

ASX Announcement



LANTERN HOTEL GROUP (ASX: LTN)

19 September 2016

2016 Annual General Meeting

We attach the Notice of Meeting, together with Explanatory Notes and the Proxy Form for the Group's Annual General Meeting to be held at Lantern Hotel Group Boardroom, Level 8, 1 York Street, Sydney NSW 2000 on Tuesday 25 October at 10:00am.

The attached Notice of Meeting and Explanatory Notes sets out further information on the resolutions to be considered at the Meeting. All Securityholders should carefully consider the information contained in the Notice of Meeting and Explanatory Notes.

Graeme Campbell

Chairman
Lantern Hotel Group
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John Osborne

Chief Executive Officer
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Notice of Meetings

Lantern Hotel Group (ASX: LTN)

LANTERN HOTEL GROUP LIMITED (ACN 145 967 899)

LANTERN REAL ESTATE TRUST (ARSN 108 982 627)

RESPONSIBLE ENTITY:

LANTERN RE LIMITED (ACN 145 968 574)

Notice is hereby given that the Annual General Meeting of Securityholders of Lantern Hotel Group Limited (**Company**) and a General Meeting of Unitholders of Lantern Real Estate Trust (**Fund**) (together **Lantern Hotel Group**) will be held at Lantern Hotel Group Boardroom, Level 8, 1 York Street, Sydney NSW 2000 on Tuesday 25 October 2016 at 10.00 am (AEDT) (**Meeting**).

The Explanatory Notes and the Proxy Form form part of these notices.

GENERAL INFORMATION

As investors will know, the Shares in the Company are stapled to the Units of the Fund and are quoted jointly on ASX as Lantern Hotel Group (ASX: LTN). As a result the securities cannot be traded separately. For this reason, the meetings for the two entities will be held together at the same place and on the same day.

The meetings for the Company and the Fund will be conducted simultaneously subject to the discretion of the Chairman to adjourn or reconvene any specific meeting. Each resolution will be voted on separately.

For information on how to vote, please see 'Voting Options and Proxies'.

Certain capitalised terms are defined in the Constitutions of the Fund and the Company unless the context requires otherwise.

For further general queries about meetings and voting arrangements, please email the Investor Relations Team at investors@lanternhotels.com.au.

DISCLAIMER AND FORWARD-LOOKING STATEMENTS

This Notice contains forward-looking statements which are statements that may be identified by words such as “may”, “could”, “believes”, “estimates”, “expects”, “intends” and other similar words that involve risks and uncertainties. Certain statements, beliefs and opinions contained in this Notice, particularly those regarding the possible or assumed future financial or other performance and divestiture strategy of the Group, industry growth or other trend projections are or may be forward-looking statements. These statements are based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions that, at the date of this Notice, are expected to take place.

The Directors cannot and do not give any assurance that the results, performance, divestitures or achievements expressed or implied by the forward-looking statements contained in this Notice will actually occur, and investors are cautioned not to place undue reliance on these forward-looking statements. The Group has no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Notice, other than to the extent required by law.

CHAIRMAN'S LETTER

Dear Securityholder

Since the last Annual General Meeting in November 2015, the Lantern Board has been implementing the Group's transformation plan, creating a platform for future growth by focusing on improving the performance of a core portfolio of hotels that are gaming led, scalable and offer a multi-faceted and diverse range of leisure and entertainment experiences (**Core Properties**), including the hotels listed below:

Ambarvale Hotel, Ambarvale	Crown Hotel, Surry Hills	Five Dock Hotel, Five Dock
General Gordon Hotel, Sydenham	Uncle Bucks Hotel, Mt Druitt	Waterworks Hotel, Botany

In conjunction with this strategy, the Group has been divesting hotels that do not fit the profile of the Core Properties.

Special Business - Sale of main undertaking

As part of the strategic review, the Lantern Board has been considering all options open to it to maximise Securityholder returns. One such option is for the Group to undertake an orderly sell down of its property portfolio, including all of the Core Properties.

Some of the advantages of an orderly sell down include:

1. The Group is currently sub-scale given the required infrastructure to support the corporate and listed structure that is in place.
2. The Core Properties have historically been under invested. Substantial capital expenditure would be required to significantly improve the performance of the Core Properties. Further, any return on such capital expenditure cannot be guaranteed. Even following such an investment programme, the Group would still be sub-scale.
3. Gaming led hotels that meet the stated strategic criteria for the Group are rarely placed on the market, and if they are, they tend to be fully priced. The Directors are therefore of the view that growth via acquisition that yields an appropriate return on investment, would be difficult to achieve in the current market.
4. The Group's Core Properties are highly sought after gaming led hotels with considerable upside potential and therefore may achieve sale values well above book value. While the improved performance of the Core Properties has enhanced value, further value enhancement is unlikely without significant investment.
5. You may receive cash distributions in excess of the current ASX trading price in the event that a successful sell down of all the properties is achieved.

Consequently, together with the Annual General Meeting for FY2016, the Lantern Board is seeking approval of the Securityholders pursuant to the Sell Down Resolution to give the Directors flexibility to potentially sell all of the properties currently owned by the Group.

