APPENDIX 4E

PRELIMINARY FINAL REPORT

1. Details of the reporting period and the previous corresponding period:

Reporting period	**year ended 30 June 2017**
Previous corresponding reporting period	year ended 30 June 2016

2. Results for announcement to the market

	Key information	**30 Jun 2017 $'000**	**30 Jun 2016 $'000**	**Change %**
2.1	Revenue from ordinary activities (discontinued operations)	$29,038	$59,999	(51.6%)
2.2	Profit (loss) from ordinary activities after tax attributable to members of the parent entity (discontinued operations)	$19,186	($0.791)	n/a
2.3	Profit (loss) for the period attributable to members of the parent entity (discontinued operations)	$19,186	($0.791)	n/a
2.4	Profit (loss) for the Group (discontinued operations)	$40,857	$7,006	483.2%

2.5 During the year the following distributions were declared and paid by the Group:

Distribution/ Dividend	Amount per security (cents)	Franked amount per security (cents)	Payment date
Distribution	2.00	-	10 August 2016
Distribution	0.50	-	14 October 2016
Distribution	2.00	-	9 January 2017
Distribution	5.00	-	3 March 2017
Distribution	4.60	-	2 May 2017
Total	**14.10**	**-**	

2.6 On 26 June 2017, a distribution/ dividend ("the distribution") was declared by the Group:

Distribution/ Dividend	Amount per security (cents)	Franked amount per security (cents)	Payment date
Distribution	0.67	-	17 July 2017
Dividend	0.23	0.23	17 July 2017
Total	**0.90**	**0.23**	

The record date of the distribution for determining entitlements was 30 June 2017.

2.7 Brief commentary

Profit after tax for the period was $40.857m compared to a profit of $7.006m for the prior year. The significant increase in profit from the prior corresponding period was a result of the successful implementation of the Sell Down strategy that was approved by security holders on 25 October 2016. Premium prices were achieved for the sale of the Group's core hotels delivering a strong profit for security holders.

Please refer to the separate presentation that was released to the market on 30 August 2017 and the 2017 Chairman's Message contained in the annual report (attached) for more detail on the 2017 Full Year Results.

3. Net tangible assets per ordinary stapled security

	Reporting period	Previous corresponding period
Net tangible assets per ordinary stapled security	0.40 cents	7.48 cents

The 7.08 cents decrease in net tangible assets per ordinary stapled security was mainly driven by the impact of distributions/ dividends paid/ payable to the security holders during the year, funded predominately from the sale of the Group's hotels.

Please refer to the separate presentation that was released to the market on 30 August 2017 and the 2017 Chairman's Message contained in the annual report attached for more detail on 2017 Full Year Results.

4. Distribution/ dividend reinvestment plan

There is no distribution/ dividend reinvestment plan in operation during the year. There is no distribution/ dividend reinvestment plan in operation for the special distribution announced on 26 June 2017.

5. Other significant information needed by the investor to make an informed assessment of the Group's financial performance and financial position

At the 25 October 2017 Annual General Meeting, the Group's security holders passed a resolution approving he orderly sell down of the Group's hotels. The sale of the Group's hotels was completed at the end of March 2017 and the Group is proceeding further with the winding down of its operations. The financial report (attached) which this report is based on has been prepared on a liquidation basis of accounting as described in Note 1 of the financial report.

6. Audit status

This report for the year ended 30 June 2017 is based on the financial report (attached) which has been audited. An unqualified opinion has been issued.

7. Audit report

The audit report includes an emphasis of matter drawing attention to the fact that the financial report (attached) has been prepared on a liquidation basis of accounting as described in Note 1 of the financial report.

Lantern Hotel Group

Annual report

For the year ended 30 June 2017

2017 CHAIRMAN'S MESSAGE

Dear Security Holders,

We are pleased to present the annual report of Lantern Hotel Group, your company and trust, for the year ended 30 June 2017.

The year has seen the successful implementation of the Group's sell down strategy that was approved by securityholders at the 2016 AGM. This has been the primary driver of the profit for the period of $40.857m, compared to a profit of $7.006m in the prior year.

THE YEAR'S HIGHLIGHTS

- Significant improvement in the operating revenue and EBITDA for the Group's hotels up to the time of divestment, particularly for the gaming led core hotels;
- The strong operating results led to the achievement of premium sales values through the sell down strategy. A particular highlight was the sale of the six core gaming led hotels for $137m, a premium to book value of 47%;
- Regular and transparent communication with security-holders; and
- Significant growth in security-holder value with the return of surplus funds to security-holders through distributions, after the repayment of all debt, amounting to 15c per security.

FUTURE INTENTIONS FOR THE GROUP

The Board is actively exploring the possible sale or re-purposing of the Group entities, while at the same time progressively winding up the entities within the Group that hold no future value to reduce the cost and complexity of the Group structure.

In the event a suitable opportunity is identified, security-holder approval will be sought as required.

We refer you to the separate presentation that was released to the market on 30 August 2017 for further detail.

THANK YOU

The year under review has seen dramatic change for the Group that has delivered strong returns to security-holders. Our thanks goes to the entire Lantern team for their dedication and hard work during the year, and in particular to the senior executive team led by John Osborne. The outstanding results achieved have only been possible through the tireless execution of the Group's strategy by this 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.

We look forward to seeing you at the AGM, the date and location for which will be notified to you in due course.

Graeme Campbell
Executive Chairman

Lantern
hotels

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 2017

CONTENTS

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 12, 77 Castlereagh St, Sydney NSW 2000.

CORPORATE INFORMATION

FOR THE YEAR ENDED 30 JUNE 2017

Directors	Graeme Campbell (Executive Chairman) Shirley Liew Matthew Stubbs
Company Secretary	Leanne Ralph
Registered Office	Dentons Australia Pty Ltd Level 12, 77 Castlereagh St Sydney NSW 2000 Phone: (02) 9931 4999
Principal Administration Office	Dentons Australia Pty Ltd Level 12, 77 Castlereagh St Sydney NSW 2000 Phone: +61 1300 554 474 (toll free within Australia)
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 2017

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 2017.

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	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	Chairman and non-executive 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	-

Company Secretary

Leanne Ralph was appointed to the position of Company Secretary on 6 September 2012. Mrs Ralph has over 26 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:

	Stapled Securities in the Group
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
Graeme Campbell	19	19	3	3
Shirley Liew	19	19	3	3
Matthew Stubbs	19	19	-	-

A: Meetings eligible to attend
B: Meetings attended

Significant changes in the state of affairs

(a) On 25 October 2016, security holders voted at the AGM in favour of the proposed sell down resolution. The sell down of the Group's operating assets was completed by the end of March 2017.

(b) On 31 March 2017 the remaining debt facilities in place were discharged utilising the proceeds from the sale of the Group's operating assets.

(c) On 26 May 2016 John Osborne resigned from his position as CEO of the Group. Graeme Campbell assumed the role of Executive Chairman following the departure of John Osborne.

Likely developments

Refer to the Chairman's message to security holders for further information on likely developments for the Group.

Distributions and dividends

Distributions totalling 14.77 cents per unit from the Trust were paid or payable during the year.

Dividends totalling 0.23 cents per share from Lantern were paid or payable during the year.

Remuneration Report

Refer to note 26 for details on the remuneration of key management personnel.

DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 30 JUNE 2017

Significant events after balance date

There were no significant events after balance date.

Registered Scheme

A total of $522,621 excluding GST (2016: $1,011,216) was paid or payable to the Responsible Entity (which is a wholly owned subsidiary of Lantern Hotel Group Limited) out of scheme assets for services for the year ended 30 June 2017. 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 (2016: 833,202,130) (refer note 17).

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 $12,732,869 (2016: $145,279,674). 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 30 August 2017 and can be found at www.lanternhotels.com.au

Review of operations

Profit after tax for the period was $40.857m compared to a profit of $7.006m for the prior year. The significant increase in profit from the prior corresponding period was a result of the successful implementation of the Sell Down Strategy that was approved by security holders on 25 October 2016. Premium prices were achieved for the sale of the Group's core hotels delivering a strong profit for security holders.

Please refer to the separate presentation that was released to the market on 30 August 2017 for more detail on the 2017 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.

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
Executive Chairman
Dated in Sydney this 30th day of August 2017

Shirley Liew
Non-Executive Director
Dated in Sydney this 30th day of August 2017

HLB Mann Judd

Accountants | Business and Financial Advisers

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 2017 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.

Sydney, NSW **30 August 2017**	**A G Smith** **Partner**

HLB Mann Judd (NSW Partnership) ABN 34 482 821 289
Level 19 207 Kent Street Sydney NSW 2000 Australia | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190
Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $'000	2016 $'000
Revenue and Income from discontinued operations			
Revenue from operations	3	29,038	59,999
Profit on disposal of property, plant, equipment and intangibles		46,501	9,422
Profit on disposal of investment properties		-	1,001
Other income		538	185
Realised foreign exchange gains/(losses)		(441)	-
Total income		75,636	70,607
Expenses of discontinued operations			
Cost of sales		(11,156)	(22,216)
Salaries and wages		(10,490)	(16,767)
Finance costs		(976)	(3,129)
Depreciation and amortisation	4(a)	(1,235)	(3,574)
Loss on disposal of investment properties		(1,319)	-
Revaluation of investment properties		-	(4,587)
Impairment of property, plant and equipment		-	(470)
Impairment of goodwill		-	(1,116)
Professional fees		(2,121)	(1,755)
Repairs and maintenance		(1,095)	(2,528)
Insurance		(390)	(552)
Security		(530)	(1,215)
Property expenses		(705)	(1,198)
Provision for costs of wind down		(1,037)	-
Other	4(b)	(2,405)	(4,494)
Total expenses		(33,459)	(63,601)
Profit/(loss) from discontinued operations before income tax expense		42,177	7,006
Income tax expense	5(a)	(1,320)	-
Profit/(loss) from discontinued operations after income tax expense		40,857	7,006
Profit is attributable to stapled security holders as:			
Unitholders of Lantern Real Estate Trust (parent interest)		19,186	(791)
Shareholders of Lantern Hotel Group Limited (non-controlling interest)		21,671	7,797
		40,857	7,006
		Cents	Cents
Distributions per security (paid or payable)		15.0	-
Earnings per security - basic			
From discontinued operations	6	4.63	0.80
Earnings per security – diluted			
From discontinued operations	6	4.55	0.79

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 2017

	Note	2017 $'000	2016 $'000
Parent interest – Lantern Real Estate Trust			
Net profit/(loss) for the year		19,186	(791)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Revaluation surplus/(deficit) – property, plant and equipment	20	(350)	(75)
Security based payment reserve	20	(30)	30
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	20	441	7
Total comprehensive profit/(loss) for the year – parent interest		19,247	(829)
Non-controlling interest – Lantern Hotel Group Limited			
Net profit for the year		21,671	7,797
Items that will not be reclassified to profit or loss:			
Security based payment reserve	20	(2)	2
Total comprehensive profit/(loss) for the year - non-controlling interest		21,669	7,799
Stapled Entity			
Net profit/(loss) for the year		40,857	7,006
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Revaluation surplus/(deficit) – property, plant and equipment	20	(350)	(75)
Security based payment reserve	20	(32)	32
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	20	441	7
Total comprehensive profit/(loss) for the year – stapled entity		40,916	6,970

The components of profit or loss and other comprehensive income shown above are presented net of related income tax effects of $Nil (2016: $Nil)

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 2017

	Note	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents	7	16,395	12,011
Trade and other receivables	8	79	1,248
Inventories	9	-	642
Held for sale assets	19 (c)	-	18,601
Total current assets		16,474	32,502
Non-current assets			
Investment properties	11	-	16,250
Property, plant and equipment	12	-	72,829
Intangibles	13	-	24,221
Other	10	-	183
Total non-current assets		-	113,483
Total assets		16,474	145,985
Current liabilities			
Payables	14	2,511	7,587
Income tax payable		1,320	-
Liabilities directly associated with assets classified as held for sale	19(c)	-	14,621
Distributions & dividends payable	18	7,949	-
Provisions	15	1,037	88
Total current liabilities		12,817	22,296
Non-current liabilities			
Payables	14	-	2,156
Borrowings	16	-	26,267
Provisions	15	-	44
Total non-current liabilities		-	28,467
Total liabilities		12,817	50,763
Net assets		3,657	95,222
Security holders' interest attributable to stapled security holders as:			
Unitholders of Lantern Real Estate Trust (parent interest)			
Issued units	17(a)	97,706	220,763
Reserves		-	(61)
Retained earnings/(accumulated losses)		(124,190)	(136,001)
Total equity interest attributable to unitholders of Lantern Real Estate Trust (parent interest)		(26,484)	84,701
Shareholders of Lantern Hotel Group Limited (non-controlling interest)			
Issued shares	17(a)	2,745	2,745
Reserves		-	2
Retained earnings/(accumulated losses)		27,396	7,774
Total equity interest attributable to shareholders of Lantern Hotel Group Limited (non-controlling interest)		30,141	10,521
Total security holders' interest		3,657	95,222

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 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Cash receipts from customers (inclusive of GST)		32,742	65,327
Cash paid to suppliers and employees (inclusive of GST)		(35,108)	(60,487)
Proceeds from insurance claim		329	191
Interest received		185	81
Interest paid		(994)	(4,756)
Net cash provided by/ (used in) operating activities	29	(2,846)	356
Cash flows from investing activities			
Proceeds from sale of held for sale assets		179,553	52,270
Payments made on disposal of held for sale assets		(3,425)	(1,422)
Payments made for property, plant and equipment, intangibles and investment property relating to held for sale assets		(4,200)	(4,728)
Net cash provided by/ (used in) investing activities		171,928	46,120
Cash flows from financing activities			
Proceeds from borrowings		11,000	9,799
Payment for borrowing costs		(211)	(153)
Repayment of borrowings		(51,416)	(41,666)
Payment for termination of interest rate swaps		-	(5,519)
Repayment of finance leases		-	(64)
Payment for distributions		(124,531)	-
Net cash provided by/ (used in) financing activities		(165,158)	(37,603)
Net increase in cash or cash equivalents		3,924	8,873
Cash and cash equivalents at the beginning of the year		12,471	3,611
Effects of exchange rate changes on cash		-	(13)
Cash and cash equivalents at the end of the year		16,395	12,471
Cash and cash equivalents at the end of the year	7	16,395	12,011
Cash and cash equivalents at the end of the year (associated with held for sale assets)	19(c)	-	460
Cash and cash equivalents at the end of the year		16,395	12,471

