

## CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement (**Statement**) outlines the main corporate governance practices currently in place for Lantern Hotel Group (**Group** or **Lantern**) and also addresses the 3rd Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**ASX Recommendations**). The Board recognises that the Group does not accord with the all of the principles and recommendations of the ASX Corporate Governance Council and where they are not, reasons are provided in this Statement.

The corporate governance policies and practices described below are those that have been in place for the 2015-16 financial year, or as at the date of this report where indicated.

All references to the Group's website are to <http://www.lanternhotels.com.au>

### Principle 1: Lay solid foundations for management and oversight

#### (a) Lantern Hotel Group and its Constitutions

Lantern Hotel Group is a stapled structure comprising the parent company, Lantern Hotel Group Limited (**LHGL**) and Lantern Real Estate Trust (**LRET**) (together known as the **Group**). LHGL and LRET each have their own Constitution (**the Constitutions**) both of which have been lodged with the Australian Securities and Investments Commission (**ASIC**). These Constitutions and the Corporations Act govern the rights and obligations of securityholders. The terms contained in each Constitution are substantially the same.

The responsible entity of LRET, Lantern RE Limited (**LRE**) is the holder of an Australian Financial Services Licence (**AFSL**).

As a result of the stapling, LHGL and LRE operate as a coordinated Group with the Boards of both companies having the same composition and the meetings held concurrently where appropriate. References to the 'Board' in this statement are references to the Board of LHGL and LRE (as the Responsible Entity of LRET).

#### (b) Compliance Plans

In accordance with Corporations Act requirements, the Responsible Entity has registered compliance plans for LRET with ASIC. The compliance plans describe the procedures that the Responsible Entity will apply in operating LRET to ensure compliance with the Corporations Act and the Constitutions of LHGL and LRET.

The Board of the Responsible Entity is responsible for monitoring the Group's compliance with the compliance plans. Further details are provided under the section on risk management.

#### (c) Role of the Board

The Board is committed to effectively representing and promoting the Group, and thereby adding long-term value to all securityholders. The Board is accountable to securityholders for the management of the Group's business and affairs and as such is responsible for the overall strategy, governance and performance of the Group. To clarify the roles and responsibilities of directors and management and to assist the Board in discharging its responsibilities, the Group has established a governance framework, which sets out the functions reserved to the Board and provides for the delegation of functions to Board Committees and to senior management. The Board operates under a formal charter that details the responsibilities of the Board. This charter can be found on the Group's website.

#### (d) Appointments to the Board

When considering the appointment of directors to the Board, appropriate checks are carried out. In addition, the Board considers and formally resolves to support the election or re-election of directors to securityholders at general meetings/annual general meeting.

The Board supplies all material information in relation to the election or re-election of directors for securityholders to make an informed decision, in the notice of meeting and explanatory notes for those meetings.

Non-executive directors are appointed pursuant to formal letters of appointment which set out the key terms and conditions of the appointment, the Board's expectations in relation to the performance of the director, procedures for dealing with a director's potential conflict of interest and the disclosure obligations of the director, together with the details of the director's remuneration.

#### (e) Role of the Board of the Responsible Entity

As the Responsible Entity, the Board of LRE has additional responsibilities for the operation of LRET. The Responsible Entity must exercise its powers and perform the obligations conferred on it under the Constitutions and the Corporations Act and ensure that the activities of the Group are conducted in a proper and efficient manner in the best interests of unitholders. The Responsible Entity must also ensure compliance with the conditions of the AFSL and approve and monitor compliance with compliance plans.

#### (f) Board Committees

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

The Board established an Audit and Risk Committee to assist it with the execution of its responsibilities. The composition of the Committee is reviewed on an annual basis.

The Committee operates in accordance with a charter approved by the Board which can be found on the Group's website.

