposals	**-**	**(290)**	**-**	**(290)**
Gains recognised in profit and loss	**1,003**	**-**	**-**	**1,003**
Depreciation expense	**(870)**	**(1,406)**	**(10)**	**(2,286)**
Balance at 30 June 2014	**102,364**	**9,623**	**61**	**112,048**

Land and Buildings includes hotel licences. Property, plant and equipment and Intangibles (refer Notes 12 and Note 13) includes freehold going concern hotel assets of the Group. The Land and Buildings are carried at independent valuations (on a freehold going concern basis for assets where the Group owns both the leasehold and freehold interest), which are no more than 3 years old. The Group has a policy of revaluing the hotel assets on a triennial basis. The directors believe that the current carrying value represents fair value.

Whilst the accounting standards require separate disclosure of Land and Buildings, Plant and Equipment and Intangibles, the directors consider that the combined value of the Property, Plant and Equipment and Intangibles could be more easily understood as freehold going concern hotel assets.

The following table provides a summary of the freehold going concern hotel asset values:

	2014 $'000	2013 $'000
Land and buildings	**102,364**	89,869
Plant and equipment	**9,623**	5,605
Intangibles	**28,298**	26,640
Total freehold going concern hotels	**140,285**	122,114

13. Intangibles	2014 $'000	2013 $'000
Goodwill - at cost	**7,050**	6,000
Less: Impairment	**(2,842)**	-
	4,208	6,000
Gaming licences - at fair value	**24,090**	20,640
Total Intangibles	**28,298**	26,640

Goodwill relates to the acquisition of hotel operating businesses from the Icon Hospitality Group on 15 June 2012 and subsequent acquisitions of hotel operating assets.

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill $'000	Gaming licences $'000	Total $'000
Balance at 1 July 2012	6,000	19,680	25,680
Acquisitions	-	960	960
Transfers from Investment Property (note 11)	-	-	-
Balance at 1st July 2013	**6,000**	**20,640**	**26,640**
Acquisitions	**1,050**	**3,450**	**4,500**
Revaluation decrements	**(2,842)**	**-**	**(2,842)**
Balance at 30 June 2014	**4,208**	**24,090**	**28,298**

Current performance of some venues has been negatively affected due to the disruption caused by capital works which has led the Group to write down the goodwill held against some of its venues. The Group reasonably expects that earnings levels will, in a short timeframe, improve back to a level supportive of pre-writedown levels. Any future upwards revaluations will be reflected via Land & Buildings through either the Consolidated Income Statement (to the extent it is reversing a prior revaluation decrement) or the Statement of Comprehensive Income (via Asset Revaluation Reserve).

14. Equity accounted investments		Ownership interest 2014	 2013
(a) Details of investments			
Name	**Principal activity**		
Panthers Property Unit Trust	Property Investor	**0.0%**	0.0%
Panthers Property Management Pty Limited	Property Investor	**0.0%**	0.0%

	2014 $'000	2013 $'000
(b) Share of results		
Profit for the year	**-**	496

15. Payables	2014 $'000	2013 $'000
Current liabilities		
Trade payables	**6,586**	6,524
Other payables	**3,399**	2,477
Unearned income	**75**	75
Total current payables	**10,060**	9,076
Non-current liabilities		
Other payables	**850**	-
Unearned income	**375**	450
Total Non-current payables	**1,225**	450

16. Provisions	2014 $'000	2013 $'000
Current liabilities		
Employee liabilities	**54**	70
Non-current liabilities		
Employee liabilities	**119**	76

17. Borrowings	2014 $'000	2013 $'000
Current liabilities		
Finance lease liabilities	**65**	64
Bank debt	**12,200**	-
Total current borrowings	**12,265**	64
Non-current liabilities		
Finance lease liabilities	**65**	128
Bank debt	**44,900**	90,200
Total Non-current borrowings	**44,965**	90,328

Bank debt

Bank debt comprises Australian dollar denominated debt of $57,100,000 (2013: $90,200,000).

Bank debt is provided through two facilities. The primary facility with a limit of $78,000,000 and drawn to $44,900,000 is repayable on 30 August 2016 and the secondary facility, fully drawn to $12,200,000, is repayable on 22 June 2015 (subsequently extended to September 2015). The bank facilities are secured by first mortgages over the investment properties, property, plant and equipment and intangibles with a total carrying value at balance date of $161,046,000 (2013: $202,449,344).

Covenants

Primary facility

The primary facility is secured over the Groups primary security pool, comprising freehold land and buildings, investment properties and gaming licences and is subject to the following financial covenants:

(i) Interest cover EBITDA times interest expense of 1.50
(ii) Loan to value ration (LVR) of 50% of secured assets

Secondary facility

The secondary facility is secured over the Groups secondary security pool, comprising freehold land and buildings and gaming licences and is subject to the following financial covenants:

(i) Rolling 12 month EBITDA of the security pool assets not less than 80% of the security pool valuation EBITDA
(ii) Rolling 12 month interest cover of EBIT of the security pool assets to be not less than 2.00 times interest expense on secondary facility.

Compliance with covenants

The Group has complied with the financial covenants of its borrowing facilities during the 2014 and 2013 reporting periods.

18. Derivatives	2014 $'000	2013 $'000
Current liabilities		
Interest rate swap contracts	**2,627**	3,419
Non-current liabilities		
Interest rate swap contracts	**5,666**	7,077

The swap agreements were entered into during 2007 and 2008. These agreements extend to 22 August 2017. The agreements swap a floating interest rate for a fixed interest rate.

19. Issued securities	Note	2014 $'000	2013 $'000
(a) Carrying amounts			
Attributable to stapled security holders of Lantern Real Estate Trust			
At beginning of year		**222,122**	228,746
Unit buybacks		**-**	(6,624)
Payment to facilitiate future buyback of units	33	**(1,359)**	-
At end of year		**220,763**	222,122
Attributable to stapled security holders of Lantern			
At beginning of year		**2,786**	3,135
Share buybacks		**-**	(349)
Payment to facilitate future buyback of shares	33	**(41)**	-
At end of year		**2,745**	2,786
Total issued stapled securities		**223,508**	224,908

(b) Number of securities issued	2014 '000	2013 '000
Attributable to stapled security holders of Lantern Real Estate Trust		
At beginning of year	**883,202**	971,952
Unit buybacks	**-**	(88,750)
At end of year	**883,202**	883,202
Attributable to stapled security holders of Lantern		
At beginning of year	**883,202**	971,952
Share buybacks	**-**	(88,750)
At end of year	**883,202**	883,202
Total issued stapled securities	**883,202**	883,202

20. Discontinued operations	2014 $'000	2013 $'000

(a) Details of discontinued operations

The New Zealand portfolio consists of 5 properties (2013: 6 properties). Engagement with selling agents is ongoing to actively market the properties and they are expected to be sold in the next 12 months. The assets are carried at fair value.

(b) Financial performance

The results of the discontinued operations for the reporting period were:

	2014 $'000	2013 $'000
Revenue	**646**	668
Other income	**3**	5
Change in fair value of discontinued assets	**(445)**	-
Unrealised foreign exchange gain/(loss)	**-**	523
Expenses	**(37)**	(36)
Interest expense	**-**	(579)
Profit/(loss) from discontinued operations for the year	**167**	581

(c) Cash flows

The cash flows of the discontinued operations during the reporting period were:

	2014 $'000	2013 $'000
Cash flows from operating activities		
Rental and other property income	**598**	749
Payments to suppliers	**(90)**	(156)
Interest received	**3**	4
Interest paid	**-**	(678)
Cash flows from investing activities		
Proceeds from sale of investment properties	**2,260**	-
Loan to lessee	**(64)**	-
Cash flows from financing activities		
Loan from Lantern Real Estate Trust	**-**	50
Effects of exchange rate changes on cash	**4**	11
Cash flows from discontinued operations	**2,711**	(20)

20. Discontinued operations (continued)	2014 $'000	2013 $'000
(d) Assets and liabilities		
The assets of the discontinued operations as at reporting date were:		
Assets		
Investment properties	**7,498**	9,367
Total assets of discontinued operations	**7,498**	9,367
Net assets of discontinued operations	**7,498**	9,367
(e) Leasing arrangements		
Future minimum rentals receivable under these leases are:		
Within one year	**1,339**	1,953
Later than one year but not later than five years	**5,605**	8,415
Later than five years	**5,958**	11,479
	12,902	21,847

The discontinued operation's assets are leased to tenants under long term operating leases. Lease terms vary between tenants however due to the impaired nature of these assets held for sale and the planned sale of these assets it is highly doubtful that the full amount owing under these leases will be received.

Between the end of the reporting period and the date of this report two New Zealand properties have been sold for $1.1m which was the recorded value at 30 June 2014.

21. Business combinations

Crown Hotel

On 23 October 2013 the Group purchased the property, plant, equipment & intangibles of the Crown Hotel.

Details of the acquisition are as follows:	Fair value $'000
Cash	**33**
Inventories	**44**
Land and buildings	**9,277**
Gaming licences	**3,450**
Goodwill	**1,050**
Plant and equipment	**1,723**
Other assets and liabilities	**(80)**
Stamp duty and costs of acquisition	**861**
Acquisition date fair value of the assets and liabilities acquired	**16,358**
Consideration:	
Cash paid to vendor	**15,497**
Cash paid for stamp duty and costs of acquisition	**861**
Total Consideration	**16,358**
Less: Cash acquired	**33**
Net cash outflow for acquistion	**16,325**

The acquired hotel business contributed revenue and profit/(loss) since acquisition as follows:	2014 $'000
Revenue	**3,023**
Expenses	**(2,471)**
Profit/(Loss)	**552**

22. Reserves	2014 $'000	2013 $'000
Revaluation reserve	**750**	750
Foreign currency reserve	**(105)**	(878)
	645	(128)

	Revaluation reserve $'000	Foreign currency reserve $'000	Total $'000
Consolidated			
Balance at 1 July 2012	-	(159)	(159)
Movement in Asset revaluation reserve	750	-	750
Movement in foreign currency translation reserve	-	(719)	(719)
Balance at 30 June 2013	**750**	**(878)**	**(128)**
Movement in Asset revaluation reserve	**-**	**-**	**-**
Movement in Foreign currency translation reserve	**-**	**773**	**773**
Balance at end of year	**750**	**(105)**	**645**

Revaluation surplus reserve
The reserve is used to recognise increments and decrements in the fair value of land and buildings, excluding investment properties

Foreign currency reserve
The foreign currency translation reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries.