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 2017

	Note	Issued Capital $'000	Reserves $'000	Retained Earnings $'000	Non-controlling Interest $'000	Total $'000
Carrying amount at 1 July 2016		220,763	(61)	(136,001)	10,521	95,222
Lantern Real Estate Trust						
Net profit/(loss) for the year		-	-	19,186	-	19,186
Other comprehensive income		-	61	-	-	61
Transactions with owners in their capacity as owners:						
Distributions paid or declared		(123,057)	-	(7,375)	-	(130,432)
		(123,057)	61	11,811	-	(111,185)
Lantern Hotel Group Limited						
Net profit/(loss) for the year		-	-	-	21,671	21,671
Other comprehensive income		-	-	-	(2)	(2)
Transactions with owners in their capacity as owners:						
Dividends paid or declared		-	-	-	(2,049)	(2,049)
		-	-	-	19,620	19,620
Total Stapled Entity						
Net profit/(loss) for the year		-	-	19,186	21,671	40,857
Other comprehensive income		-	61	-	(2)	59
Transactions with owners in their capacity as owners:						
Distributions and dividends paid or declared		(123,057)	-	(7,375)	(2,049)	(132,481)
		(123,057)	61	11,811	19,620	(91,565)
Carrying amounts at 30 June 2017		97,706	-	(124,190)	30,141	3,657
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)
		-	(38)	(791)	7,799	6,970
Carrying amounts at 30 June 2016		220,763	(61)	(136,001)	10,521	95,222

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 2017

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

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.

At the 25 October 2016 Annual General Meeting, the Group's security holders passed a resolution approving the orderly sell down of the Group's hotels. The sale of the Group's hotels was completed at the end of March 2017 and the Group is proceeding further with the winding down of its operations.

The financial report can only be prepared on a going concern basis where there is neither the intention nor the need to liquidate the Group or cease trading. If such an intention or need exists, the financial report cannot be prepared on a going concern basis.

Accordingly, the directors have determined the going concern basis of preparation (as applied in previous years) is no longer appropriate and the financial report has not been prepared on a going concern basis, rather this financial report has been prepared on a liquidation basis of accounting.

Liquidation basis of accounting

Under the liquidation basis of accounting, assets are written down to their estimated net realisable value (where relevant), and liabilities are stated at their estimated settlement amounts, and the relevant estimates are periodically reviewed and adjusted as appropriate. All assets and liabilities are presented as current assets or current liabilities.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the changes specified above which relate to the adoption of the liquidation basis of accounting.

Authorisation of Financial Statements

The financial statements were authorised for issue by the Board of Directors of Lantern RE on 30 August 2017. The directors have the power to amend and reissue the financial statements.

Compliance with International Financial Reporting Standards

The consolidated financial statements of the Trust also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

1. Significant accounting policies (continued)

Comparative information

Comparative information may have been reclassified to enhance disclosures and match current year classifications.

Some comparative information has been reclassified to enhance comparison with current period classifications, being, the consolidated income statement (and relevant comparative information contained in the notes to the financial statements) which have been restated to be comparable with the current period which is presented on a discontinued operations basis. Comparative information otherwise has not been restated and is presented and measured on a going concern basis.

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 and 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.

Functional currency

The financial statements are presented in Australian dollars.

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 that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial statements of the Group.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been adopted. These are not expected to have any material effect on the Group's financial report in future reporting periods.

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.

1. Significant accounting policies (continued)

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 or dividend for any distribution or dividend 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 or dividend 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 recoded 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

1. Significant accounting policies (continued)

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.

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:

	2017	2016
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

1. Significant accounting policies (continued)

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 a 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.

1. Significant accounting policies (continued)

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.

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.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

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.

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.

1. Significant accounting policies (continued)

Revenue (continued)

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.

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.

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.

1. Significant accounting policies (continued)

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.

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 27.

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 a 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

Critical accounting estimates and assumptions pertaining to the year ended 30 June 2017

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.

Critical accounting estimates and assumptions pertaining to the year ended 30 June 2016

The Group had investment properties (see note 11 for continuing operations and note 19(c) for discontinued operations), property, plant and equipment (see note 12 for continuing operations and note 19(c) for discontinued operations), intangible assets including goodwill (see note 13 for continuing operations and note 19(c) 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.

3. Revenue – discontinued operations

	2017 $'000	2016 $'000
Revenue from hotel operations		
Gaming	15,478	24,057
Beverage	9,165	22,818
Food	2,536	8,740
Other	775	1,836
Rental revenue	1,084	2,548
	29,038	59,999

4a. Depreciation and amortisation – discontinued operations

	2017 $'000	2016 $'000
Building depreciation	150	711
Plant and equipment depreciation	872	2,475
Borrowing costs amortisation	213	388
	1,235	3,574

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

4b. Other expenses – discontinued operations	2017 $'000	2016 $'000
Advertising and promotion	359	736
Entertainment	376	815
Electricity and gas	433	945
Pay TV subscriptions	312	677
Telephone & internet	176	216
Bank & merchant fees	83	191
Licences & subscriptions	88	153
Motor vehicle expenses	76	30
Printing & stationery	169	123
Share registry fees	123	98
Impairment of prepayment	356	-
Accommodation expenses	40	90
Reversal of lease incentives	(320)	-
Other	134	420
	2,405	4,494

5. Income tax	2017 $'000	2016 $'000
(a) Income tax expense		
Reconciliation of profit/(loss) from operations before income tax to income tax expense:		
Profit/(loss) from discontinued operations before income tax	42,177	7,006
Tax at the Australian tax rate of 30%	12,653	2,102
Add/(deduct):		
Trust operations not taxable	(8,357)	(1,962)
Non-deductible expenses/other assessable income	(136)	(122)
Other deductible amounts	(1,587)	(145)
Over/(under) provided in prior year	-	(120)
Deferred tax assets in relation to losses not recognised	-	247
Deferred tax assets utilised not previously recognised	(1,253)	-
Income tax expense	1,320	-
(b) Unused tax losses		
Unused revenue losses for which no deferred tax asset has been recognised – Trust	-	18,738
Unused capital losses for which no deferred tax asset has been recognised – Trust	29,303	29,180
These unused tax losses are available to offset future taxable income of the Trust		
Unused revenue losses for which no deferred tax asset has been recognised – Lantern	-	4,177
Potential tax benefit at 30%	-	1,253

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

6. Earnings per security	2017 $'000	2016 $'000
Profit/(loss) attributable to ordinary security holders of the Group:		
From discontinued operations	40,857	7,006
	'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	897,623	885,230
	Cents	Cents
Basic earnings per security attributable to the security holders of the Group		
From discontinued operations	4.63	0.80
Diluted earnings per security attributable to the security holders of the Group		
From discontinued operations	4.55	0.79

7. Cash and cash equivalents	2017 $'000	2016 $'000
Current assets		
Cash at bank and cash on hand	16,395	12,011
Total cash and cash equivalents	16,395	12,011

8. Trade and other receivables	2017 $'000	2016 $'000
Current assets		
Other debtors	-	614
Accrued income, prepayments and deposits	79	634
Total trade and other receivables	79	1,248