It should be noted that passing of the Sell Down Resolution does not mean that the Group will wind up its operations. The resolution is intended to give the Lantern Board flexibility to consider and pursue all options available to it, including if the Board receives offer(s) for all of the Core Properties.

If the Sell Down Resolution is not passed

If the Sell Down Resolution is not passed at the Meeting, then the Lantern Board will continue to operate with its current divestment strategy of selling non-core hotels. The Lantern Board will also consider, and may implement, the sale of one or more Core Properties if it receives offers that the Directors believe are in the best interests of the Group.

However, the Lantern Board will not seek to sell the main undertaking of the Group (as the term is defined in the ASX Listing Rules), or wind up the Fund, without obtaining further approval from the Securityholders.

Recommendation of the Board

Having regard to the potential advantages and disadvantages of the Sell Down Resolution (described in the Explanatory Notes), the Directors are of the opinion that the Sell Down Resolution provides the Lantern Board with the flexibility it needs in the current market and is in the best interests of Securityholders as a whole. Consequently, the Directors unanimously recommend that you vote in favour of Sell Down Resolution.

In order for the Sell Down Resolution to be approved, more than 50% of Securityholders present and voting at the Meeting (in person or by proxy) must approve the Resolution.

The Explanatory Notes contain important information relating to the Sell Down Resolution, including reasons for the Board's recommendation and a description of potential advantages and disadvantages of the resolution. Please read the Explanatory Notes carefully and in their entirety before making your decision and voting (whether in person, by corporate representative, attorney or by proxy) at the Meeting.

Enquiries regarding the Resolution may be directed to investors@lanternhotels.com.au. Alternatively, contact your investment, tax, legal or other professional adviser.

I look forward to your participation at the Meeting on Tuesday 25 October 2016 at 10:00am and encourage you to vote in favour of the Resolution. Thank you for your ongoing support.

Graeme Campbell
Chairman

NOTICE OF GENERAL MEETING

Lantern Real Estate Trust (ARSN 108 982 627)

Lantern RE Limited (ACN 145 968 574) (**Responsible Entity**) gives notice that a meeting of the Unitholders of the Lantern Real Estate Trust (ARSN 108 982 627) will be held at Lantern Hotel Group Boardroom, Level 8, 1 York Street, Sydney NSW 2000 on Tuesday 25 October 2016 at 10.00 am (AEDT), to transact the following business:

Ordinary Business

A general discussion of the activities of the Fund.

No formal resolutions for ordinary business of the Fund are proposed at this meeting.

Special Business

Resolution 1A: Sale of main undertaking

To consider, and, if thought fit, to pass the following resolution as an ordinary resolution of the Fund:

“That, for the purposes of Listing Rule 11.2, and for all other purposes, the sale of the entire property portfolio of the Lantern Hotel Group as described in the Explanatory Notes accompanying this notice, is approved.”

NOTICE OF ANNUAL GENERAL MEETING

Lantern Hotel Group Limited (ACN 145 967 899)

Notice is given that an Annual General Meeting of the Securityholders of Lantern Hotel Group Limited (ACN 145 967 899) will be held at Lantern Hotel Group Boardroom, Level 8, 1 York Street, Sydney NSW 2000 on Tuesday 25 October 2016 at 10.00 am (AEDT), to transact the following business.

BUSINESS OF THE MEETING

Ordinary Business

Item 1: Lantern Hotel Group Financial Statements and Reports

To receive and consider the Financial Report, the Directors' Report and the Auditor's Report of the Lantern Hotel Group for the year ended 30 June 2016.

Item 2: Resolutions

Resolution 2A: Remuneration Report

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

"To adopt the Remuneration Report for the year ended 30 June 2016."

Notes:

- (i) In accordance with section 250R of the Corporations Act 2001, the vote on this resolution will be advisory only and will not bind the directors or the Company.
- (ii) A voting exclusion statement applies to this resolution (see Explanatory Notes for details).

Resolution 2B: Re-election of Director – Mr Graeme Campbell

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

"That, Mr Graeme Campbell, being a director who is retiring in accordance with rule 21.2 of the Company's constitution and Listing Rule 14.5, and being eligible, be re-elected as a director of the Company."

Resolution 2C: Election of Director – Mr Matthew Stubbs

To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

"That Mr Matthew Stubbs, being a Director who was appointed by the Directors on 07 March 2016 and whose appointment as a Director expires at the conclusion of the Annual General Meeting of the Company and, being eligible, offers himself for election, be re-elected as a director of the Company."

Special Business

Resolution 2D: Sale of main undertaking

To consider, and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

“That, for the purposes of Listing Rule 11.2, and for all other purposes, the sale of the entire property portfolio of the Lantern Hotel Group as described in the Explanatory Notes accompanying this notice, is approved.”

ENTITLEMENT TO VOTE

The Directors have determined, pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth), that the persons eligible to vote at the Meeting are those who are registered Securityholders of the Group as at 7.00pm (AEDT) on Friday 21 October 2016 (**Entitlement Time**), subject to any applicable voting exclusion.

This means that if you are not the registered holder of a Stapled Security in the Group at the Entitlement Time, you will not be entitled to vote at the Meeting.

ANNUAL REPORTS

Copies of the Annual Report for Lantern Hotel Group may be accessed at our website www.lanternhotels.com.au.