The applicable composition requirements and current membership of the Board committee is set out below:

| Board Committee          | Composition Requirements   | Membership  |
|--------------------------|--|---|
| Audit and Risk Committee | At least two members, all non-executive and independent. The Chairman should be a non-executive director. One member must also have financial expertise. | Ms Shirley Liew (Chair); and<br>Mr Graeme Campbell. |

The number of scheduled Board and Committee meetings held during the year ended 30 June 2016 and the number of meetings attended by each of the directors is set out in the table below:

|                    | Board |    | Audit & Risk Committee |   |
|--------------------|-------|----|------------------------|---|
|                    | A     | B  | A                      | B |
| Mr John Murphy     | 16    | 16 | -                      | - |
| Ms Shirley Liew    | 16    | 16 | 4                      | 4 |
| Mr Graeme Campbell | 16    | 16 | 4                      | 4 |
| Mr Matthew Stubbs  | 4     | 4  | -                      | - |

A: Meetings eligible to attend    B: Meetings attended

#### **(g) The Company Secretary**

The Company Secretary acts as secretary of the Board, attending all meetings of the Board and its Committees as required. The Company Secretary is accountable to the Board through the chairperson on all corporate governance matters and the proper functioning of the Board.

#### **(h) Diversity**

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

The Board oversees the director nomination process and determines who is invited to fill a casual vacancy after extensive one-on-one and collective interviews with candidates and thorough due diligence and reference checking.

The Board currently has one female non-executive director out of three directors, Ms Shirley Liew.

A formal Diversity Policy has been adopted by the Board that outlines the Group's commitment to diversity in the workplace and the provision of a work environment that is free from discrimination and promotes equal opportunity for all. Lantern promotes an inclusive workplace where employee differences in areas including gender, age, culture, disability and lifestyle choice are valued.

The policy does not include measurable objectives for achieving gender diversity as the Group has always had a policy of actively encouraging gender diversity at all levels in the organisation, and a culture that supports workplace diversity. This is evidenced by:

- The proportion of female directors: 33%
- The proportion of female employees in the whole organisation: 47%
- The proportion of female employees in senior positions: 43%

The Board has not established measurable objectives for achieving gender diversity at this point in time. Given the strategic corporate reviews underway it is not deemed appropriate as there are a number of other initiatives underway. The Board will reconsider this ASX recommendation in FY17.

#### **(i) Board and Director Performance**

The Board is committed to enhancing its effectiveness through performance management and review. However, the Board did not conduct a formal performance review during the year ended 30 June 2016 as two of the existing directors were only appointed in June 2015 and the third was appointed in March 2016. The conduct of a formal performance review will be re-assessed during FY17.

#### **(j) Senior Executives**

The Board delegates the responsibility for the day-to-day management of the Group to the Chief Executive Officer (**CEO**), who is assisted by the senior executives who report to him.

The CEO consults with the Chairman on any matters which the CEO considers are of such a sensitive, extraordinary or strategic nature as to warrant the attention of the Board, regardless of value. The authorisation thresholds for the control of expenditure and capital commitments have been established and are set to optimise the function and decision-making of the executive, whilst maintaining appropriate oversight by the Board.

Subject to policy limits and the directions of the Audit and Risk Committee, the CEO may sub-delegate the day-to-day running of the Company to the senior executive team. The exercise of delegated authority is restricted to specific organisational functions and roles, including: determining conditions of employment, the write-off of assets, instructing external advisers, property transactions, taxation payments, treasury transactions and dealings (contractual and otherwise) with other parties.

On 20 July 2015 the management services agreement between CEO Russell Naylor and the Group was terminated. On 19 August 2015 Mr John Osborne was appointed to the role of CEO and now oversees the current strategic and operational review of Lantern.

All senior executives are appointed to their positions after a thorough recruitment process. Each member of the senior executive team, including the CEO, are employed pursuant to employment contracts, covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. Each contract refers to a specific formal job description. Each contract sets out the remuneration of the executive, including their entitlements to any rights under incentive plans.

#### **(k) Performance of Senior Executives**

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

The CEO's performance is formally assessed on an annual basis by the Board.

An annual assessment of the performance of all other senior executives is undertaken by the CEO.

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

### **Principle 2: Structure the board to add value**

#### **(a) Board Size and Composition**

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

At the date of this report, the Board comprises three directors, two of whom are independent, and all three are non-executive directors.

The Board still retains a majority of independent non-executive directors.

The Boards of LHGL and LRE have the same directors.

The current members of the Board are:

- Mr Graeme Campbell (Chairman), (appointed 24 June 2015)
- Ms Shirley Liew (Non-executive Director), (appointed 18 June 2015)
- Mr Matthew Stubbs (Non-executive Director), (appointed 7 March 2016)

The Board is currently undertaking a strategic and operational review and as part of that review the size and composition of the Board will be considered to ensure the optimal Board is achieved for the Group at this stage and development of Lantern.

