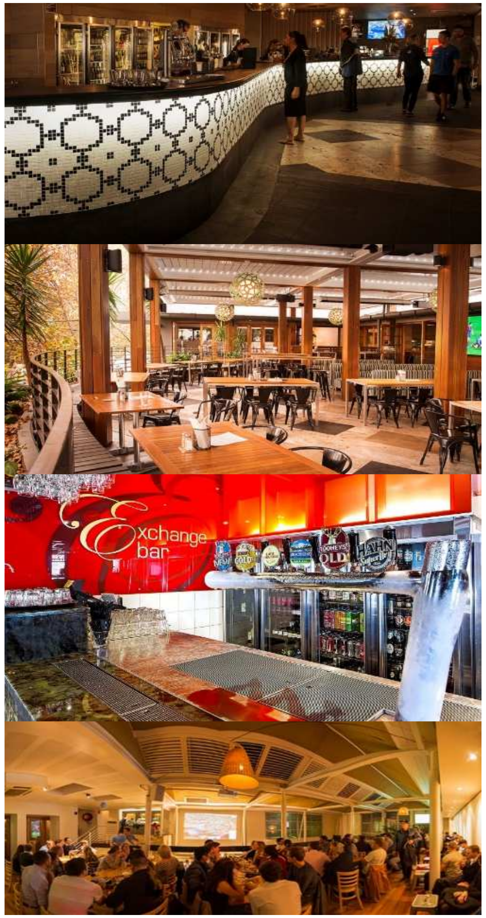

Lantern hotels

Transformation Plan Update

9 May 2016

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Highlights

- Strong March quarter with operating revenue and EBITDA for the core hotels improving by 9.7% and 29.3% respectively when compared to the PCP
- The gaming led transformation plan is working. March quarter gaming revenue for the core hotels improved by 18% when compared to the PCP
- Efficiency and productivity initiatives implemented during the December quarter have improved the profitability of the food area and overall margins
- Central support services expenses reduced by 8.2% when compared to the PCP reflecting cost reductions implemented during the December quarter
- Experienced team now in place with capacity to lead a growing business
- Employee share option plan aligned to security-holders interests is now in place
- Accelerating the sale of non-core hotels with completed sales generally exceeding book value
- Reduced debt resulting in low gearing level
- Commenced re-finance process for the primary debt facility
- Board considering strategic options for Lantern including the timing for returning excess capital to security-holders

***The purpose of this document is to provide security-holders with an update on the implementation of the transformation plan**

Transformation Plan On Track

Lantern hotels

AMBARVALE HOTEL

BOWRAL HOTEL

CAIRNS COURTHOUSE HOTEL

EST. 1848 COMMODORE HOTEL

Crown hotel

EXCHANGE HOTEL

FIVE DOCK HOTEL

GENERAL GORDON HOTEL

LAWSON PARK HOTEL

UNCLE BUCK'S HOTEL

Waterworks Hotel

Transformation Plan

A portfolio of core, strong performing hotels, and surplus capital from non-core divestments will position Lantern for growth

Lantern
hotels

	☑ Completed 1 Stabilise	FY16 2 Transform*	FY17+ 3 Invest*
Capital structure	• Stabilised debt arrangements • Commenced the divestment process for non-core assets	• Prepare the business for growth **(Well progressed)** • Continue the divestment of non-core assets **(Well progressed)**	• Development and acquisition
Value proposition	• Implement culture of operational excellence 'Lantern Way' • Implemented a gaming focus	• Stop the losses in food **(Achieved)** • Focus on gaming **(Achieved)**	• Invest further in gaming and operational excellence initiatives
People	• Established benchmarks and KPIs • Set foundations for open communication	• Remuneration linked to strategy **(Achieved)** • Sense of urgency culture **(Achieved)**	• Talent identification, acquisition and retention program **(Experienced team in place)**