VOTING OPTIONS AND PROXIES

If you do not plan to attend the Meeting in person, you are encouraged to complete and return the Proxy Form which accompanies this Notice of Meeting.

Voting by Proxy

A Securityholder who is entitled to attend and vote at this Meeting is entitled to appoint not more than two proxies to attend and vote on the Securityholder's behalf.

If the Securityholder appoints two proxies, the Securityholder may specify the proportion or number of votes each proxy is entitled to exercise. If no proportion or number of votes is specified, each proxy may exercise half of the Securityholder's votes. If the specified proportion or number of votes exceeds that which the Securityholder is entitled to, each proxy may exercise half of the Securityholder's votes. Any fractions of votes brought about by the apportionment of votes to a proxy will be disregarded.

A proxy need not be a Securityholder of the Group. A body corporate appointed as a Securityholder's proxy may appoint a representative to exercise any of the powers the body may exercise as a proxy at the Meeting. The representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Group.

Subject to the specific proxy provisions applying to Resolution 2A (see below):

- If a Securityholder has not directed their proxy how to vote, the proxy may vote as the proxy determines, and
- If a Securityholder appoints the Chairman of the Meeting as proxy and does not direct the Chairman how to vote on a Resolution, the Chairman will vote in accordance with his voting intention as stated in this Notice of Meeting, namely in favour of all proposed resolutions as set out in the Notice of Meeting.

Proxy Voting by the Chairman

For Resolution 2A (Remuneration Report) where the Chairman is appointed as a Securityholder's proxy and that Securityholder has not specified the way in which the Chairman is to vote on Resolution 2A, the Securityholder is directing the Chairman to vote in accordance with the Chairman's voting intentions for this Resolution; even though Resolution 2A is connected with the remuneration of Key Management Personnel.

The Chairman intends to vote all undirected proxies in favour of all resolutions outlined in this Notice

Proxy Forms

To be effective, the Proxy Form must be completed, signed and lodged (together with the relevant original power of attorney or a certified copy if the proxy is signed by an attorney) with the Group's share registry, no later than 10.00am (AEDT) on Sunday 23 October 2016 (**Proxy Deadline**).

Proxy forms may be submitted in one of the following ways:

- (i) **By mail** to Link Market Services Pty Ltd using the reply paid envelope or Locked Bag A14, Sydney South NSW 1235. Please allow sufficient time so that it reaches the Registry by the Proxy Deadline;
- (ii) **By fax** to Link Market Services Pty Ltd on +61 2 9287 0309;
- (iii) **Online** via the Registry website at www.linkmarketservices.com.au. Please refer to the Proxy Form for more information; or
- (iv) **By hand** delivery to Link Market Services Pty Ltd at Level 12, 680 George Street, Sydney NSW 2000.

Proxy Forms and powers of attorney must be received by the Proxy Deadline.

CORPORATE REPRESENTATIVES

Where a securityholding is registered in the name of a corporation, the corporate Securityholder may appoint a person to act as its representative to attend the meeting by providing that person with:

- (i) a letter or certificate authorising him or her as the corporation's representative, executed in accordance with the corporation's constitution; or
- (ii) a copy of the resolution appointing the representative, certified by a secretary or director of the corporation.

BY ORDER OF THE BOARD

Leanne Ralph
Company Secretary
19 September 2016

Explanatory Notes

Notes on Business

ITEM 1: FINANCIAL STATEMENTS AND REPORTS

As required by section 317 of the Corporations Act the Financial Report, Directors' Report and Auditor's Report of the Company for the most recent financial year must be laid before the Meeting.

The Company's financial report comprises the consolidated financial report of the Company and its controlled entities, including Lantern Real Estate Trust.

There is no requirement for a formal resolution on this item.

The Chairman of the Meeting will allow a reasonable opportunity at the Meeting for Securityholders to ask questions about or make comments on the management of the Group. Securityholders will also be given a reasonable opportunity at the Meeting to ask the Group's auditor, HLB Mann Judd questions about the Audit Report, the conduct of its audit of the Group's Financial Report for the year ended 30 June 2016, the preparation and content of the Auditor's Report, the accounting policies adopted by the Group in its preparation of the financial statements and the independence of HLB Mann Judd in relation to the conduct of the audit.

Securityholders may submit written questions to the Company in relation to the above matters.

A form to facilitate the submission of questions is attached to this Notice and it includes details on the return of this form to the share registry.

ITEM 2: RESOLUTIONS

Resolution 2A: Adoption of Remuneration Report

In accordance with section 300A of the Corporations Act the Company has included in its Annual Report a Remuneration Report for the consideration of Securityholders.

As provided by section 250R(3), Resolution 2A is advisory only and does not bind the Board or the Company.

The Board points out that the Remuneration Report that Securityholders are being asked to consider at this Meeting is in relation to the year ended 30 June 2016.

The Company has designed a remuneration framework to support both a high performance culture and a team focus on adhering to agreed business objectives and directions.

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for Securityholders, and conforms to market practice for delivery of reward.

Directors' Recommendation

The Board unanimously recommends that Securityholders vote in favour of this Resolution.