9. Inventories	2017 $'000	2016 $'000
Current assets		
Finished goods at cost	-	642
Total inventory	-	642

10. Other assets	2017 $'000	2016 $'000
Non-current assets		
Unamortised borrowing costs	-	183
Total non-current other assets	-	183

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

11. Investment properties	2017 $'000	2016 $'000
Non-current assets		
Investment properties – at fair value	-	16,250

Reconciliations

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

	2017 $'000	2016 $'000
Carrying amount at beginning of the period	16,250	26,963
Additions	-	37
Disposals	-	-
Revaluation	-	(3,650)
Transfer to disposal group	(16,250)	(7,100)
Investment properties carrying value at the end of the period	-	16,250

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:	2017 $'000	2016 $'000
Within one year	-	1,650
Later than one year but not later than five years	-	4,666
	-	6,316

12. Property, plant and equipment	2017 $'000	2016 $'000
Non-current assets		
Land and buildings – at cost or fair value at acquisition date	-	62,839
Plant and equipment – at cost or fair value at acquisition date	-	13,318
Less: accumulated depreciation	-	(3,351)
	-	9,967
Motor vehicles – at cost	-	51
Less: accumulated depreciation	-	(28)
	-	23
Total property, plant and equipment	-	72,829

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 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	(29,419)	(4,348)	-	(33,767)
Depreciation expense – discontinued operations	(711)	(2,469)	(5)	(3,185)
Balance at 30 June 2016	62,839	9,967	23	72,829
Disposals	-	-	(21)	(21)
Transfer to disposal group	(62,689)	(9,097)	-	(71,786)
Depreciation expense - discontinued operations	(150)	(870)	(2)	(1,022)
Balance at 30 June 2017	-	-	-	-

13. Intangibles	2017 $'000	2016 $'000
Non-current assets		
Goodwill – at cost	-	7,060
Less: impairment	-	(2,418)
	-	4,642
Gaming licences – at cost	-	19,579
Total intangibles	-	24,221

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:

	Goodwill $'000	Gaming Licences $'000	Total $'000
Balance at 30 June 2015	6,894	29,040	35,934
Acquisition	-	1,172	1,172
Impairment – discontinued operations	(1,116)	-	(1,116)
Additional costs of acquisition recognised in profit or loss – discontinued operations	(136)	-	(136)
Transfers to disposal group	(1,000)	(10,633)	(11,633)
Balance at 30 June 2016	4,642	19,579	24,221
Acquisition	-	-	-
Transfers to disposal group	(4,642)	(19,579)	(24,221)
Balance at 30 June 2017	-	-	-

14. Payables	2017 $'000	2016 $'000
Current liabilities		
Trade payables	2,482	6,294
Other payables	29	1,218
Unearned income	-	75
Total current payables	2,511	7,587
Non-current liabilities		
Other payables	-	1,472
Lease incentive	-	459
Unearned income	-	225
Total non-current payables	-	2,156

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

15. Provisions	**2017 $'000**	**2016 $'000**
Current provisions		
Employee benefits	-	88
Wind down costs	1,037	-
Total current provisions	1,037	88
Non-current provisions		
Employee benefits	-	44
Total non-current provisions	-	44

The provision for costs to wind down relates to future expenditures expected to be directly incurred in the wind down of the Group.

The provision does not include amounts relating to future expenditures which will be incurred in the ongoing operations and activities of the Group that are not directly associated with the wind down of the Group.

The provision for costs to wind down is made up of the following costs:	**2017 $'000**	**2016 $'000**
Legal costs	100	-
Supplier costs	50	-
Taxation costs	50	-
Insurance costs	404	-
Wind down and other costs	433	-
	1,037	-

16. Borrowings	**2017 $'000**	**2016 $'000**
Non-current liabilities		
Bank debt	-	26,267
Total non-current borrowings	-	26,267

Bank Debt

Bank debt comprised Australian dollar denominated debt of $nil (June 2016: $40.41m).

Bank borrowings – continuing operations	-	26,267
Bank borrowings – associated with held for sale assets	-	14,149
Total bank borrowings	-	40,416
Weighted average interest rate	-	4.70%

Borrowing facilities

All bank borrowings were repaid during the year from the proceeds of asset sales. All bank borrowing facilities have been closed as at 30 June 2017.

Covenants

The following information presented relates to bank covenants that existed at 30 June 2016:

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

17. Issued securities	2017 $'000	2016 $'000
(a) Carrying amounts		
Attributable to stapled security holders of Lantern Real Estate Trust		
At the beginning of the year	220,763	220,763
Return of unit capital	(123,057)	-
At the end of the year	97,706	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	100,451	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

18. Distributions and Dividends	Cents per Security	Total $'000	Payment Date
The following distributions and dividends were paid by the Group during the year:			
Distribution	2.00	17,664	10 August 2016
Distribution	0.50	4,416	14 October 2016
Distribution	2.00	17,664	9 January 2017
Distribution	5.00	44,160	3 March 2017
Distribution	4.60	40,628	2 May 2017
Total distributions paid	**14.10**	**124,532**	
Distribution	0.67	5,900	17 July 2017
Dividend	0.23	2,049	17 July 2017
Total distributions and dividends declared but unpaid	**0.90**	**7,949**	

(a) Franked dividend

The dividend declared but unpaid at year end is fully franked based on a tax rate of 30%. The balance of franking credits available for dividends declared in subsequent financial years is $0.44m. This amount represents the balance of the franking account at year end, adjusted for:

(i) franking credits that will arise from the payment of the current tax liability; and

(ii) franking debits that will arise from the payment of the dividend recognised as a liability at year end.

19. Discontinued Operations and Held for Sale Assets and Liabilities

(a) Details of discontinued operations

At the 25 October 2016 Annual General Meeting, the Group's security holders passed a resolution approving the orderly sell down of the Group's hotels. Since this time, the Group has sold all remaining hotels and commenced the process of winding down its operations.

As of 25 October 2016, all operations of the Group were considered to be a discontinued operation. The consolidated income statement and consolidated statement of cash flows reflect the financial performance and cash flows of the discontinued Group during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

19. Discontinued Operations and Held for Sale Assets and Liabilities (continued)	2017 $'000	2016 $'000

(b) Details of held for sale assets and liabilities

Assets of discontinued operations are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through their continuing use and a sale is considered highly probable. Other assets and liabilities directly attributable to assets which are held for sale and will be disposed though the sales transaction are classified as part of the held for sale asset disposal group and presented separately from other assets and liabilities in the consolidated statement of financial position.

At 30 June 2017, the Group held no held for sale non-current assets. All saleable non-current assets held by the Group including other related disposal group assets and liabilities were disposed of (or discharged) through sales transactions during the year.

