



Lantern Hotel Group

Annual report

For the year ended 30 June 2016



2016 CHAIRMAN AND CEO'S MESSAGE

Dear Security Holders,

Welcome to the fifth annual report of Lantern Hotel Group, your company and trust.

We are pleased to report a very strong turnaround in the Group's financial performance, resulting from the successful implementation of the well documented **Stabilise, Improve and Invest** transformation strategy initiated in November 2015.

The turnaround has produced a profit for the period of \$7.006m compared to a loss of \$8.885m for the prior year. This result was driven by improved operating performance and the divestment of non-core hotels.

THE YEAR'S HIGHLIGHTS

- The resolution of a number of legacy issues including the termination of the out of the money swaps and improved productivity and operational team capability;
- The establishment of a high performance culture which has led to strong underlying earnings growth, which in turn is enhancing security holder value;
- A very strong June half with operating revenue and EBITDA for the core hotels improving 10.9% and 38.8% respectively when compared to the prior comparative period;
- A 15.7% reduction in central support services expenses in the June half when compared to prior comparative period;
- The programme for the divestment of non-core hotels has been very successful. Between November 2015 and August 2016 eight properties were divested or contracted for sale, including seven hotels and a parcel of vacant land. When all contracted sales are completed Lantern will have realised gross proceeds of approximately \$43m at a premium to book value of 14%;
- The debt reduction programme has reduced gross debt from approximately \$80m at 31 December 2015 to approximately \$40m at 30 June 2016, resulting in low gearing levels. Net debt at 30 June 2016 is approximately \$28m;
- The primary debt facility was refinanced prior to 30 June 2016;
- Improved communication with security-holders; and
- Improved security price.

We refer you to the separate presentation that was released to the market on 22 August 2016 for a more detailed overview of the 2016 results.

ONGOING FOCUS AREAS

Lantern now has a strong balance sheet which provides a solid platform for active capital management, growth and/or other strategic alternatives for the Board to consider.

To ensure the momentum achieved in the June half is maintained and to leverage the platform for growth that has been established, the team intends to focus on the following areas during the course of the next financial year.

- Continue to divest non-core hotels;
- Actively manage capital;
- Identify and evaluate strategic alternatives; and
- Until implementation of the sell down (detailed below), continue to improve the trading performance of the core hotels including refurbish and modernise the core hotels, as well as further investment in the electronic gaming machines ("EGM") replacement programme.

It is pleasing to note that at the date of this report, the momentum achieved in the June half is continuing into the new financial year.



2016 CHAIRMAN AND CEO'S MESSAGE

CAPITAL MANAGEMENT

A strong balance sheet driven by improved operating performance and the divestment of non-core hotels has allowed for a return of capital to security holders of 2 cents per security which was paid on 10 August 2016.

The Board will continue to review the ongoing approach to capital management, including consideration of ongoing distributions for future periods, taking into account the completion of the programme for the divestment of non-core hotels, the performance of the core hotels, capital expenditure requirements (including EGM replacements), and alternative uses for capital.

In keeping with this objective the Board intends to maintain a distribution payout ratio of between 50% and 80% of net operating profits before significant items, subject to Lantern's financial position. Any decision in relation to payment of regular or special distributions for future periods will be subject to actual performance and capital requirements of the Group.

LOOKING FORWARD

The improved operating performance and the establishment of a more stable capital structure has allowed the Board to focus on developing a strategic direction for the Group.

The Board is of the view that the current business is sub-scale and that growth via acquisition in the current strong and tightly held market in a value accretive manner may be difficult to achieve.

Having considered the various strategic options, the Directors have formed the view that it would be in the best interests of the Group to obtain the flexibility of undertaking an orderly sell down of the Group's remaining hotels (including all core hotels). Given the strong market for the Group's properties, the Directors believe there is real opportunity to realise premium value on the Groups property portfolio.

In this regard we would like to draw your attention to the sell down resolution and the explanatory notes which are contained in the Notice of Meetings recently sent to security-holders. The proposed sell down resolution and the explanatory notes provide detailed information in support of the Board's recommendation.

THANK YOU

The year under review has been both challenging and rewarding. Our thanks goes to the entire Lantern team for their dedication and hard work during the year. The outstanding results achieved are directly attributable to the 'above and beyond' effort displayed by the team.

We would also like to thank security holders for your positive feedback to the more open and transparent communication that we have endeavoured to deliver during the course of the year.

Our final vote of thanks goes to John Murphy who tendered his resignation as Chairman and Director in June 2016. John's contribution was a major factor in the overall turnaround and in particular his communicative style will be missed by the Lantern team.

We look forward to seeing you at the AGM which will be held on Tuesday 25 October at 10am at the Lantern Boardroom located at Level 8, 1 York St, Sydney.

Graeme Campbell
Non-executive Chairman

John Osborne
CEO





Lantern Hotel Group

The Stapled Group Comprising:

**Lantern Real Estate Trust and its Controlled Entities; and
Lantern Hotel Group Limited and its Controlled Entities**

Annual Report

For the year ended 30 June 2016



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Lantern Hotel Group ("the Group") is a stapled entity comprising the Lantern Real Estate Trust ("the Trust" or "the parent entity"), and Lantern Hotel Group Limited ("Lantern"), and their 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 8, 1 York Street, Sydney NSW 2000.



CORPORATE INFORMATION

FOR THE YEAR ENDED 30 JUNE 2016

Directors	Graeme Campbell (Chairman) Shirley Liew Matthew Stubbs
Company Secretary	Leanne Ralph
Notice of Annual General Meeting ('AGM')	The Annual General Meeting of Lantern Hotel Group Limited will be held at Lantern Hotels Boardroom Level 8, 1 York Street Sydney NSW 2000 Time 10:00 AM Date 25 October 2016
Registered Office	Level 8, 1 York Street Sydney NSW 2000 Phone: (02) 8223 3602
Principal Administration Office	Level 8, 1 York Street Sydney NSW 2000 Phone: (02) 8223 3602
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 shares are stapled to units of Lantern Real Estate Trust and are listed on the Australian Securities Exchange (ASX code: LTN)
Website	www.lanternhotels.com.au



DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2016

The directors of Lantern RE Ltd, the Responsible Entity of the Lantern Real Estate Trust ("the Trust"), present their report together with the financial statements of the Group, for the year ended 30 June 2016.

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 ("Lantern") and its controlled entities.

Directors

Name	Graeme Campbell
Title	Non-Executive Chairman
Appointed	24 June 2015
Experience, expertise and qualifications	Mr Graeme 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 Graeme left Ferrier Hodgson to set up Campbell Advisory, which provides wide ranging hospitality advice to participants within the hotel and registered clubs industries together with the major banks and other funders.
Other current directorships	Lead independent director of Ainsworth Game Technology Limited, independent director of Liquor Marketing Group (Bottlemart) and the independent Audit Chairman of the Illawarra Catholic Club Group.
Former directorships	Chairman of Harness Racing NSW (2006-2014)
Special responsibilities	Audit and Risk Committee

Name	Shirley Liew
Title	Non-Executive Director
Appointed	18 June 2015
Experience, expertise and qualifications	Ms Shirley Liew has over 25 years senior finance, audit and advisory experience including over 12 years in senior roles at international firm Ernst & Young, and Head of Risk and Audit Partner at Chartered Accounting firms Grant Thornton and Moore Stephens, during which time she was Audit Partner for various large hospitality groups. She has also had recent experience as commercial CFO for large iconic Australian brands as well as international companies listed overseas.
Other current directorships	Director and Audit Chair of Hunter United Employees Credit Union, Director and Audit Chair of Bridge Housing Limited, Independent Member of NSW Trains Audit and Risk Committee, Independent Member of Nepean Blue Mountains Local Health District and Director of Amber Group Australia.
Former directorships	Director of L'Occitane Australia Pty Limited
Special responsibilities	Chair Audit and Risk Committee

Name	Matthew Stubbs
Title	Non-Executive Director
Appointed	7 March 2016
Experience, expertise and qualifications	Mr Matthew Stubbs has over sixteen years experience in investment banking. During his career Matthew 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, Matthew 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.
Other current directorships	Managing Director of Allier Capital, Non-Executive Director Everlight Radiology Limited and Director of Totem Holdings Pty Ltd.
Former directorships	n/a
Special responsibilities	-



DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Directors (continued)

Name	John Murphy (resigned 30 June 2016)
Title	Non-Executive Chairman
Appointed	24 June 2015
Experience, expertise and qualifications	Mr John Murphy has over 30 years experience in the Australian beverage and packaging industries, culminating in the role as Managing Director of Coca-Cola Amatil Australia. Prior to this he was CEO of Visy Australasia.
Other current directorships	Non-Executive Chairman of PFD Food Services Limited.
Former directorships	Managing Director of Carlton & United Breweries Ltd.
Special responsibilities	-

Company Secretary

Leanne Ralph was appointed to the position of Company Secretary on 6 September 2012. Mrs Ralph has over 24 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 Limited, 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 hotels in Australia.

Directors' security holdings

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

	<u>Stapled Securities in the Group</u>
Graeme Campbell	-
Shirley Liew	-
Matthew Stubbs	172,400,000

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 were as follows:

	Board		Audit and Risk Committee	
	A	B	A	B
John Murphy	16	16	-	-
Graeme Campbell	16	16	4	4
Shirley Liew	16	16	4	4
Matthew Stubbs	4	4	-	-

A: Meetings eligible to attend

B: Meetings attended



DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Significant changes in the state of affairs

- (a) On 20 July 2015 the Group terminated the services agreement with Naylor Partners under which the provision of services of CEO were provided to the Group by Russell Naylor. A payment in lieu of six months notice was made as stipulated by the services agreement with Naylor Partners.
- (b) On 19 August 2015 John Osborne was appointed CEO of the Group.
- (c) On 10 September 2015 the Group sold the New Zealand investment property The Office for NZ\$0.45m (\$A0.40m)
- (d) On 16 September 2015 the Group sold the New Zealand investment property the Waikanae Hotel for NZ\$2.30m (A\$2.00m).
- (e) On 1 February 2016 the Group sold the freehold going concern El Toro Hotel for \$24.20m.
- (f) On 29 February 2016 the Group sold the NZ investment property, Albert Hotel, for NZ\$3.40m (AUD \$3.20m). This was the last remaining property held in the NZ portfolio.
- (g) On 1 March 2016 the Group sold the freehold going concern Dolphin Hotel for \$11.15m.
- (h) On 28 April 2016 the Group established an employee share incentive plan for three senior executives providing a total of 15.75m options over Lantern stapled securities, subject to certain hurdles being met.
- (i) On 10 June 2016 the Group sold the investment property, GPO Hotel, for \$5.25m.
- (j) On 29 June 2016 the Group sold the freehold going concern Bowral Hotel for \$6.25m.
- (k) On 30 June 2016 the Group refinanced its primary loan facility, which was originally due to expire on 31 August 2016. Key terms of the facility are:
 - Three year term;
 - \$60 million total facility; and
 - Covenants consistent with industry norms.

Likely developments and expected results of operations

Refer to the Chairman and CEO's message 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 ended 30 June 2016.

Remuneration Report

Refer to note 28 for details on the remuneration of key management personnel.

Significant events after balance date

- (a) On 4 July 2016 a special distribution was declared by Lantern Real Estate Trust to security holders which was paid on 10 August 2016 at 2c per security (\$17.7m). \$10m was drawn from the primary borrowing facility to fund this special distribution.
- (b) On 21 July 2016 contracts for the sale of the freehold going concern of the Cairns Courthouse Hotel were exchanged for \$6.25m with settlement likely to occur in early October 2016.
- (c) On 3 August 2016 contracts for the sale of the freehold going concern of the Lawson Park Hotel were exchanged for \$4.05m. Settlement occurred 16 September 2016 with proceeds retained as cash.
- (d) On 15 August 2016 the freehold going concern of the Exchange Hotel was sold for \$6.625m with proceeds used to repay borrowings.



DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Registered Scheme

A total of \$1,011,216 (2015: \$1,103,211) was paid or payable to the Responsible Entity (which is a wholly owned subsidiary of the Lantern Hotel Group Limited) out of scheme assets for services for the year ended 30 June 2016. 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 stapled group.

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 issued units in the scheme totalled 883,202,130 (2015:833,202,130) (refer note 18).

The gross value of the scheme assets (excluding those attributable to Lantern Hotel Group Limited and its controlled entities) at the end of the financial year totalled \$145,279,674 (2015: \$179,945,949). 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 Group 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 the amount of the premium.

Corporate governance statement

The Corporate Governance Statement was approved by the Board of Directors on 16 September 2016 and can be found at www.lanternhotels.com.au

Review of operations

Profit for the period was \$7.006m which represents a significant turnaround when compared to a loss of \$8.885m for the prior year.

The improvement in performance can be attributed to the successful implementation to date of the transformation plan begun in November 2015:

- The core hotels showed a 22.7% improvement in EBITDA for the full year and a 38.8% increase for the June half when compared to the prior corresponding periods;
- The programme of the divestment of non-core hotels is ahead of schedule. When all contracted sales are completed Lantern will have realised \$43m at a premium to book value of 14%;
- The divestment programme has enabled Lantern to reduce its debt and to invest in its core hotels; and
- The termination of the out of the money interest rate swaps along with reduced debt has significantly reduced financing expenses.

Security holders have directly benefited from the turnaround via a special distribution of 2 cents per security which was declared subsequent to the end of the 2016 financial year and paid on 10 August 2016.

Lantern now has a strong balance sheet which provides a solid platform for active capital management, growth and /or other strategic alternatives for the Board to consider.

Please refer to the separate presentation that was released to the market on 22 August 2016 for more detail on the 2016 Full Year Results.

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.



DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 30 JUNE 2016

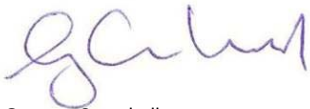
Rounding of amounts

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Instrument, 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 the following page.