23. Commitments	2014 $'000	2013 $'000
Commitments for finance lease payments, payable:		
Within 1 year	**76**	76
Later than 1 year but not later than 5 years	**73**	136
Later than 5 years	**-**	13
Minimum lease payments	**149**	225
Future finance charges	**(19)**	(33)
Liability recognised	**130**	192
Disclosed as :		
Current liability	**65**	64
Non-current liability	**65**	128
	130	192

There were no significant commitments for capital expenditure at the end of the reporting period (2013: $Nil)

24. Capital management

The Group aims to meet its strategic objectives to maximise security holder value by using the appropriate levels of debt and equity.

In determining the optimal capital structure, the Group takes into account a number of factors, including the availability of debt relative to equity, the time and cost of raising debt or equity, the maturity profile of debt, the volatility in future liquidity of debt and equity and exposure to interest rates relative to the earning profile of the Group.

The capital structure at a point in time is the product of a number of factors, many of which are market driven and to various degrees outside of the control of the Group. While the Group periodically determines the optimal capital structure, the ability to achieve the optimal structure may be impacted by market conditions and the actual position may often differ from the optimal position

The Group's medium term strategy is to maintain a ratio of total bank debt less cash to total assets less cash in the range of 35% to 50%. At 30 June 2014 the ratio was at 31.6% which is below the target level. This fluctuation is largely due to the repayment of the loan from the Panthers Group, proceeds of which were used to reduce bank debt.

24. Capital management (continued)	2014 $'000	2013 $'000
Total consolidated assets	**174,786**	211,142
Total consolidated liabilities	**76,981**	110,560
Leverage ratio	**44.0%**	52.4%
Total consolidated bank debt	**57,100**	90,392
Less cash & cash equivalents	**(2,747)**	(56,202)
Net consolidated debt	**54,353**	34,190
Total consolidated assets	**174,786**	211,142
Less cash and cash equivalents	**(2,747)**	(56,202)
Total consolidated assets	**172,039**	154,940
Gearing ratio	**31.6%**	22.1%

25. Financial risk management	2014 $'000	2013 $'000
Introduction		
The Group has the following financial instruments		
(i) Financial assets:		
Cash and cash equivalents	**2,747**	56,202
Trade and other receivables	**1,820**	2,322
(ii) Financial liabilities		
Payables	**11,285**	9,526
Interest bearing liabilities	**57,100**	90,392
Interest rate swaps	**8,293**	10,496

The main risks arising from the Group's financial instruments are market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Group manages its exposure to these risks primarily through its Treasury policy. The policy sets out various targets aimed at restricting the financial risk taken by the Group. Management reviews actual positions of the Group against these targets on a regular basis. If the target is not achieved, or forecast not to be achieved, a plan of action is, where appropriate, put in place with the aim of meeting the target within an agreed timeframe. Depending on the circumstances of the Group at a point in time, it may be that positions outside of the Treasury Policy are accepted and no plan of action is put in place to meet Treasury targets, because, for example, the risks associated with bringing the Group into compliance outweigh the benefits. The adequacy of the Treasury Policy in addressing the risks arising from the Group's financial instruments is reviewed on a regular basis.

25. Financial risk management (continued)

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates arises from its use of borrowings and derivatives. The main consequence of adverse changes in market interest rates is higher interest costs, reducing the Group's profit. In addition, the Group's borrowing agreements include minimum interest cover covenants. Higher interest costs resulting from adverse movements in market interest rates may result in these covenants being breached, providing the lender the right to call in the loan or to increase the interest rate applied to the loan.

The group manages the risk of changes of market interest rates by aiming to maintain a mix of fixed and floating rate borrowings. Fixed rate debt is achieved either through fixed rate debt funding or through derivative financial instruments permitted under the Treasury Policy. The policy sets minimum and maximum levels of fixed rate exposure over a ten-year time horizon.

At 30 June 2014, the Group holds interest rate swaps with a face value $80,000,000 (2013: $143,700,000) compared to total borrowings of $57,100,000 (2013: $90,200,000).

Exposure to changes in market interest rates also arises from financial assets such as cash deposits.

The consolidated entity's bank loans outstanding, totalling $57,100,000 (2013: $90,200,000) are interest only payment loans and the fixed interest rate swap agreements with a face value of $80,000,000 (2013:$143,700,000) are cash settled only. Cash outlays of approximately $1,521,000 (2013: $2,406,831) per quarter are required to service the interest payments. An official increase/decrease in interest rates of 50 basis points at 30 June 2014 (2013: 50 basis points) would have a favourable/adverse effect on profit after tax of $114,500 (2013: $267,500) per annum in respect of the Group's bank facilities. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Foreign exchange risk

By holding properties in offshore markets (New Zealand), the Group is exposed to the risk of movements in foreign exchange rates. Foreign exchange rate movements may increase or decrease the Australian dollar equivalent of the carrying value of the Group's offshore properties and may result in higher or lower Australian dollar equivalent proceeds when an offshore property is sold. In addition, foreign exchange rate movements may change the Australian dollar equivalent of the earnings from the offshore properties while they are owned by the Group.

New Zealand assets and liabilities	2014 $'000	2013 $'000
Assets of discontinued operations	**7,498**	9,367
Liabilities	**-**	-

Sensitivity analysis

The consolidated entity had net assets/(liabilities) denominated in foreign currencies of. Based on this exposure, had the Australian dollar weakened by 5%/strengthened by 5% at 30 June 2014 (2013: weakened by 5%/strengthened by 5%) against these foreign currencies with all other variables held constant, the consolidated entity's profit would have been $8,354 higher/$8,354 lower (2013: $29,026 lower/$29,026 higher) and equity would have been $413,439 higher/$413,439 lower (2013 ($469,029)/$469,029). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date.

25. Financial risk management (continued)

Market risk (continued)

Credit risk

Credit risk refers to the risk that a counterparty defaults on its contractual obligations resulting in a financial loss to the Group

Tenants

The major credit risk for the Group is defaults by tenants, resulting in a loss of rental income while a replacement tenant is secured and further loss if the rent level agreed with the replacement tenant is below that previously paid by the defaulting tenant.

The Group assesses the credit risk of prospective tenants, the credit risk of in-place tenants when acquiring properties and the credit risk of existing tenants renewing upon expiry of their leases. Factors taken into account when assessing credit risk include the aggregate exposure the Group may have to the prospective tenant if the counterparty is already a tenant in the Group's portfolio; the strength of the prospective tenant's business; and any form of security, for example a rental bond, to be provided.

The decision to accept the credit risk associated with leasing space to a particular tenant is balanced against the risk of the potential financial loss of not leasing vacant space.

Rent receivable balances are monitored on an ongoing basis and arrears are actively followed up in order to reduce, where possible, the extent of any losses should the tenant subsequently default.

At reporting date, the Group held $120,075 (30 June 2013: $38,787) of receivables that are past due but not impaired. There are reasonable grounds to believe that these amounts are recoverable. The Group holds bank guarantees and security deposits, in the amount of $511,432 (30 June 2013: $511,432) covering these receivables. Of these past due receivables $47,687 (2013: $15,610) was 30 days past due and $nil (2013: $23,176) was more than 90 days overdue. Of these overdue amounts $102,509 has been received subsequent to the end of the reporting period.

The Responsible Entity believes that the Group's receivables that are neither past due nor impaired do not give rise to any significant credit risk.

25. Financial risk management (continued)

Liquidity risk

The main objective of liquidity risk management is to reduce the risk that the Group does not have the resources available to meet its financial obligations and working capital and committed capital expenditure requirements. The Group's Treasury Policy sets a target for the level of cash and available undrawn debt facilities to cover future committed expenditure in the next year, loan maturities within the next year and an allowance for unforeseen events.

The Group may also be exposed to contingent liquidity risk under its term loan facilities, where term loan facilities include covenants which if breached give the lender the right to call in the loan, thereby accelerating a cash flow which otherwise was scheduled for the loan maturity. The Group monitors adherence to loan covenants on a regular basis, and the Treasury Policy sets targets based on the ability to withstand adverse market movements and remain within loan covenant limits.

The Group monitors its debt expiry profile and aims to achieve debt maturities below a target level of total committed debt facilities, where possible, to reduce refinance risk in any one year.

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Financial instruments 2014	Weighted average effective interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	**n/a**	**6,586**	**-**	**-**	**-**	**6,586**
Other payables	**n/a**	**3,399**	**600**	**250**	**-**	**4,249**
Uneraned income	**n/a**	**75**	**75**	**225**	**-**	**375**
Interest bearing - variable rate						
Bank loans	**5.26%**	**15,205**	**2,853**	**45,315**	**-**	**63,373**
Finance lease liability	**7.31%**	**76**	**73**	**-**	**-**	**149**
Total-non-derivatives		**25,341**	**3,601**	**45,790**	**-**	**74,732**
Derivatives						
Fixed interest rate swaps	**3.69%**	**2,948**	**2,956**	**2,598**	**-**	**8,502**
Total derivatives		**2,948**	**2,956**	**2,598**	**-**	**8,502**

Financial instruments 2013	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	n/a	6,524	-	-	-	6,524
Other payables	n/a	2,477	-	-	-	2,477
Interest bearing - variable rate						
Bank loans	4.88%	4,401	93,318	-	-	97,719
Finance lease liability	7.31%	76	76	60	13	225
Total-non-derivatives		13,478	93,394	60	13	106,945
Derivatives						
Fixed interest rate swaps	3.60%	4,013	2,856	3,628	-	10,497
Total derivatives		4,013	2,856	3,628	-	10,497

26. Fair value measurement

Fair value hierarchy

The Group uses the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2: Input other than quote prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Inputs for the asset or liability that are not based on observable market data.

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

The fair value of derivatives was calculated as the net present value of future payment obligations discounted at market rates. This valuation technique uses both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps.

The tables below present the Group's financial instruments that were measured and recognised at fair value at the end of the reporting period.

Consolidated - 2014	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Land and buildings	**-**	**-**	**102,364**	**102,364**
Investment properties	**-**	**-**	**20,700**	**20,700**
Discontinued operations	**-**	**-**	**7,498**	**7,498**
Gaming licences	**-**	**22,748**	**-**	**22,748**
Total assets	**-**	**22,748**	**130,562**	**153,310**
Liabilities				
Interest rate swaps	**-**	**8,293**	**-**	**8,293**
Consolidated - 2013				
Assets				
Land and buildings	-	-	89,869	89,869
Investment properties	-	-	19,100	19,100
Discontinued operations	-	-	9,367	9,367
Gaming licences	-	20,640	-	20,640
Total assets	-	20,640	118,336	138,976
Liabilities				
Interest rate swaps	-	10,496	-	10,496

There were no transfers between levels during the financial year.