At 30 June 2016, the held for sale disposal group comprised of assets and liabilities directly attributable to the following hotels:

- Exchange Hotel
- Lawson Park Hotel
- Courthouse Hotel
- Central Hotel (Investment property)

(c) Assets and liabilities held for sale

The assets and liabilities held for sale as at reporting date were:

	2017 $'000	2016 $'000
Assets held for sale		
Property, plant and equipment	-	9,991
Intangibles	-	4,952
Investment property	-	2,500
Inventory	-	187
Cash	-	460
Receivables	-	511
Total assets held for sale	-	18,601
Liabilities directly associated with assets classified as held for sale		
Borrowings	-	14,149
Payables	-	472
Provisions	-	-
Total liabilities directly associated with assets classified as held for sale	-	14,621
Net assets held for sale	-	3,980

20. Reserves	2017 $'000	2016 $'000
Revaluation reserve	-	350
Security based payment reserve – Parent interest	-	30
Security based payment reserve – Non-controlling interest	-	2
Foreign currency translation reserve	-	(441)
	-	**(59)**

	Revaluation reserve $'000	Security based payment reserve $'000	Foreign currency translation reserve $'000	Total $'000
Consolidated				
Balance at 1 July 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)
Movement in asset revaluation reserve	(350)	-	-	(350)
Movement in security based payment reserve	-	(32)	-	(32)
Movement in foreign currency translation reserve	-	-	441	441
Balance at 30 June 2017	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

20. Reserves (continued)

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.

21. Capital management

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.

In prior periods the Group's medium term strategy was to maintain a ratio of total bank debt less cash to total assets less cash in the range of 35% to 50%. Since the Group's security holders passed the resolution approving the orderly sell down of the Group's hotels, the Group's strategy has been to reduce debt and sell assets in order to fund distributions and dividends to security holders. At 30 June 2017 the Group's gearing ratio was nil (2016: 20.9%).

	2017 $'000	2016 $'000
Total consolidated assets	16,474	145,985
Total consolidated liabilities	12,817	50,763
Leverage ratio	77.8%	34.8%
Total consolidated bank debt	-	40,416
Less cash and cash equivalents	(16,395)	(12,471)
Net consolidated debt	(16,395)	27,945
Total consolidated assets	16,474	145,985
Less cash and cash equivalents	(16,395)	(12,471)
Total consolidated assets, net of cash	79	133,514
Gearing ratio	-	20.9%

22. Financial risk management	2017 $'000	2016 $'000
Introduction		
The Group has the following financial instruments		
(i) Financial assets		
Cash and cash equivalents	16,395	12,471
Trade and other receivables	79	1,759
(ii) Financial liabilities		
Payables	2,511	9,756
Income tax payable	1,320	-
Distributions and dividends payable	7,949	-
Interest bearing liabilities	-	40,416

The main risks arising from the Group's financial instruments are market risk (interest rate risk) and credit risk on its cash and cash equivalents. 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 cash at call accounts with Australian domestic banks.

The consolidated entity's cash at bank totalling $16.395m (2016: $12.471m) are held in cash at call accounts. An official increase/(decrease) in interest rates of 50 basis points at 30 June 2017 (2016: 50 basis points) would have a favourable/(adverse) effect on profit after tax of $81,975 (2016: $62,355) per annum in respect of the Group's cash held at bank. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Credit risk

Credit risk relating to financial assets arises from the potential non-performance by counterparties on its contractual obligations that could lead to a financial loss to the Group.

The Group's exposure to the credit risk arises from it use of cash at call accounts with Australian domestic banks.

The Group manages this risk by only depositing surplus funds with the major four Australian domestic banks.

23. 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 held at 30 June 2016 was determined in line with note 1, with all resulting fair value estimates included in level 3. The current use was considered to be the highest and best use for all investment properties in the Group at that time.

The fair value of held for sale assets (includes property plant and equipment, intangibles and investment property) held at 30 June 2016 was determined in line with note 1, with all resulting fair value estimates included in level 3. The current use was considered to be the highest and best use for all held for sale assets of the Group at that time.

23. Fair value measurement (continued)

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Consolidated 2017				
Assets				
Investment properties	-	-	-	-
Held for sale assets	-	-	-	-
Total assets	-	-	-	-
Consolidated 2016				
Assets				
Investment properties	-	-	16,250	16,250
Held for sale assets	-	-	17,443	17,443
Total assets	-	-	33,693	33,693

At 30 June 2017, the Group did not hold any assets or liabilities at fair value.

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.

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

	Investment Properties $'000	Held for sale assets $'000	Total $'000
Consolidated			
Balance at 1 July 2015	26,963	5,740	32,703
Transfers to disposal group	(7,100)	52,500	45,400
Gains/(losses)- excluding gain/(loss) on disposal	(3,650)	(953)	(4,603)
Disposals	-	(40,268)	(40,268)
Additions	37	424	461
Balance at 30 June 2016	16,250	17,443	33,693
Transfers to disposal group	(16,250)	112,257	96,007
Gains/(losses)- excluding gain/(loss) on disposal	-	-	-
Disposals	-	(134,366)	(134,366)
Additions	-	4,666	4,666
Balance at 30 June 2017	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

24. 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 (excluding GST) from Lantern Real Estate Trust during the year was $522,621 (2016: $1,011,216).

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 agreement was cancelled and the amount paid and payable (excluding GST) from Lantern Real Estate Trust to Lantern was $nil (2016: $214,243).

This income is 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 (excluding GST) by Lantern Real Estate Trust and its controlled entities was $5,612,115 (2016: $8,558,754).

This rental income is eliminated on consolidation.

(d) Intergroup interest

Controlled entities of Lantern Hotel Group Limited and Lantern Real Estate Trust earn interest income on intergroup loans hotel rent receivables. At the end of the year the net amount receivable by Lantern Real Estate Trust and its controlled entities was $4,359,059 (2016: $nil) and the net amount payable by Lantern Real Estate Trust and its controlled entities was $777,871 (2016: $nil).

This interest income and expense is eliminated on consolidation.

25. Auditor's remuneration	2017 $'000	2016 $'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	126	205
Other assurance services	-	3
Total	126	208

All audit fees in the 2017 and 2016 financial years are recorded in the accounts of Lantern Hotel Group Limited and its controlled entities.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

26. Key management personnel	2017 $'000	2016 $'000
(a) Compensation		
Short term benefits	3,857	1,376
Post-employment benefits	64	50
Long term benefits	(32)	32
	3,889	1,458

(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.

Directors' remuneration

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.

Additional director payments were made during the year to Graeme Campbell and Shirley Liew in recognition of their efforts related to the successful implementation of the Group's sell down strategy.

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 short term incentives include the sell down incentive bonus approved by security holders on 16 May 2017.

The long term incentives ("LTI") include grant of options (see note 31).