Voting Exclusion Statement

As required by the Corporations Act, the Group will disregard any votes cast on Resolution 2A by any member of the Group's key management personnel (**Key Management Personnel** or **KMP**) or a Closely Related Party of any such member unless:

- (i) The person votes as a proxy appointed by writing that specifies how the person is to vote on the resolution; or
- (ii) The person is the Chairman of the Meeting and votes as a proxy appointed by writing that authorises the Chairman to vote on the resolution even though that resolution is connected with the remuneration of a member of the Group's KMP.

What this means for Securityholders: If you intend to appoint a member of the KMP (such as one of the Directors) as your proxy, please ensure that you direct them how to vote on the proposed Resolution 2A. If you intend to appoint the Chairman of the Meeting as your proxy, you can direct him how to vote by marking the boxes for Resolution 2A (for example, if you wish to vote for, against or abstain from voting), or you can choose not to mark any of the boxes for Resolution 2A and give the Chairman your express authority to vote as your undirected proxy (in which case the Chairman will vote in favour of Resolution 2A).

Resolution 2B: Re-election of a Director – Mr Graeme Campbell

In accordance with the Company's Constitution and ASX Listing Rule 14.5, an election of Directors must be held at each AGM. Pursuant to clause 21.3 of the Company's Constitution if no director is required to retire at an AGM, then the director to retire is the one that has held office the longest.

Mr Graeme Campbell was appointed as a Director of the Company on 24 June 2015 and as the longest serving current director offers himself for re-election.

Mr Campbell has over 30 years experience in corporate recovery and insolvency services and is a former Director of Ferrier Hodgson Accountants specialising in the hotel and registered clubs industries. In 2006 Mr Campbell left Ferrier Hodgson to set up Campbell Advisory, which provides wide-ranging hospitality advice to participants within the hotel and clubs industries together with major banks and other funders.

Mr Campbell currently holds a number of non-executive director positions and audit committee chair roles. He is Chair of the Group's Board and also a member of the Audit and Risk Committee.

Having had regard to the ASX Corporate Governance Principles and Recommendations (3rd edition) (**ASX Principles**), the Board considers Mr Campbell to be an independent director.

Directors' Recommendation

The Board unanimously (other than Mr Campbell) supports the election of Mr Campbell and recommends that Securityholders vote in favour of this resolution.

Resolution 2C: Election of a Director – Mr Matthew Stubbs

In accordance with the Company's Constitution and ASX Listing Rule 14.5, an election of Directors must be held at each AGM. Pursuant to clause 20.5 of the Company's Constitution and ASX Listing Rule 14.4 any director appointed to fill a casual vacancy or as an additional director holds office until the next AGM and is then eligible for re-election.

Mr Matthew Stubbs was appointed to fill a casual vacancy as a Director of the Company on 7 March 2016. Mr Stubbs therefore offers himself for election by securityholders.

Mr Stubbs is Managing Director of Allier Capital and has over sixteen years experience in investment banking. During his career he has worked on a broad range of mergers and acquisitions, capital raisings, restructurings and strategic reviews. His experience includes extensive public market transactions (hostile and recommended takeover offers, takeover responses and schemes of arrangement). Prior to founding Allier Capital, Mr Stubbs was a director in the investment banking division of Citi and head of its consumer, retail and healthcare investment banking practice. He has also managed major transactions in the resources, industrials and financial services sectors.

Mr Stubbs holds an MBA from the AGSM and Bachelor of Laws and Bachelor of Commerce from the University of Queensland.

Given that Mr Stubbs is a substantial Securityholder of the Group, the Board considers him a non-independent director based on the ASX criteria in Principle 2 of the ASX Principles.

Directors' Recommendation

The Board unanimously (other than Mr Stubbs) supports the election of Mr Stubbs and recommends that Securityholders vote in favour of this resolution.

Resolutions 1A and 2D (Sell Down Resolution): Sale of main undertaking

1. Background to the resolution

Securityholders will be aware of the Lantern Hotel Group's transformation plan, which includes the divestment of its 'non-core' hotels (**Divestment Plan**) and a focus on its core portfolio of gaming led hotels. As part of the implementation of the Divestment Plan, from November 2015, the Group divested six hotels, and has entered into contracts for the sale of one further hotel. These divestments are summarised below:

Property	Sale value	Premium to book value	Market announcement date
Dolphin Hotel, Surry Hills	A\$11.15m	12%	7 December 2015
Albert Hotel, Palmerston North, New Zealand	NZ\$3.40m	0%	27 January 2016
GPO Hotel, Fortitude Valley, Brisbane	A\$5.25m	28%	2 May 2016
Bowral Hotel, Bowral	A\$6.35m	22%	17 May 2016
Exchange Hotel, Hamilton	A\$6.63m	7%	21 June 2016
Courthouse Hotel, Cairns ⁽¹⁾	A\$6.25m	28%	21 July 2016
Lawson Park Hotel, Mudgee	A\$4.05m	0%	3 August 2016

Note 1: Contracts have been exchanged for the sale of the Courthouse Hotel, Cairns, with settlement expected to occur in October 2016, subject to the timing of the necessary liquor and gaming approvals.

Following the completion of all the above sales, Lantern will have realised approximately \$43m from the divestment of its non-core hotels since November 2015, at a combined premium to book value of approximately 14%.