Directors' details are listed in the Annual Report in the Directors' Report, including details of their other listed entity directorships and experience.

## **(b) Board Skills, Matrix and Diversity**

The skills and diversity of the current Board are outlined below.

### Mr Graeme Campbell

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 club industries. In 2006 Mr Campbell left Ferrier Hodgson to set up Campbell Advisory, which provides wide ranging hospitality advice to participants within the hotel and club industries together with major banks and other funders. He is currently the lead independent director of Ainsworth Game Technology Ltd, an independent director of Liquor Marketing Group (Bottlemart) and the independent audit chairman of the Illawarra Catholic Club Group.

### Ms Shirley Liew

Ms Liew is an experienced non-executive director with a strong finance and hospitality background. Ms Liew has over 20 years in the finance sector, including as a partner with both Moore Stephens and Grant Thornton, during which time she was audit partner on various large hospitality groups.

Ms Liew currently holds a number non-executive director positions and audit committee chair roles.

### Mr Matthew Stubbs

Mr Stubbs has over 17 years experience in investment banking and has worked on a broad range of mergers and acquisitions, transactions and restructurings. Mr Stubbs is Managing Director and Principal of independent financial advisory firm, Allier Capital. Immediately prior to establishing Allier Capital, he was head of Citicorp's healthcare investment banking practice in Australia.

As the current three directors have only recently been appointed and additional directors are likely to be appointed, a Board skills matrix has not yet been developed. It is the intention to develop this matrix at the appropriate time in order to assist the Board in ensuring it has an adequate skill level for all competencies it deems necessary to discharge its duties.

## **(c) Director Nomination Matters**

The Group previously had a Remuneration and Nomination Committee, however the current Board disbanded this committee in July 2015 due to there only being three directors on the Board, all newly appointed. The responsibilities ordinarily undertaken by a Nominations Committee (and carried out by the previous Remuneration and Nomination Committee) are now included in the Board Charter as a responsibility of the whole Board.

These responsibilities include the Board reviewing the size and composition of the Board, including assessment of necessary and desirable competencies, skills, experience and expertise of Board members and assessing the extent to which the required skills and experience are represented on the Board, at the appropriate time.

The Board is also responsible for reviewing its membership, including recommendations for the appointment and re-election of directors and where necessary, proposing candidates for consideration. The Board will have regard for factors such as; the Board should comprise directors with a broad range of skills, expertise and experience from a diverse range of backgrounds in accordance with the Diversity Policy.

**(d) Director Remuneration and Induction**

Non-executive director remuneration is generally reviewed on an annual basis or as required. A review of director fees was undertaken in June 2016 and these fees may be re-assessed during the FY17 year if required.

A director induction program has been designed and directors are expected to participate in this induction and orientation program on appointment.

**(e) Directors' Independence**

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

On an annual basis, the Board assesses the independence of all directors against the criteria outlined in Box 2.3 of the third edition of the ASX Recommendations.

Mr Graeme Campbell and Ms Shirley Liew are considered by the Board to be independent.

Mr Stubbs is considered non-independent, as he is a substantial shareholder of the Group.

Based on this assessment, the Board has a majority of independent directors.

**(f) Directors' Interests**

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

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

Standing items at each Board meeting include:

- Director's Securityholding Register; and
- Director's Conflicts of Interests Register.

**(g) Chairman**

The same person does not occupy the role of Chairman of the Board and CEO. The Board has agreed that it should continue to have a majority of independent non-executive directors, that the positions of Chairman and CEO must be separate, and that the Chairman should be an independent non-executive director.

Mr Graeme Campbell was appointed Chairman of the Group on 30 June 2016 and is considered an independent director in accordance with recommendation 2.5 of the ASX Recommendations.

#### **(h) Board Meetings**

The Board typically schedules meetings on a monthly basis, with additional meetings convened as required. Agendas for each meeting are prepared by the Company Secretary together with the Chairman and CEO, and are distributed prior to the meeting with supporting papers.

Standing items include the CEO's report and the financial report, as well as reports addressing matters of strategy, governance and compliance. Senior executives are directly involved in Board discussions where required and directors have a number of further opportunities to contact a wider group of employees, including visits to business operations.