26. Key management personnel (continued)

Details of Remuneration

The key management personnel of the Group consisted of the following persons during the year:

Graeme Campbell – Non-Executive Chairman (1 July 2016 to 26 May 2017) and Executive Chairman (26 May 2017 onwards)
Shirley Liew – Non-Executive Director
Matthew Stubbs – Non-Executive Director (appointed 7 March 2016)
John Osborne – Chief Executive Officer (resigned 26 May 2017)
Michael Thaler – Financial Controller
Mark Ronfeldt – Chief Operating Officer (employment agreement terminated 19 May 2017)

	Short term benefits				Long term benefits	Post-employment benefits	Total		Related to Options	
	Salary/fees	Bonus	Additional director fees	Annual leave/ termination payments	Options (non-monetary)	Superannuation	2017	2016	2017	2016
	$	$	$	$	$	$	$	$	%	%
John Murphy	-	-	-	-	-	-	-	125,000	-	-
Graeme Campbell	125,000	-	125,000	-	-	-	250,000	75,000	-	-
Shirley Liew	70,745	-	25,000	-	-	6,720	102,465	75,000	-	-
Matthew Stubbs	75,000	-	-	-	-	-	75,000	25,000	-	-
John Osborne	275,000	1,600,000	-	27,059	(18,114)	19,407	1,903,352	496,061	(1)	4
Michael Thaler	151,922	450,000	-	11,518	(5,435)	18,274	626,279	222,896	(1)	3
Mark Ronfeldt	207,883	676,500	-	36,552	(8,151)	19,615	932,399	204,393	(1)	4
Russell Naylor	-	-	-	-	-	-	-	234,717	-	-
Total remuneration	905,550	2,726,500	150,000	75,129	(31,700)	64,016	3,889,495	1,458,067	(1)	2

Options were granted to key management personnel in the previous financial year under the Group's Executive Share Incentive Plan. The options entitle the holder to one ordinary stapled security in Lantern Hotel Group Limited with an exercise price of $nil if certain vesting conditions are satisfied. Details of option terms and conditions are set out in Note 31. Options issued in the previous financial year to John Osborne (number of options: 9,000,000) and Mark Ronfeldt (number of options: 4,050,000) were forfeited during the year as service vesting conditions were not satisfied. Options granted in the previous financial year to Michael Thaler (number of options: 2,700,000) have not vested at 30 June 2017 and are still on issue. At 30 June 2017, the non-market vesting probability associated with Michael Thaler's options was re-assessed and determined to be nil. The negative amount of remuneration included in the table above represents a reversal of remuneration expense (which was recognised in the prior year remuneration report) measured in accordance with Australian Accounting Standards for the number of options: (i) that were forfeited during the year; and (ii) that are otherwise not expected to vest based on Group's revised non-market vesting probability at 30 June 2017.

There have been no alterations to the terms and conditions of the options since the grant date. No options were granted or exercised to/by key personnel during the year.

At the Group's Annual General Meeting held on 25 October 2016 more than 25% of the votes cast were against the adoption of the Remuneration Report for the year ended 30 June 2016. The Board considers that the 2017 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	
	2017	2016	2017	2016	2017	2016
	%	%	%	%	%	%
John Murphy	-	100	-	-	-	-
Graeme Campbell	100	100	-	-	-	-
Shirley Liew	100	100	-	-	-	-
Matthew Stubbs	100	100	-	-	-	-
John Osborne	17	56	84	40	(1)	4
Michael Thaler	29	72	72	25	(1)	3
Mark Ronfeldt	28	64	73	32	(1)	4
Russell Naylor	-	100	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

26. 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 $250,000 p.a. based on the delivery of strategic and operational objectives;
- Sell down incentive bonus equal to the distributions and dividends paid by the Group as if 9,000,000 securities had been granted, subject to the options under the ESIP not having vested;
- 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; and
- No fixed term.

Mark Ronfeldt (Chief Operating Officer)

Key terms as follows:
- Base remuneration $230,000 p.a. plus superannuation;
- Sell down incentive bonus equal to the distributions and dividends paid by the Group as if 4,050,000 securities had been granted, subject to the options under the ESIP not having vested;
- 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; and
- No fixed term.

Michael Thaler (Financial Controller)

Key terms as follows:
- Base remuneration $150,000 p.a. plus superannuation;
- Sell down incentive bonus equal to the distributions and dividends paid by the Group as if 2,700,000 securities had been granted, subject to the options under the ESIP not having vested;
- 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; and
- 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
2017						
Graeme Campbell	-	-	-	-	-	-
Shirley Liew	-	-	-	-	-	-
Matthew Stubbs	172,400,000	-	-	-	-	172,400,000
John Osborne (resigned 26 May 2017)	-	-	-	-	-	-
Michael Thaler	-	-	-	-	-	-
Mark Ronfeldt (terminated 19 May 2017)	-	-	-	-	-	-
	172,400,000	-	-	-	-	172,400,000
2016						
John Murphy	-	-	-	-	-	-
Graeme Campbell	-	-	-	-	-	-
Shirley Liew	-	-	-	-	-	-
Matthew Stubbs (commenced 7 March 2016)	-	149,400,000	-	23,000,000	-	172,400,000
John Osborne (appointed 19 August 2016)	-	-	-	-	-	-
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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

27. **Parent financial information**	2017 $'000	2016 $'000
Summary financial information about the Parent is:		
Current assets	12,733	12,159
Non-current assets	-	87,730
Total assets	12,733	99,889
Current liabilities	40,881	1,529
Non-current liabilities	-	40,726
Total liabilities	40,881	42,255
Net assets	(28,148)	57,634
Unit holders equity:		
Issued units	98,729	221,786
Reserves	-	155
Accumulated losses	(126,877)	(164,307)
Total unit holders' equity	(28,148)	57,634
Net profit/(loss) attributable to unit holders of the Parent	42,119	13,321
Total comprehensive income	41,964	13,276

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.

28. **Subsidiaries**		Ownership interest 2017 %	Ownership interest 2016 %
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**	2017 %	2016 %
Lantern Real Estate Trust			
Lantern No.2 Subsidiary Trust	Australia	100	100
Lantern Subsidiary Trust	Australia	100	100
IEF NZ Subsidiary Trust	Australia	100	100
IEF NZ Trust	New Zealand	nil	100
Lantern Hotel Group Limited			
Lantern RE Ltd	Australia	100	100
Lantern Management Services Pty Limited	Australia	100	100
Lantern Operations Pty Limited	Australia	100	100
Lantern Operations 2 Pty Limited	Australia	100	100
Lantern HR Pty Limited	Australia	100	100
Lantern Management No.2 Pty Limited	Australia	100	100
IEF NZ Company Pty Limited	New Zealand	100	100
IEF NZ Pty Limited	Australia	100	100
IEF Custodian Pty Limited (deregistered 3 August 2016)	Australia	nil	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 2017

29. Reconciliation of profit after income tax to net cash from operating activities	2017 $'000	2016 $'000
Profit after income tax for the year	40,857	7,006
Adjustments for:		
Net (gain)/loss on change in fair value of:		
Investment properties	-	4,587
Interest rate swaps	-	(1,239)
Amortisation of tenant incentives	(300)	(75)
Impairment loss on:		
Goodwill	-	1,116
Property, plant and equipment	-	470
Profit on sale of property, plant, equipment and intangibles	(46,501)	(9,422)
Loss (profit) on sale of investment properties	1,319	(1,001)
Costs of acquired goodwill recognised in profit or loss	-	136
Depreciation and amortisation	1,235	3,574
Provision for wind down	1,037	-
Realised foreign exchange gains	441	-
Security based payments expense	(32)	32
Foreign exchange differences	-	(13)
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	1,680	(398)
Decrease/(increase) in inventories	829	504
Increase/(decrease) in provisions	(132)	(102)
Increase/(decrease) in income tax payable	1,320	-
Increase/(decrease) in trade and other payables	(4,599)	(4,819)
Net cash from operating activities	(2,846)	356

30. Commitments	2017 $'000	2016 $'000
Operating lease agreements		
Commitments for operating lease payments, payable:		
Within one year	-	413
Later than one year but not later than five years	-	1,109
	-	1,522

Capital commitments

There are no commitments for capital expenditure at the end of the reporting period (2016: $Nil).