The Group's remaining hotel assets (together, the **Property Portfolio**) are:

Gaming led core properties (**Core Properties**):

- Ambarvale Hotel, Ambarvale;
- Crown Hotel, Surry Hills;
- Five Dock Hotel, Five Dock;
- General Gordon Hotel, Sydenham;
- Uncle Bucks Hotel, Mt Druitt, including the adjacent retail premises owned by the Group and leased to a number of tenants; and
- Waterworks Hotel, Botany.

Non-gaming led properties (**Non-Core Properties**):

- Commodore Hotel, North Sydney (owned and operated);
- Central Hotel, Bundaberg (owned and leased); and
- Brisbane Hotel, Perth (owned and leased).

Sale processes for the Non-Core Properties are underway, in line with the Group's current Divestment Plan.

What is the proposal?

The Directors have considered the various strategic options available to the Group at the present time to maximise Securityholder value. These strategic options can be categorised as follows:

Strategic option	Relevant facts
Complete the sale of the Non-Core Properties and retain the Core Properties only.	The Group is currently sub-scale given the required infrastructure to support the corporate and listed structure that is in place.
As above and invest in the Core Properties to improve performance.	<p>The Core Properties have historically been under invested and therefore significant performance and profit upside exists in these properties.</p> <p>Substantial capital expenditure would be required to significantly improve the performance of the Core Properties. Any return on such capital expenditure cannot be guaranteed.</p> <p>Even following such an investment programme the Group would still be sub-scale.</p>
As above and create scale through the acquisition of further hotels that meet the strategic criteria of the Group.	Gaming led hotels that meet the stated strategic criteria for the Group are rarely placed on the market, and if they are they tend to be fully priced. Growth via acquisition that yields an appropriate return on investment would therefore be difficult to achieve in the current market.
Sale of the Group or the business and assets of the Group to a third party.	The Directors note that at this time the Group is not aware of any alternative proposal that is superior to the current recommendation included in this proposal.
Expand the Divestment Plan to include the Core Properties	<p>The market for the Core Properties is currently strong with insufficient properties being placed on the market to meet the demand for such properties. The improved performance of the Core Properties (as highlighted in section 2 below) is expected to assist with the attractiveness of these properties in the current market.</p> <p>The Directors expect that any sale of the Core Properties is likely to be in excess of the book value of each of the properties as recognised in the financial statements, although such an outcome cannot be guaranteed.</p>

Having considered the above strategic options, the Directors have formed the view that it would be in the best interests of the Group to obtain the flexibility of selling its main undertaking including the orderly sell down of the Group's remaining hotels, including the Core Properties (**Sell Down Strategy**). Given the strong market for the Core Properties, the Directors believe there is a real opportunity to realise premium value on the Group's Property Portfolio.

Subject to the assumptions outlined below, the Directors' aim would be to complete sales of the whole Property Portfolio through the Sell Down Strategy, within 12 months.

The ASX Listing Rules allow the Group to sell some or a majority of the Core Properties provided that the Group retains its main undertaking of owning and operating hotels, even if the scale of its business is significantly reduced as a result of any disposal. However, if the Group wishes to implement the Sell Down Strategy and dispose of all of its properties (including all Core Properties), ASX Listing Rule 11.2 requires the Group to seek the prior approval of its Securityholders. The Directors are therefore seeking Securityholder approval to implement the Sell Down Strategy.

The actual implementation of the Sell Down Strategy will depend on a number of factors outside the control of the Lantern Board, including the prevailing market conditions, the value and terms of any offer that the Group may receive from interested third parties for each of the properties, and other alternative options open to the Lantern Board at the relevant time. There is no certainty that the Sell Down Strategy will be implemented. The passing of the Sell Down Resolution is intended to give the Lantern Board maximum flexibility to consider all offers that it may receive from interested third parties, including the option of selling the Group's entire property portfolio.

The Sell Down Resolution is separate to, and is not intended to affect or replace, the Group's current Divestment Plan relating to the Non-Core Properties. The Lantern Board is continuing to look for suitable exit strategies for its remaining Non-Core Properties, being the Commodore Hotel (North Sydney), Central Hotel (Bundaberg) and Brisbane Hotel (Perth).

If the Group sells all of its properties, the Lantern Board will then consider the options for the Group and, if required, seek further approval from Securityholders for further actions, which may include delisting from ASX and winding up of the Group.

2. Current financial position

This section provides a summary of the financial performance and financial position of the Group. For further details, including commentary on the financial results, refer to the 2016 full year results presentation dated 22 August 2016.

The table below summarises the results for the Group for the last two financial years:

	Total FY2016 \$'000	Total FY2015 \$'000	Change %
Revenue for Core Properties⁽¹⁾			
Gaming	18,195	15,819	15.0%
Beverage	9,634	9,053	6.4%
Food	2,304	1,926	19.6%
Other	1,027	900	14.1%
Total revenue for Core Properties	31,160	27,698	12.5%
EBITDA for Core Properties	8,508	6,942	22.6%
<i>EBITDA margin for Core Properties</i>	<i>27.3%</i>	<i>25.1%</i>	
EBITDA for Non-Core Properties and divested hotels ⁽²⁾	3,654	4,098	(10.8%)
Total hotel EBITDA	12,162	11,040	10.2%
Central support services expenses	(2,570)	(2,787)	(7.8%)
Operating EBITDA	9,592	8,253	16.2%
Rental income ⁽³⁾	2,579	2,642	(2.4%)
Corporate & fund expenses	(2,678)	(2,535)	5.6%
Group EBITDA	9,493	8,360	13.6%
Depreciation and amortisation ⁽⁴⁾	(3,574)	(3,472)	2.9%
Net interest expenses ⁽⁵⁾	(4,287)	(6,506)	(34.1%)
Tax expense	-	(108)	
Net profit before significant items⁽⁶⁾	1,632	(1,726)	