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



Graeme Campbell
Non-Executive Chairman
Dated in Sydney this 18th day of September 2016



Shirley Liew
Non-Executive Director
Dated in Sydney this 18th day of September 2016



**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 2016 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.



**D K Swindells
Partner**

**Sydney, NSW
16 September 2016**

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Income			
Revenue from continuing operations	3	38,478	35,313
Revaluation of investment properties		1,100	413
Profit on disposal of land and buildings		-	2,499
Other income		129	138
Total income		39,707	38,363
Cost of sales			
Cost of sales		(14,785)	(13,727)
Employment expenses		(9,925)	(9,559)
Finance costs		(1,784)	(3,268)
Depreciation and amortisation	4(a)	(2,702)	(2,188)
Revaluation of property, plant and equipment		-	(5,035)
Impairment of goodwill		-	(500)
Revaluation of investment properties		(4,750)	-
Professional fees		(1,644)	(3,015)
Repairs and maintenance		(1,418)	(1,573)
Insurance		(456)	(507)
Security		(771)	(777)
Property expenses		(864)	(938)
Loss on disposal of plant and equipment		(752)	(3)
Other	4(b)	(2,541)	(2,755)
Total expenses		(42,392)	(43,845)
Profit/(loss) from continuing operations before income tax expense		(2,685)	(5,482)
Income tax expense	5(a)	-	(108)
Profit/(loss) from continuing operations after income tax expense		(2,685)	(5,590)
Discontinued operations			
Profit/(loss) from discontinued operations	19(b)	9,691	(3,295)
Profit/(loss) for the year		7,006	(8,885)
Profit is attributable to stapled security holders as:			
Unitholders of Lantern Real Estate Trust (parent interest)		(791)	(10,101)
Shareholders of Lantern Hotel Group Limited (non-controlling interest)		7,797	1,216
		7,006	(8,885)
		Cents	Cents
Distributions per security		-	-
Earnings per security - basic			
From continuing operations		(0.30)	(0.64)
From discontinued operations		1.10	(0.37)
		0.80	(1.01)
Earnings per security - diluted			
From continuing operations		(0.30)	(0.64)
From discontinued operations		1.09	(0.37)
		0.79	(1.01)

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



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

Note	2016 \$'000	2015 \$'000
Parent interest – Lantern Real Estate Trust		
Net profit/(loss) for the year	(791)	(10,101)
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Revaluation surplus/(deficit) – property, plant and equipment	(75)	(325)
Security based payment reserve	30	-
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	7	(343)
Total comprehensive profit/(loss) for the year – parent interest	(829)	(10,769)
Non-controlling interest – Lantern Hotel Group Limited		
Net profit for the year	7,797	1,216
Items that will not be reclassified to profit or loss:		
Security based payment reserve	2	-
Total comprehensive profit/(loss) for the year - non-controlling interest	7,799	1,216
Stapled Entity		
Net profit/(loss) for the year	7,006	(8,885)
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Revaluation surplus/(deficit) – property, plant and equipment	(75)	(325)
Security based payment reserve	32	-
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	7	(343)
Total comprehensive profit/(loss) for the year – stapled entity	6,970	(9,553)

The components of profit or loss and other comprehensive income shown above are presented net of related income tax effects of \$Nil (2015: \$108,000)

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

AS AT 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Current assets			
Cash and cash equivalents	7	12,011	3,611
Trade and other receivables	8	1,248	1,361
Inventories	9	642	1,333
Assets of discontinued operations	19(d)	18,601	5,740
Total current assets		32,502	12,045
Non-current assets			
Investment properties	11	16,250	26,963
Property, plant and equipment	12	72,829	106,020
Intangibles	13	24,221	35,934
Other	10	183	237
Total non-current assets		113,483	169,154
Total assets		145,985	181,199
Current liabilities			
Payables	14	7,587	12,164
Borrowings	16	-	72,340
Liabilities directly associated with assets classified as held for sale	19(d)	14,621	-
Derivatives	17	-	3,449
Provisions	15	88	115
Total current liabilities		22,296	88,068
Non-current liabilities			
Payables	14	2,156	1,096
Borrowings	16	26,267	-
Derivatives	17	-	3,664
Provisions	15	44	119
Total non-current liabilities		28,467	4,879
Total liabilities		50,763	92,947
Net assets		95,222	88,252
Security holders' interest attributable to stapled security holders as:			
Unitholders of Lantern Real Estate Trust (parent interest)			
Issued units	18(a)	220,763	220,763
Reserves		(61)	(23)
Retained earnings/(accumulated losses)		(136,001)	(135,210)
Total equity interest attributable to unitholders of Lantern Real Estate Trust (parent interest)		84,701	85,530
Shareholders of Lantern Hotel Group Limited (non-controlling interest)			
Issued shares	18(a)	2,745	2,745
Reserves		2	-
Retained earnings/(accumulated losses)		7,774	(23)
Total equity interest attributable to shareholders of Lantern Hotel Group Limited (non-controlling interest)		10,521	2,722
Total security holders' interest		95,222	88,252

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

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Cash receipts from customers (inclusive of GST)		65,327	67,462
Cash paid to suppliers and employees (inclusive of GST)		(60,487)	(57,837)
Proceeds from insurance claim		191	-
Lease incentive		-	200
Interest received		81	61
Interest paid		(4,756)	(6,555)
Net cash provided by/ (used in) operating activities	33	356	3,331
Cash flows from investing activities			
Proceeds from sale of assets of discontinued operations		52,270	982
Payments made on disposal of discontinued operations		(1,422)	-
Payments made for property, plant and equipment		(3,394)	(3,150)
Payments made for intangibles		(1,172)	(841)
Payments made for investment property		(162)	-
Proceeds from sale of property, plant and equipment		-	4,999
Proceeds from loans repaid by third parties		-	234
Payment on acquisition of business, net of cash acquired		-	(18,368)
Net cash provided by/ (used in) investing activities		46,120	(16,144)
Cash flows from financing activities			
Proceeds from borrowings		9,799	20,100
Payment for borrowing costs		(153)	(35)
Repayment of borrowings		(41,666)	(4,917)
Payment for termination of interest rate swaps		(5,519)	-
Repayment of finance leases		(64)	(75)
Payment for equity buyback facilitation		-	(1,400)
Net cash provided by/ (used in) financing activities		(37,603)	13,673
Net increase in cash or cash equivalents		8,873	860
Cash and cash equivalents at the beginning of the year		3,611	2,747
Effects of exchange rate changes on cash		(13)	4
Cash and cash equivalents at the end of the year		12,471	3,611
Cash and cash equivalents at the end of the year – continuing operations	7	12,011	3,611
Cash and cash equivalents at the end of the year – discontinued operations	19(d)	460	-
Cash and cash equivalents at the end of the year		12,471	3,611

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

FOR THE YEAR ENDED 30 JUNE 2016

Note	Issued Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Non-controlling Interest \$'000	Total \$'000
Carrying amount at 1 July 2015	220,763	(23)	(135,210)	2,722	88,252
Lantern Real Estate Trust					
Net profit/(loss) for the year	-	-	(791)	-	(791)
Other comprehensive income	-	(38)	-	-	(38)
	-	(38)	(791)	-	(829)
Lantern Hotel Group Limited					
Net profit/(loss) for the year	-	-	-	7,797	7,797
Other comprehensive income	-	-	-	2	2
	-	-	-	7,799	7,799
Total Stapled Entity					
Net profit/(loss) for the year	-	-	(791)	7,797	7,006
Other comprehensive income	-	(38)	-	2	(36)
Total comprehensive profit/(loss) for the year	-	(38)	(791)	7,799	6,970
Carrying amounts at 30 June 2016	220,763	(61)	(136,001)	10,521	95,222
Carrying amount at 1 July 2014	220,763	645	(125,109)	1,506	97,805
Lantern Real Estate Trust					
Net profit/(loss) for the year	-	-	(10,101)	-	(10,101)
Other comprehensive income	-	(668)	-	-	(668)
	-	(668)	(10,101)	-	(10,769)
Lantern Hotel Group Limited					
Net profit/(loss) for the year	-	-	-	1,216	1,216
	-	-	-	1,216	1,216
Total Stapled Entity					
Net profit/(loss) for the year	-	-	(10,101)	1,216	(8,885)
Other comprehensive income	-	(668)	-	-	(668)
Total comprehensive profit/(loss) for the year	-	(668)	(10,101)	1,216	(9,553)
Carrying amounts at 30 June 2015	220,763	(23)	(135,210)	2,722	88,252

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies

Reporting Entity

The Lantern Real Estate Trust ("the Trust") was constituted on 20 April 2000. The Responsible Entity for the Trust 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 Share holders shall be identical. The issued securities in these entities trade as one listed security on the Australian 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, and
- (ii) Lantern Hotel Group Limited and its controlled entities,

collectively referred to as "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 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 18 September 2016. 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 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.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial statements of the consolidated entity.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies (continued)

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.

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

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 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 consolidated 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.

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 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.

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 consolidated income statement.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies (continued)

Foreign currency translation (continued)

Foreign currency transactions and balances (continued)

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.

Foreign operation

The assets and liabilities of foreign operations are translated into Australian 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 consolidated 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 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.

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 controlled entity is treated as a non-controlling interest.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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 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.

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. Property, plant and equipment is tested for impairment at each reporting date.

Plant and equipment is stated at fair value at acquisition date or 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 profit or loss during the reporting period in which they are incurred. Gains and losses on disposal are determined by comparing proceeds with the 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:

	2016	2015
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.

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 are designated as a hedging instrument, and if so, the nature of the item/s being hedged.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in other comprehensive income and in accumulated reserves in equity.

Changes in the fair value of any derivative instruments that qualify for hedge accounting are recognised immediately in profit or loss.

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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 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.

Investment property is recorded at fair value, with any changes in fair value recognised in profit or loss.

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 between 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.

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 60 days of recognition.

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.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies (continued)

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 payables in respect of employees' services up to the reporting date and measured at the amounts expected to be paid when the liabilities are settled.

Other employee benefit obligations

The provision for long service leave is recognised in the provision for employee benefits. Amounts expected to be paid within 12 months are measured at current values. Amounts expected to be paid after 12 months are 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 financial statements have been prepared on a going concern basis, except for discontinued operations.

Subsequent to year end Directors have formed the view that it would be in the best interests of the Group to obtain the flexibility of undertaking an orderly sell down of the Group's remaining hotels (including all core hotels). This will require the approval of security holders, and a sell down resolution will be proposed at the Annual General Meeting to be held on 25 October 2016.

No adjustments have been made to the financial statements for the year ended 30 June 2016 relating to the recoverability and classification of recorded asset amounts and classification and recognition of liabilities.

If the abovementioned resolution is approved by security holders, future financial statements of the Group will not be prepared on a going concern basis, and the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Revenue

Revenue is measured at the fair value of the consideration received or receivable net of GST. 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 and net of GST.

Rent

Rental income from operating leases is recognised as and when due under the lease. Rental income from New Zealand 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.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies (continued)

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 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 basis.

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.

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 Group'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.

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 calculated 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 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 by the weighted average number of issued stapled 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.

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 the future reporting periods.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies (continued)

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 entity 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.

Security based payments

The Group operates an Executive Share Incentive Plan ("ESIP") and provides benefits to employees of the Group in the form of security based payments. Security based payments to employees are measured at the fair value of the instruments issued and amortised over the relevant vesting periods. The corresponding amount is recorded to the security based payment reserve. The fair value of options issued is determined using the Monte Carlo simulation valuation model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the instruments granted is based on the number of instruments that eventually vest.

The dilutive effect of outstanding options is reflected as additional security dilution in the computation of earnings per security.

Rounding of amounts

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Instrument, 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.

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 (see note 11 for continuing operations and note 19(d) for discontinued operations), property, plant and equipment (see note 12 for continuing operations and note 19(d) for discontinued operations), intangible assets including goodwill (see note 13 for continuing operations and note 19(d) for discontinued operations) with carrying values at either cost or fair value at acquisition date less accumulated depreciation and impairment or at fair value at measurement date. These carrying values 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.

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.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

3. Revenue	2016 \$'000	2015 \$'000
Revenue from hotel operations		
Gaming	18,727	16,185
Beverage	13,098	12,767
Food	3,782	3,669
Other	1,062	939
Rental revenue	1,809	1,753
	38,478	35,313

4a. Depreciation and amortisation	2016 \$'000	2015 \$'000
Building depreciation	536	698
Plant and equipment depreciation	1,777	1,280
Borrowing costs amortisation	389	210
	2,702	2,188

4b. Other expenses	2016 \$'000	2015 \$'000
Advertising and promotion	479	452
Entertainment	380	409
Electricity and gas	490	501
Pay TV subscriptions	414	325
Telephone & internet	123	108
Bank & merchant fees	123	113
Licences & subscriptions	80	108
Motor vehicle expenses	45	84
Printing & stationery	98	97
Share registry fees	98	80
Impairment of prepayment	-	192
Accommodation expenses	46	45
Other	165	241
	2,541	2,755

5. Income tax	2016 \$'000	2015 \$'000
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(a) Income tax expense

Reconciliation of profit/(loss) from operations before income tax to income tax expense:

Profit/(loss) from continuing operations before income tax	(2,685)	(5,482)
Profit/(loss) from discontinued operations before income tax	9,691	(3,295)
	7,006	(8,777)
Tax at the Australian tax rate of 30%	2,102	(2,633)
Add/(deduct):		
Trust operations not taxable	(1,962)	1,403
Non-deductible expenses/other assessable income	(122)	1,137
Other deductible amounts	(145)	(130)
Over/(under) provided in prior year	(120)	-
Deferred tax assets in relation to losses not recognised	247	223
Deferred tax asset derecognised	-	(108)
Income tax expense	-	(108)



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

5. Income tax (continued)	2016 \$'000	2015 \$'000
(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 income of the Trust.	18,738	15,741
Unused tax losses for which no deferred tax asset has been recognised – Lantern	4,184	3,360
Potential tax benefit at 30%	1,255	1,008
These unused tax losses are available to offset future taxable income of Lantern.		
Lantern Hotel Group 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	2016 \$'000	2015 \$'000
Profit/(loss) attributable to ordinary security holders of the Group:		
From continuing operations	(2,685)	(5,590)
From discontinued operations	9,691	(3,295)
	7,006	(8,885)
	'000	'000
Weighted average number of ordinary securities used in calculating basic earnings per security	883,202	883,202
Weighted average number of ordinary securities used in calculating diluted earnings per security	885,230	883,202
	Cents	Cents
Basic earnings per security attributable to the security holders of the Group		
From continuing operations	(0.30)	(0.64)
From discontinued operations	1.10	(0.37)
	0.80	(1.01)
Diluted earnings per security attributable to the security holders of the Group		
From continuing operations	(0.30)	(0.64)
From discontinued operations	1.09	(0.37)
	0.79	(1.01)
7. Cash and cash equivalents	2016 \$'000	2015 \$'000
Current assets		
Cash at bank and cash on hand	12,011	3,611
Total cash and cash equivalents	12,011	3,611
8. Trade and other receivables	2016 \$'000	2015 \$'000
Current assets		
Other debtors	614	275
Accrued income, prepayments and deposits	634	1,086
Total trade and other receivables	1,248	1,361



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

9. Inventories	2016 \$'000	2015 \$'000
Current assets		
Finished goods at cost	642	1,333
Total inventory	642	1,333

10. Other assets	2016 \$'000	2015 \$'000
Non-current assets		
Unamortised borrowing costs	183	237
Total non-current other assets	183	237

11. Investment properties	2016 \$'000	2015 \$'000
Non-current assets		
Investment properties – at fair value	16,250	26,963

Reconciliations

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

Carrying amount at beginning of the period	26,963	25,850
Additions	37	-
Revaluation	(3,650)	1,113
Transfer to disposal group (note 19(d))	(7,100)	-
Investment properties carrying value at the end of the period	16,250	26,963

Prior year comparatives have been adjusted to recognise the value of the Uncle Bucks Retail complex as Investment Properties. This asset was previously classified under property, plant and equipment. The amount reclassified in the current year is \$5.150m (2015: \$5.150m).

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	1,650	2,646
Later than one year but not later than five years	4,666	9,188
Later than five years	-	936
	6,316	12,770

12. Property, plant and equipment	2016 \$'000	2015 \$'000
Non-current assets		
Land and buildings – at cost or fair value at acquisition date	62,839	92,575
Plant and equipment – at cost or fair value at acquisition date	13,318	18,466
Less: accumulated depreciation	(3,351)	(5,072)
	9,967	13,394
Motor vehicles – at cost	51	76
Less: accumulated depreciation	(28)	(25)
	23	51
Total property, plant and equipment	72,829	106,020



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

12. Property, plant and equipment (continued)

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 2014	97,214	9,623	61	106,898
Acquisitions	6,495	5,957	-	12,452
Disposals	(2,418)	-	-	(2,418)
Revaluation	(7,650)	-	-	(7,650)
Depreciation expense – continuing operations (note 4 (a))	(698)	(1,270)	(10)	(1,978)
Depreciation expense – discontinued operations (note 19 (b))	(368)	(916)	-	(1,284)
Balance at 1 July 2015	92,575	13,394	51	106,020
Additions	939	4,155	-	5,094
Disposals	-	(765)	(23)	(788)
Revaluation	(545)	-	-	(545)
Transfer to disposal group (note 19 (d))	(29,419)	(4,348)	-	(33,767)
Depreciation expense – continuing operations (note 4 (a))	(536)	(1,772)	(5)	(2,313)
Depreciation expense – discontinued operations (note 19 (b))	(175)	(697)	-	(872)
Balance at 30 June 2016	62,839	9,967	23	72,829

Property, plant and equipment acquired in business combinations for the Waterworks Hotel and Exchange Hotel were accounted for on a provisional basis at 30 June 2015. During the current year, the Group retrospectively decreased the 30 June 2015 carrying values of land and buildings by (\$3.508m) in relation to these business combinations (Note 20).