31. 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: - 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. 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.
Number of securities vested during 2017	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 2017	Opening balance	Granted during the period	Exercised	Forfeited	Expired	Closing balance	Vested and exercisable	Unvested
Current executives								
John Osborne	9,000,000	-	-	(9,000,000)	-	-	-	-
Mark Ronfeldt	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.

During the year, 13,050,000 options were forfeited as service vesting conditions were not satisfied. No options were issued, exercised, expired or vested during the year.

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.

31. Security based payments (continued)

Valuation inputs

For options outstanding at 30 June 2017, 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.

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.

At 30 June 2017, the non-market vesting probability was re-assessed and it was determined that this probability was nil. Given the Group is in the process of winding down operations, it is the Board's view that it is unlikely that the options issued under the ESIP will vest.

The effect of this change in the non-market vesting probability reverses the amount recorded in the share based payment reserve in prior periods.

32. Segment information

The Group invests in and operates hospitality and entertainment property located in Australia (2016: 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.

33. Events subsequent to the reporting date

No significant events subsequent to balance date.

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2017

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 6 to 37, 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 2017 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 Executive Chairman and the Financial Controller required by Section 295A of the *Corporations Act 2001.*

Signed in accordance with a resolution of the directors.

Graeme Campbell
Executive Chairman
Dated in Sydney this 30th day of August 2017

Shirley Liew
Non- Executive Director
Dated in Sydney this 30th day of August 2017

Accountants | Business and Financial Advisers

LANTERN REAL ESTATE TRUST
INDEPENDENT AUDITOR'S REPORT

To the unitholders of Lantern Real Estate Trust:

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Lantern Real Estate Trust ("the Trust") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, 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, and 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.

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2017 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 Group 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 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 states the directors of Lantern RE Limited have concluded the Group is no longer a going concern and the financial report has been prepared on a liquidation basis of accounting. 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. In addition to the matter described in the *Emphasis of Matter* section, we have determined the matter described below to be the key audit matter to be communicated in our report**.**

HLB Mann Judd (NSW Partnership) ABN 34 482 821 289
Level 19 207 Kent Street Sydney NSW 2000 Australia | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190
Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au

HLB Mann Judd

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
Disposal of hotel assets	
At the 25 October 2016 Annual General Meeting, the Group's security holders passed a resolution approving the orderly sell down of all hotels owned by the Group (including freeholding going concern hotel assets and investment properties). During the year, all hotel assets held by the Group were sold resulting in the recognition of a profit on disposal of property, plant, equipment and intangibles of \$46.5 million and loss on disposal of investment properties of \$1.3 million. We have identified the disposal of hotel assets as a key audit matter because of its significance to the consolidated financial statements.	To assess whether hotel disposals had been appropriately accounted we performed the following procedures: • Obtained and reviewed the relevant hotel sale agreements to ensure that ownership had passed and that hotel disposals had occurred. • Recalculated profit or loss on disposal for each hotel sold by comparing sale proceeds net of selling costs to the carrying value of the relevant hotel assets on date of disposal. • Ensured profit or loss on disposal of hotel assets were correctly classified and presented in the financial report.

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

The directors of Lantern RE Limited are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, 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 Lantern RE Limited 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 of Lantern RE Limited 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 of Lantern RE Limited are responsible for assessing the ability of the Group 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 of Lantern RE Limited either intend to liquidate the Group 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.

HLB Mann Judd

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

Auditor's Responsibilities for the Audit of the Financial Report (continued)

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of Lantern RE Limited.
- Conclude on the appropriateness of the directors of Lantern RE Limited's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of Lantern RE Limited regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors of Lantern RE Limited with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors of Lantern RE Limited, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Sydney, NSW
30 August 2017

A G Smith
Partner

SECURITY HOLDER INFORMATION

The information set out below was prepared at 1 August 2017 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 held	% of total securities issued
100,001 and over	208	860,352,954	97.41
10,001 to 100,000	591	20,453,069	2.32
5,001 to 10,000	204	1,664,555	0.19
1,001 to 5,000	201	707,474	0.08
1 to 1,000	95	24,078	0.00
	1,299	883,202,130	100.00
Holding less than a marketable parcel	1,115	25,544,154	2.89

Security holders

Twenty largest quoted security holders

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

	Ordinary securities	
Name	Number of securities held	% of total securities issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	357,160,809	40.44
TOTEM HOLDINGS PTY LTD	134,000,000	15.17
CVC LIMITED	109,515,453	12.40
CVC LIMITED	62,541,447	7.08
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	32,526,699	3.68
EASTERN PORPHRY PTY LTD	21,000,000	2.38
J P MORGAN NOMINEES AUSTRALIA LIMITED	13,293,634	1.51
AUST EXECUTOR TRUSTEES LTD <MILLINIUMS ALTERNATIVES FND>	9,003,890	1.02
MR MATTHEW ROBERT STUBBS <MATTHEW STUBBS FAMILY A/C>	9,000,000	1.02
MR SIMON ROBERT EVANS & MRS KATHRYN MARGARET EVANS <KAMIYACHO SUPER FUND A/C>	7,000,000	0.79
BNP PARIBAS NOMS PTY LTD <DRP>	6,802,978	0.77
EXTRA EDGE PTY LTD	5,500,000	0.62
MR MATTHEW ROBERT STUBBS & MS ANNA GOULSTON <MATTHEW STUBBS S/F A/C>	5,200,000	0.59
MOAT INVESTMENTS PTY LTD <MOAT INVESTMENT A/C>	3,219,178	0.36
MABIMA PTY LTD	3,200,000	0.36
MR SIMON ROBERT EVANS	2,843,896	0.32
ROLYAN PTY LTD <JASARASH INVESTMENT A/C>	2,589,224	0.29
CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	2,274,866	0.26
MR JAYASIMHA MUKKAMALLA & MRS SRIVALLI DONTHIREDDY	2,000,000	0.23
JAWTON PTY LTD <NICHOLAS BROWN FAMILY A/C>	1,700,000	0.19
	790,372,074	89.49

SECURITY HOLDER INFORMATION

Substantial holders

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

		Ordinary securities	
	Date of change	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.

This page left intentionally blank

Lantern
hotels

Lantern Hotel Group Limited
and its controlled entities

Annual Report

For the year ended 30 June 2017

CONTENTS

Lantern Hotel Group Limited ('the Company') 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.

CORPORATE INFORMATION

Directors	Graeme Campbell (Executive Chairman) Shirley Liew Matthew Stubbs
Company Secretary	Leanne Ralph
Registered Office	Dentons Australia Pty Ltd Level 12, 77 Castlereagh Street Sydney NSW 2000 Phone: (02) 9931 4999
Principal Administration Office	Dentons Australia Pty Ltd Level 12, 77 Castlereagh Street Sydney NSW 2000 Phone: (02) 9931 4999
Share Register	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 Phone: +61 1300 554 474 (toll free within Australia)
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 2017

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 2017.

Directors

Name	**Graeme Campbell**
Title	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	Chairman and non-executive 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	-

Company secretary

Leanne Ralph was appointed to the position of Company Secretary on 6 September 2012. Mrs Ralph has over 26 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 in Australia.

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
Graeme Campbell	19	19	3	3
Shirley Liew	19	19	3	3
Matthew Stubbs	19	19	-	-

A: Meetings eligible to attend
B: Meetings attended

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 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.