Note 1: The 2016 full year results presentation dated 22 August 2016 classified the Commodore Hotel as a core hotel. In the table above the Commodore Hotel is classified as a Non-Core Property on the basis this hotel is not gaming led, and now that the underperformance of this hotel has been addressed the Board has determined to sell this hotel.

Note 2: Includes the results for all the Non-Core Properties and the other properties that have been divested during and since the 2016 financial year, including the Courthouse Hotel for which contracts have been exchanged.

Note 3: Includes rental income for the Uncle Bucks Retail property.

Note 4: Includes amounts associated with discontinued operations.

Note 5: Interest expense is shown net of interest income, and excludes the change in the fair value of interest rate swaps (classified as a significant item).

Note 6: Net profit is stated before significant items. Refer to the 2016 full year results presentation dated 22 August 2016 for an analysis of the significant items and a reconciliation to the reported results for the Group.

The table below summarises the financial position of the Group as at 30 June 2016 and 30 June 2015:

	30 June 2016 \$'000	30 June 2015 \$'000
Cash	12,011	3,611
Assets of discontinued operations	18,601	5,740
Other current assets	1,890	2,694
Total current assets	32,502	12,045
Investment properties	16,250	26,963
Other non-current assets	97,233	142,191
Total non-current assets	113,483	169,154
Total assets	145,985	181,199
Current borrowings	14,149	72,340
Liabilities of discontinued operations	472	-
Other current liabilities	7,675	15,728
Total current liabilities	22,296	88,068
Non-current borrowings	26,267	-
Other non-current liabilities	2,200	4,879
Total non-current liabilities	28,467	4,879
Total liabilities	50,763	92,947
Net assets	95,222	88,252

Since the balance date of 30 June 2016 Lantern has paid a distribution to Securityholders amounting to 2c per security for a total of \$17.7m.

3. Distributions to Securityholders

If the Sell Down Strategy is implemented, the Lantern Board intends to make distributions to Securityholders progressively, funded from the net proceeds received from the sale of properties.

If the Group sells 100% of its Property Portfolio and winds up its property ownership and management business, following the repayment of all debt facilities, the table below provides an illustration of potential distributions to Securityholders based on:

- the contracted sale values for the Lawson Park Hotel and the Courthouse Hotel; and
- the book value for all other hotels, including sensitivity analysis on the basis the sale values achieved, in aggregate, are in excess of book value.

Premium to book value for uncontracted properties	Potential distributions per Security (cents)
0%	7.4 to 7.9
10%	8.6 to 9.1
20%	9.8 to 10.3
30%	11.0 to 11.5
40%	12.2 to 12.7

The potential distributions to Securityholders shown in the table above do not include, and are in addition to, the distribution paid to Securityholders on 10 August 2016 of 2c per security.

Securityholders should note that the above values are based on a number of important assumptions set out in section 4 below. Although the Directors are confident that sale proceeds will be achieved in excess of the book value for the Property Portfolio, there is no guarantee that Securityholders will be able to realise any of the above returns. The actual return realised by the Group and distributions paid to Securityholders are subject to a number of factors, most of which are outside the control of the Lantern Board. This includes the final sale prices achieved for each property, the costs and expenses incurred relating to the sales, the future cash needs for the Group to operate any remaining properties, the future cash needs for the Group to operate the corporate and listed structure, and other factors noted in section 4 below.

4. Assumptions

The Group has made certain assumptions in calculating the estimated potential distributions to Securityholders in section 3. If the assumptions are not met, this may result in a materially higher or lower cash surplus being available for distribution to Securityholders.

In the event that one or more assumptions differ from those set out then the potential returns will be affected to a greater or lesser extent by the combined effect of those changes to the assumptions.

The significant assumptions made are as follows:

1. Sale of the Property Portfolio at a premium to book value

It is expected that the Property Portfolio could be sold in excess of book value. The potential distributions to Securityholders shown in section 3 above if the Property Portfolio is sold at book value is for illustrative purposes only.

As noted in section 1 above, the Non-Core Properties that have been sold to date have realised sales values in aggregate that were 14% above book value (with individual properties achieving up to 28% above book value). The Directors believe, based on the current market conditions, that the Core Properties could achieve sales values above book value that are greater than that experienced for the Non-Core Property sales completed to date.

The amount by which the sales values may exceed book value is uncertain, and therefore there is no certainty that the range of possible outcomes presented in section 3 will eventuate.

2. Time to sell the Property Portfolio

The Directors currently intend to complete the sale of the Group's Property Portfolio within 12 months of this Meeting. However, as at the date of this Notice of Meeting, the Lantern Board has not yet received any offer that is capable of acceptance for the Core Properties. If the Sell Down Strategy takes longer than 12 months, additional costs may be incurred to operate the Group.