The carrying value of trade and other receivables and trade and other payables are assumed to approximate their values due to their short term nature.

Land and buildings, including investment properties, have been valued based on similar assets, location and market conditions.

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

26. Fair value measurement (continued)

Level 3 assets

Movements in level 3 assets during the current and previous financial year are set out below:

Consolidated	Land and buildings	Investment properties	Discontinued operations	Total
Balance at 1 July 2012	89,869	24,500	8,704	123,073
Gains recognised in other comprehensive income	-	-	663	663
Transfers to level 2 assets	-	960	- -	960
Transfers to Land and buildings	-	4,440	- -	4,440
Balance at 30 June 2013	89,869	19,100	9,367	118,336
Gains/(losses) recognised in profit and loss	**1,003**	**1,600**	**(445)**	**2,158**
Gains recognised in other comprehensive income	**-**	**-**	**930**	**930**
Disposals	**-**	**-**	**(2,354)**	**(2,354)**
Additions	**12,362**	**-**	**-**	**12,362**
Depreciation	**(870)**	**-**	**-**	**(870)**
Balance at 30 June 2014	**102,364**	**20,700**	**7,498**	**130,562**

The level 3 assets unobservable inputs and sensitivity are as follows:

Description	*Unobservable inputs*	*Range (weighted average)*	*Sensitivity*
Land and buildings	Estimated maintainable earnings		A 5% change would increase/decrease fair value by $6,748,000
	Capitalisation rate	10.4% to 13.7% (11.1%)	A 0.5% change would increase/decrease fair value by $6,259,000
Investment properties	Current annual rental		A 5% change would increase/decrease fair value by $1,035,000
	Capitalisation rate	7.9% to 13.7% (9.0%)	A 0.50% change would increase/decrease fair value by $1,275,000
Discontinued operations	Earnings		A 5.0% change would increase/decrease fair value by $323,000
	Capitalisation rate	11.0% to 13.0% (12.21%)	A 0.5% change would increase/decrease fair value by $254,000

27. Related parties	2014 $'000	2013 $'000

(a) Responsible Entity fees

As Responsible Entity of Lantern Real Estate Trust, Lantern RE Limited, a 100% owned subsidiary of the Group, is entitled to the following fees:

- 0.6% of the total scheme assets of Lantern Real Estate Trust
- Acquisition fees calculated at 0.5% of the total price paid by Lantern Real Estate Trust for any new properties.

These fees are eliminated on consolidation. No responsible entity fees were paid to external parties during the year (2013: $nil).

(b) Sale of third party loan

During the year, a loan to a third party (Portfolio Management Holdings), was sold for $500,000, a discount of $240,150 to its face value with the shortfall predominantly related to accrued interest and fees. The loan was sold to Torchlight Fund L.P, a significant equity holder of the Group. Mr R Naylor and Mr B Mogridge, directors of the Group, are Directors of Pyne Gould Corporation Limited, a company related to Torchlight Fund L.P.

(e) Legal fees

The Group has incurred legal fees of $22,183 to Macrossian & Amiet, Solicitors, of which Mr R Naylor's brother is a director.

(f) Payment to facilitate buyback

The Borg Fund refered to in Note 33 is a related party, as it is a significant equity holder of the Group.

(f) Payment to Asahi Premium beverages

During the year, the Group has purchased from Asahi Premium Beverages, of which Mr J Davidson is a Director, inventories at a cost of $128,128 on regular commercial terms.

28. Auditor's remuneration	2014 $'000	2013 $'000
Amounts received or receivable by HLB Mann Judd for:		
Audit or review of financial reports of the Trust and any other entity in the consolidated group	**276**	349
Total	**276**	349

All audit fees in the 2014 & 2013 financial year are recorded in the accounts of Lantern Hotel Group Limited.

29. Key management personnel	2014 $'000	2013 $'000
(a) Compensation		
Short term benefits	**857**	686
Post employment benefits	**19**	10
	876	696

Remuneration Report

The remuneration report outlines the key management personnel remuneration arrangements for the group.

The remuneration report is set out under the following main headings :
(a) Principles used to determine the nature and amount of remuneration; and
(b) Details of remuneration; and
(c) Employment agreements; and
(d) Additional information.

References in the Remuneration Report to "director" are to directors of the Responsible Entity, Lantern RE Ltd.

Principles used to determine the nature and amount of remuneration

The performance of the Group depends upon its ability to attract and retain quality people. The Group is committed to developing a remuneration philosophy of paying sufficient competitive 'base' rewards to attract and retain high calibre management personnel and providing the opportunity to receive superior remuneration tied to the creation of value for securityholders.

The Group does not have a dedicated remuneration committee but rather the full board of the Responsible Entity is responsible for ensuring that the level of director and key management personnel remuneration is sufficient and reasonable. For further information the Board Charter is available on the Group's public website - www.lanternhotels.com.au

Non-executive Director's remuneration
Non-executive Director's remuneration is solely in the form of fees and has been set by security holders at a maximum aggregate amount of $1,000,000 per annum, to be allocated amongst the directors as they see fit. It has been set to balance the need to attract and retain directors of the highest calibre at a cost that is acceptable to security holders.

Executive remuneration
The group aims to reward executives with a level and mix of remuneration, based on their position and responsibility.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits of executives, reviewed annually by the Board, is based on individual and business unit performance, the overall performance of the Group and comparable market remuneration. No remuneration for the year was performance based.

The remuneration of the Executive Director is reviewed annually by the Non-Executive Directors.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example, motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

29. Key management personnel	2014 $'000	2013 $'000

Details of remuneration

The key management personnel of the Group consisted of the following persons:

Bryan Mogridge - Non-Executive Chairman
Deborah Cartwright - Non-Executive Director
Russell Naylor - Executive Director
Julian Davidson - Non-Executive Director
William Hardman - Chief Financial Officer (resigned)
Michael Thaler - Financial Controller

	Short-term benefits			Post employment benefits	2014 $	2013 $
	Salary/ fees $	Bonus $	Non-monetary $	Superannuation $		
Bryan Mogridge	125,000	-	-	-	**125,000**	125,000
Deborah Cartwright	75,000	-	-	-	**75,000**	75,000
Russell Naylor	365,040	-	-	-	**365,040**	295,040
Julian Davidson	75,000	-	-	-	**75,000**	75,600
William Hardman	102,323	-	-	8,464	**110,787**	125,004
Michael Thaler	116,224	-	-	10,566	**126,790**	-
Total Remuneration	858,587	-	-	19,030	**877,617**	695,644

Employment Agreements

No contract or agreement exists for key management personnel & executives.

The notice period for Michael Thaler is 2 weeks.

(b) Security holding

The number of securities held in the parent entity during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2014	Beginning balance	Acquisitions	Disposals	Ending balance
Bryan Mogridge	**11,086,119**	**-**	**-**	**11,086,119**
Deborah Cartwright	**1,228,240**	**-**	**-**	**1,228,240**
Julian Davidson	**-**	**-**	**-**	**-**
Russell Naylor	**10,750,085**	**-**	**-**	**10,750,085**
William Hardman	**1,747,250**	**-**	**(1,146,125)**	**601,125**
Michael Thaler	**-**	**-**	**-**	**-**
Total securities	**24,811,694**	**-**	**(1,146,125)**	**23,665,569**

2013				
Bryan Mogridge	3,023,435	8,062,684	-	11,086,119
Deborah Cartwright	628,240	600,000	-	1,228,240
Julian Davidson	-	-	-	-
Russell Naylor	10,750,085	-	-	10,750,085
William Hardman	750,000	997,250	-	1,747,250
Total securities	15,151,760	9,659,934	-	24,811,694

Mr Hardman ceased to be a KMP on 20th December 2013

30. Parent financial information	2014 $'000	2013 $'000
Summary financial information about the Parent is:		
Current assets	**11,079**	64,516
Non-current assets	**164,591**	148,251
Total assets	**175,670**	212,767
Current liabilities	**4,569**	7,589
Non-current liabilities	**66,318**	99,797
Total liabilities	**70,887**	107,386
Net assets	**104,783**	105,381
Unit holders equity:		
Issued units	**221,786**	223,145
Reserves	**525**	525
Accumulated losses	**(117,528)**	(118,289)
Total unit holders' equity	**104,783**	105,381
Net profit(loss) attributable to unitholders of the Parent	**761**	4,842
Total comprehensive income	**761**	5,367

The Trust has provided a letter of support to the Non-Controlling Interest ("NCI"), Lantern Hotel Group and its controlled entities, committing to provide financial support to the NCI to enable it to pay its debts as and when they become due and payable for the forseeable future including at least for, but not limited to, the period to 30 September 2015.

31. Subsidiaries

Names of subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the subsidiaries of the stapled entities in accordance with the accounting policy described in note 1:

Name	Country of incorporation or establishment	Ownership interest 2014 %	Ownership interest 2013 %
Lantern Real Estate Trust			
Lantern No.2 Subsidiary Trust	Australia	**100**	100
Lantern Subsidiary Trust	Australia	**100**	100
IEF Victoria Trust	Australia	**100**	100
IEF NZ Subsidiary Trust	Australia	**100**	100
IEF NZ Trust	New Zealand	**100**	100
Lantern Hotel Group Limited			
Lantern RE Limited	Australia	**100**	100
Lantern Management Services Pty Ltd	Australia	**100**	100
Lantern Operations Pty Ltd	Australia	**100**	100
Lantern Operations 2 Pty Ltd	Australia	**100**	100
Lantern HR Pty Ltd	Australia	**100**	100
Lantern Management No.2 Pty Ltd	Australia	**100**	100
IEF NZ Company Ltd	New Zealand	**100**	100
IEF NZ Pty Ltd	Australia	**100**	100
IEF Custodian Pty Ltd	Australia	**100**	100

The Group's voting interest in its subsidiaries is the same as its ownership interest.

32. Segment information

Description of segments

The Group invests in and operates hospitality and entertainment property located in Australia and New Zealand. The Group has identified its operating segments as being each of these regions, based on internal reporting to the Managing Director. The Fund is organised around functions, but distinguishes these regions in its internal reporting.