Freehold going concern hotel assets

Freehold going concern assets includes land and buildings (including hotel licences), property, plant and equipment and intangibles (refer note 12 and note 13).

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 land and buildings, plant and equipment and intangibles could be more easily understood as freehold going concern hotel assets.

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

	2016 \$'000	2015 \$'000
Land and buildings	62,839	92,575
Plant and equipment	9,543	12,897
Intangibles	24,221	35,934
Total freehold going concern hotels	96,603	141,406

Hotel land and buildings which the Group owns but does not operate are shown as investment properties (note 11).



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

13. Intangibles	2016 \$'000	2015 \$'000
Non-current assets		
Goodwill – at cost	7,060	12,236
Less: impairment	(2,418)	(5,342)
	4,642	6,894
Gaming licences – at cost	19,579	29,040
Total intangibles	24,221	35,934

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.

Reconciliation

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

Property, plant and equipment acquired in business combinations for the Waterworks Hotel and Exchange Hotel were accounted for on a provisional basis at 30 June 2015. During the period the Group retrospectively increased the 30 June 2015 carrying value of goodwill by \$2.686m and gaming licences by \$0.822m (note 20).

	Goodwill \$'000	Gaming Licences \$'000	Total \$'000
Balance at 1 July 2014	4,208	24,090	28,298
Acquisition	5,186	4,950	10,136
Revaluation	(2,500)	-	(2,500)
Balance at 30 June 2015	6,894	29,040	35,934
Acquisition	-	1,172	1,172
Impairment – discontinued operations (note 19 (b))	(1,116)	-	(1,116)
Additional costs of acquisition recognised in profit or loss	(76)	-	(76)
Additional costs of acquisition recognised in profit or loss – discontinued operations (note 19 (b))	(60)	-	(60)
Transfers to disposal group (note 19 (d))	(1,000)	(10,633)	(11,633)
Balance at 30 June 2016	4,642	19,579	24,221

14. Payables	2016 \$'000	2015 \$'000
Current liabilities		
Trade payables	6,294	9,202
Other payables	1,218	2,887
Unearned income	75	75
Total current payables	7,587	12,164
Non-current liabilities		
Other payables	1,472	450
Lease incentive	459	346
Unearned income	225	300
Total non-current payables	2,156	1,096



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

15. Provisions	2016 \$'000	2015 \$'000
Current provisions		
Employee benefits	88	115
Total current provisions	88	115
Non-current provisions		
Employee benefits	44	119
Total non-current provisions	44	119

16. Borrowings	2016 \$'000	2015 \$'000
Current liabilities		
Finance lease liabilities	-	57
Bank debt	-	72,283
Total current borrowings	-	72,340
Non-current liabilities		
Bank debt	26,267	-
Total non-current borrowings	26,267	-

Bank Debt

Bank debt comprises Australian dollar denominated debt of \$40.416m (June 2015: \$72.283m).

\$14.149m of these borrowings are classified as liabilities of the disposal group and reflect expected net sale proceeds to be applied against the debt facility (see note 19 (d)).

Bank borrowings – continuing operations	26,267	72,283
Bank borrowings – discontinued operations (note 19(d))	14,149	-
Total bank borrowings	40,416	72,283

Weighted average interest rate	4.70%	4.79%
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Debt is provided through two facilities. The primary facility, with a limit of \$60m and drawn to \$28.216m, is repayable on 30 June 2019.

The Group's fully drawn secondary facility (\$12.2m) is due for repayment on 30 June 2018.

The bank facilities are secured by first mortgages over the investment properties, property, plant, equipment and intangibles with a total carrying value at balance date of \$130.3m (June 2015: \$168.4m).

Covenants

Primary Facility

The primary facility is secured over the Group's primary security pool, comprising investment properties, property plant and equipment and gaming licences and is subject to the following financial covenants:

- (i) Interest cover: adjusted EBITDA must exceed interest expense by 1.75 (2.5 times from 1 July 2016) at each calculation date.
- (ii) Loan to value ratio ("LVR"): must not exceed 50% of secured assets at each calculation date.
- (iii) Ratio of Net Worth to Total Assets: must not be less than 40% at each calculation date.

External valuations of the secured assets are required every 2 years.

Secondary Facility

The secondary facility is secured over the Group's secondary security pool, comprising property plant and equipment and gaming licences and is subject to the following financial covenants:

- (i) Rolling 12 month EBITDA of the security pool assets must not be less than 80% of the security pool valuation EBITDA at each calculation date.
- (ii) Rolling 12 month interest cover of EBIT of the security pool assets must not be less than 2.00 times interest expense on at each calculation date.

Compliance with covenants

The Group has complied with all financial covenants of its borrowings facilities during the 2016 reporting period.

External valuations of the secured assets are required every 3 years.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

17. Derivatives	2016 \$'000	2015 \$'000
Current liabilities		
Interest rate swap contracts	-	3,449
Non-current liabilities		
Interest rate swap contracts	-	3,664

The swap agreements were entered into during 2007. The agreements swapped a floating interest rate for a fixed interest rate. All interest rate swaps were terminated during the year at a cost of \$5.519m.

18. Issued securities	2016 \$'000	2015 \$'000
(a) Carrying amounts		
Attributable to stapled security holders of Lantern Real Estate Trust		
At the beginning of the year	220,763	220,763
At the end of the year	220,763	220,763
Attributable to stapled security holders of Lantern		
At the beginning of the year	2,745	2,745
At the end of the year	2,745	2,745
Total issued stapled securities	223,508	223,508
(b) Number of securities issued		
Attributable to stapled security holders of Lantern Real Estate Trust		
At the beginning of the year	883,202	883,202
At the end of the year	883,202	883,202
Attributable to stapled security holders of Lantern		
At the beginning of the year	883,202	883,202
At the end of the year	883,202	883,202
Total issued stapled securities	883,202	883,202

19. Discontinued operations

(a) Details of discontinued operations

The New Zealand discontinued operations as at 30 June 2016 comprised no assets, with all remaining properties disposed of during the year.

The Australian disposal group comprises the following:

- (i) Sold during the year: Bowral Hotel (June 2016), GPO Hotel (June 2016), Dolphin Hotel (March 2016) and El Toro Hotel (February 2016);
- (ii) Contract exchanged prior to 30 June 2016: Exchange Hotel (June 2016);
- (iii) Contracts exchanged after 30 June 2016: Courthouse Hotel (July 2016) and Lawson Park Hotel (August 2016); and
- (iv) Subject to ongoing sales process: Central Hotel.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

19. Discontinued operations (continued)	2016 \$'000	2015 \$'000
(b) Financial performance		
The results of the discontinued operations for the year were:		
New Zealand		
Rental income from investment properties	-	128
Other income	1	1
Revaluation of investment properties	(420)	(537)
Realised FX gains/(losses)	-	27
Expenses	(30)	(23)
Profit/(loss) from New Zealand discontinued operations for the year	(449)	(404)
Australia		
Revenue from hotel operations	20,781	24,244
Rental income from investment properties	770	761
Profit on sale of property, plant and equipment	10,178	-
Profit on sale of investment property	1,001	-
Total income	32,730	25,005
Cost of sales	(7,431)	(8,747)
Employment expenses	(6,842)	(7,678)
Other operating expenses	(3,933)	(4,480)
Finance costs	(1,345)	(2,082)
Depreciation & amortisation	(872)	(1,284)
Revaluation of property, plant & equipment	(470)	(2,290)
Revaluation of investment properties	(517)	700
Impairment of intangibles	(1,116)	(2,000)
Additional costs of goodwill acquired recognised in profit or loss	(60)	(32)
Loss on sale of assets	(4)	(3)
Total expenses	(22,590)	(27,896)
Profit/(loss) from Australian discontinued operations for the year	10,140	(2,891)
Profit/(loss) from discontinued operations for the year	9,691	(3,295)
(c) Cash flows		
The cash flows of the discontinued operations during the year were:		
New Zealand		
Cash flows from operating activities		
Rental and other property income	-	202
Payments to suppliers	(14)	(118)
Interest received	-	2
Other receipts	-	161
Cash flows from investing activities		
Proceeds from sale of investment properties	5,320	982
Loan proceeds received from lessee	-	64
Payments made on disposal of investment properties	(189)	-
Effects of exchange rate on cash	(13)	4
Cash flows from New Zealand discontinued operations	5,104	1,297



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

19. Discontinued operations (continued)	2016 \$'000	2015 \$'000
(c) Cash flows (continued)		
Australia		
Cash flows from operating activities		
Receipts from customers	23,706	27,506
Payments to suppliers	(20,501)	(23,656)
Interest paid	(1,346)	(2,082)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	41,700	(33)
Proceeds from sale of investment property	5,250	-
Payments made on disposal of property, plant and equipment	(1,233)	-
Payments made for additions to property, plant and equipment	(299)	(799)
Payments made for additions to investment property	(125)	-
Payments made for additions to intangibles	-	(841)
Payment for acquisition of business, net of cash acquired	-	(9,782)
Repayment of borrowings	(40,166)	-
Cash flows from Australian discontinued operations	6,986	(9,687)
Net cash inflows/(outflows) from discontinued operations	12,090	(8,390)
(d) Assets and liabilities		
The assets and liabilities of the discontinued operations as at reporting date were:		
Current assets – New Zealand		
Investment properties	-	5,740
Total assets of New Zealand discontinued operations	-	5,740
Current assets – Australia		
Property, plant and equipment	9,991	-
Intangibles	4,952	-
Investment property	2,500	-
Inventory	187	-
Cash	460	-
Receivables	511	-
Total assets of Australian discontinued operations	18,601	-
Total assets of discontinued operations	18,601	5,740
Current liabilities - Australia		
Borrowings	14,149	-
Payables	472	-
Total liabilities of Australian discontinued operations	14,621	-
Net assets of discontinued operations	3,980	5,740
(e) Leasing arrangements – New Zealand operations		
Future minimum rentals receivable under these leases are:		
Within one year	-	1,071
Later than one year but not later than five years	-	4,615
Later than five years	-	3,557
	-	9,243
(f) Leasing arrangements – Australian operations		
Future minimum rentals receivable under these leases are:		
Within one year	452	-
Later than one year but not later than five years	1,961	-
Later than five years	218	-
	2,631	-



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

20. Business combinations

Increase/(Decrease)
\$'000

Retrospective adjustments to 30 June 2015 carrying values

The business combinations for the Waterworks Hotel and Exchange Hotel were initially accounted for on a provisional basis. During the year ended 30 June 2016 the Group retrospectively adjusted the provisional amounts recognised and also recognised additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the date of acquisition.

The effect of this retrospective adjustment on the 30 June 2015 carrying values was as follows:

Property, plant and equipment	(3,508)
Goodwill	2,686
Gaming licences	822
	-

Details of the acquisitions are set out below.

Waterworks Hotel

On 15 September 2014 the Group purchased the property, plant, equipment and intangibles of the Waterworks Hotel, Botany. Details of the acquisition are as follows:

	Fair Value \$'000
Cash	97
Inventories	36
Land and buildings	3,113
Intangibles – gaming licences	2,107
Intangibles – goodwill	1,934
Plant and equipment	1,432
Other assets and liabilities	(139)
Acquisition date fair value of the assets and liabilities acquired	8,580
Add: amount expensed – portion of stamp duty allocated to goodwill	103
Acquisition date fair value of the assets and liabilities acquired and costs of acquisition expensed	8,683
<i>Consideration:</i>	
Cash paid to vendor	8,244
Cash paid for stamp duty and costs of acquisition	439
Total consideration	8,683
Less: cash acquired	97
Net cash outflow for acquisition	8,586

Exchange Hotel

On 21 October 2014 the Group purchased the property, plant, equipment and intangibles of the Beaumont Exchange Hotel, Newcastle. Details of the acquisition are as follows:

Cash	27
Inventories	49
Land and buildings	2,405
Intangibles – gaming licences	2,001
Intangibles – goodwill	3,116
Plant and equipment	2,055
Other assets and liabilities	(11)
Acquisition date fair value of the assets and liabilities acquired	9,642
Add: amount expensed – portion of stamp duty allocated to goodwill	167
Acquisition date fair value of the assets and liabilities acquired and costs of acquisition expensed	9,809
<i>Consideration:</i>	
Cash paid to vendor	9,315
Cash paid for stamp duty and costs of acquisition	494
Total consideration	9,809
Less: cash acquired	27
Net cash outflow for acquisition	9,782



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

20. Business combinations (continued)

\$'000

Payments for acquisition

The total payments for acquisition are as follows:

Waterworks Hotel	8,586
Exchange Hotel	9,782
Total payments for acquisition	18,368

Results of acquired businesses

The acquired hotel businesses contributed revenue and profit/(loss) since acquisition as follows:

2016	Waterworks \$'000	Exchange \$'000	2016 \$'000
Revenue	4,153	3,566	7,719
Expenses (including depreciation)	(3,792)	(3,678)	(7,470)
Impairment of goodwill	-	(1,116)	(1,116)
Profit/(loss)	361	(1,228)	(867)

2015 – since date of acquisition	Waterworks \$'000	Exchange \$'000	2015 \$'000
Revenue	2,702	2,758	5,460
Expenses (including depreciation)	(2,595)	(2,781)	(5,376)
Impairment of goodwill	-	(2,000)	(2,000)
Profit/(loss)	107	(2,023)	(1,916)

21. Reserves

2016
\$'000

2015
\$'000

Revaluation reserve	350	425
Security based payment reserve – Parent interest	30	-
Security based payment reserve – Non-controlling interest	2	-
Foreign currency translation reserve	(441)	(448)
	(59)	(23)

	Revaluation reserve \$'000	Security based payment reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
Consolidated				
Balance at 1 July 2014	750	-	(105)	645
Movement in asset revaluation reserve	(325)	-	-	(325)
Movement in foreign currency translation reserve	-	-	(343)	(343)
Balance at 30 June 2015	425	-	(448)	(23)
Movement in asset revaluation reserve	(75)	-	-	(75)
Movement in security based payment reserve	-	32	-	32
Movement in foreign currency translation reserve	-	-	7	7
Balance at 30 June 2016	350	32	(441)	(59)

Revaluation surplus reserve

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

Security based payment reserve

This reserve is used to recognise the estimated fair value of options granted to employees of the Group but not exercised.

Foreign currency translation reserve

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

22. Commitments	2016 \$'000	2015 \$'000
Finance lease agreements		
Commitments for finance lease payments, payable		
Within one year	-	65
Later than one year but not later than five years	-	-
Later than five years	-	-
Minimum lease payments	-	65
Future finance charges	-	(8)
Liability recognised	-	57
Disclosed as:		
Current liability	-	57
Non-current liability	-	-
	-	57
Operating lease agreements		
Commitments for operating lease payments, payable:		
Within one year	413	210
Later than one year but not later than five years	1,109	1,522
Later than five years	-	-
	1,522	1,732

Capital commitments

There are no significant commitments for capital expenditure at the end of the reporting period (2015: \$Nil).

23. Capital management	2016 \$'000	2015 \$'000
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 earnings 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 2016 the ratio was 20.9% (2015: 38.7%).		
Total consolidated assets	145,985	181,199
Total consolidated liabilities	50,763	92,947
Leverage ratio	34.8%	51.3%
Total consolidated bank debt	40,416	72,283
Less cash and cash equivalents	(12,471)	(3,611)
Net consolidated debt	27,945	68,672
Total consolidated assets	145,985	181,199
Less cash and cash equivalents	(12,471)	(3,611)
Total consolidated assets, net of cash	133,514	177,588
Gearing ratio	20.9%	38.7%



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

24. Financial risk management	2016 \$'000	2015 \$'000
Introduction		
The Group has the following financial instruments		
(i) Financial assets		
Cash and cash equivalents	12,471	3,611
Trade and other receivables	1,759	1,361
(ii) Financial liabilities		
Payables	9,756	12,914
Interest bearing liabilities	40,416	72,340
Interest rate swaps	-	7,113

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.

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 (derivatives were terminated during the year). 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 five-year time horizon.