3. The whole Property Portfolio is divested

It is assumed that the whole Property Portfolio is divested. If one or more of the properties are not divested and are instead retained by the Group (due to market conditions or other factors) the Group will continue operating. Profits would be earned from the remaining hotel operations and costs would be incurred for central support services, corporate expenses and fund expenses.

4. Time and cost of winding up the Group

It is assumed that the winding up of the Group (should this be required) would occur within a short timeframe following the sale of the Property Portfolio. If the winding up of the Group takes longer than anticipated, this could result in additional costs being incurred until such time as the Group is wound up.

The Directors have allowed for certain costs to be incurred, including an allowance for contingencies, to wind up the Group. Should unforeseen events occur, this could result in the wind up costs being higher than anticipated.

5. Change in law

A change in law or interpretation of the law (including gaming and tax laws) may impact on the cash available to Securityholders.

6. Tax consequences

The Group has significant accumulated tax losses and it is assumed these tax losses are available to offset tax profits arising from the ongoing operations and the Sell Down Strategy. Where tax losses are not available to offset expected tax profits arising it is assumed tax is payable at the current company tax rate of 30%.

If the tax losses cannot be offset against tax profits as assumed, or the calculation of tax profits is different to that assumed, it is possible that additional tax payments may need to be made.

7. Ongoing financial performance of the hotels up to the time of sale

It is assumed that the future financial performance of the hotels will not be lower than the current financial performance being experienced. If the financial performance of any of the hotels deteriorates then this may impact the sale value that can be achieved.

5. ASX Listing Rule requirements

The information contained in these Explanatory Notes and the Sell Down Resolution to be considered by Securityholders have been prepared to ensure the Group is compliant with the requirements of the ASX Listing Rules.

ASX Listing Rule 11.1 provides that in circumstances where an entity proposes to make a significant change to the nature or scale of its activities, full details must be provided to the ASX as soon as practicable. ASX listing Rule 11.2 provides that:

If the significant change involves the entity disposing of its main undertaking, the entity must get the approval of holders of its ordinary securities and must comply with any requirements of ASX in relation to the notice of meeting. The notice of meeting must include a voting exclusion statement. The entity must not enter into an agreement to dispose of its main undertaking unless the agreement is conditional on the entity getting that approval.

The Sell Down Resolution therefore seeks the Securityholders' approval for the potential sale of the Property Portfolio owned by the Group, being the Group's main undertaking, and includes the voting exclusions set out at section 10 below.

Chapter 12 of the ASX Listing Rules requires that the level of an entity's operations must, in ASX's opinion, be adequate to warrant its continued listing. Chapter 12 also allows ASX to suspend quotation of an entity's securities where half or more of an entity's total assets is cash. In the event that the entire Property Portfolio of the Group has been sold, and a decision has been made by the Lantern board to de-list and wind up the Company and the Fund, a further resolution will be put to the Securityholders at the time to seek approval for the delisting and winding up of the Group.

6. Advantages of the proposed Resolution

There are numerous reasons why the Directors believe you should vote in favour of the Sell Down Resolution.

1. The Group is currently sub-scale given the required infrastructure to support the corporate and listed structure that is in place.
2. The Core Properties have historically been under invested. Substantial capital expenditure would be required to significantly improve the performance of the Core Properties. Any return on such capital expenditure cannot be guaranteed. Even following such an investment programme, the Group would still be sub-scale.
3. Gaming led hotels that meet the stated strategic criteria for the Group are rarely placed on the market, and if they are they tend to be fully priced. Growth via acquisition that yields an appropriate return on investment would therefore be difficult to achieve in the current market.
4. The Group's Core Properties are highly sought after gaming led hotels with considerable upside potential and therefore may achieve sale values well above book value. While the improved performance of the Core Properties has enhanced value, further value enhancement is unlikely without significant investment.
5. You may receive cash distributions in excess of the current ASX trading price in the event a successful sell down of all properties is achieved.

7. Disadvantages of the proposed Resolution

However, it is important to consider the potential disadvantages of the proposed Resolution which may not align with your investment objectives. For example:

1. The Group's returns from maintaining and investing in the Core Properties may yield superior results to the Sell Down Strategy.
2. The Property Portfolio may increase in value in the future above what can be achieved through any sales in the near term.
3. An alternate proposal which is considered to be superior may emerge in the future. The Directors note that at this time the Group is not aware of any alternative proposal that is superior to the current recommendation to Securityholders.
4. You may not be able to trade your Securities which may be suspended from trading on ASX and/or the Group may be delisted from ASX at some time in the future. When this occurs, you will not be able to trade your Securities on ASX.

8. What if the Resolution is not approved at the Meeting?

As noted in these Explanatory Notes, the purpose of the Sell Down Resolution is to give the Lantern Board the maximum flexibility to consider all offers and proposals that it may receive in connection with the Group's Property Portfolio, including the potential sale of all properties owned and operated by the Group.