The New Zealand segment is classified as a discontinued operation.

33. Events subsequent to the reporting date

(a) On 25 July 2014 the Group sold the remainder of the discontinued operations asset Realm Hotel for NZ$825k (AUD $767k).

(b) On 29 July 2014 the Group sold the the discontinued operations asset Murphy's Hotel for NZ$300k (AUD $279k) at a 50% discount to its June 2013 carrying value.

(c) On 31 July 2014 an Extraordinary General Meeting was held to allow security holders to vote on a proposal to allow the group to buy back Lantern securities held by the Borg Fund. To facilitate the transaction, $1.4m was due to be paid to Millinium Asset Services Pty Limited as trustee for the Borg Fund. At its direction, $400,000 was paid to each of CVC Limited and Totem Holdings Pty Ltd and $600,000 was paid to Millinium Capital Managers Limited. All resolutions for the proposal were passed unanimously.

ASIC, however, has refused to grant the trust relief necessary for the transaction to proceed. The Group has begun proceedings in the Administrative Appeals Tribunal ("AAT") to challenge this decision. If successful in its appeal the Group will seek to implement the proposed transaction, however there will be additional hurdles in relation to that transaction, which would make its ultimate implementation uncertain. If unsuccessful in its appeal or the proposed transaction is not otherwise implemented, the Group intends to revert to pursuing an on-market buyback.

(d) On 11 August 2014 the Group exchanged contracts for the purchase of Waterworks Hotel, Botany for $8.25m. Settlement occurred on 15 September 2014.

(e) On 16 September 2014 a conditional contract was exchanged for the purchase of the Beaumont Exchange Hotel in Hamilton, Newcastle for $9.25m. This contract went unconditional on 26 September 2014.

There have been no other matters or circumstances arising after the end of the reporting period that have significantly affected, or may significantly affect, the Group's operations in future financial years, the results of those operations, or the Group's state of affairs in future financial years.

34. Reconciliation of profit after income tax to net cash from operating activities	2014 $'000	2013 $'000
Profit after income tax for the year	**(2,150)**	3,731
Adjustments for:		
Straight line lease revenue recognition	**-**	1,054
Profit on sale of equity accounted investment	**-**	(3,058)
Net (gain)/loss on change in fair value of:		
Investment properties	**(1,600)**	-
Interest rate swaps	**(2,505)**	(3,989)
Property, plant and equipment	**(1,003)**	-
Goodwill	**2,842**	-
Discontinued operations	**445**	-
Amortisation of borrowing costs	**904**	1,795
Unrealised foreign exchange gain	**-**	(523)
Amortisation of tenant incentives	**(75)**	(75)
Termination of interest rate swaps	**1,412**	-
Impairment loss on:		
Trade receivables	**-**	123
Tenant loans	**-**	320
Loans to third parties	**298**	-
Proceeds from equity investment	**-**	(496)
Loan fee income	**-**	(445)
Realised loss/(gain) on disposal of plant and equipment	**290**	879
Depreciation expense	**2,286**	1,626
Foreign exchange differences	**4**	11
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	**56**	(23)
Decrease/(Increase) in prepayments	**(203)**	(319)
Increase/(decrease) in inventories	**52**	(571)
Increase/(decrease) in employee benefits	**27**	67
Increase/(decrease) in trade and other payables	**1,094**	1,305
Net cash from operating activities	**2,174**	1,412

DIRECTOR'S DECLARATION

Directors' declaration

In the opinion of the directors of Lantern RE Ltd, the Responsible Entity of Lantern Real Estate Trust:

(a) the consolidated financial statements and notes, set out on pages 26 to 65, are in accordance with the *Corporations Act 2001* , including:

(i) giving a true and fair view of the financial position of the Group as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards, the *Corporations Regulations 2001,* and other mandatory professional reporting requirements, and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Financial Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by Section 295A of the *Corporations Act 2001* .

Signed in accordance with a resolution of the directors of the Responsible Entity

Bryan Mogridge
Chairman
Dated in Auckland this 30th of September 2014

Deborah Cartwright
Director
Dated in Sydney this 30th of September 2014

LANTERN REAL ESTATE TRUST

INDEPENDENT AUDITOR'S REPORT

To the unitholders of Lantern Real Estate Trust:

Report on the Financial Report

We have audited the accompanying financial report of Lantern Real Estate Trust ("the Trust"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration, for the consolidated entity. The consolidated entity comprises the Trust and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of Lantern RE Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's and its controlled entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

HLB Mann Judd (NSW Partnership) ABN 34 482 821 289

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Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au

LANTERN REAL ESTATE TRUST

INDEPENDENT AUDITOR'S REPORT

(continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

(a) the financial report of Lantern Real Estate Trust is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

D K Swindells
Partner

Sydney, NSW
30 September 2014

SECURITYHOLDER INFORMATION

The securityholder information is set out below was applicable as at 29 August 2014

Distribution of equitable securities
Analysis of equitable security holders by size of holding

	Number of
100,001 and over	223
10,001 to 100,000	806
5,001 to 10,000	253
1,001 to 5,000	231
1 to 1,000	98
	1,611
Holding less than a marketable parcel	407

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary securities	
	Number of securities held	% of total securities issued
HSBC Custody Nominees (Australia) Limited	276,662,258	31.32%
Aurora Funds Management Ltd <Borg Fund>	214,724,222	24.31%
J P Morgan Nominees Australia Limited	84,709,941	9.59%
Citicorp Nominees Pty Limited	50,732,597	5.74%
Citicorp Nominees Pty Limited <Colonial First State Inv a/c>	45,025,520	5.10%
National Nominees Limited	29,648,333	3.36%
RBC Investor Services Australia Nominees Pty Limited <Piselect>	17,268,192	1.96%
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian a/c>	11,482,790	1.30%
Rolyan Pty Ltd <Jasarash Investment a/c>	9,894,885	1.12%
Jagen Pty Ltd	9,219,649	1.04%
Mr Bryan William Mogridge	5,390,000	0.61%
CVC Limited	5,092,675	0.58%
Bryan William Mogridge & Philip Sampson Wells <Mogridge Family a/c>	4,093,119	0.46%
Monex Boom Securities (HK) Ltd <Clients account>	3,400,000	0.38%
Australian Exports & Industrialisation Super Pty Ltd <Buck Family Super Fund a/c>	3,135,000	0.35%
Mr Mark Herdman & Mrs Heather Fletcher Herdman <The Constantia a/c>	2,164,050	0.25%
Invia Custodian Pty Limited <Sandport P/L Super Fund a/c>	2,000,000	0.23%
Custodial Services Limited <Beneficiaries Holding a/c>	1,901,500	0.22%
Gegm Investments Pty Ltd	1,900,000	0.22%
Lim Sen Yap	1,781,111	0.20%
	780,225,842	88.34%

SECURITYHOLDER INFORMATION

Substantial holders

According to the most recent substantial security holder notices released to the ASX, the substantial holders are as follows:

		Ordinary securities	
	Date of change	Number of securities held	% of total securities issued
Torchlight GP Limited <a/c Torchlight Fund L.P.>	19/12/2013	266,626,935	30.18%
Millinium Asset Services Pty Ltd as trustee for the Borg Fund	24/12/2013	217,724,222	24.31%
Allan Gray Australia Pty Ltd	3/07/2013	160,593,723	18.18%
Renaissance Property Securities Pty Ltd	16/06/2014	75,564,522	8.56%

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Lantern Hotel Group

and its controlled entities

Annual Report

For the year ended 30 June 2014

CONTENTS

Lantern Hotel Group Limited ('Lantern') is a public company, whose shares are listed on the Australian Securities Exchange, stapled to units issued by Lantern Real Estate Trust. A separate annual report has been prepared for the stapled group.

The registered office and principal place of business of the company is Level 10, 9 Castlereagh St, Sydney NSW 2001

CORPORATE INFORMATION

Directors	Bryan Mogridge Deborah Cartwright Julian Davidson Russell Naylor
Company Secretary	Leanne Ralph
Notice of annual general meeting	The annual general meeting of Lantern Hotel Group Limited will be held at 22nd Floor MLC Building 19-22 Martin Place Sydney NSW 2000 Time 10:30 AM Date 14th November 2014
Registered Office	Level 10, 9 Castlereagh Street Sydney NSW 2001 Phone : (02) 9225 6072
Principal Administration Office	Level 10, 9 Castlereagh Street Sydney NSW 2001 Phone : (02) 9225 6072
Share Register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Phone : (02) 8280 7552
Auditor	HLB Mann Judd Level 19 207 Kent Street Sydney NSW 2000
Stock exchange listing	Lantern Hotel Group Limited stapled securities are listed on the Australian Securities Exchange (ASX code : LTN)
Website	www.lanternhotels.com.au

The directors of Lantern present their report, together with the financial statements of the Group, for the year ended 30 June 2014.

The 'Group' consists of Lantern Hotel Group Limited and its controlled entities.

Directors

The following persons were Directors of Lantern during the whole of the year ended 30 June 2014 and up to the date of this report:

Directors	**Qualifications**	**Experience and special responsibilities**
Bryan Mogridge Non-Executive Chairman Appointed 31 October 2011	BSC, ONZM, FNZID	29 years experience as a Managing Director/CEO including General Manager of Corban Wines, Managing Director of Montana Wines, and Managing Director and CEO of Corporate Investment Ltd. Bryan is Chairman of Rakon Limited, BUPA Cares Services Ltd and Pyne Gould Corporation Limited. He is also a director of Mainfreight Ltd and BUPA Australia. He is a fellow of the Institute of Directors of New Zealand.
Deborah Cartwright Non-Executive Director Appointed 31 October 2011	B. Com, FCA, CTA, GAICD	Deborah Cartwright has over 30 years' experience as a Chartered Accountant with Pitcher Partners Sydney, where she is currently the head of Corporate Advisory and Transaction Services. She is a Fellow of the Institute of Chartered Accountants in Australia, a Graduate of the Institute of Company Director, a Chartered Tax Advisor with the Tax Institute of Australia, a registered company auditor, a registered tax agent and has extensive experience working with the hospitality industry.
Julian Davidson Non-Executive Director Appointed 31 October 2011	PMD Harvard Member, New Zealand Institute of Chartered Accountants (NZICA)	Julian Davidson is a highly experienced Australasian senior executive with extensive business leadership experience within the liquor industry. Julian is currently the CEO of Independent Liquor (New Zealand, USA and Canada) and has over 20 years senior experience within the liquor industry including Managing Director of Lion Breweries Limited from 2002 to 2005. Julian is a director of a number of companies within the Asahi group.
Russell Naylor Executive Director Appointed 31 October 2011		Russell Naylor 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, and is a Director of NZX listed Pyne Gould Corporation Limited.