At 30 June 2016, the Group holds interest rate swaps with a face value of \$Nil (2015: \$80.000m) compared to total bank borrowings of \$40.416m (2015: \$72.283m).

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

The consolidated entity's bank loans outstanding totalling \$40.416m (2015: \$72.283m) are interest only payment loans and the fixed interest rate swap agreements with a face value of \$Nil (2015: \$80.000m) are cash settled only. Cash outlays of approximately \$1.273m (2015: \$6.748m) per annum are required to service the interest payments. An official increase/(decrease) in interest rates of 50 basis points at 30 June 2016 (2015: 50 basis points) would have a favourable/(adverse) effect on profit after tax of \$202,081 (2015: \$38,585) 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.

	2016 \$'000	2015 \$'000
New Zealand assets and liabilities		
Assets of discontinued operations	-	5,740
Liabilities	-	-



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

24. Financial risk management (continued)

Sensitivity Analysis

The consolidated entity had net assets/(liabilities) denominated in foreign currencies. Based on this exposure, had the Australian weakened by 5%/strengthened by 5% at 30 June 2016 (2015: weakened by 5%/strengthened by 5%) against these foreign currencies with all other variables held constant, the consolidated entity's net assets would have been \$Nil higher/\$Nil lower (2015: \$287,000 higher/\$287,000 lower). 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.

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 of the rent level agreed with the replacement tenant if it 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 \$432,050 (2015: \$154,367) of tenant 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 \$252,917 (2015: \$511,432) covering these receivables. Of these past due receivables \$40,575 (2015: \$121,825) was 30 days past due and \$276,954 (2015: \$43,229) was more than 90 days overdue. Of these 2016 overdue amounts \$43,455 has been received subsequent to the end of the reporting period.

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

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.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

24. Financial risk management (continued)

	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
Financial Instruments 2016						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	n/a	6,766	-	-	-	6,766
Other payables	n/a	1,218	921	551	-	2,690
Unearned income	n/a	75	75	150	-	300
<i>Interest bearing – variable rate</i>						
Bank loans	3.21	15,476	13,527	14,911	-	43,914
Total		23,535	14,523	15,612	-	53,670
Financial Instruments 2015						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	n/a	9,202	-	-	-	9,202
Other payables	n/a	2,887	404	46	-	3,337
Unearned income	n/a	75	75	225	-	375
<i>Interest bearing – variable rate</i>						
Bank loans	4.45	72,411	-	-	-	72,411
Finance lease liability	7.28	65	-	-	-	65
Total non-derivatives		84,640	479	271	-	85,390
Derivatives						
Fixed interest rate swaps	4.26	3,408	3,339	366	-	7,113
Total derivatives		3,408	3,339	366	-	7,113

25. 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 quoted 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.

The fair value of investment properties is determined in line with note 1, with all resulting fair value estimates included in level 3. The current use is considered to be the highest and best use for all investment properties in the Group.

The fair value of discontinued operations (includes property plant and equipment, intangibles and investment property) is determined in line with note 1, with all resulting fair value estimates included in level 3. The current use is considered to be the highest and best use for all discontinued operations of the Group.

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, with resulting fair value estimates included in level 2.

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

25. Fair value measurement (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated 2016				
<i>Assets</i>				
Investment properties	-	-	16,250	16,250
Discontinued operations	-	-	17,443	17,443
Total assets	-	-	33,693	33,693
<i>Liabilities</i>				
Interest rate swaps	-	-	-	-
Consolidated 2015				
<i>Assets</i>				
Investment properties	-	-	26,963	26,963
Discontinued operations	-	-	5,740	5,740
Total assets	-	-	32,703	32,703
<i>Liabilities</i>				
Interest rate swaps	-	7,113	-	7,113

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.

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.

Level 3 assets

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

	Investment Properties \$'000	Discontinued Operations \$'000	Total \$'000
Consolidated			
Balance at 1 July 2014	25,850	7,498	33,348
Gains/(losses) recognised in other comprehensive income	1,113	(537)	576
Gains recognised in other comprehensive income	-	(220)	(220)
Disposals	-	(1,001)	(1,001)
Additions	-	-	-
Depreciation	-	-	-
Balance at 30 June 2015	26,963	5,740	32,703
Gains/(losses) recognised in profit or loss	(3,650)	(953)	(4,603)
Transfers to disposal group	(7,100)	52,500	45,400
Disposals	-	(40,268)	(40,268)
Additions	37	424	461
Balance at 30 June 2016	16,250	17,443	33,693



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

25. Fair value measurement (continued)

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

Description	Unobservable	Range	Sensitivity
Investment properties	Current annual rental Capitalisation rate	8.7% to 11.9%	A 5% change would increase/decrease fair value by \$813,000 A 0.5% change would increase fair value by \$741,000 and decrease fair value by \$817,000
Discontinued operations	Expected sale price		A 10% change would increase/decrease fair value by \$1,744,000

26. Related parties

(a) Responsible entity fees

As Responsible Entity of Lantern Real Estate Trust, Lantern RE Ltd, 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.

The amount paid and payable from Lantern Real Estate Trust during the year was \$1,011,216 (2015: \$1,103,211).

These fees are eliminated on consolidation.

No responsible entity fees were paid to external parties during the year.

(b) Property management income

Lantern manages the properties owned by Lantern Real Estate Trust and its controlled entities. During the year the amount paid and payable from Lantern Real Estate Trust to Lantern was \$214,243 (2015: \$214,243).

These fees are eliminated on consolidation.

(c) Rental income from hotels

Controlled entities of Lantern Hotel Group Limited rent hotel venues under long term operating leases from Lantern Real Estate Trust and its controlled entities. During the year the amount received and receivable by Lantern Real Estate Trust and its controlled entities was \$8,558,754 (2015: \$6,739,747).

These lease payments are eliminated on consolidation.

27. Auditor's remuneration

	2016 \$'000	2015 \$'000
Amounts received or receivable by HLB Mann Judd for:		
Audit or review of the financial reports of the Trust and any other entity in the consolidated group	205	180
Other assurance services	3	7
Total	208	187

All audit fees in the 2016 and 2015 financial years are recorded in the accounts of Lantern Hotel Group Limited.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

28. Key management personnel	2016 \$'000	2015 \$'000
(a) Compensation		
Short term benefits	1,376	769
Post-employment benefits	50	13
Long term benefits	32	-
	1,458	782

(b) 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:

- (i) Principles used to determine the nature and amount of remuneration;
- (ii) Details of remuneration; and
- (iii) Employment agreements.

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 security holders.

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 Directors' remuneration

Non-executive Directors' 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 executives remuneration and reward framework has four components:

1. Base pay;
2. Short-term performance incentives;
3. Long-term performance incentives; and
4. 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 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.

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 ("KPIs") being achieved. KPIs can 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 grant of options (see note 34).



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

28. Key management personnel (continued)

Details of Remuneration

The key management personnel of the Group consisted of the following persons in 2016:

Graeme Campbell – Non-Executive Chairman
 Shirley Liew – Non-Executive Director
 Matthew Stubbs – Non-Executive Director (appointed 7 March 2016)
 John Osborne – Chief Executive Officer
 Michael Thaler – Financial Controller
 Mark Ronfeldt – Chief Operating Officer
 John Murphy – Non-Executive Chairman (resigned 30 June 2016)
 Russell Naylor – Chief Executive Officer (employment agreement terminated 20 July 2015)

	Short term benefits		Long term benefits	Post-employment benefits	2016	2015	Related to Options	
	Salary/fees	Bonus	Fair value of options granted	Superannuation			2016	2015
	\$	\$	\$	\$	\$	\$	%	%
John Murphy	125,000	-	-	-	125,000	-	-	-
Graeme Campbell	75,000	-	-	-	75,000	-	-	-
Shirley Liew	68,493	-	-	6,507	75,000	-	-	-
Matthew Stubbs	25,000	-	-	-	25,000	-	-	-
John Osborne	260,488	200,000	18,114	17,459	496,061	-	4	-
Michael Thaler	147,499	55,000	5,435	14,962	222,896	147,899	3	-
Mark Ronfeldt	119,423	66,000	8,151	10,819	204,393	-	4	-
Bryan Mogridge	-	-	-	-	-	125,000	-	-
Deborah Cartwright	-	-	-	-	-	68,750	-	-
Russell Naylor	234,717	-	-	-	234,717	365,040	-	-
Julian Davidson	-	-	-	-	-	75,000	-	-
Total remuneration	1,055,620	321,000	31,700	49,747	1,458,067	781,689	2	-

At the Trust's Annual General Meeting held on 30 November 2015 more than 25% of the votes cast were against the adoption of the Remuneration Report for the year ended 30 June 2015. The Board notes that the remuneration referred to in the 2015 Remuneration Report was predominately paid/payable to key management personnel who are no longer with the Group. The Board considers that the 2016 remuneration for key management personnel is appropriate.

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed above:

	Fixed remuneration		At risk - short term incentives		At risk – long term incentives	
	2016	2015	2016	2015	2016	2015
	%	%	%	%	%	%
John Murphy	100	-	-	-	-	-
Graeme Campbell	100	-	-	-	-	-
Shirley Liew	100	-	-	-	-	-
Matthew Stubbs	100	-	-	-	-	-
John Osborne	56	-	40	-	4	-
Michael Thaler	72	100	25	-	3	-
Mark Ronfeldt	64	-	32	-	4	-
Bryan Mogridge	-	100	-	-	-	-
Deborah Cartwright	-	100	-	-	-	-
Russell Naylor	100	100	-	-	-	-
Julian Davidson	-	100	-	-	-	-



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

28. Key management personnel (continued)

Employment Agreements

John Osborne (Chief Executive Officer)

Key terms as follows:

- Base remuneration \$300,000 p.a. plus superannuation;
- Executive Incentive Scheme of up to \$200,000 p.a. based on the delivery of strategic and operational objectives;
- Subject to competitive restraint during period of his employment and for a period of not less than six months after his employment with Lantern ceases;
- A notice period of three months applies, except in defined circumstances;
- No fixed term.

Mark Ronfeldt (Chief Operating Officer)

Key terms as follows:

- Base remuneration \$230,000 p.a. plus superannuation;
- Executive Incentive Scheme of up to 30% of base salary based on the delivery of EBITDA targets;
- A notice period of four weeks applies, except in defined circumstances;
- No fixed term.

Michael Thaler (Financial Controller)

Key terms as follows:

- Base remuneration \$150,000 p.a. plus superannuation;
- Executive Incentive Scheme of up to 30% of base salary based on the delivery of EBITDA targets;
- A notice period of four weeks applies, except in defined circumstances;
- No fixed term.

(c) Security holdings

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:

	Beginning balance	Commenced as KMP	Ceased As KMP	Acquisitions	Disposals	Ending balance
2016						
John Murphy	-	-	-	-	-	-
Graeme Campbell	-	-	-	-	-	-
Shirley Liew	-	-	-	-	-	-
John Osborne (commenced 19 August 2015)	-	-	-	-	-	-
Matthew Stubbs (commenced 7 March 2016)	-	149,400,000	-	23,000,000	-	172,400,000
Michael Thaler	-	-	-	-	-	-
Mark Ronfeldt	-	-	-	-	-	-
Russell Naylor (ceased 20 July 2015)	12,450,086	-	(12,450,086)	-	-	-
	12,450,086	149,400,000	(12,450,086)	23,000,000	-	172,400,000
2015						
John Murphy	-	-	-	-	-	-
Graeme Campbell	-	-	-	-	-	-
Shirley Liew	-	-	-	-	-	-
Bryan Mogridge	11,086,119	-	(20,294,072)	9,207,953	-	-
Deborah Cartwright	1,228,240	-	(1,350,240)	122,000	-	-
Julian Davidson	-	-	-	-	-	-
Russell Naylor	10,750,085	-	-	1,700,001	-	12,450,086
Michael Thaler	-	-	-	-	-	-
	23,064,444	-	(21,644,312)	11,029,954	-	12,450,086



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

29. Parent financial information	2016 \$'000	2015 \$'000
Summary financial information about the Parent is:		
Current assets	12,159	2,219
Non-current assets	87,730	127,654
Total assets	99,889	129,873
Current liabilities	1,529	66,623
Non-current liabilities	40,726	18,892
Total liabilities	42,255	85,515
Net assets	57,634	44,358
Unit holders equity:		
Issued units	221,786	221,786
Reserves	155	200
Accumulated losses	(164,307)	(177,628)
Total unit holders' equity	57,634	44,358
Net profit/(loss) attributable to unit holders of the Parent	13,321	(60,100)
Total comprehensive income	13,276	(60,425)

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 foreseeable future including at least, but not limited to, the period to 30 September 2017.

30. Subsidiaries	Ownership interest	
	2016 %	2015 %
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	
Lantern Real Estate Trust		
Lantern No.2 Subsidiary Trust	Australia	100
Lantern Subsidiary Trust	Australia	100
IEF Victoria Trust	Australia	100
IEF NZ Subsidiary Trust	Australia	100
IEF NZ Trust	New Zealand	100
Lantern Hotel Group Limited		
Lantern RE Ltd	Australia	100
Lantern Management Services Pty Limited	Australia	100
Lantern Operations Pty Limited	Australia	100
Lantern Operations 2 Pty Limited	Australia	100
Lantern HR Pty Limited	Australia	100
Lantern Management No.2 Pty Limited	Australia	100
IEF NZ Company Pty Limited	New Zealand	100
IEF NZ Pty Limited	Australia	100
IEF Custodian Pty Limited	Australia	100

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



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

31. Segment information

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 Chief Executive Officer. The Group is organised around functions, but distinguishes these regions in its internal reporting.

The New Zealand segment is classified as a discontinued operation.

32. Events subsequent to the reporting date

- (a) On 4 July 2016 a special distribution was declared by Lantern Real Estate Trust to security holders, with a record date of 27 July 2016, which was paid on 10 August 2016 at 2c per security (\$17.7m). \$10m was drawn from the primary borrowing facility to partially fund this special distribution.
- (b) On 21 July 2016 contracts for the sale of the freehold going concern of the Cairns Courthouse Hotel were exchanged for \$6.25m with settlement likely to occur in early October 2016.
- (c) 3 August 2016 contracts for the sale of the freehold going concern of the Lawson Park Hotel were exchanged for \$4.05m. Settlement occurred 16 September 2016 with proceeds retained as cash.
- (d) On 15 August 2016 the freehold going concern of the Exchange Hotel was sold for \$6.625m with proceeds used to repay borrowings.

33. Reconciliation of profit after income tax to net cash from operating activities

	2016 \$'000	2015 \$'000
Profit after income tax for the year	7,006	(8,885)
<i>Adjustments for:</i>		
Net (gain)/loss on change in fair value of:		
Investment properties	(1,100)	(1,113)
Interest rate swaps	(1,239)	(1,205)
Property, plant and equipment	470	7,325
Amortisation of tenant incentives	(75)	(75)
Derecognition of deferred tax assets	-	108
Impairment loss on:		
Investment properties	5,687	537
Goodwill	1,116	2,500
Prepayments	-	191
Profit on sale of property, plant and equipment	(10,178)	(2,499)
Profit on sale of investment properties	(1,001)	-
Realised loss/(gain) on disposal of plant and equipment	756	3
Costs of acquired goodwill recognised in profit or loss	136	-
Depreciation and amortisation	3,574	3,472
Realised foreign exchange gains	-	(27)
Security based payments expense	32	-
Foreign exchange differences	(13)	4
<i>Change in operating assets and liabilities</i>		
Decrease/(increase) in trade and other receivables	(398)	33
Decrease/(increase) in inventories	504	178
Increase/(decrease) in provisions	(102)	407
Increase/(decrease) in trade and other payables	(4,819)	2,377
Net cash from operating activities	356	3,331



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

34. Security based payments

Executive Share Incentive Plan ("ESIP")

Plan name	ESIP
Who can participate	The ESIP is available to senior executives of Lantern.
Types of securities issued	Options which can be converted into fully paid stapled securities once vested.
What restrictions are there on the securities	Options are non-transferable.
Vesting period	2 years from the date of grant of the options, being 15 May 2016.
Vesting conditions	Options will vest subject to the following performance targets: <ul style="list-style-type: none"> - Year 1 Control Change Trigger, or Trading Trigger, at or higher than 12 cents per stapled security then 33% of options will vest; - Year 1 Control Change Trigger, or Trading Trigger, at or higher than 15 cents per stapled security then 100% of options will vest; - Year 2 Control Change Trigger, or Trading Trigger, at or higher than 15 cents per stapled security then 67% of options will vest. <p>The price triggers will be reduced by the pre-tax amount of any distributions, dividends or capital distributions paid which represent more than 5% of the net tangible assets of Lantern.</p>
Number of securities vested during 2016	Nil.