2016 March Quarter
Unaudited

Stapled Entity Consolidated	March quarter 2016 $'000	March quarter 2015 $'000		March quarter 2016 $'000	March quarter 2015 $'000	
	Operating revenue	Operating revenue	Change %	EBITDA	EBITDA	Change %
Core hotels [1]	8,769	**7,997**	**9.7%**	2,165	**1,674**	**29.3%**
Gaming	4,461	**3,781**	**18.0%**			
Beverage	3,201	**3,087**	**3.7%**			
Food	849	**885**	**(4.1%)**			
Other	258	**244**	**5.7%**			
Non-core hotels [2]	3,186	**3,285**	**(3.0%)**	158	**57**	**177.2%**
Gaming	572	**590**	**(3.1%)**			
Beverage	1,631	**1,720**	**(5.2%)**			
Food	917	**881**	**4.1%**			
Other	66	**94**	**(29.8%)**			
Divested hotels [3]	1,154	**2,410**	**(52.1%)**	221	**443**	**(50.1%)**
Rental income from investment properties [4]				644	**619**	**4.0%**
Central support services expenses				(462)	**(503)**	**8.2%**
Corporate & fund expenses				(522)	**(524)**	**0.4%**
Total	13,109	**13,692**	**(4.3%)**	2,204	**1,766**	**24.8%**

1. Core hotels represent the Ambarvale, Commodore, Crown, Five Dock, General Gordon, Uncle Bucks & Waterworks hotels.
2. Non-core hotels represent the Bowral, Courthouse, Exchange & Lawson Park hotels.
3. Divested hotels represent Dolphin Hotel (sold Mar-16) & El Toro Hotel (sold Feb-16)
4. Includes rental income from Uncle Bucks retail tenancies.

Key Messages – March Quarter

Core hotels showing strong growth, gaming led recovery is working, reduced support expenses

Lantern hotels

- Operating revenue and EBITDA for the core hotels has improved by 9.7% and 29.3% respectively when compared to the PCP
- Gaming revenue for the core hotels has improved by 18% when compared to the PCP
- As at 31 March 2016, 68 (37% of total) new electronic gaming machines (EGM's) were installed in the core hotels. This along with 124 EGM moves, minor upgrades to the gaming rooms of the core hotels, improved efficiency and an improved customer experience has resulted in strong revenue and EBITDA growth
- Operational efficiency measures implemented during the December quarter (mainly related to the food operations) have improved margins
- The divested hotels (El Toro and Dolphin) did not trade for the full period, making comparisons to the PCP irrelevant
- Central support services expenses reduced by 8.2% when compared to the PCP reflecting cost reductions implemented during the December quarter
- Corporate and fund expenses are in line with the PCP. A high proportion of the expenses in this area are fixed leaving little scope to reduce these expenses

Debt Position

Strong balance sheet provides options

- Gross bank debt has reduced from $80m to $47m during the March quarter
- It is intended to apply the proceeds from future sales of non core hotels to further reducing bank debt, continuing to implement the EGM replacement programme and the refurbishment of the core hotels with any excess capital being returned to security-holders

Divestment of Non-Core Hotels

Ahead of schedule

- NZ$350k sale of the Office hotel (NZ) completed on 10 September 2015
- NZ$2.3m sale of Waikanae hotel (NZ) completed on 16 September 2015
- $24.2m sale of the El Toro hotel completed on 1 February 2016
- NZ$200k sale of vacant land in Waikanae (NZ) completed on 19 Feb 2016
- NZ$3.4m sale of Albert hotel (NZ) completed on 29 Feb 2016
- $11.15m sale of the Dolphin hotel completed on 1 March 2016
- $5.25m sale of the GPO hotel is expected to complete before the end of June 2016
- A sale process for the Bowral hotel has commenced
- It is planned to divest a number of other non-core hotels during the remainder of CY 2016 subject to acceptable prices being achieved and legacy issues being resolved

Ongoing Focus Areas

Maintain momentum and consider the future

- To drive strong trading performance at the core hotels and maintain the current momentum
- To continue to invest in the EGM replacement programme at the core hotels
- To commit to the capital expenditure required to refurbish and modernise the core hotels with emphasis on achieving ROI benchmarks set by the Lantern Board
- To accelerate the sale of the non-core hotels
- To re-finance bank debt prior to the expiry of the primary debt facility in August 2016
- To consider the strategic options for Lantern including the timing for returning excess capital to security-holders