Company Secretary

Leanne Ralph was appointed to the position of Company Secretary on 6 September 2012. Mrs Ralph has over 22 years experience in chief financial officer and company secretarial roles for various listed and unlisted entities. Mrs Ralph is a member of Chartered Secretaries Australia and the Australian Institute of Company Directors. Mrs Ralph is the principal of Boardworx Australia Pty Ltd, which supplies bespoke outsourced Company Secretarial services to a number of listed and unlisted companies.

Principal activity

During the financial year the principal activity of the Group was operating hotel properties.

Directors' security holdings

Securities in Lantern in which directors had a relevant interest at the date of this report were:

	Shares in the Group
Bryan Mogridge	11,086,119
Deborah Cartwright	1,228,240
Julian Davidson	-
Russell Naylor	10,750,085

Directors' meetings

The number of Directors' meetings held (including meetings of committees of Directors) and the number of meetings attended by each of the Directors during the year:

	Board		Audit and Risk Committee	
Director	A	B	A	B
Bryan Mogridge	11	11	7	7
Deborah Cartwright	11	11	7	7
Julian Davidson	11	11	7	7
Russell Naylor	11	11	-	-

A: Meetings eligible to attend **B**: Meetings attended

Operating & financial review

Net loss from continuing operations for the year to 30 June 2014 was $3.5 million, compared to a loss of $1.8m in the previous year. The decrease in profit was largely due to:

- Write-down of goodwill of $2.8m (2013: $Nil). Refer note 4
- Increase in gross profit (net of hotel expenses) of $1.1m.

Revenue on a same hotel basis (excluding Bowral and Crown) grew 5.2% compared to the previous corresponding period despite the operating performance of a number of hotels being impacted by the disruption to trade whilst capital works were being carried out.

Remuneration Report (audited)

The remuneration report is set out under the following main headings :
(a) Principles used to determine the nature and amount of remuneration; and
(b) Details of remuneration; and
(c) Employment agreements; and
(d) Additional information.

(a) Principles used to determine the nature and amount of remuneration

The performance of the Group depends upon its ability to attract and retain quality people. The Group is committed to developing a remuneration philosophy of paying sufficient competitive 'base' rewards to attract and retain high calibre management personnel and providing the opportunity to receive superior remuneration tied to the creation of value for security holders.

The Group does not have a dedicated remuneration committee but rather the full board is responsible for ensuring that the level of director and key management personnel remuneration is sufficient and reasonable. For further information the Board Charter is available on the Group's public website - www.lanternhotels.com.au

Non-executive Director's remuneration
Non-executive Director's remuneration is solely in the form of fees and has been set by security holders at a maximum aggregate amount of $1,000,000 per annum, to be allocated amongst the directors as they see fit. It has been set to balance the need to attract and retain directors of the highest calibre at a cost that is acceptable to security holders.

Executive remuneration
The group aims to reward executives with a level and mix of remuneration, based on their position and responsibility, which is both fixed and variable.

The executive remuneration and reward framework has three components:
1. Base pay and non-monetary benefits;
2. Short-term performance incentives; and
3. Other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the Board, based on individual and business unit performance, the overall performance of the Group and comparable market remuneration.

The remuneration of the Executive Director is reviewed annually by the Non-Executive Directors.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example, motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

The short term incentives ('STI') program is designed to align the targets of the business units with the targets of those executives in charge of meeting those targets. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, financial reporting, compliance, leadership and people management and contribution to process, quality assurance and senior management team initiatives.

The long-term incentives ('LTI') include long service leave.

(b) Details of remuneration

Amounts of remuneration
Details of the remuneration of the key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the following persons:

Bryan Mogridge - Non-Executive Chairman
Deborah Cartwright - Non-Executive Director
Russell Naylor - Executive Director
Julian Davidson - Non-Executive Director
William Hardman - Chief Financial Officer

Remuneration Report (audited) (continued)

	Short-term benefits			Post-employment benefits	2014 $	2013 $
	Salary/fees $	Bonus $	Non-monetary $	Superannuation $		
Bryan Mogridge	125,000	-	-	-	**125,000**	125,000
Deborah Cartwright	75,000	-	-	-	**75,000**	75,000
Russell Naylor	365,040	-	-	-	**365,040**	295,040
Julian Davidson	75,000	-	-	-	**75,000**	75,600
William Hardman	102,323	-	-	8,464	**110,787**	125,004
Michael Thaler	116,224	-	-	10,566	**126,790**	-
Total Remuneration	858,587	-	-	19,030	**877,617**	695,644

(c) Employment Agreements

No contract or agreement exists for key management personnel & executives.

Michael Thaler has a 2 week notice period.

(d) Additional information

The earnings of Lantern have been shown for the 2 years to 30 June 2014. Details are summarised below :

	2014 $000	2013 $000
Sales revenue	**49,105**	42,694
EBITDA	**1,391**	(332)
EBIT	**(3,467)**	(1,813)
Profit/(loss) after income tax	**(3,489)**	(1,819)
	Cents	**Cents**
Share price at financial year end	**7**	8
Basic earnings per share	**(0.40)**	(0.19)

This concludes the remuneration report, which has been audited.

Significant events after balance date

1. On 11 August the Group exchanged contracts for the purchase of Waterworks Hotel, Botany for $8.25m.

2. On 16 September a conditional contract was exchanged for the purchase of the Beaumont Exchange Hotel in Hamilton, Newcastle for $9.25m. This contract went unconditional on 26 September 2014.

3. On 31 July 2014 an Extraordinary General Meeting was held to allow security holders to vote on a proposal to allow the group to buy back Lantern securities held by the Borg Fund. To facilitate the transaction, $1.4m was due to be paid to Millinium Asset Services Pty Limited as trustee for the Borg Fund, of which $41,000 was payable by Lantern Hotel Group and its controlled entities. At its direction, $400,000 was paid to each of CVC Limited and Totem Holdings Pty Ltd and $600,000 was paid to Millinium Capital Managers Limited. All resolutions for the proposal were passed unanimously.

   ASIC, however, has refused to grant the trust relief necessary for the transaction to proceed. The Group has begun proceedings in the Administrative Appeals Tribunal ("AAT") to challenge this decision. If successful in its appeal the Group will seek to implement the proposed transaction, however there will be additional hurdles in relation to that transaction, which would make its ultimate implementation uncertain. If unsuccessful in its appeal or the proposed transaction is not otherwise implemented, the Group intends to revert to pursuing an on-market buyback.

Insurance and indemnification of officers

During the financial year, Lantern paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability covered and amount of the premium.

Significant changes in the state of affairs

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 $2.9m. See Note 16 for additional information

2. A program of replacement of existing gaming machines across all our venues commenced in November 2013. Gaming machines replacement will be ongoing to ensure gaming machines are kept current.

Likely developments and expected results of operations

Refer to the Managing Director's letter to security holders for further information on likely developments and the expected results of the Group.

Non-audit services

The Group has not engaged the services of the auditors, HLB Mann Judd, on any assignments other than audit and review services.

Rounding of amounts

The Group is an entity of a kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the “rounding off” of amounts in the directors’ report and financial statements. Amounts in the directors’ report and financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 79.

This report is made in accordance with a resolution of directors, pursuant to section 289(2)(a) of the Corporations Act 2001.

Bryan Mogridge	Deborah Cartwright
Non-Executive Chairman	Non-Executive Director
Dated in Auckland this 30th of September 2014	Dated in Sydney this 30th of September 2014

LANTERN HOTEL GROUP LIMITED

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Lantern Hotel Group Limited for the year ended 30 June 2014 I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

This declaration is in relation to the Lantern Hotel Group Limited and the entities it controlled during the year.

HLB Mann Judd

Sydney, NSW
30 September 2014

D K Swindells
Partner

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	June 2014 $'000	June 2013 $'000
Revenue from operations	3	**49,105**	42,694
Cost of sales		**(19,562)**	(17,413)
Gross profit from operations		**29,543**	25,281
Other revenue	3	**1,340**	1,764
Hotel expenses		**(27,887)**	(24,720)
Administration expenses		**(3,621)**	(3,490)
Changes in fair value of property, plant, equipment and intangibles		**(2,842)**	(648)
Finance costs	3	**(22)**	(6)
Net profit/(loss) from operations for the year before income tax expense		**(3,489)**	(1,819)
Income tax expense	4	**-**	-
Profit / (loss) from operations after income tax expense		**(3,489)**	(1,819)
Profit/(loss) for the period		**(3,489)**	(1,819)
Other comprehensive income		**-**	-
Total comprehensive profit/(loss) for the year		**(3,489)**	(1,819)

		Cents	Cents
Profit/(loss) per security - basic and diluted	5	**(0.40)**	(0.19)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	June 2014 $'000	June 2013 $'000
Current assets			
Cash and cash equivalents	6	**2,384**	2,048
Trade and other receivables	7	**533**	1,263
Inventories	8	**1,155**	1,103
Other	9	**636**	600
Total Current Assets		**4,708**	5,014
Non-current assets			
Property, plant and equipment	10	**9,684**	5,652
Intangibles	11	**4,208**	6,000
Deferred tax asset		**108**	108
Total Non-current Assets		**14,000**	11,760
Total assets		**18,708**	16,774
Current liabilities			
Payables	12	**8,629**	4,898
Borrowings	14	**65**	64
Provisions	13	**54**	70
Total Current Liabilities		**8,748**	5,032
Non-current liabilities			
Payables	12	**850**	-
Borrowings	14	**13,279**	12,424
Provisions	13	**119**	76
Total Non-current Liabilities		**14,248**	12,500
Total liabilities		**22,996**	17,532
Net assets		**(4,288)**	(758)
Equity			
Issued shares	15	**2,745**	2,786
Retained earnings/(accumulated losses)		**(7,033)**	(3,544)
Total equity		**(4,288)**	(758)