Stapled security options

The number of options on issue and granted to the Group's key management personnel is set out below:

30 June 2015	Opening balance	Granted during the period	Exercised	Forfeited	Expired	Closing balance	Vested and exercisable	Unvested
<i>Current executives</i>								
John Osborne	-	9,000,000	-	-	-	9,000,000	-	9,000,000
Mark Ronfeldt	-	4,050,000	-	-	-	4,050,000	-	4,050,000
Michael Thaler	-	2,700,000	-	-	-	2,700,000	-	2,700,000

The weighted average exercise price of all options granted under the ESIP is \$Nil.

Fair value

Security based payments to employees are measured at the fair value of the instruments issued, and are amortised over the relevant vesting periods. The corresponding amount is recorded to the security based payment reserve.

The fair value of options issued is determined using the Monte Carlo simulation valuation model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the instruments granted is based on the number of instruments that eventually vest.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

34. Security based payments (continued)

Valuation inputs

For options outstanding at 30 June 2016, the table below shows the fair value of the options on the grant date as well as the factors used to value the options at the grant date. The valuation is used to value the equity settled options granted to employees at 30 June 2016.

Grant date	15 May 2016
Vesting date	On or before 15 May 2018
Expiry date of vested options	15 May 2031
Risk free rate	1.8%
Expected price volatility	30%
Expected distribution year 1	3 cents
Expected distribution year 2	0.5 cents
Non-market vesting probability discount	50%
Stapled security price at the grant date	\$0.12
Fair value per option on issue	\$0.064

Expected price volatility

Expected volatility was calculated with reference to the historical volatility in the price of Lantern securities over a 1, 3 and 5 year period and then compared to an average of market peers to arrive at an overall volatility rate of 30%. The selected volatility rate was determined to be higher than the average of the market peers in line with historical results.

Non-market vesting probability

This non-market vesting probability is a discount rate attached to the valuation based on the expectation of the number of options that will vest with reference to the vesting conditions in place.



DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2016

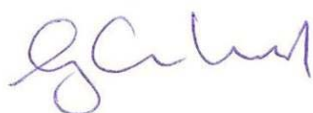
In the opinion of the directors of Lantern RE Ltd, the Responsible Entity of Lantern Real Estate Trust:

- (a) the consolidated financial statements and notes, set out on pages 8 to 44, 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 2016 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 Financial Controller required by Section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors.



Graeme Campbell
Non-Executive Chairman
Dated in Sydney this 18th day of September 2016



Shirley Liew
Non-Executive Director
Dated in Sydney this 18th day of September 2016



**LANTERN REAL ESTATE TRUST
INDEPENDENT AUDITOR'S REPORT**

To the unit holders of Lantern Real Estate Trust:

Opinion

We have audited the financial report of Lantern Real Estate Trust ("the Trust"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated income statement, the 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 to the financial statements, including a summary of significant accounting policies, and the directors' declaration by the directors of Lantern RE Limited, the responsible entity of the Trust, 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 ("the Group").

In our opinion, the accompanying financial report of Lantern Real Estate Trust is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Trust in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, given to the directors of the responsible entity of the Trust on 16 September 2016, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Emphasis of Matter

We draw attention to Note 1 of the financial report, which indicates that subsequent to year end Directors have formed the view that it would be in the best interests of the Group to obtain the flexibility of undertaking an orderly sell down of the Group's remaining hotels (including all core hotels). This will require the approval of security holders, and a sell down resolution will be proposed at the Annual General Meeting to be held on 25 October 2016.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**LANTERN REAL ESTATE TRUST
INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Recoverability of Freehold Going Concern Assets	How our audit addressed the key audit matter
<p>At 30 June 2016 the Group owned "freehold going concern assets" which have been included in the Trust's consolidated statement of financial position at that date. Freehold going concern assets relating to continuing operations (\$96,603,000) are disclosed in Note 12 and freehold going concern assets which are held for sale (\$14,943,000) are disclosed in Note 19(d). These are the assets of the hotels that the Group owns and operates.</p> <p>These assets include land, buildings, plant and equipment at depreciated cost, and intangible assets at cost less impairment.</p> <p>The recoverability of these assets is assessed by the directors at least annually, or more frequently if events or changes in circumstances indicate that assets have suffered impairment.</p> <p>The Group obtains valuations of each hotel prepared by professionally qualified external values at least triennially, and management prepares valuations at other dates.</p> <p>These valuations are generally based on a "capitalisation approach" whereby a capitalisation rate is applied to estimated maintainable net income.</p> <p>Current and recent sales activity for similar properties is also considered by external valuers and the Group.</p> <p>We focused on this area as a key audit matter due to significant judgement involved in assessing the recoverable amount of these assets, as referred to in Note 2.</p>	<p>We assessed the Group's review of the work of the external valuers, and assessed management's valuations.</p> <p>We analysed the appropriateness of the valuation methods applied, and considered whether they were in line with accounting requirements and generally accepted business practice.</p> <p>We discussed with some of the external valuers their valuation process, and challenged their significant assumptions, and capitalisation rates used.</p> <p>We compared the capitalisation rates used to external market evidence, and to the valuations prepared by the different external valuers.</p> <p>We assessed the competence, independence and integrity of the external valuers.</p> <p>We compared the estimated maintainable net income with actual results.</p> <p>We assessed whether the Group's disclosures met the requirements of relevant accounting standards.</p>
Classification of Bank Debt	How our audit addressed the key audit matter
<p>The Group's Borrowings are mostly bank debt, through two facilities, as disclosed in Note 16.</p> <p>We focused on this area as a key audit matter due to the amounts involved being material, the inclusion in both facility agreements of covenants, and the material impact of the classification of bank debt as either current or non-current liabilities.</p>	<p>We reviewed the facility agreements that were in place at balance date.</p> <p>We reviewed management's assessment of compliance with the covenant requirements.</p> <p>We assessed whether the classification of, and disclosures related to, bank debt met the requirements of relevant accounting standards.</p>
Discontinued Operations	How our audit addressed the key audit matter
<p>The financial statements have classified certain freehold going concern (hotel) assets as "discontinued operations" or "assets held for sale".</p> <p>We focused on this area as a key audit matter due to the judgement involved in determining whether or not each hotel meets the accounting standard requirements for this classification.</p>	<p>We assessed management's evaluation of the assets classified as discontinued, and of those not classified as discontinued.</p> <p>We also assessed the adequacy of disclosures of the discontinued operations, and whether they met the requirements of relevant accounting standards.</p>
Valuation of Investment Properties	How our audit addressed the key audit matter
<p>At 30 June 2016 the Group owned "investment properties" which have been included in the Trust's consolidated statement of financial position at that date. Investment properties relating to continuing operations (\$16,250,000) are disclosed in Note 11 and investment properties which are held for sale (\$2,500,000) are disclosed in Note 19(d).</p> <p>As disclosed in Note 1, the Group obtains valuations of each investment property at least triennially, from professionally qualified external valuers, and the Group reviews the fair value of each investment property every six months.</p> <p>These valuations use a capitalisation of net income approach.</p> <p>We focused on this area as a key audit matter due to the amount involved being considered material, and due to the significant judgement involved in assessing the fair value of these assets.</p>	<p>We analysed the appropriateness of the valuation methods applied, and considered whether they were in line with accounting requirements and generally accepted business practice.</p> <p>We compared the net income and other data used in the valuations with actual results.</p> <p>We also assessed the adequacy of disclosures of the investment properties, and whether they met the requirements of relevant accounting standards.</p>

**LANTERN REAL ESTATE TRUST
INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the company's annual report for the year ended 30 June 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Responsible Entity of the Trust 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 preparing the financial report, the directors are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards/Auditors-Responsibilities.aspx>. This description forms part of our auditor's report.

A handwritten signature in black ink that reads 'HLB Mann Judd'.

**HLB Mann Judd
Chartered Accountants**

A handwritten signature in black ink that reads 'D K Swindells'.

**D K Swindells
Partner**

**Sydney, NSW
19 September 2016**

SECURITY HOLDER INFORMATION

The information set out below was prepared at 26 August 2016 and applies equally to units in the Trust and shares in the Company under the terms of their joint quotation on the Australian Securities Exchange.

Distribution of securities

Analysis of security holders by size of holding

	Number of holders of ordinary securities	Number of securities	% of security holders
100,001 and over	184	858,671,674	97.22
10,001 to 100,000	644	22,032,154	2.50
5,001 to 10,000	213	1,728,907	0.20
1,001 to 5,000	211	745,528	0.08
1 to 1,000	97	23,867	0.00
	1,349	883,202,130	100.00
Holding less than a marketable parcel	251	488,140	0.06

Security holders

Twenty largest quoted security holders

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

Name	Ordinary securities	
	Number of Securities Held	% of total Securities Issued
HSBC Custody Nominees (Australia) Limited	326,062,005	36.92
Totem Holdings Pty Ltd	134,000,000	15.17
Greens IPO Saleco P/L	103,724,222	11.74
CVC Limited <CVC Limited A/C>	62,541,447	7.08
Citicorp Nominees Pty Limited <Colonial First State In v A/C>	32,526,699	3.68
RBC Investor Services Australia Nominees Pty Ltd <Piselect>	31,026,808	3.51
Eastern Porphry Pty Ltd	21,000,000	2.38
Aust Executor Trustees Ltd <Milliniums Alternatives Fund>	15,789,474	1.79
J P Morgan Nominees Australia Limited	13,293,634	1.51
Rolyan Pty Ltd <Jasarash Investment A/C>	9,894,885	1.12
Mr Matthew Robert Stubbs <Matthew Stubbs Family A/C>	9,000,000	1.02
BNP Paribas Noms Pty Ltd <DRP>	6,802,978	0.77
Kiat Pty Ltd <Kiat A/C>	6,210,526	0.70
Mr Matthew Robert Stubbs & Ms Anna Goulston <Matthew Stubbs S/F A/C>	5,200,000	0.59
CVC Limited	5,092,675	0.58
Custodial Services Limited <Beneficiaries Holding A/C>	4,227,866	0.48
Moat Investments Pty Ltd <Moat Investment A/C>	4,121,466	0.47
Mabama Pty Ltd	3,200,000	0.36
Mr John Round & Mrs Jenny Round <J R Squared A/C>	2,500,000	0.28
Imbest Pty Ltd <Imbest A/C>	2,477,664	0.28
	798,692,349	90.43



SECURITY HOLDER INFORMATION

Substantial holders

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

	Date of change	Ordinary securities	
		Number of Securities Held	% of total Securities Issued
Torchlight GP Limited	3 March 2016	313,281,405	36.56%
CVC Limited	19 April 2016	172,604,945	19.54%
Matthew Donnellan & Matthew Stubbs and their related bodies corporate	20 April 2016	172,400,000	19.50%
Renaissance Property Securities Pty Ltd	16 June 2014	75,564,522	8.56%

Voting

Security holders in Lantern Hotels are entitled to one vote for each security they hold in the Group.

In accordance with the Constitution each member present at a meeting, whether in person, by proxy, or represented by power of attorney, or represented by a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands, and one vote for each fully paid stapled security on a poll.

On-Market buyback

There is no current on-market buyback in relation to the Company's securities.



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Lantern Hotel Group Limited
and its controlled entities

Annual Report

For the year ended 30 June 2016



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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 ('the Trust'). A separate annual report has been prepared for the stapled group.

This set of financial statements has been prepared for a sub-group of the stapled group, solely to comply with the *Corporations Act 2001* requirements to prepare financial statements for a public company.

The Trust makes decisions as to which assets and liabilities are recognised by the sub-group.

Security holders cannot deal with their shares in Lantern Hotel Group Limited without at the same time dealing with their units in the Trust.

The Directors consider that the consolidated financial statements of the Trust provide the relevant information for security holders.

The registered office and principal place of business of the company is at Level 8, 1 York St, Sydney NSW 2000.



CORPORATE INFORMATION

Directors	Graeme Campbell (Chairman) Shirley Liew Matthew Stubbs
Company Secretary	Leanne Ralph
Notice of Annual General Meeting	The Annual General Meeting of Lantern Hotel Group Limited will be held at Lantern Hotels Boardroom Level 8, 1 York Street Sydney NSW 2000 Time 10:00 AM Date 25 October 2016
Registered Office	Level 8, 1 York Street Sydney NSW 2000 Phone: (02) 8223 3602
Principal Administration Office	Level 8, 1 York Street Sydney NSW 2000 Phone: (02) 8223 3602
Share Register	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 Phone: +61 1300 554 474
Auditor	HLB Mann Judd Level 19, 207 Kent Street Sydney NSW 2000
Stock Exchange Listing	Lantern Hotel Group Limited shares are stapled to units of Lantern Real Estate Trust and are listed on the Australian Securities Exchange (ASX code: LTN)
Website	www.lanternhotels.com.au



DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2016

The directors of Lantern Hotel Group Limited ('the Company') present their report, together with the financial statements of Lantern Hotel Group Limited and its controlled entities ('the Group'), for the year ended 30 June 2016.

Directors

Name	Graeme Campbell
Title	Non-Executive Chairman
Appointed	24 June 2015
Experience, expertise and qualifications	Mr Graeme 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 Graeme left Ferrier Hodgson to set up Campbell Advisory, which provides wide ranging hospitality advice to participants within the hotel and registered clubs industries together with the major banks and other funders.
Other current directorships	Lead independent director of Ainsworth Game Technology Limited, independent director of Liquor Marketing Group (Bottlemart) and the independent Audit Chairman of the Illawarra Catholic Club Group.
Former directorships	Chairman of Harness Racing NSW (2006- 2014)
Special responsibilities	Audit and Risk Committee

Name	Shirley Liew
Title	Non-Executive Director
Appointed	18 June 2015
Experience, expertise and qualifications	Ms Shirley Liew has over 25 years senior finance, audit and advisory experience including over 12 years in senior roles at international firm Ernst & Young, and Head of Risk and Audit Partner at Chartered Accounting firms Grant Thornton and Moore Stephens, during which time she was Audit Partner for various large hospitality groups. She has also had recent experience as commercial CFO for large iconic Australian brands as well as international companies listed overseas.
Other current directorships	Director and Audit Chair of Hunter United Employees Credit Union, Director and Audit Chair of Bridge Housing Limited, Independent Member of NSW Trains Audit and Risk Committee, Independent Member of Nepean Blue Mountains Local Health District and Director of Amber Group Australia.
Former directorships	Director of L'Occitane Australia Pty Limited
Special responsibilities	Chair Audit and Risk Committee

Name	Matthew Stubbs
Title	Non-Executive Director
Appointed	7 March 2016
Experience, expertise and qualifications	Mr Matthew Stubbs has over sixteen years experience in investment banking. During his career Matthew 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, Matthew 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.
Other current directorships	Managing Director of Allier Capital, Non-Executive Director Everlight Radiology Limited and Director of Totem Holdings Pty Ltd.
Former directorships	n/a
Special responsibilities	-



DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Directors (Continued)

Name	John Murphy
Title	Chairman
Appointed	24 June 2015 (resigned 30 June 2016)
Experience, expertise and qualifications	Mr John Murphy has over 30 years experience in the Australian beverage and packaging industries, culminating in the role as Managing Director of Coco-Cola Amatil Australia. Prior to this he was CEO of Visy Australasia.
Other current directorships	Non-Executive Chairman of PFD Food Services Limited.
Former directorships	Managing Director of Carlton & United Breweries Ltd.
Special responsibilities	-

Company secretary

Leanne Ralph was appointed to the position of Company Secretary on 6 September 2012. Mrs Ralph has over 23 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 Limited, 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 the Group in which directors had a relevant interest at the date of this report were:

	Shares in the Group
Graeme Campbell	-
Shirley Liew	-
Matthew Stubbs	172,400,000

Directors' Meetings

The number of Directors meetings (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	
	A	B	A	B
John Murphy	16	16	-	-
Graeme Campbell	16	16	4	4
Shirley Liew	16	16	4	4
Matthew Stubbs	4	4	-	-

A: Meetings eligible to attend

B: Meetings attended



DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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;
- (b) Details of remuneration;
- (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 shareholders.