#### **(i) Independent Advice**

The Board has a policy of enabling directors to seek independent professional advice for Group related matters at the Group's expense, subject to the prior notification of the Chairman and where the estimated costs are considered to be reasonable.

### **Principle 3: Act Ethically and Responsibly**

#### **(a) Code Of Conduct And Ethical Behaviour**

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

The Board has endorsed a Code of Conduct which outlines 'acceptable behaviour' and attitudes expected from all staff to promote and maintain the confidence and trust of all those dealing with the Group.

The Group's Code of Conduct can be viewed on the Group's website.

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

- managing conflicts of interests;
- personal security trading;
- related party transactions; and
- handling confidential information.

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

#### **(b) Employee And Director Trading In Lantern Securities**

The Group has a Securities Trading Policy that governs the ability of directors, employees and contractors to trade in the Group's securities. Subject to necessary prior written consents being obtained, the Group's directors, executives and employees may trade in the Group's securities at any time outside closed periods which cover the following:

- from 31 December until the business day after the release of half yearly results;
- from 30 June until the business day after the release of annual results;
- from 28 days before, to the close of trading on the business day after, Lantern's annual general meeting or
- for any other time period determined by the Board.

Directors, employees and contractors may, in exceptional circumstances as defined in the policy, trade during a closed period but only with the prior written consent of the Chairman for directors, another non-executive director for the Chairman and the Company Secretary for employees and contractors. Notwithstanding the closed periods and approval requirements, a person is prohibited from trading at any time if they possess material, price-sensitive information about the Group that is not generally available to the public.

The policy also prohibits Restricted Persons (defined in the policy) from engaging in short term trading, margin lending, short selling and hedging of the Group's securities.

The Group's Securities Trading Policy can be viewed on the Group's website.

#### **Principle 4: Safeguard integrity in corporate reporting**

The Audit and Risk Committee is responsible for assisting the Board in discharging its responsibilities to safeguard the integrity of the Group's financial reporting and the system of internal control. A key component of the Committee's role is to provide appropriate advice and recommendations to the Board to assist the Board to fulfil its responsibilities in regard to financial reporting, the internal control environment and audit management, where appropriate across the Group.

The Audit and Risk Committee Charter (available on the Group website) takes into account the roles and responsibilities of the Audit and Risk Committee as well as contemporary governance practices. The Audit and Risk Committee Charter includes details on the appointment and oversight of the external auditor. The Company will ensure the external auditor is available to securityholders at the Annual General Meeting to answer any questions about the Company's external audit.

The Audit and Risk Committee's current membership, the independence of the members and details of Audit and Risk Committee meetings and attendance by each Committee member are set out earlier in this Corporate Governance Statement and the Directors' Report in the Annual Report.

The Audit and Risk Committee Charter states there should be two committee members, all non-executive and independent. The chairman is an independent non-executive director. The composition of this committee is considered optimal given the size of the existing Board and the appropriate skillsets of these members.

The ASX Principles state that an Audit and Risk Committee should comprise a minimum of three members. Given the size of the board, two independent members is considered appropriate.

The qualifications and experience of the members of the Audit and Risk Committee are outlined earlier in this statement (Principal 2, section (b)).

In accordance with the Company's legal obligations and Recommendation 4.2 of the ASX Recommendations, the CEO and Chief Financial Officer have made certifications to the Board in relation to the Financial Statements for each financial period in 2016:, confirming:

- The financial statements and associated notes comply in all material respects with the Accounting Standards as required by Section 296 of the Corporations Act, Corporations Regulations, International Reporting Standards and other mandatory professional reporting requirements;
- The financial statements and associated notes give a true and fair view, in all material respects, of the financial position as at 30 June 2016 and performance of the Group for the period ended as required by Section 297 of the Corporations Act;
- The financial records of the company have been properly maintained in accordance with Section 286 of the Corporations Act;

- The integrity of the financial statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of directors;
- The risk management and internal compliance and control systems of the Group relating to financial reporting objectives are operating effectively, in all material respects; and
- Subsequent to the end of the financial period, no changes or other matters have arisen that would have a material effect on the operation of risk management and internal compliance and control systems of the Group.