The above consolidated statement of financial position should be read in conjunction with the accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	June 2014 $'000	June 2013 $'000
Cash flows from operating activities			
Cash receipts from customers (Inclusive of GST)		**55,193**	48,722
Cash paid to suppliers and employees (Inclusive of GST)		**(52,742)**	(46,377)
Proceeds from insurance claim		**62**	-
Interest received		**79**	39
Interest paid		**(11)**	(6)
Net cash provided by (used in) operating activities	26	**2,581**	2,378
Cash flows from investing activities			
Purchase of plant, equipment & goodwill		**(708)**	(1,490)
Payment for acquisition of business, net of cash acquired	16	**(2,887)**	(51)
Proceeds from loans to third parties		**700**	-
Net cash provided by (used in) investing activities		**(2,895)**	(1,541)
Cash flows from financing activities			
Repayment of finance lease		**(71)**	(32)
Proceeds from borrowings		**721**	-
Repayment of borrowings		**-**	(1,407)
Share buyback		**-**	(349)
Net cash provided by (used in) financing activities		**650**	(1,788)
Net increase in cash or cash equivalents		**336**	(951)
Cash or cash equivalents at beginning of the period		**2,048**	2,999
Cash and cash equivalents at the end of the period	6	**2,384**	2,048

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Issued Capital $'000	Accumulated losses $'000	Total $'000
Carrying amounts at 1 July 2013		**2,786**	**(3,544)**	**(758)**
Net profit/(loss) for the year		**-**	**(3,489)**	**(3,489)**
Other comprehensive income		**-**	**-**	**-**
Total comprehensive profit/(loss) for the year		**-**	**(3,489)**	**(3,489)**
Transactions with shareholders in their capacity as shareholders:				
Payment to facilitiate future buyback of shares	15 (a)	**(41)**	**-**	**(41)**
Carrying amounts at 30 June 2014		**2,745**	**(7,033)**	**(4,288)**

	Note	Issued Capital $'000	Accumulated losses $'000	Total $'000
Carrying amounts at 1 July 2012		3,135	(1,725)	1,410
Net profit/(loss) for the year		-	(1,819)	(1,819)
Other comprehensive income		-	-	-
Total comprehensive profit/(loss) for the year		-	(1,819)	(1,819)
Transactions with shareholders in their capacity as shareholders:				
Buyback	15 (a)	(349)	-	(349)
		(349)	-	(349)
Carrying amounts at 30 June 2013		2,786	(3,544)	(758)

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the consolidated financial statements

1. Significant Accounting Policies

Reporting Entity

These financial statements include the consolidated financial statements for Lantern Hotel Group Limited and its subsidiaries (the 'consolidated entity' or the 'Group'). The financial statements are presented in the Australian currency.

Basis of preparation of the financial report

These consolidated general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* .

This financial report covers Lantern Hotel Group Limited and its controlled entities as a consolidated entity. Lantern Hotel Group Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were authorised for issue by the Board of Directors of Lantern Hotel Group Limited on 25 September 2013. The directors have the power to amend and reissue the financial statements.

Compliance with IFRS

The consolidated financial statements of Lantern Hotel Group Limited also comply with the International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

Comparative Information

Comparative information may have been reclassified to enhance disclosures and match current year classifications

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets & liabilities as described in the accounting policies.

Critical accounting estimates

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

Going concern

During the financial year the Group incurred an overall loss from operations and as at 30 June 2014 had a deficiency in net assets of $4.3m. The operating performance of the 11 hotels that the group operates was impacted by costs associated with refreshing the hotels, and with the disruption to trade whilst capital works were being carried out.

Detailed budgets and cash flow forecasts prepared for 2015 & 2016 for the Group show that the Group should generate a profit and a cash surplus from operations for both years. The directors are confident that the Group can continue as a going concern and the accounts have been prepared on this basis.

Lantern Real Estate Trust has committed to provide financial support to Lantern to enable Lantern to pay its debts as and when they fall due and payable for the forseeable future and at least for, but not limited to, the period to 30 September 2015.

1. Significant Accounting Policies (continued)

Adoption of new and revised accounting standards

In the current year the Group has adopted all the new and revised accounting standards and interpretations that are relevant to its operations and effective for the current annual reporting period. There was no material effect as a result of the financial statements of this adoption.

Principles of consolidation

Subsidiaries

The consolidated financial statements are those of the consolidated entity, comprising the assets and liabilities and results of the parent entity and of all subsidiaries, which are entities where the parent is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

All inter-company balances and transactions, including any unrealised profits and losses, have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

The acquisition method of accounting is used to account for acquisition of subsidiaries by the parent.

Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.
A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the term.

Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

1. Significant accounting policies (continued)

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired.

The consideration transferred for the acquisition of a controlled entity comprises the fair values of the assets transferred, the liabilities incurred and any equity interest issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the controlled entity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the consolidated entity recognises any non-controlling interest either at fair value or at the non-controlling interest's proportionate share of the net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlled interest and the acquisition-date fair value of any previous equity interest over the fair value of the consolidated entity’s share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the controlled entity acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a discount on business combination. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

1. Significant accounting policies (continued)

Financial assets and liabilities

Current and non-current financial assets and liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as at fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale. The Group determines the classification of its financial assets and liabilities at initial recognition with the classification depending on the purpose for which the asset or liability was acquired or issued. Financial assets and liabilities are initially recognised at fair value, plus directly attributable transaction costs unless their classification is at fair value through profit or loss. They are subsequently measured at fair value or amortised cost using the effective interest method. Changes in fair value of available-for-sale financial assets are recorded directly in equity. Changes in fair values of financial assets and liabilities classified as at fair value through profit or loss are recorded in profit or loss.

The fair values of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For those with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Property Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

The depreciable amounts of all other fixed assets are depreciated using the straight-line method over their estimated useful life commencing from the time the asset is held ready for use. Estimates of remaining useful lives are made on a regular basis for all assets.

The useful lives of each class of assets are:

	2014	2013
Plant and equipment	4 to 15 years	4 to 15 years
Motor vehicles	8 years	8 years
Furniture and fittings	11 years	11 years

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade and other receivables are recognised at fair value. An allowance for impairment is made when there is objective evidence that collection of the full amount is no longer probable. Trade receivables are generally due for settlement within 30 days

Intangibles

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill 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. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Inventories

Finished goods, consisting primarily of food and beverage items for re-sale, are stated at the lower of cost and net realisable value. Cost comprises purchase price and delivery costs associated. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to make the sale.

Payables

Trade and other payables are carried at amortised cost and due to their short-term nature are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and are recognised when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

1. Significant accounting policies (continued)

Borrowings

Borrowings are recorded at fair value. Transaction costs directly attributable to borrowings are classified as an asset and amortised over the term of the loan.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Finance costs are expensed as incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. When this is the case, they are capitalised as part of the acquisition cost of that asset.

Employee benefits

Wages and salaries, annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in Other Payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured at current values. The liability is recognised as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns and amounts collected on behalf of third parties.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity, the revenue can be reliably measured and specific criteria have been met for each of the Group's activities as described below. The Group bases its probability on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue brought to account but not received at balance date is recognised as a receivable.

Revenue is recognised for the major business activities as follows:

Sale of goods - retail

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Gaming revenue

Gaming revenue is recognised as the net funds received (cash invested less wins to players) before payment of government taxes.

Interest income

Interest income is recognised as the interest accrues using the effective interest method.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

1. Significant accounting policies (continued)

Current income tax

Lantern Hotel Group Limited and it's wholly owned subsidiaries have formed a group for tax consolidation purposes and account for their current and deferred tax amounts on a consolidated level.

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and adjustments recognised for prior periods, where applicable.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Rounding of amounts

The Group is an entity of a kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the “rounding off” of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Lantern Hotel Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Goods and services tax (“GST”)

Revenue, expenses and assets (with the exception of receivables) are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable, it is recognised as part of the cost of the acquisition, or as an expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from or payable to the tax authority is included in the statement of financial position as an asset or liability.

The GST components of cash flows arising from investing and financing activities are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

1. Significant accounting policies (continued)

Pending Accounting Standards

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the current reporting period. These are not expected to have any material impact on the Group's financial statements in future reporting periods.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Maker ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Parent financial information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 22.

2. Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Provision for impairment of inventories

The provision for impairment of inventories requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill assets have suffered any impairment, in accordance with the accounting policy stated in Note 1. The recoverable amounts of cash-generating units have been determined based on a value-in-use calculation. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill

The consolidated entity assesses impairment of non-financial assets other than goodwill at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The consolidated entity is subject to income tax in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it probable that future taxable amounts will be available to utilise those temporary differences and losses

Long service leave provision

As discussed in Note 1, the liability for long service leave is recognised and measured at t he present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Critical judgements in applying the entity's accounting policies

There were no judgements, apart from those involving estimations, that management has made in the process of applying the consolidated entity's accounting policies that had a significant effect on the amounts recognised in the financial statements.

3. Profit/(loss) from operations	Note	2014 $000	2013 $000
(a) Revenue from operations			
Sale of goods		**49,105**	42,694
		49,105	42,694
(b) Other revenue			
Responsible entity fees	19	**1,044**	1,386
Other		**296**	378
		1,340	1,764
(b) Expenses			
Depreciation			
Plant and equipment		**858**	515
Gaming machines		**547**	355
Motor vehicles - under finance lease		**10**	5
		1,415	875
Amortisation			
Capitalised expenditure		**-**	613
Goodwill impaired		**2,842**	-
		2,842	613
Total depreciation and amortisation		**4,257**	1,488
Employee benefits expense		**14,321**	11,472
Net loss on disposal of property, plant and equipment		**290**	268
Finance expense			
Interest paid or payable		**22**	6

No finance costs were capitalised to qualifying assets during the year (2013: $Nil).

4. Income tax	2014 $000	2013 $000
(a) Income tax expense		
Reconciliation of profit/(loss) from operations before income tax to income tax expense:		
Profit/(loss) from operations before income tax	**(3,489)**	(1,819)
Prima facie income tax expense on profit @ 30%	**(1,047)**	(546)
Add/(deduct):		
Non-deductible expenses	**1,122**	295
Other deductible amounts	**(174)**	(29)
Deferred tax assets in relation to losses not recognised	**99**	280
Income tax expense	**-**	-
(b) Unused tax losses		
Unused tax losses for which no deferred tax asset has been recognised	**2,617**	2,286
Potential tax benefit @ 30%	**785**	686

These unused tax losses are available to offset future taxable income of the Group.