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 Directors' remuneration

Non-executive Directors' 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 executives' remuneration and reward framework has four components:

1. Base pay and non-monetary benefits;
2. Short-term performance incentives;
3. Long-term performance incentives; and
4. 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.

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 ("KPIs") being achieved. KPIs can 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 grant of options (see note 27).



DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 30 JUNE 2016

(b) Details of Remuneration

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

The key management personnel of the Group consisted of the following persons in 2016:

Graeme Campbell - Non-Executive Chairman
 Shirley Liew - Non-Executive Director
 Matthew Stubbs - Non-Executive Director
 John Osborne - Chief Executive Officer
 Michael Thaler - Financial Controller
 Mark Ronfeldt - Chief Operating Officer
 John Murphy - Non-Executive Chairman (resigned 30 June 2016)
 Russell Naylor - Chief Executive Officer (employment agreement terminated 20 July 2015)

	Short term benefits		Long term benefits	Post-employment benefits	2016	2015	Related to Options	
	Salary/fees	Bonus	Fair value of options granted	Superannuation			2016	2015
	\$	\$	\$	\$	\$	\$	%	%
John Murphy	125,000	-	-	-	125,000	-	-	-
Graeme Campbell	75,000	-	-	-	75,000	-	-	-
Shirley Liew	68,493	-	-	6,507	75,000	-	-	-
Matthew Stubbs	25,000	-	-	-	25,000	-	-	-
John Osborne	260,488	200,000	18,114	17,459	496,061	-	4	-
Michael Thaler	147,499	55,000	5,435	14,962	222,896	147,899	3	-
Mark Ronfeldt	119,423	66,000	8,151	10,819	204,393	-	4	-
Bryan Mogridge	-	-	-	-	-	125,000	-	-
Deborah Cartwright	-	-	-	-	-	68,750	-	-
Russell Naylor	234,717	-	-	-	234,717	365,040	-	-
Julian Davidson	-	-	-	-	-	75,000	-	-
Total remuneration	1,055,620	321,000	31,700	49,747	1,458,067	781,689	2	-

The following amounts are part of the long term non-monetary benefits noted above for the following key management personnel in respect of options granted but not vested during the year ended 30 June 2016. These amounts were recognised as an expense of the Trust.

John Osborne	\$ 17,184
Michael Thaler	5,155
Mark Ronfeldt	7,733
Total	30,072

At the Trust's and Lantern's Annual General Meeting held on 30 November 2015 more than 25% of the votes cast were against the adoption of the Remuneration Report for the year ended 30 June 2015. The Board notes that the remuneration referred to in the 2015 Remuneration Report was predominately paid/payable to key management personnel who are no longer with the Group. The Board considers that the 2016 remuneration for key management personnel is appropriate.

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed above:

	Fixed remuneration		At risk - short term incentives		At risk - long term incentives	
	2016	2015	2016	2015	2016	2015
	%	%	%	%	%	%
John Murphy	100	-	-	-	-	-
Graeme Campbell	100	-	-	-	-	-
Shirley Liew	100	-	-	-	-	-
Matthew Stubbs	100	-	-	-	-	-
John Osborne	56	-	40	-	4	-
Michael Thaler	72	100	25	-	3	-
Mark Ronfeldt	64	-	32	-	4	-
Bryan Mogridge	-	100	-	-	-	-
Deborah Cartwright	-	100	-	-	-	-
Russell Naylor	100	100	-	-	-	-
Julian Davidson	-	100	-	-	-	-



DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 30 JUNE 2016

(c) Employment Agreements

Employment Agreements

John Osborne (Chief Executive Officer)

Key terms as follows:

- Base remuneration \$300,000 p.a. plus superannuation;
- Executive Incentive Scheme of up to \$200,000 p.a. based on the delivery of strategic and operational objectives;
- Subject to competitive restraint during period of his employment and for a period of not less than six months after his employment with Lantern ceases;
- A notice period of three months applies, except in defined circumstances;
- No fixed term.

Mark Ronfeldt (Chief Operating Officer)

Key terms as follows:

- Base remuneration \$230,000 p.a. plus superannuation;
- Executive Incentive Scheme of up to 30% of base salary based on the delivery of EBITDA targets;
- A notice period of four weeks applies, except in defined circumstances;
- No fixed term.

Michael Thaler (Financial Controller)

Key terms as follows:

- Base remuneration \$150,000 p.a. plus superannuation;
- Executive Incentive Scheme of up to 30% of base salary based on the delivery of EBITDA targets;
- A notice period of four weeks applies, except in defined circumstances;
- No fixed term.

(d) Additional information

The earnings of the Group are shown for the five years to 30 June 2016. Details are as summarised below:

	2012 \$000	2013 \$000	2014 \$000	2015 \$000	2016 \$000
Sales revenues	2,401	42,694	49,105	57,807	58,675
EBITDA	(1,004)	(57)	979	566	36
EBIT	(1,613)	(1,545)	(3,568)	(4,130)	(2,438)
Profit/(loss)	(1,725)	(1,819)	(3,489)	(4,207)	465
	Cents	Cents	Cents	Cents	Cents
Share price at financial year end	4.4	8.0	7.0	9.5	12.5
Basic earnings per share	(0.29)	(0.21)	(0.40)	(0.48)	0.05

This concludes the remuneration report, which has been audited.



DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Significant Events after balance date

- (a) On 21 July 2016 a contract for the sale of the business of the Cairns Courthouse Hotel was exchanged for \$2.75m with settlement likely to occur in early October 2016.
- (b) On 3 August 2016 a contract for the sale of the business of the Lawson Park Hotel was exchanged for the \$0.30m. Settlement occurred 16 September 2016 with proceeds retained as cash.
- (c) On 15 August 2016 the business of the Exchange Hotel was sold for \$1.99m with proceeds used to repay borrowings.

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 Group 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 the amount of the premium.

Significant changes in the state of affairs

- (a) On 20 July 2015 the Group terminated the services agreement with Naylor Partners under which the provision of services of CEO were provided to the Group by Russell Naylor. A payment in lieu of six months notice was made as stipulated by the agreement.
- (b) On 19 August 2015 John Osborne was appointed CEO of the Group.
- (c) On 1 February 2016 the Group sold the business of the El Toro Hotel for \$5.00m.
- (d) On 1 March 2016 the Group sold the business of the Dolphin Hotel for \$1.55m.
- (e) On 28 April 2016 the Group established an employee share incentive plan for three senior executives providing a total of 15.75m options over Lantern stapled securities, subject to certain performance hurdles being met.
- (f) On 29 June 2016 the Group sold the business of the Bowral Hotel for \$1.58m.

Likely development and expected results of operations

Refer to the Chairman's and CEO's message 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 ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Instrument, unless otherwise indicated.

Dividends

No dividends were paid or declared by the Company. The Directors do not propose to recommend any dividend at this time.

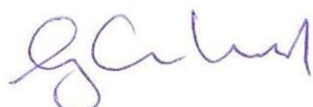
Corporate Governance Statement

The Corporate Governance Statement was approved by the Board of Directors on 16 September 2016 and can be found at www.lanternhotels.com.au.

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 the following page.

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



Graeme Campbell
Non-Executive Chairman
Dated in Sydney this 18th day of September 2016



Shirley Liew
Non-Executive Director
Dated in Sydney this 18th day of September 2016



**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 2016 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.



**Sydney, NSW
16 September 2016**

**A G Smith
Partner**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Income			
Revenue from continuing operations	3	37,894	34,877
Interest income		34	31
Other income		8	1
Total income		37,936	34,909
Cost of sales			
Cost of sales		(14,785)	(13,728)
Employment and expenses		(9,903)	(9,559)
Depreciation and amortisation		(1,777)	(1,280)
Impairment of goodwill		-	(500)
Professional fees		(1,763)	(1,799)
Repairs and maintenance		(1,312)	(1,414)
Insurance		(218)	(254)
Security		(771)	(777)
Property expenses		(5,715)	(5,054)
Loss on disposal of plant and equipment		(752)	(3)
Other		(2,435)	(2,643)
Total expenses		(39,431)	(37,011)
Profit/(loss) from continuing operations before income tax expense			
		(1,495)	(2,102)
Income tax expense	4(a)	-	(108)
Profit/(loss) from continuing operations after income tax expense			
		(1,495)	(2,210)
Discontinued operations			
Profit/(loss) from discontinued operations	16 (b)	1,960	(1,997)
Profit/(loss) for the year		465	(4,207)
Other comprehensive income – items that will not be recognised in profit or loss			
		2	-
Total comprehensive income for the year		467	(4,207)
		Cents	Cents
Earnings per share – basic			
Profit/(loss) per share from continuing operations – basic		(0.17)	(0.25)
Profit/(loss) per share from discontinued operations – basic		0.22	(0.23)
Profit/(loss) per share – basic	5	0.05	(0.48)
Earnings per share – diluted			
Profit/(loss) per share from continuing operations – diluted		(0.17)	(0.25)
Profit/(loss) per share from discontinued operations – diluted		0.22	(0.23)
Profit/(loss) per share – diluted	5	0.05	(0.48)

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

AS AT 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Current assets			
Cash and cash equivalents	6	5,200	3,577
Trade and other receivables	7	1,621	1,637
Inventories	8	642	1,333
Assets of discontinued operations	16(d)	2,826	-
Prepayments	9	369	439
Total current assets		10,658	6,986
Non-current assets			
Property, plant and equipment	10	9,990	13,445
Intangibles	11	4,642	6,894
Total non-current assets		14,632	20,339
Total assets		25,290	27,325
Current liabilities			
Payables	12	13,891	12,609
Liabilities directly associated with assets classified as held for sale	16(d)	5,093	-
Borrowings	14	-	57
Provisions	13	88	115
Total current liabilities		19,072	12,781
Non-current liabilities			
Payables	12	1,931	796
Borrowings	14	12,271	22,125
Provisions	13	44	118
Total non-current liabilities		14,246	23,039
Total liabilities		33,318	35,820
Net assets		(8,028)	(8,495)
Equity			
Issued shares	15	2,745	2,745
Reserves		2	-
Retained earnings/(accumulated losses)		(10,775)	(11,240)
Total equity		(8,028)	(8,495)

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

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Cash receipts from customers (inclusive of GST)		64,362	63,826
Proceeds from insurance claim		191	-
Cash paid to suppliers and employees (inclusive of GST)		(62,615)	(59,116)
Lease incentive received		-	200
Interest received		34	31
Net cash provided by/ (used in) operating activities	26	1,972	4,941
Cash flows from investing activities			
Purchase of plant, equipment and goodwill		(2,726)	(2,543)
Receipt on acquisition of business, net of cash acquired		-	103
Payment for acquisition of business, net of cash acquired		-	(38)
Proceeds from sale of discontinued operations		8,138	-
Payments made on disposal of discontinued operations		(139)	-
Proceeds from loans to third parties		-	170
Net cash provided by/(used in) from investing activities		5,273	(2,308)
Cash flows from financing activities			
Proceeds from borrowings		4,431	2,550
Repayment of finance leases		(57)	(84)
Repayment of borrowings		(9,536)	(2,506)
Payment to facilitate buyback of shares		-	(1,400)
Net cash provided by/ (used in) from financing activities		(5,162)	(1,440)
Net increase in cash or cash equivalents		2,083	1,193
Cash or cash equivalents at the beginning of the year		3,577	2,384
Cash and cash equivalents and the end of the year		5,660	3,577
Cash and cash equivalents at the end of the year made up as follows:			
Cash and cash equivalents at the end of the year – continuing operations		5,200	3,577
Cash and cash equivalents at the end of the year – discontinued operations (note 16(d))		460	-
Cash and cash equivalents and the end of the year		5,660	3,577

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

FOR THE YEAR ENDED 30 JUNE 2016

Note	Issued Capital \$'000	Reserves \$'000	Accumulated Losses \$'000	Total \$'000
Carrying amount at 1 July 2014	2,745	-	(7,033)	(4,288)
Net profit/(loss) for the year	-	-	(4,207)	(4,207)
Other comprehensive income	-	-	-	-
Total comprehensive profit/(loss) for the year	-	-	(4,207)	(4,207)
Carrying amounts at 30 June 2015	2,745	-	(11,240)	(8,495)
Carrying amount at 1 July 2015	2,745	-	(11,240)	(8,495)
Net profit/(loss) for the year	-	-	465	465
Other comprehensive income	-	2	-	2
Total comprehensive profit/(loss) for the year	-	2	465	467
Carrying amounts at 30 June 2016	2,745	2	(10,775)	(8,028)

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies

Reporting entity

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

The 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 18 September 2016. 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 and 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

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

As at 30 June 2016 the Group had a deficiency of net assets of \$8.0m (2015: \$8.5m).

Detailed budgets and cash flow forecasts prepared for the year ended 30 June 2017 and beyond for the Group show that the Group should generate a cash surplus from operations. The directors are confident that the Group can continue as a going concern and the financial statements 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 for the foreseeable future and at least for, but not limited to, the period to 30 September 2017.

Subsequent to year end Directors have formed the view that it would be in the best interests of the Group to obtain the flexibility of undertaking an orderly sell down of the Group's remaining hotels (including all core hotels). This will require the approval of security holders, and a sell down resolution will be proposed at the Annual General Meeting to be held on 25 October 2016.

No adjustments have been made to the financial statements for the year ended 30 June 2016 relating to the recoverability and classification of recorded asset amounts and classification and recognition of liabilities.

If the abovementioned resolution is approved by security holders, future financial statements of the Group will not be prepared on a going concern basis, and the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial statements of the consolidated entity.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies (continued)

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 and 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.

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

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 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 statement of profit or loss and other comprehensive income.

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.

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 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.

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.

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.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies (continued)

Business combinations (continued)

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exception, 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 measurements 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.

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 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. They are subsequently measured at fair value or amortised cost using the effective interest method.

Plant and equipment

Plant and equipment is stated at fair value at acquisition date or 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 probably 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 profit or loss during the reporting period in which they are incurred. Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

The depreciable amount of plant and equipment is 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:

	2016	2015
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.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies (continued)

Inventories

Finished goods, consisting primarily of food and beverage items for re-sale, are stated at the lower of cost or net realisable value. Cost comprises purchase price and 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.

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 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 payables in respect of employees' services up to the reporting date and are measured at the amount expected to be paid when the liabilities are settled.

Other employee benefit obligations

The provision for long service leave is recognised in the provision for employee benefits. Amounts expected to be paid within 12 months are measured at current values. Amounts expected to be paid after 12 months are 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, trade discounts and GST.

Gaming revenue

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

1. Significant accounting policies (continued)



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Revenue (continued) Interest income

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

Other revenue

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

Income tax

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.

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 substantially 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.

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

Rounding of Amounts

The Group is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Instrument, 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.

Diluted earnings per share is calculated as net profit attributable to holders of shares in the Group, adjusted for interests associated with dilutive potential shares, divided by the weighted average number of shares and dilutive potential shares 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.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

1. Significant accounting policies (continued)

Parent entity information

These financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 23. Investments in subsidiaries are accounted for at cost in the financial statements of the Parent.

