Lantern Hotel Group Limited
Annual General Meeting
30 November 2015

Chairman's Address

Good morning ladies and gentlemen and welcome to the Annual General Meeting of Lantern Hotel Group.

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

It is now just past 10.00am, the nominated time for the commencement of the meeting. I have been informed that a quorum is present and I am pleased to declare the meeting open.

There are three components to today's meeting. Firstly I will make a brief introductory address after which our CEO, John Osborne, will provide a detailed overview on the operations of Lantern for FY15 and the outcomes of the strategic review work that has been underway.

Then we will progress to the formal business of the meeting, where the resolutions provided in the Notice of Meeting will be put to security holders.

Lastly, at the conclusion of the meeting, I would like to invite you to join the directors and management for morning tea in the foyer, outside this room.

Firstly, I would like to introduce to you the directors of the Group.

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

Also present are John Osborne, CEO, Leanne Ralph, Company Secretary, Paul Brown from Gadens, the Group's legal advisors, representatives from our auditors HBL Mann Judd, representatives from Link Market Services, the Group's Share Registry, and representatives from Lantern Group's management.

Industry Perspective

Activity in the Hotel property market was strong in FY15, with a large number of outlets having been acquired and strong demand leading to historically high prices being paid in many instances.

Scalable venues consisting of a total customer experience across gaming, food and beverages are experiencing the strongest demand, as they continue to set new benchmarks in performance, capability and systems.

At the same time gaming remains a critical performance driver, with consistent YOY growth forecast to continue into the future.

Importantly, as market conditions change and new benchmarks are set, Lantern must transform its total customer offer in order to ensure it is in a leadership position.

2015 Results

FY15 was a very challenging year, with the business recording an overall loss after tax of $8.9m, compared to a loss of $2.2m in FY14.

This is primarily due to lower than expected operating performance, resulting in a write down in the value of assets.

Operating revenue and Group EBITDA have improved relative to FY14, primarily due to the acquisition of the Crown, Exchange and Waterworks Hotels over the last two years.

Significant non-recurring items comprising both legal and restructuring costs have also impacted performance.

Finance costs comprised a $1.4m payout of interest rate swaps and remain high due to swaps that were entered into in 2007.

A shortfall in working capital led to cash flow challenges in the business and Return on Capital Employed for major capital projects has not delivered the expected returns.

The results, whilst impacted by many factors – which John Osborne will talk to in more detail in his update – fell below expectations and industry benchmarks. This has led to the initiation of a complete review of the strategic and operational path for the business, which commenced in September of this year.

Strategic Roadmap
As previously advised, the new board commenced a Strategic Review of the business in September, which looked at the underlying value of assets, the quality and scale of the portfolio, and the earnings and cash generation of the business.

New Board Key Achievements
We have now completed the strategic and operational review and have commenced implementation of the transformation plan and underlying key actions.

Firstly, we have set about building a new team with capabilities aligned to the key business drivers, and have appointed a CEO with extensive experience across the Hotel, Club and Accommodation industries in John Osborne.

Secondly, we have implemented a more transparent reporting approach, while strengthening governance measures.

In addition, we have strengthened processes and systems, including the approval of capital expenditure.

We are also continuing to deal with a number of legacy issues. In terms of our lending arrangements, we have improved the extremely challenging working capital position and continue to retain the support of our lenders. On the contracts front, we have conducted a full review of the El Toro sale, including the contract and processes involved. Finally, in terms of productivity, we are reducing central support services and corporate expenses.

Buy-back Transaction Not Proceeding
As announced to the Australian Stock Exchange last Friday 27th November, Lantern is of the view that the proposed buy-back is not capable of being implemented and has entered into a release with the parties to the Deed of Settlement due to the relevant circumstances, including:

- Conditions precedent set out in the Deed of Settlement have not all been satisfied including that the consent of Lantern's financier has not been obtained and that the securityholder approval of 31 July 2014 is not valid as it is more than 12 months old

- The extremely challenging financial position of Lantern at the time of the change to the Lantern Board in June 2015 and the unacceptable financial performance of Lantern since the Deed of Settlement was signed in April 2014
- The strategic review of Lantern's business since the change in the Lantern Board in June 2015 and the change in strategy from that of the previous Board when the Deed of Settlement was signed in April 2014
- That Lantern does not have sufficient funds available to pay for the buy-back
- Millinium's opposition to the buy-back and their position that the terms of the buy-back have not been agreed between Millinium and Lantern
- The Lantern Board's belief that Lantern could not presently compel Millinium to participate in a buy-back on particular terms
- The continued time and resources required to be expended by Lantern on the buy-back and the distraction to the Lantern Board and management at a time when pressing operational, financial and strategic issues are facing Lantern

Period of Stability Required
Complete focus is required in order to stabilise the business and implement the strategic plan. The sale of non-core assets will, in part, facilitate targeted investment in core assets. A period of stability is critical to enable Lantern to build the team and skills needed for the future.

Looking Forward
Lantern is focused on delivering:

- An exceptional leisure and entertainment experience
- The most efficient management expense ratio in the sector
- Systems which improve the customer experience and promote loyalty; And
- A disciplined approach to capital deployment

Through the implementation of key actions identified in our Strategic Review, as well as adopting a disciplined and focused approach, we are well placed to deliver growth and an improved return to securityholders.

I will now hand you over to our CEO John Osborne to take you through the CEO Overview.