Lantern Hotel Group Limited and its wholly owned resident entities have formed a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Lantern Hotel Group Limited.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Earnings per share	2014 $000	2013 $000
Profit after income tax	**(3,489)**	(1,819)
	'000	'000
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**883,202**	967,716
	Cents	Cents
Basic and diluted earnings per share	**(0.40)**	(0.19)

6. Cash and cash equivalents	2014 $000	2013 $000
Cash at bank and on hand	**2,384**	2,048

7. Trade and other receivables	2014 $'000	2013 $'000
Current		
Receivables	**533**	379
Loan to unrelated party	**-**	884
Total Trade and other receivables	**533**	1,263

The loan to the unrelated party was unsecured, with no fixed term of repayment and bore an interest rate of 10% per annum.

8. Inventories	2014 $'000	2013 $'000
Finished goods at cost	**1,155**	1,103

9. Other assets	2014 $'000	2013 $'000
Current		
Prepayments	**636**	600

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Property, plant, equipment	2014 $'000	2013 $'000
Plant & equipment, at fair value at acquisition or at cost	**7,074**	4,457
Less: accumulated depreciation	**(1,967)**	(1,109)
	5,107	3,348
Gaming Assets, at fair value at acquisition or at cost	**5,317**	2,578
Less: accumulated depreciation	**(801)**	(345)
	4,516	2,233
Motor vehicles - at cost	**76**	76
less: accumulated depreciation	**(15)**	(5)
	61	71
Carrying amount	**9,684**	5,652

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant and equipment $'000	Gaming Assets $'000	Motor vehicles $'000	Total $'000
Balance at 1 July 2012	2,492	2,415	-	4,907
Acquisitions	1,371	439	76	1,886
Disposals	-	(266)	-	(266)
Depreciation expense	(515)	(355)	(5)	(875)
Balance at 1st July 2013	**3,348**	**2,233**	**71**	**5,652**
Acquisitions	**2,631**	**3,162**	**-**	**5,793**
Disposals	**(14)**	**(332)**	**-**	**(346)**
Depreciation expense	**(858)**	**(547)**	**(10)**	**(1,415)**
Balance at 30 June 2014	**5,107**	**4,516**	**61**	**9,684**

11. Intangibles	2014 $'000	2013 $'000
Goodwill - at cost	**4,208**	6,000

Reconciliations

Reconciliations of the value at the beginning and end of the current and previous financial year are set out below.

	2014 $'000
Balance at 1 July 2012	-
Acquisitions	6,000
Balance at 1st July 2013	**6,000**
Acquisitions	**1,050**
Losses recognised in profit and loss	**(2,842)**
Balance at 30 June 2014	**4,208**

Goodwill relates to the acquisition during the year ended 30 June 2012 of hotel operating businesses.

12. Payables	2014 $'000	2013 $'000
Current liabilities		
Trade payables	**6,166**	4,609
Other payables	**2,463**	289
	8,629	4,898
Non-Current liabilities		
Other payables	**850**	-
	850	-

13. Provisions	2014 $'000	2013 $'000
Current liabilities		
Employee liabilities	**54**	70
Non-current liabilities		
Employee liabilities	**119**	76

14. Borrowings	2014 $'000	2013 $'000
Current liabilities		
Finance lease (Note 27)	**65**	64
Non-current liabilities		
Finance lease (Note 27)	**65**	128
Loan from Lantern Real Estate Trust	**13,214**	12,296
	13,279	12,424

The loan from Lantern Real Estate Trust is unsecured, interest free and repayable thirteen months from the date the lender provides notice to repay. At the date of this report no such notice has been received.

15. Issued securities	Note	2014 $'000	2013 $'000
(a) Carrying amounts			
At beginning of year		**2,786**	3,135
Share buybacks		**-**	(349)
Payment to facilitate future buyback of shares	25	**(41)**	-
At end of year		**2,745**	2,786

(b) Number of securities issued	2014 '000	2013 '000
At beginning of year	**883,202**	971,952
Issued during the year		
Placements and rights issues	**-**	-
Share buybacks	**-**	(88,750)
At end of year	**883,202**	883,202

16. Business combinations

Crown Hotel

On 23 October 2013 the Group purchased the property, plant, equipment & intangibles of the Crown Hotel.

Details of the acquisition are as follows:	Fair value $'000
Cash	33
Inventories	44
Plant and equipment	1,723
Goodwill	1,050
Stamp duty	150
Other assets and liabilities	(80)
Acquisition date fair value of the assets and liabilities acquired	2,920
Consideration:	
Payment to vendor	3
Payment to Lantern Real Estate Trust	2,917
Total consideration	2,920
Less: Cash acquired	33
Net cash outflow for acquisition	2,887

The acquired hotel business contributed revenue and profit/(loss) as follows:	2014 $'000
Revenue	3,023
Expenses (including depreciation)	(2,470)
Rent	(544)
Profit/(Loss)	9

17. Capital management

The group aims to meet its strategic objectives to maximise security holder value by using the appropriate levels of debt and equity, while taking account of the additional financial risks of higher debt levels.

In determining the optimal capital structure, the Group takes into account a number of factors, including the availability of debt relative to equity, the cost of raising debt or equity, the maturity profile of debt, the volatility in future liquidity of debt and equity and exposure to interest rates relative to the earning profile of the Group.

The capital structure at a point in time is the product of a number of factors, many of which are market driven and to various degrees outside of the control of the Group, particularly the impact of revaluations on gearing levels, the availability of new equity and the liquidity in real estate markets. While the Group periodically determines the optimal capital structure, the ability to achieve the optimal structure may be impacted by market conditions and the actual position may often differ from the optimal position.

	2014 $'000	2013 $'000
Total consolidated liabilities	22,996	17,532
Total consolidated assets	18,708	16,774
Leverage ratio	122.9%	104.5%

18. Financial risk management	2014 $'000	2013 $'000
Introduction		
The Group has the following financial instruments		
(i) Financial assets:		
Cash and cash equivalents	**2,384**	2,048
Receivables	**533**	379
Loan to unrelated party	**-**	884
	2,917	3,311
(ii) Financial liabilities		
Payables	**9,479**	4,898
Finance leases	**130**	192
Other borrowings	**13,214**	12,296
	22,823	17,386

The main risks arising from the Group's financial instruments are market risk (interest rate risk) and liquidity risk. The Group manages its exposure to these risks primarily through its Treasury policy. The policy sets out various targets aimed at restricting the financial risk taken by the Group. Management reviews actual positions of the Group against these targets on a regular basis. If the target is not achieved, or forecast not to be achieved, a plan of action is, where appropriate, put in place with the aim of meeting the target within an agreed timeframe. Depending on the circumstances of the Group at a point in time, it may be that positions outside of the Treasury Policy are accepted and no plan of action is put in place to meet Treasury targets, because, for example, the risks associated with bringing the Group into compliance outweigh the benefits. The adequacy of the Treasury Policy in addressing the risks arising from the Group's financial instruments is reviewed on a regular basis.

Interest rate risk

The Group's finance leases are at fixed interest rates. Its other borrowings and payables are interest free.

Liquidity risk

The main objective of liquidity risk management is to reduce the risk that the Group does not have the resources available to meet its financial obligations and working capital and committed capital expenditure requirements. The Group’s Treasury Policy sets a target for the level of cash and available undrawn debt facilities to cover future committed expenditure in the next year, loan maturities within the next year and an allowance for unforeseen events.

18. Financial risk management (continued)

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Financial instruments 2014	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years	Remaining maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	nil	6,166	-	-	-	6,166
Other payables	nil	2,463	600	250	-	3,313
Borrowings	nil	-	13,214	-	-	13,214
Interest bearing - fixed rate						
Finance lease liability	7.31%	76	73	-	-	149
Total non-derivatives		8,705	13,887	250	-	22,842

Financial instruments 2013	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years	Remaining maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	nil	4,609	-	-	-	4,609
Other payables	nil	289	-	-	-	289
Borrowings	nil	-	12,296	-	-	12,296
Interest bearing - fixed rate						
Finance lease liability	7.31%	76	76	60	13	225
Total non-derivatives		4,974	12,372	60	13	17,419

19. Related parties

(a) Responsible Entity fee income

As Responsible Entity of Lantern Real Estate Trust, Lantern RE Limited, a subsidiary of Lantern, is entitled to the following fees:

- 0.6% of the total scheme assets of Lantern Real Estate Trust
- Acquisition fees calculated at 0.5% of the total price paid by Lantern Real Estate Trust for any new properties.

The amount received and receivable from Lantern Real Estate Trust during the year was $1,043,748 (2013: $1,386,175).

(b) Property management income

As manager of the properties owned by Lantern Real Estate Trust and its controlled entities, Lantern Hotel Group Limited received during the year fees totalling $214,243 (2013: $213,798).

(c) Sale of third party loan

During the year, a loan to a third party, was sold for $500,000, a discount of $240,150 to its face value (the shortfall was predominantly related to accrued interest and fees). The loan was sold to Torchlight Fund L.P, a significant equity holder of the Group. Mr R Naylor and Mr B Mogridge, Directors of the Group, are Directors of Pyne Gould Corporation Limited, a company related to Torchlight Fund L.P. As the loan was guaranteed by Lantern Real Estate Trust (a related entity), no loss has been recognised in the accounts of Lantern Hotel Group Ltd.

(d) Rent payable

The Group rents hotel venues under long term operating leases from Lantern Real Estate Trust and its controlled entities. Refer Note 27 for details of the amounts payable under these leases.

(e) Payment to facilitate buyback

The Borg Fund refered to in Note 25 is a related party, as it is a significant equity holder of the Group.

(f) Payment to Asahi Premium beverages

During the year, the Group has purchased from Asahi Premium Beverages, of which Mr J Davidson is a Director, inventories at a cost of $128,128 on regular commercial terms.

20. Auditor's remuneration	2014 $'000	2013 $'000
Amounts received or receivable by HLB Mann Judd for:		
Audit or review of financial reports of the Trust and any other entity in the consolidated group	**276**	349
Total	**276**	349

All audit fees for Lantern Real Estate Trust and its controlled entities, including the company and its controlled entities, are recorded in the accounts of Lantern Hotel Group Limited.