Share based payments

The Group operates an Executive Share Incentive Plan (ESIP) and provides benefits to employees of the Group in the form of share based payments. Share based payments to employees are measured at the fair value of the instruments issued and amortised over the relevant vesting periods. The corresponding amount is recorded to the security based payment reserve. The fair value of options issued is determined using the Monte Carlo simulation valuation model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the instruments granted is based on the number of instruments that eventually vest.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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 the 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.

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. 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.

2. Critical accounting judgements, estimates and assumptions (continued)



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Income tax

The consolidated entity is subject to income tax in Australia. 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 determinations is uncertain. The consolidated entity recognises liabilities for anticipated income tax based on the consolidated entity's current understanding of 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 probably that future taxable amounts will be available to utilise those temporary differences and losses.

Long service leave provision

The liability for long service leave is recognised and measured at the 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. Revenue	2016 \$'000	2015 \$'000
Revenue from hotel operations		
Gaming	18,727	16,185
Beverage	13,098	12,767
Food	3,782	3,669
Other	1,062	939
Responsible entity fee income – Lantern Real Estate Trust	1,011	1,103
Property management fee income – Lantern Real Estate Trust	214	214
	37,894	34,877

4. Income tax	2016 \$'000	2015 \$'000
(a) Income tax expense		
Reconciliation of profit/(loss) from operations before income tax to income tax expense:		
Profit/(loss) from continuing operations before income tax	(1,495)	(2,102)
Profit/(loss) from discontinued operations before income tax	1,960	(1,997)
	465	(4,099)
Tax at the Australian tax rate of 30%	140	(1,230)
Add/(deduct):		
Non-deductible expenses/other assessable income	(122)	1,137
Other deductible amounts	(145)	(130)
Over/(under) provided in prior year	(120)	-
Deferred tax assets in relation to losses not recognised	247	223
Deferred tax asset derecognised	-	(108)
Income tax expense	-	(108)



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

4. Income tax (continued)	2016 \$'000	2015 \$'000
(b) Unused tax losses		
Unused tax losses for which no deferred tax asset has been recognised – Lantern	4,184	3,360
Potential tax benefit at 30%	1,255	1,008
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.		
5. Earnings per share	2016 \$'000	2015 \$'000
Profit/(loss) attributable to ordinary shareholders:		
From continuing operations	(1,495)	(2,210)
From discontinued operations	1,960	(1,997)
	465	(4,207)
	'000	'000
Weighted average number of ordinary shares used in calculating basic earnings per share	883,202	883,202
Weighted average number of ordinary shares used in calculating diluted earnings per share	885,230	883,202
	Cents	Cents
Basic earnings per share attributable to the shareholders		
From continuing operations	(0.17)	(0.25)
From discontinued operations	0.22	(0.23)
	0.05	(0.48)
Diluted earnings per share attributable to the shareholders		
From continuing operations	(0.17)	(0.25)
From discontinued operations	0.22	(0.23)
	0.05	(0.48)
6. Cash and cash equivalents	2016 \$'000	2015 \$'000
Cash at bank and cash on hand	5,200	3,577
Total cash and cash equivalents	5,200	3,577
7. Trade and other receivables	2016 \$'000	2015 \$'000
Current		
Receivables	611	351
Receivable from Lantern Real Estate Trust	1,010	1,286
Total trade and other receivables	1,621	1,637



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

8. Inventories	2016 \$'000	2015 \$'000
Finished goods at cost	642	1,333
Total inventory	642	1,333

9. Other assets	2016 \$'000	2015 \$'000
Current		
Prepayments	369	439
Total other assets	369	439

10. Plant and equipment	2016 \$'000	2015 \$'000
Plant and equipment – at fair value or at cost	13,318	18,348
Less: accumulated depreciation	(3,351)	(4,954)
	9,967	13,394
Motor vehicles – at cost	51	76
Less: accumulated depreciation	(28)	(25)
	23	51
Total plant and equipment	9,990	13,445

Reconciliations

Reconciliations of the written down values at the beginning and end of the current period is set out below:

	Plant and Equipment \$'000	Motor Vehicles \$'000	Total \$'000
Balance at 1 July 2014	9,623	61	9,684
Additions	5,957	-	5,957
Disposals	-	-	-
Depreciation expense – continuing operations	(1,270)	(10)	(1,280)
Depreciation expense - discontinued operations (note 16(b))	(916)	-	(916)
Balance at 30 June 2015	13,394	51	13,445
Balance at 1 July 2015	13,394	51	13,445
Additions	4,155	-	4,155
Disposals	(765)	(23)	(788)
Transfers to disposal group (note 16(d))	(4,348)	-	(4,348)
Depreciation expense – continuing operations	(1,772)	(5)	(1,777)
Depreciation expense - discontinued operations (note 16(b))	(697)	-	(697)
Balance at 30 June 2016	9,967	23	9,990

The following table provides a summary of continuing operations hotel asset values recognised:

	2016 \$'000	2015 \$'000
Plant and equipment	9,543	12,897
Intangibles	4,642	6,894
Total continuing hotel assets	14,185	19,791



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

11. Intangibles	2016 \$'000	2015 \$'000
Goodwill – at cost	7,060	12,236
Less: impairment	(2,418)	(5,342)
Total intangibles	4,642	6,894

Reconciliations

Reconciliations of the written down values at the beginning and end of the current period is set out below:

	Goodwill \$'000
Balance at 1 July 2014	4,208
Acquisitions	5,186
Impairments recognised in profit or loss	(2,500)
Balance at 30 June 2015	6,894
Impairment recognised in profit or loss	(1,116)
Additional costs of acquisition recognised in profit or loss – continuing operations	(76)
Additional costs of acquisition recognised in profit or loss – discontinued operations note (16(b))	(60)
Transfer to disposal group (note 16 (d))	(1,000)
Balance at 30 June 2016	4,642

Goodwill relates to the acquisition of businesses operating hotels.

12. Payables	2016 \$'000	2015 \$'000
Current liabilities		
Trade payables	5,827	8,589
Trade payables – Lantern Real Estate Trust	6,846	2,882
Other payables	1,218	1,138
Total current liabilities	13,891	12,609
Non-current liabilities		
Other payables	1,472	450
Lease incentive	459	346
Total non-current liabilities	1,931	796

13. Provisions	2016 \$'000	2015 \$'000
Current provisions		
Employee benefits	88	115
Total current provisions	88	115
Non-current provisions		
Employee benefits	44	118
Total non-current provisions	44	118



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

14. Borrowings	2016 \$'000	2015 \$'000
Current liabilities		
Finance lease	-	57
Total current borrowings	-	57
Non-current liabilities		
Loan from Lantern Real Estate Trust	12,271	22,125
Total non-current borrowings	12,271	22,125

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

15. Issued securities	2016 \$'000	2015 \$'000
(a) Carrying amounts		
At the beginning of the year	2,745	2,745
At the end of the year	2,745	2,745
	2016 '000	2015 '000

(b) Number of shares issued		
At the beginning of the year	883,202	883,202
At the end of the year	883,202	883,202

16. Discontinued operations	2016 \$'000	2015 \$'000
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(a) Details of discontinued operations

Discontinued operations comprises the following:

- Sold during the year: Bowral Hotel (June 2016), Dolphin Hotel (March 2016) and El Toro Hotel (February 2016);
- Contracts exchanged prior to 30 June 2016: Exchange Hotel (June 2016);
- Contracts exchanged after 30 June 2016: Courthouse Hotel (July 2016) and Lawson Park Hotel (August 2016).

(b) Financial performance

The results of the discontinued operations for the year were:

Revenue	20,781	24,246
Profit on sale of plant and equipment	4,801	-
Total income	25,582	24,246
Cost of sales	(7,431)	(8,749)
Employment expenses	(6,842)	(7,678)
Other operating expenses	(7,472)	(6,897)
Depreciation and amortisation	(697)	(916)
Impairment of intangibles	(1,116)	(2,000)
Additional costs of goodwill acquired recognised in profit or loss	(60)	-
Loss on sale of plant and equipment	(4)	(3)
Total expenses	(23,622)	(26,243)
Profit/(loss) from disposal group for the year	1,960	(1,997)



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

16. Discontinued operations (continued)	2016 \$'000	2015 \$'000
(c) Cash flows		
The cash flows of the discontinued operations during the year were:		
Cash flows from operating activities		
Receipts from customers	22,859	26,668
Payments to suppliers	(20,326)	(24,811)
Cash flows from investing activities		
Proceeds from sale of property, plant, equipment and intangibles	8,138	-
Payments made on disposal of property plant and equipment	(139)	-
Payments made for additions to property, plant and equipment	(117)	(508)
Payment for acquisition of business, net of cash acquired	-	(38)
Cash flows from financing activities		
Repayment of borrowings to Lantern Real Estate Trust	(7,999)	-
Cash flows from discontinued operations for the year	2,416	1,311
(d) Assets and liabilities		
The assets and liabilities of the discontinued operations as at reporting date were:		
Assets		
Property, plant and equipment	2,113	-
Inventory	187	-
Cash	460	-
Receivables	41	-
Prepayments	25	-
Total assets of discontinued operations	2,826	-
Liabilities		
Borrowings from Lantern Real Estate Trust	4,638	-
Payables	455	-
Total liabilities of discontinued operations	5,093	-
Net assets of discontinued operations	(2,267)	-
(e) Leasing arrangements		
Commitments for operating leases for hotels, payable to Lantern Real Estate Trust, attributable to discontinued assets are payable as follows:		
Within one year	1,576	-
Later than one year but not later than five years	4,622	-
Later than five years	135	-
	6,333	-
17. Business combinations		
		Increase/(Decrease) \$'000
Retrospective adjustments to 30 June 2015 carrying values		
The business combinations for the Waterworks Hotel and Exchange Hotel were initially accounted for on a provisional basis. The Group retrospectively adjusted the provisional amounts recognised and also recognised additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the date of acquisition.		
The effect of this retrospective adjustment on the 30 June 2015 carrying values was as follows:		
Goodwill		2,686
Loan from Lantern Real Estate Trust		(2,686)
		-



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

17. Business combinations (continued)

Details of the acquisitions are set out below:

Waterworks Hotel

On 15 September 2014 the Group purchased the property, plant, equipment and intangibles of the Waterworks Hotel, Botany. Details of the acquisition are as follows:

	Fair Value \$'000
Cash	97
Inventories	36
Intangibles - goodwill	1,934
Plant and equipment	1,432
Other assets and liabilities	(139)
Acquisition date fair value of the assets and liabilities acquired	3,360
Add: amount expensed – portion of stamp duty allocated to goodwill	103
Acquisition date fair value of the assets and liabilities acquired and costs of acquisition expensed	3,463
<i>Consideration:</i>	
Cash paid to vendor	(6)
Loan from Lantern Real Estate Trust	3,469
Total consideration	3,463

Exchange Hotel

On 21 October 2014 the Group purchased the property, plant, equipment and intangibles of the Exchange Hotel, Newcastle. Details of the acquisition are as follows:

	Fair Value \$'000
Cash	27
Inventories	49
Intangibles - goodwill	3,116
Plant and equipment	2,055
Other assets and liabilities	(11)
Acquisition date fair value of the assets and liabilities acquired	5,236
Add: amount expensed – portion of stamp duty allocated to goodwill	167
Acquisition date fair value of the assets and liabilities acquired and costs of acquisition expensed	5,403
<i>Consideration:</i>	
Cash paid to vendor	65
Loan from Lantern Real Estate Trust	5,338
Total consideration	5,403

Payments for acquisitions

The total payments for acquisitions are as follows:

Waterworks Hotel	3,463
Exchange Hotel	5,403
Total payments for acquisitions	8,866



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

17. Business combinations (continued)

Results of acquired businesses

The acquired hotel businesses contributed revenue and profit/(loss) since acquisition to 30 June 2016 as follows:

	Waterworks	Exchange	
	2016	2016	2016
2016	\$'000	\$'000	\$'000
Revenue	4,153	3,566	7,719
Expenses (including depreciation)	(3,792)	(3,678)	(7,470)
Rent paid to Lantern Real Estate Trust	(410)	(620)	(1,030)
Impairment of goodwill	-	(1,116)	(1,116)
Profit/(loss)	(49)	(1,848)	(1,897)

	Waterworks	Exchange	
	2015	2015	2015
2015 – since date of acquisition	\$'000	\$'000	\$'000
Revenue	2,702	2,758	5,460
Expenses (including depreciation)	(2,595)	(2,781)	(5,376)
Rent paid to Lantern Real Estate Trust	(282)	(408)	(690)
Impairment of goodwill	-	(2,000)	(2,000)
Profit/(loss)	(175)	(2,431)	(2,606)

18. Capital management

The group aims to meet its strategic objectives to maximise shareholder 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 earnings 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.

	2016	2015
	\$'000	\$'000
Total consolidated liabilities	33,318	35,820
Total consolidated assets	25,290	27,325
Leverage ratio	131.7%	131.1%

19. Financial risk management

Introduction

The Group has the following financial instruments:

(i) Financial Assets:

Cash and cash equivalents	5,660	3,577
Receivables	1,661	1,637
	7,321	5,214



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

19. Financial risk management (continued)	2016 \$'000	2015 \$'000
(ii) Financial liabilities:		
Payables	15,818	13,059
Finance leases	-	57
Other borrowings	16,909	22,125
	32,727	35,241

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 time frame. Depending on the circumstances of the Group at a point in time it may be that the 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 and were repaid during the year. 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.

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	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years	Total
2016	%	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	n/a	13,128	-	-	-	13,128
Other payables	n/a	1,218	921	551	-	2,690
Borrowings	n/a	4,638	12,271	-	-	16,909
Total		18,984	13,192	551	-	32,727
2015						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	n/a	11,471	-	-	-	11,471
Other payables	n/a	1,138	404	46	-	1,588
Borrowings	n/a	-	22,125	-	-	22,125
<i>Interest bearing – fixed rate</i>						
Finance lease liability	7.28%	57	-	-	-	57
Total		12,666	22,529	46	-	35,241



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

20. Related parties

(a) Responsible entity fee income

As Responsible Entity of Lantern Real Estate Trust, Lantern RE Ltd, 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 \$1,011,216 (2015: \$1,103,211).

No responsible entity fees were paid to external parties during the year.

(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 (2015: \$214,243).

(c) Rent payable

The Group rents hotel venues under long term operating leases from Lantern Real Estate Trust and its controlled entities. Refer note 28 for details of the amounts payable under these leases.

21. Auditor's remuneration

2016
\$'000

2015
\$'000

Amounts received or receivable by HLB Mann Judd:

Audit or review of financial reports of Lantern Real Estate Trust and any other entity in the consolidated group	205	180
Other assurance services	3	7
	208	187

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.

22. Key management personnel

2016
\$'000

2015
\$'000

(a) Compensation

Short term benefits	1,376	769
Long term benefits	2	-
Post-employment benefits	50	13
	1,428	782

Employment Agreements

John Osborne (Chief Executive Officer)

Key terms as follows:

- Base remuneration \$300,000 p.a. plus superannuation;
- Executive Incentive Scheme of up to \$200,000 p.a. based on the delivery of strategic and operational objectives;
- Subject to competitive restraint during period of his employment and for a period of not less than six months after his employment with Lantern ceases;
- A notice period of three months applies, except in defined circumstances;
- No fixed term.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

22. Key management personnel (continued)

Mark Ronfeldt (Chief Operating Officer)

Key terms as follows:

- Base remuneration \$230,000 p.a. plus superannuation;
- Executive Incentive Scheme of up to 30% of base salary based on the delivery of EBITDA targets;
- A notice period of four weeks applies, except in defined circumstances;
- No fixed term.

Michael Thaler (Financial Controller)

Key terms as follows:

- Base remuneration \$150,000 p.a. plus superannuation;
- Executive Incentive Scheme of up to 30% of base salary based on the delivery of EBITDA targets;
- A notice period of four weeks applies, except in defined circumstances;
- No fixed term.