## **Principle 5: Make timely and balance disclosure**

The Group is committed to complying with its continuous disclosure obligations under the ASX Listing Rules and Corporations Act and to ensuring that its securityholders are kept well-informed of all major developments affecting the Group's state of affairs, in order to promote transparency and investor confidence.

The Group has a Continuous Disclosure Policy and it incorporates the continuous disclosure framework as set out in the ASX Listing Rules Chapter 3, as well as ASX Listing Rules Guidance Note 8. This policy is available on the Group's website.

The Continuous Disclosure Policy creates a framework for compliance with relevant disclosure obligations and establishes the accountability of the Board for achieving compliance. More specifically, the policy:

- Explains the Company's obligations under ASX Listing Rule 3.1 and the Corporations Act;
- Establishes internal processes for reporting of information considered to be potentially price-sensitive and for consideration of information reported by the Board;
- Establishes processes for the disclosure of price sensitive information, taking into account the clarification provided by ASX Guidance Note 8;
- Establishes internal processes for briefing of analysts, investor and media groups, responding to market speculation, leaks and rumours and calling trading halts where appropriate to avoid trading occurring in an uninformed market; and
- Outlines authorisation procedures for ASX announcements.

## **Principle 6: Respect the rights of securityholders**

The Board aims to ensure that its securityholders are kept well-informed of all major developments and business events that are likely to materially affect the Group's operations and financial standing and the market price of its securities. Information is communicated to securityholders through:

- The Group's website under the *Investors*, *About Us* and *Contact Us* tabs;
- Annual and half year financial reports lodged with the ASX and made available to all securityholders;
- Announcement of market-sensitive and other information, including annual and half year results announcements and analyst presentations released to the ASX; and
- The Chairman and CEO addresses to, and the results of, the annual general meeting.

The Group's website contains information for investors and is all contained in the *Investors*, *About Us* and *Contact Us* tabs.

- I. The following information for investors is located under the *Investors* tab:
  - Corporate Governance information – including Charters and Policies; and
  - Annual Reports;
- II. The following information for investors is located under the *About Us* tab:
  - General Information about the Group and its activities;
- III. The following information for investors is located under the *Contact Us* tab:
  - Contact information for investors.

The Group has a Continuous Disclosure Policy that includes a formal procedure for dealing with potentially price-sensitive information. The policy sets out how the Group meets its disclosure obligations under ASX Listing Rule 3.1. The Group's policy is to lodge with the ASX and place on its website all market-sensitive information, including annual and half year result announcements and analyst presentations, as soon as practically possible.

The Group produces two sets of financial information each financial year: the half year financial report for the six months ended 31 December and the annual financial report for the year ended 30 June. Both are made available to securityholders and other interested parties via the Group website and the ASX.

Securityholders have the right, and are encouraged, to attend the Group's annual general meeting, held in November each year, and are provided with explanatory notes on the resolutions proposed through the notice of meeting. A copy of the notice of meeting is also posted on the Group website and lodged with the ASX.

In addition, a document is enclosed with the notice of meeting to invite securityholders to submit questions of the Board, auditors or management, which are addressed at the meeting.

Securityholders are encouraged to vote on all resolutions and unless specifically stated otherwise in the notice of meeting, all securityholders are eligible to vote on all resolutions. Securityholders who cannot attend the annual general meeting may lodge a proxy in accordance with the Corporations Act. Proxy forms may be lodged with the share registry by mail, hand delivery, facsimile or electronically.

Transcripts of the Chairman and CEO reports to securityholders are also released to the ASX upon the commencement of the annual general meeting. These transcripts, together with the results of the meeting, are also posted on the Group's website and the ASX.

Lantern does not currently have a formal investor relations program and the Board is monitoring the need for such a program. It will address the need for a plan when it considers the company is at sufficient stage for it to be advantageous to have one. In any case, Directors engage with securityholders as and when required.

Securityholders are provided with the option to receive communications from, and send communications to, the Group and the security registry electronically. The Group has a dedicated investor email on its website under the *Contact Us* tab.

## **Principle 7: Recognise and manage risk**

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

In addition, the Audit and Risk Committee:

- Identifies and assesses the Group's material business risks;

- Regularly reviews and updates the Group's risk profile; and
- Oversees the risk management policies and systems.