21. Key management personnel disclosures	2014 $'000	2013 $'000
(a) Compensation		
Short term benefits	**859**	686
Post-employment benefits	**19**	10
	878	696

(b) Shareholding

The number of shares held in the parent entity held during the financial year by each director and other members of key management personnel, ("KMP"), of the consolidated entity, including their personally related parties, is set out below:

2014	Beginning balance No.	Acquisitions No.	Disposals No.	Ending balance No.
Bryan Mogridge	**11,086,119**	**-**	**-**	**11,086,119**
Deborah Cartwright	**1,228,240**	**-**	**-**	**1,228,240**
Julian Davidson	**-**	**-**	**-**	**-**
Russell Naylor	**10,750,085**	**-**	**-**	**10,750,085**
William Hardman	**1,747,250**	**-**	**(1,146,125)**	**601,125**
Michael Thaler	**-**	**-**	**-**	**-**
Total Shares	**24,811,694**	**-**	**(1,146,125)**	**23,665,569**
2013				
Bryan Mogridge	3,023,435	8,062,684	-	11,086,119
Deborah Cartwright	628,240	600,000	-	1,228,240
Julian Davidson	-	-	-	-
Russell Naylor	10,750,085	-	-	10,750,085
William Hardman	750,000	997,250		1,747,250
Total Shares	15,151,760	9,659,934	-	24,811,694

Mr Hardman ceased to be a KMP on 20th December 2013

22. Parent financial information	2014 $'000	2013 $'000
Summary financial information about the Parent is:		
Current assets	**130**	151
Non-current assets	**11,750**	12,533
Total assets	**11,880**	12,684
Current liabilities	**1,692**	307
Non-current liabilities	**10,636**	12,040
Total liabilities	**12,328**	12,347
Net assets	**(448)**	337
Share holders equity:		
Issued shares	**2,745**	2,786
Accumulated losses	**(3,193)**	(2,449)
Total share holders' equity	**(448)**	337
Net loss attributable to shareholders of the Parent	**(744)**	(854)

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. Subsidiaries		Ownership interest 2014 %	2013 %
Names of subsidiaries			

The consolidated financial statements incorporate the assets, liabilities and results of the subsidiaries of Lantern in accordance with the accounting policy described in Note 1:

Name	Country of incorporation or establishment		
Lantern Hotel Group Limited			
Lantern RE Limited	Australia	**100**	100
Lantern Management Services Pty Ltd	Australia	**100**	100
Lantern Operations Pty Ltd	Australia	**100**	100
Lantern Operations 2 Pty Ltd	Australia	**100**	100
Lantern HR Pty Ltd	Australia	**100**	100
Lantern Management No.2 Pty Ltd	Australia	**100**	100
IEF NZ Company Ltd	New Zealand	**100**	100
IEF NZ Pty Ltd	Australia	**100**	100
IEF Custodian Pty Ltd	Australia	**100**	100

The Group's voting interest in its subsidiaries is the same as its ownership interest.

24. Segment information

Description of segments

The group operates hotels in Australia and a subsidiary acts as Responsible Entity of Lantern Real Estate Trust. The Group has identified its operating segments as being each of these activities, based on internal reporting to the Managing Director.

2014	Responsible Entity $'000	Hotel Operations $'000	Eliminations $'000	Group $'000
Assets	**3,141**	**16,867**	**(1,300)**	**18,708**
Liabilities	**1,326**	**22,920**	**(1,250)**	**22,996**
Revenue	**1,114**	**49,331**	**-**	**50,445**
Profit (Loss)	**918**	**(4,407)**	**-**	**(3,489)**
Goodwill impairment	**-**	**(2,842)**	**-**	**(2,842)**
Additions to Property, plant and equipment	**-**	**5,793**	**-**	**5,793**

2013	Responsible Entity $'000	Hotel Operations $'000	Eliminations $'000	Group $'000
Assets	3,101	14,973	(1,300)	16,774
Liabilities	1,500	17,282	(1,250)	17,532
Revenue	1,503	42,955	-	44,458
Profit (Loss)	1,251	(3,070)	-	(1,819)
Goodwill impairment	-	-	-	-
Additions to Property, plant and equipment	-	2,631	-	2,631

25. Events subsequent to the reporting date

(a) On 11 August 2014 the Group exchanged contracts for the purchase of the business operations of Waterworks Hotel, Botany. Settlement occurred on 15 September 2014.

(b) On 16 September, a conditional contract was exchanged for the purchase of the business operations of the Beaumont Exchange Hotel in Hamilton, Newcastle. This contract went unconditional on 26 September 2014.

(c) On 31 July 2014 an Extraordinary General Meeting was held to allow security holders to vote on a proposal to allow the group to buy back Lantern securities held by the Borg Fund. To facilitate the transaction, $1.4m was due to be paid to Millinium Asset Services Pty Limited as trustee for the Borg Fund, of which $41,000 was payable by Lantern Hotel Group and its controlled entities. At its direction, $400,000 was paid to each of CVC Limited and Totem Holdings Pty Ltd and $600,000 was paid to Millinium Capital Managers Limited. All resolutions for the proposal were passed unanimously.

ASIC, however, has refused to grant the trust relief necessary for the transaction to proceed. The Group has begun proceedings in the Administrative Appeals Tribunal ("AAT") to challenge this decision. If successful in its appeal the Group will seek to implement the proposed transaction, however there will be additional hurdles in relation to that transaction, which would make its ultimate implementation uncertain. If unsuccessful in its appeal or the proposed transaction is not otherwise implemented, the Group intends to revert to pursuing an on-market buyback.

26. Reconciliation of profit after income tax to net cash from operating activities	Consolidated 2014 $'000	Consolidated 2013 $'000
Profit after income tax for the year	**(3,489)**	(1,819)
Adjustments for:		
Realised loss / (gain) on disposal of plant and equipment	**290**	268
Depreciation expense	**1,415**	875
Impairment of goodwill	**2,842**	-
Capitalised expenditure amortised	**-**	613
Change in operating assets and liabilities		
Decrease / (increase) in trade and other receivables	**(154)**	1,642
Decrease / (Increase) in prepayments	**(36)**	(382)
Decrease / (increase) in other assets	**-**	(94)
Decrease / (increase) in inventories	**(52)**	(319)
Increase / (decrease) in employee benefits	**27**	67
Increase / (decrease) in trade and other payables	**1,738**	1,527
Net cash from operating activities	**2,581**	2,378

27. Commitments	2014 $'000	2013 $'000
Commitments for finance lease payments, payable:		
Within 1 year	**76**	76
Later than 1 year but not later than 5 years	**73**	136
Later than 5 years	**-**	13
Minimum lease payments	**149**	225
Future finance charges	**(19)**	(33)
Liability recognised	**130**	192
Disclosed as:		
Current liability	**65**	64
Non-current liability	**65**	128
	130	192
Commitments for operating leases, payable		
Within 1 year	**11,916**	9,650
Later than 1 year but not later than 5 years	**49,385**	43,109
Later than 5 years	**22,439**	33,852
Minimum lease payments	**83,740**	86,611

Commitments for operating leases are payable to a related entity, Lantern Real Estate Trust and its controlled entities, which forms part of the stapled group, Lantern Hotels, of which Lantern Hotel Group Ltd and its controlled entities is a part.

There were no significant commitments for capital expenditure at the end of the reporting period (2013: $Nil).

DIRECTORS' DECLARATION

Directors' declaration

In the director's opinion of Lantern Hotel Group Limited:

(a) the consolidated financial statements and notes, set out on pages 80 to 101, are in accordance with the *Corporations Act 2001* , including:

(i) giving a true and fair view of the financial position of the Group as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards, the *Corporations Regulations 2001,* and other mandatory professional reporting requirements, and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Financial Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by Section 295A of the *Corporations Act 2001* .

Signed in accordance with a resolution of the directors.

Bryan Mogridge
Non-Executive Chairman
Dated in Auckland this 30th of September 2014

Deborah Cartwright
Non-Executive Director
Dated in Sydney this 30th of September 2014

LANTERN HOTEL GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT

To the members of Lantern Hotel Group Limited:

Report on the Financial Report

We have audited the accompanying financial report of Lantern Hotel Group Limited ("the Company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration, for the consolidated entity. The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its controlled entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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HLB Mann Judd

LANTERN HOTEL GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT

(continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

(a) the financial report of Lantern Hotel Group Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 76 to 77 of the directors' report for the year ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Lantern Hotel Group Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

D K Swindells
Partner

Sydney, NSW
30 September 2014

SHAREHOLDER INFORMATION

The security holder information is set out below was applicable as at 29 August 2014

Distribution of equitable securities
Analysis of equitable security holders by size of holding

	Number of holders of ordinary securities
100,001 and over	223
10,001 to 100,000	806
5,001 to 10,000	253
1,001 to 5,000	231
1 to 1,000	98
	1,611
Holding less than a marketable parcel	407

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary securities	
	Number of Securities Held	% of total Securities Issued
HSBC Custody Nominees (Australia) Limited	278,160,884	31.49%
Aurora Funds Management Ltd	222,873,063	25.23%
National Nominees Limited	61,167,933	6.93%
J P Morgan Nominees Australia Limited	53,253,848	6.03%
Citicorp Nominees Pty Limited <Colonial First State Inv a/c>	45,025,520	5.10%
Citicorp Nominees Pty Limited	40,929,552	4.63%
Rolyan Pty Ltd	9,894,885	1.12%
Jagen Pty Ltd	9,219,649	1.04%
ABN Amro Clearing Sydney Nominees Pty Ltd	6,950,267	0.79%
Mr Bryan William Mogridge	5,390,000	0.61%
CVC limited	4,792,675	0.54%
Bryan William Mogridge & Philip Sampson Wells	4,093,119	0.46%
Monex Boom Securities (HK) Ltd	3,400,000	0.38%
Jawton pty ltd	3,370,000	0.38%
Australian Exports & Industrialisation Super Pty Ltd	3,085,000	0.35%
Custodial Services Limited	2,548,383	0.29%
Mr Mark Herdman & Mrs Heather Fletcher Herdman	2,164,050	0.25%
Invia Custodian Pty Limited	2,000,000	0.23%
Gegm Investments Pty Ltd	1,900,000	0.22%
Lim Sen Yap	1,781,111	0.20%
	761,999,939	86.27%

SHAREHOLDER INFORMATION

Substantial holders

According to the most recent substantial security holder notices released to the ASX, the substantial holders are as follows:

	Ordinary securities		
	Date of change	Number of securities held	% of total securities issued
Torchlight GP Limited <a/c Torchlight Fund L.P.>	19/12/2013	266,626,935	30.18%
Millinium Asset Services Pty Ltd as trustee for the Borg Fund	24/12/2013	217,724,222	24.31%
Allan Gray Australia Pty Ltd	3/07/2013	160,593,723	18.18%
Renaissance Property Securities Pty Ltd	16/06/2014	75,564,522	8.56%