(b) Share holdings

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:

	Beginning balance	Commenced as KMP	Ceased as KMP	Acquisitions	Disposals	Ending balance
2016						
John Murphy	-	-	-	-	-	-
Graeme Campbell	-	-	-	-	-	-
Shirley Liew	-	-	-	-	-	-
John Osborne (appointed 19 August 2015)	-	-	-	-	-	-
Matthew Stubbs (appointed 7 March 2016)	-	149,400,000	-	23,000,000	-	172,400,000
Michael Thaler	-	-	-	-	-	-
Mark Ronfeldt	-	-	-	-	-	-
Russell Naylor (terminated 20 July 2015)	12,450,086	-	(12,450,086)	-	-	-
	12,450,086	149,400,000	(12,450,086)	23,000,000	-	172,400,000
2015						
John Murphy	-	-	-	-	-	-
Graeme Campbell	-	-	-	-	-	-
Shirley Liew	-	-	-	-	-	-
Bryan Mogridge	11,086,119	-	(20,294,072)	9,207,953	-	-
Deborah Cartwright	1,228,240	-	(1,350,240)	122,000	-	-
Julian Davidson	-	-	-	-	-	-
Russell Naylor	10,750,085	-	-	1,700,001	-	12,450,086
Michael Thaler	-	-	-	-	-	-
	23,064,444	-	(21,644,312)	11,029,954	-	12,450,086



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

23. Parent financial information	2016 \$'000	2015 \$'000
Summary financial information about the parent:		
Current assets	2,109	871
Non-current assets	8,212	9,586
Total assets	10,321	10,457
Current liabilities	875	1,015
Non-current liabilities	12,479	11,012
Total liabilities	13,354	12,027
Net Assets	(3,033)	(1,570)
Shareholders equity:		
Issued shares	2,745	2,745
Reserves	2	-
Accumulated losses	(5,780)	(4,315)
Total shareholders' equity	(3,033)	(1,570)
Net loss attributable to shareholders of the parent	(1,465)	(1,122)

24. Subsidiaries	Ownership Interest	
	2016 %	2015 %
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	
<i>Lantern Hotel Group Limited</i>	100	100
Lantern RE Limited	Australia	100
Lantern Management Services Pty Limited	Australia	100
Lantern Operations Pty Limited	Australia	100
Lantern Operations 2 Pty Limited	Australia	100
Lantern HR Pty Limited	Australia	100
Lantern Management No. 2 Pty Limited	Australia	100
IEF NZ Company Limited	New Zealand	100
IEF NZ Pty Limited	Australia	100
IEF Custodian Pty Limited	Australia	100

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

25. Events subsequent to the reporting date
(a) On 21 July 2016 a contract for the sale of the business of the Cairns Courthouse Hotel was exchanged for \$2.75m with settlement likely to occur early October 2016.
(b) On 3 August 2016 a contract for the sale of the business of the Lawson Park Hotel was exchanged for the \$0.30m. Settlement occurred 16 September 2016 with proceeds retained as cash.
(c) On 15 August 2016 the business of the Exchange Hotel was sold for \$1.99m with proceeds used to repay borrowings.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

26. Reconciliation of profit after income tax to net cash from operating activities	2016 \$'000	2015 \$'000
Profit/(loss) after income tax for the year	465	(4,207)
<i>Adjustments for:</i>		
Realised loss/(gain) on disposal of plant and equipment		-
Depreciation expense	2,474	2,196
Impairment of goodwill	1,116	2,500
Additional costs of goodwill recognised in profit or loss	136	-
Loss on sale of disposal group of plant and equipment	4	-
Profit on sale of disposal group of plant and equipment	(4,801)	-
Loss on sale of plant and equipment	752	-
Share based payment expense	2	-
Impairment of prepayments	-	192
<i>Change in operating assets and liabilities</i>		
Decrease/(increase) in trade and other receivables	(85)	(1,274)
Decrease/(increase) in prepayments	75	5
Decrease/(increase) in other assets	-	108
Decrease/(increase) in inventories	504	(178)
Increase/(decrease) in provisions	(101)	406
Increase/(decrease) in trade and other payables	1,431	5,193
Net cash from operating activities	1,972	4,941

27. Share based payments

Executive Share Incentive Plan ("ESIP")

Plan name	ESIP
Who can participate	The ESIP is available to senior executives of Lantern.
Types of securities issued	Options which can be converted into fully paid stapled securities once vested.
What restrictions are there on the securities	Options are non-transferable.
Vesting period	2 years from the date of grant of the options, being 15 May 2016.
Vesting conditions	Options will vest subject to the following performance targets: <ul style="list-style-type: none"> - Year 1 Control Change Trigger, or Trading Trigger, at or higher than 12 cents per stapled security then 33% of options will vest; - Year 1 Control Change Trigger, or Trading Trigger, at or higher than 15 cents per stapled security then 100% of options will vest; - Year 2 Control Change Trigger, or Trading Trigger, at or higher than 15 cents per stapled security then 67% of options will vest. <p>The price triggers will be reduced by the pre-tax amount of any distributions, dividends or capital distributions paid which represent more than 5% of the net tangible assets of Lantern.</p>
Number of securities vested during 2016	Nil.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

27. Share based payments (continued)

Executive Share Incentive Plan ("ESIP") (continued)

Stapled security options

The number of options on issue and granted to the Group's KMP is set out below:

30 June 2015	Opening balance	Granted during the period	Exercised	Forfeited	Expired	Closing balance	Vested and exercisable	Unvested
<i>Current executives</i>								
John Osborne	-	9,000,000	-	-	-	9,000,000	-	9,000,000
Mark Ronfeldt	-	4,050,000	-	-	-	4,050,000	-	4,050,000
Michael Thaler	-	2,700,000	-	-	-	2,700,000	-	2,700,000

The weighted average exercise price of all options granted under the ESIP is \$nil.

Fair value

Security based payments to employees are measured at the fair value of the instruments issued, and are amortised over the relevant vesting periods. The corresponding amount is recorded to the security based payment reserve.

The fair value of options issued is determined using the Monte Carlo simulation valuation model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the instruments granted is based on the number of instruments that eventually vest.

Valuation inputs

For options outstanding at 30 June 2016, the table below shows the fair value of the options on each grant date as well as the factors used to value the options at the grant date. The valuation is used to value the equity settled options granted to employees at 30 June 2016.

Grant	2016
Grant date	15 May 2016
Vesting date	On or before 15 May 2018
Expiry date of vested options	15 May 2031
Risk free rate	1.8%
Expected price volatility	30%
Expected distribution year 1	3 cents
Expected distribution year 2	0.5 cents
Non-market vesting probability discount	50%
Stapled security price at the grant date	\$0.12
Fair value per option on issue	\$0.064

Expected price volatility

Expected volatility was calculated with reference to the historical volatility in the price of Lantern securities over a 1, 3 and 5 year period and then compared to an average of market peers to arrive at an overall volatility rate of 30%. The selected volatility rate was determined to be higher than the average of the market peers in line with historical results.

Non-market vesting probability

This non-market vesting probability is a discount rate attached to the valuation based on the expectation of the number of options that will vest with reference to the vesting conditions in place.



NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2016

28. Commitments	2016 \$'000	2015 \$'000
Finance lease agreements		
Commitments for operating lease payments, payable		
Within one year	-	65
Later than one year but not later than five years	-	-
Minimum lease payments	-	65
Future finance charges	-	(8)
Liability recognised	-	57
Disclosed as:		
Current liability	-	57
Non-current liability	-	-
	-	57
Operating lease commitments – Suppliers		
Commitments for operating lease payments, payable:		
Within one year	413	210
Later than one year but not later than five years	1,109	1,522
Minimum lease payment	1,522	1,732
Operating lease commitments – Hotels		
Commitments for operating lease payments, payable:		
Within one year	10,295	13,129
Later than one year but not later than five years	30,248	47,535
Later than five years	8,435	12,378
Minimum lease payment	48,978	73,042

Commitments for operating leases – Hotels, 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 Limited and its controlled entities are a part.

Capital Commitments

There are no significant commitments for capital expenditure at the end of the reporting period (2015: \$Nil).

29. Segments information

Description of segments

The Group invests in and operates hotel businesses located in Australia. The Group has identified its operating segment as being these businesses, based on internal reporting to the Chief Executive Officer.



DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2016

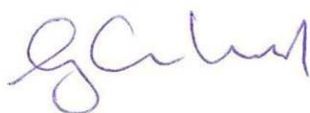
In the opinion of the directors of Lantern Hotel Group Limited;

- (a) the consolidated financial statements and notes, set out on pages 63 to 87, 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 2016 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.

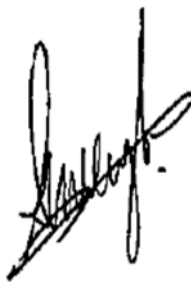
Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Financial Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Financial Controller required by Section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors.



Graeme Campbell
Non- Executive Chairman
Dated in Sydney this 18th day of September 2016



Shirley Liew
Non- Executive Director
Dated in Sydney this 18th day of September 2016



**LANTERN HOTEL GROUP LIMITED
INDEPENDENT AUDITOR'S REPORT**

To the members of Lantern Hotel Group Limited:

Opinion

We have audited the financial report of Lantern Hotel Group Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, 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 ("the Group").

In our opinion, the accompanying financial report of Lantern Hotel Group Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, given to the directors of the company on 16 September 2016, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Emphasis of Matter

We draw attention to Note 1 of the financial report, which indicates that subsequent to year end Directors have formed the view that it would be in the best interests of the Group to obtain the flexibility of undertaking an orderly sell down of the Group's remaining hotels (including all core hotels). This will require the approval of security holders, and a sell down resolution will be proposed at the Annual General Meeting to be held on 25 October 2016.

Our opinion is not modified in respect of this matter.

**LANTERN HOTEL GROUP LIMITED
INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of Hotel Assets	How our audit addressed the key audit matter
<p>At 30 June 2016 the Group owned "hotel assets" which have been included in the Group's statement of financial position at that date. Hotel assets relating to continuing operations (\$14,185,000) are disclosed in Note 10 and hotel assets which are held for sale (\$2,113,000) are disclosed in Note 16(d).</p> <p>These hotel assets are the plant and equipment at depreciated cost and intangibles at cost less impairment attributable to hotels owned by the Group.</p> <p>The recoverability of these assets is assessed by the directors at least annually, or more frequently if events or changes in circumstances indicate that assets have suffered impairment.</p> <p>The Group obtains valuations for each hotel prepared by professionally qualified external values at least triennially, and management prepares valuations at other dates.</p> <p>These valuations are generally based on a "capitalisation approach" whereby a capitalisation rate is applied to estimated maintainable net income.</p> <p>Current and recent sales activity for similar properties is also considered by external valuers and the Group.</p> <p>We focused on this area as a key audit matter due to significant judgement involved in assessing the recoverable amount of these assets, as referred to in Note 2.</p>	<p>We assessed the Group's review of the work of the external valuers, and assessed management's valuations.</p> <p>We analysed the appropriateness of the valuation methods applied, and considered whether they were in line with accounting requirements and generally accepted business practice.</p> <p>We discussed with some of the external valuers their valuation process, and challenged their significant assumptions, and capitalisation rates used.</p> <p>We compared the capitalisation rates used to external market evidence, and to the valuations prepared by the different external valuers.</p> <p>We assessed the competence, independence and integrity of the external valuers.</p> <p>We compared the estimated maintainable net income with actual results.</p> <p>We assessed whether the Group's disclosures met the requirements of relevant accounting standards.</p>
Discontinued Operations	How our audit addressed the key audit matter
<p>The financial statements have classified certain hotel assets as "discontinued operations" or "assets held for sale".</p> <p>We focused on this area as a key audit matter due to the judgement involved in determining whether or not each hotel meets the accounting standard requirements for this classification.</p>	<p>We assessed management's evaluation of the assets classified as discontinued, and of those not classified as discontinued.</p> <p>We also assessed the adequacy of disclosures of the discontinued operations, and whether they met the requirements of relevant accounting standards.</p>

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the company's annual report for the year ended 30 June 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**LANTERN HOTEL GROUP LIMITED
INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Responsibilities of the Directors 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 preparing the financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards/Auditors-Responsibilities.aspx>. This description forms part of our auditor's report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 58 to 60 of the directors' report for the year ended 30 June 2016. 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 on the Remuneration Report

In our opinion, the Remuneration Report of Lantern Hotel Group Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'HLB Mann Judd'.

**HLB Mann Judd
Chartered Accountants**

**Sydney, NSW
19 September 2016**

A handwritten signature in black ink that reads 'A G Smith'.

**A G Smith
Partner**

SECURITY HOLDER INFORMATION

The information set out below was prepared at 26 August 2016 and applies equally to units in the Trust and shares in the Company under the terms of their joint quotation on the Australian Securities Exchange.

Distribution of securities

Analysis of security holders by size of holding

	Number of holders of ordinary securities	Number of securities	% of security holders
100,001 and over	184	858,671,674	97.22
10,001 to 100,000	644	22,032,154	2.50
5,001 to 10,000	213	1,728,907	0.20
1,001 to 5,000	211	745,528	0.08
1 to 1,000	97	23,867	0.00
Total	1,349	883,202,130	100.00
Holding less than a marketable parcel	251	488,140	0.06

Security holders

Twenty largest quoted equity security holders

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

Name	Ordinary securities	
	Number of securities held	% of total securities issued
HSBC Custody Nominees (Australia) Limited	326,062,005	36.92
Totem Holdings Pty Ltd	134,000,000	15.17
Greens IPO Saleco P/L	103,724,222	11.74
CVC Limited <CVC Limited A/C>	62,541,447	7.08
Citicorp Nominees Pty Limited <Colonial First State In v A/C>	32,526,699	3.68
RBC Investor Services Australia Nominees Pty Ltd <Piselect>	31,026,808	3.51
Eastern Porphyry Pty Ltd	21,000,000	2.38
Aust Executor Trustees Ltd <Milliniums Alternatives Fund>	15,789,474	1.79
J P Morgan Nominees Australia Limited	13,293,634	1.51
Rolyan Pty Ltd <Jasarash Investment A/C>	9,894,885	1.12
Mr Matthew Robert Stubbs <Matthew Stubbs Family A/C>	9,000,000	1.02
BNP Paribas Noms Pty Ltd <DRP>	6,802,978	0.77
Kiat Pty Ltd <Kiat A/C>	6,210,526	0.70
Mr Matthew Robert Stubbs & Ms Anna Goulston <Matthew Stubbs S/F A/C>	5,200,000	0.59
CVC Limited	5,092,675	0.58
Custodial Services Limited <Beneficiaries Holding A/C>	4,227,866	0.48
Moat Investments Pty Ltd <Moat Investment A/C>	4,121,466	0.47
Mabama Pty Ltd	3,200,000	0.36
Mr John Round & Mrs Jenny Round <J R Squared A/C>	2,500,000	0.28
Imbest Pty Ltd <Imbest A/C>	2,477,664	0.28
	798,692,349	90.43



SECURITY HOLDER INFORMATION

Substantial holders

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

	Date of change	Ordinary securities	
		Number of Securities Held	% of total Securities Issued
Torchlight GP Limited	3 March 2016	313,281,405	36.56%
CVC Limited	19 April 2016	172,604,945	19.54%
Matthew Donnellan & Matthew Stubbs and their related bodies corporate	20 April 2016	172,400,000	19.50%
Renaissance Property Securities Pty Ltd	16 June 2014	75,564,522	8.56%

Voting

Security holders in Lantern Hotels are entitled to 1 vote for each security they hold in the Group.

In accordance with the Constitution each member present at a meeting, whether in person, by proxy, or represented by power of attorney, or represented by a duly authorised representative in the case of a corporate member, shall have one vote on a show of hands, and one vote for each fully paid stapled security on a poll.

On-market buyback

There is no current on-market buyback in relation to the Company's securities.