The Group's risk management framework is integrated with the day-to-day business processes and functional responsibilities and is supported by a dedicated compliance officer. The review of this framework is an ongoing process, however the Audit and Risk Committee has been charged with reviewing the framework from a Group-wide perspective, at least annually. This was carried out in FY16 and the results are to be presented to the Board in the coming months.

The compliance officer has been appointed under the rules of the compliance plan of LRET. The compliance officer is responsible for ensuring adequate internal systems and controls have been implemented to ensure compliance with the Corporations Act, LHGL and LRET's Constitutions, the Responsible Entity's AFSL, and internal and industry standards. These duties include promoting a strong compliance culture within the organisation and to external service providers.

The compliance officer is primarily responsible for reviewing compliance on an ongoing basis; reporting on compliance matters, including breaches, to the Audit and Risk Committee and acting on recommendations of the Audit and Risk Committee. Matters are escalated to the Board or ASIC when necessary.

The compliance officer has direct access to the Chairman of the Audit and Risk Committee to ensure the compliance officer is well placed to adequately deal with compliance issues. Management, via the compliance officer, is required to assess risk management and associated internal compliance and control procedures, and is required to report back quarterly to the Audit and Risk Committee as to whether those risks are being managed effectively. A quarterly risk and compliance report is prepared by the compliance officer for review and consideration by the Board.

#### **(a) Compliance Plans**

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

- The Corporations Act;
- The Constitution of LRET;
- Industry practice standards relevant to the particular scheme; and
- Internal policies and procedures.

Each compliance plan is a 'how to' document and has been prepared following a structured and systematic process to consider the Responsible Entity's key obligations under the Corporations Act and the Constitutions; the risk of non-compliance; and measures required to meet the risks of non-compliance.

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

#### **(b) Internal Audit**

The Group does not have an internal audit function but does have a compliance officer whose responsibilities are outlined above. In addition, the structure of the Group requires the following additional external audits:

## **I. Compliance plan audit**

The external auditors conduct annual audits on the compliance plan and report on:

- Whether the Responsible Entity has complied with the compliance plan of the Trust for the financial year end; and
- Whether the compliance plans continue to meet the requirements of Part 5C.4 of the Corporations Act as at 30 June each year.

## **II. Australian Financial Services Licence audit**

The AFSL audit is conducted annually by the external auditor. The auditor reports on the following:

- Whether the Responsible Entity has complied with the specified provisions of Part 7.8 of the Corporations Act;
- Whether the Responsible Entity has complied with sections 981B and 982B of the Corporations Act (relating to the control and operation of trust accounts);
- Whether the Responsible Entity has complied with specific AFSL conditions relating to financial requirements, including internal procedures used by the Licensee to comply with the financial requirements under the licence; and
- Whether the cash projections meet the cash need requirement conditions of the AFSL.

## **III. ASIC**

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

### **(c) Economic, Environmental And Social Sustainability Risks**

In accordance with Recommendation 7.4, the Audit and Risk Committee has considered whether the Group has any material exposure to economic, environmental and social sustainability risks and determined that there is no material exposure to these risks.

### **Principle 8: Remunerate fairly and responsibly**

The Group previously had a Remuneration and Nomination Committee, however this was disbanded in July 2015. Given the current composition of the Board of only three directors, a separate committee to consider remuneration matters is not required.

The full Board now has the responsibility of matters previously reserved for this committee. These responsibilities have been incorporated in to the Board Charter (which is available on the Group's website).

The Board will devote time at its meetings to fulfilling the roles and responsibilities associated with setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive. In addition, the Board will develop appropriate processes to ensure these responsibilities are carried out as part of the strategic and operational review currently underway.

The Group distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Lantern's policy in relation to rewarding its executives will be assessed as part of the current strategic and operational review. The Board fees that are received by non-executive directors will also be assessed and will be set having regard to the responsibilities and risks of the role and market competitiveness.

The Company has recently introduced a long-term equity-based incentive scheme for key executives of the Group. As this scheme has only just been introduced no participants have been yet granted any equity and therefore a policy around participants entering into transaction which limit the economic risk of participating in the scheme has not yet been introduced. The introduction of such a policy will be considered in FY17.

For details of the Group's remuneration structure, please refer to the Remuneration Report in the Annual Report.

**This Corporate Governance Statement was approved by a resolution of the board on 16 September 2016.**