If the Sell Down Resolution is not approved at the Meeting, the current intention of the Directors is that:

1. the Group will continue to implement the Divestment Plan for the remaining Non-Core Properties, being the Commodore Hotel (North Sydney), Central Hotel (Bundaberg) and Brisbane Hotel (Perth);
2. the Directors may investigate sale opportunities for one or more Core Properties, provided that, in entering into any sale transaction, there will be no change to the nature of the Group's main undertaking, being the ownership and operation of hotels in Australia. Should an opportunity arise which, in the opinion of the Directors acting in the best interests of the Securityholders, is a good opportunity to realise value for the Group and Securityholders, the Directors may pursue such an opportunity; and
3. continue to operate and invest in the Core Properties with a view to increasing their profitability whilst considering alternative investment options.

Should an offer be received from one or more parties wishing to acquire the Group or the Property Portfolio as a whole including all Core Properties, the Directors will call a General Meeting in order to approve the sale where such a transaction will result in the disposal of the Group's main undertaking as required under ASX Listing Rule 11.2.

9. Directors' Recommendation

The Board unanimously recommends that Securityholders vote in favour of this resolution.

10. Voting Exclusion Statement

As required by the ASX Listing Rules, the Group will disregard any votes cast on the Sell Down Resolution by:

- (i) a person who might obtain a benefit, except a benefit solely in the capacity of a Securityholder, if the resolution is passed; or
- (ii) an associate of that person,

except where the votes are cast: (a) by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or (b) by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

As at the date of this document, the Directors are not aware of any substantial Securityholders or their associates who are involved or may otherwise obtain a benefit from any potential sale transaction, other than in their role as a Securityholder.

GLOSSARY

AEDT means Australian Eastern Daylight Savings Time as observed in Sydney, Australia.

Annual General Meeting, AGM or Meeting means the meeting convened by the Notice.

Associate has the meaning given to that term in sections 10 and 11 and sections 13 to 17 of the Corporations Act.

ASX means ASX Limited ACN 008 624 691.

ASX Listing Rules means the Listing Rules of the ASX, as amended or replaced from time to time except to the extent of any express written waiver by ASX.

ASX Principles means the ASX Corporate Governance Principles and Recommendations (3rd edition).

Board means the current Board of directors of the Company.

Closely Related Party has the meaning as defined in section 9 of the Corporations Act.

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

Constitution means the Company's Constitution.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the current directors of the Company.

Explanatory Notes means the Explanatory Notes accompanying the Notice.

Fund means Lantern Real Estate Trust (ASRN 108 982 627).

Lantern or Group means the Lantern Hotel Group (ASX code: LTN), a stapled vehicle made up of a share in Lantern Hotel Group Limited and a unit in Lantern Real Estate Trust.

Items means the resolutions set out in the Notice, or any one of them, as the context requires.

Key Management Personnel or KMP has the meaning as defined in section 9 of the Corporations Act.

Notice or Notice of Meeting or Notice of Annual General Meeting means this notice of annual general meeting and the explanatory notes accompanying the Notice and the Proxy Form.

Proxy Form means the proxy form accompanying the Notice.

Related Body Corporate has the meaning set out in section 50 of the Corporations Act.

Remuneration Report means the remuneration report set out in the Director's Report section of the Company's annual financial report for the year ended 30 June 2016.

Resolutions means the resolutions set out in the Notice, or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Securityholder means a holder of a Stapled Security.

Sell Down Resolution means, together, Resolution 1A and Resolution 2D.

Stapled Security means one stapled security comprised of a Share and Unit.

Unitholder means a holder of a unit in the Fund.


LODGE YOUR VOTE

 **ONLINE**
www.linkmarketservices.com.au

 **BY MAIL**
 Lantern Hotel Group
 C/- Link Market Services Limited
 Locked Bag A14
 Sydney South NSW 1235 Australia

 **BY FAX**
 +61 2 9287 0309

 **BY HAND**
 Link Market Services Limited
 Level 12, 680 George Street, Sydney NSW 2000

 **ALL ENQUIRIES TO**
 Telephone: +61 1300 554 474



X99999999999

PROXY FORM

I/We being a member(s) of Lantern Hotel Group and entitled to attend and vote hereby appoint:

APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

STEP 1

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **10:00am on Tuesday, 25 October 2016 at Lantern Hotel Group Boardroom, Level 8, 1 York Street, Sydney NSW 2000** (the Meeting) and at any postponement or adjournment of the Meeting.

Important for Resolution 2A: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 2A, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (KMP). **The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.**

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an


Resolution for Lantern Real Estate Trust

	For	Against	Abstain*
1A Sale of main undertaking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Resolutions for Lantern Hotel Group Limited

	For	Against	Abstain*
2A Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2B Re-election of Director Mr Graeme Campbell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2C Election of Director Mr Matthew Stubbs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2D Sale of main undertaking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

STEP 2

 * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED

Securityholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Securityholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Securityholder 3 (Individual)

Director

This form should be signed by the securityholder. If a joint holding, either securityholder may sign. If signed by the securityholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

STEP 3

LTN PRX1601N



HOW TO COMPLETE THIS SECURITYHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's security register. If this information is incorrect, please make the correction on the form. Securityholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your securities using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a securityholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form, including where the Resolution is connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's security registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either securityholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's security registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am on Sunday, 23 October 2016**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, securityholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



BY MOBILE DEVICE

Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier and postcode for your securityholding.

QR Code



To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.



BY MAIL

Lantern Hotel Group
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
Level 12
680 George Street
Sydney NSW 2000

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**