Directors' remuneration

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.

Additional director payments were made during the year to Graeme Campbell and Shirley Liew in recognition of their efforts related to the successful implementation of the Group's sell down strategy.

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 short term incentives include the sell down incentive bonus approved by security holders on 16 May 2017.

The long term incentives ("LTI") include grant of options (see note 27).

(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 during the year:

Graeme Campbell – Non-Executive Chairman (1 July 2016 to 26 May 2017) and Executive Chairman (26 May 2017 onwards)
Shirley Liew – Non-Executive Director
Matthew Stubbs – Non-Executive Director
John Osborne – Chief Executive Officer (resigned 26 May 2017)
Michael Thaler – Financial Controller
Mark Ronfeldt – Chief Operating Officer (employment agreement terminated 19 May 2017)

	Short term benefits				Long term benefits	Post-employment benefits	Total		Related to Options	
	Salary/fees	Bonus	Additional director fees	Annual leave/ termination payments	Options (non-monetary)	Superannuation	2017	2016	2017	2016
	$	$	$	$	$	$	$	$	%	%
John Murphy	-	-	-	-	-	-	-	125,000	-	-
Graeme Campbell	125,000	-	125,000	-	-	-	250,000	75,000	-	-
Shirley Liew	70,745	-	25,000	-	-	6,720	102,465	75,000	-	-
Matthew Stubbs	75,000	-	-	-	-	-	75,000	25,000	-	-
John Osborne	275,000	1,600,000	-	27,059	(18,114)	19,407	1,903,352	496,061	(1)	4
Michael Thaler	151,922	450,000	-	11,518	(5,435)	18,274	626,279	222,896	(1)	3
Mark Ronfeldt	207,883	676,500	-	36,552	(8,151)	19,615	932,399	204,393	(1)	4
Russell Naylor	-	-	-	-	-	-	-	234,717	-	-
Total remuneration	905,550	2,726,500	150,000	75,129	(31,700)	64,016	3,889,495	1,458,067	(1)	2

Options were granted to key management personnel in the previous financial year under the Group's Executive Share Incentive Plan. The options entitle the holder to one ordinary stapled security in Lantern Hotel Group Limited with an exercise price of $nil if certain vesting conditions are satisfied. Details of option terms and conditions are set out in Note 27. Options issued in the previous financial year to John Osborne (number of options: 9,000,000) and Mark Ronfeldt (number of options: 4,050,000) were forfeited during the year as service vesting conditions were not satisfied. Options granted in the previous financial year to Michael Thaler (number of options: 2,700,000) have not vested at 30 June 2017 and are still on issue. At 30 June 2017, the non-market vesting probability associated with Michael Thaler's options was re-assessed and determined to be nil. The negative amount of remuneration included in the table above represents a reversal of remuneration expense (which was recognised in the prior year remuneration report) measured in accordance with Australian Accounting Standards for the number of options: (i) that were forfeited during the year; and (ii) that are otherwise not expected to vest based on Group's revised non-market vesting probability at 30 June 2017. The following amounts of negative remuneration expense included in the table above was recognised in the Trust:

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

There have been no alterations to the terms and conditions of the options since the grant date. No options were granted or exercised to/by key personnel during the year.

At the Group's Annual General Meeting held on 25 October 2016 more than 25% of the votes cast were against the adoption of the Remuneration Report for the year ended 30 June 2016. The Board considers that the 2017 remuneration for key management personnel is appropriate.

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 30 JUNE 2017

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	
	2017	2016	2017	2016	2017	2016
	%	%	%	%	%	%
John Murphy	-	100	-	-	-	-
Graeme Campbell	100	100	-	-	-	-
Shirley Liew	100	100	-	-	-	-
Matthew Stubbs	100	100	-	-	-	-
John Osborne	17	56	84	40	(1)	4
Michael Thaler	29	72	72	25	(1)	3
Mark Ronfeldt	28	64	73	32	(1)	4
Russell Naylor	-	100	-	-	-	-

(c) 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 $250,000 p.a. based on the delivery of strategic and operational objectives;
- Sell down incentive bonus equal to the distributions and dividends paid by the Group as if 9,000,000 securities had been granted, subject to the options under the ESIP not having vested;
- 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; and
- No fixed term.

Mark Ronfeldt (Chief Operating Officer)

Key terms as follows:
- Base remuneration $230,000 p.a. plus superannuation;
- Sell down incentive bonus equal to the distributions and dividends paid by the Group as if 4,050,000 securities had been granted, subject to the options under the ESIP not having vested;
- 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; and
- No fixed term.

Michael Thaler (Financial Controller)

Key terms as follows:
- Base remuneration $150,000 p.a. plus superannuation;
- Sell down incentive bonus equal to the distributions and dividends paid by the Group as if 2,700,000 securities had been granted, subject to the options under the ESIP not having vested;
- 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; and
- No fixed term.

(d) Additional information

The earnings of the Group are shown for the five years to 30 June 2017. Details are as summarised below:

	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000
Sales revenues	42,694	49,105	57,807	58,675	28,477
EBITDA	(57)	979	566	36	(6,389)
EBIT	(1,545)	(3,568)	(4,130)	(2,438)	(7,261)
Profit/(loss)	(1,819)	(3,489)	(4,207)	465	13,001

	Cents	Cents	Cents	Cents	Cents
Share price at financial year end	8.0	7.0	9.5	12.5	.004
Basic earnings per share	(0.21)	(0.40)	(0.48)	0.05	1.47
Dividends paid (Lantern Hotel Group Limited)	-	-	-	-	0.23
Distributions paid (Lantern Real Estate Trust)	-	-	-	-	14.77

This concluded the remuneration report, which has been audited.

Significant Events after balance date

There were no significant events after balance date.

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 25 October 2016, security holders voted at the AGM in favour of the proposed sell down resolution. The sell down of the Group's operating assets was completed by the end of March 2017.

b. On 26 May 2016 John Osborne resigned from his position as CEO of the Group. Graeme Campbell assumed the role of Executive Chairman following the departure of John Osborne.

Likely development and expected results of operations

Refer to the Executive Chairman'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

Dividends totalling 0.23 cents per share from Lantern were paid or payable during the year.

Corporate Governance Statement

The Corporate Governance Statement was approved by the Board of Directors on 30 August 2017 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
Executive Chairman
Dated in Sydney this 30th day of August 2017

Shirley Liew
Non-Executive Director
Dated in Sydney this 30th day of August 2017

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 2017 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	**A G Smith**
30 August 2017	**Partner**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 $'000	2016 $'000
Revenue and other income from discontinued operations			
Revenue from operations	3	28,477	58,675
Profit on disposal of plant, equipment and intangibles		25,100	4,045
Interest income		841	34
Other income		54	8
Total revenue and other income from discontinued operations		54,472	62,762
Expenses of discontinued operations			
Cost of sales		(11,156)	(22,216)
Salaries and wages		(10,520)	(16,745)
Finance costs		(4,359)	-
Depreciation and amortisation		(872)	(2,474)
Impairment of goodwill		-	(1,116)
Professional fees		(1,998)	(1,837)
Repairs and maintenance		(1,030)	(2,421)
Insurance		(390)	(313)
Security		(530)	(1,215)
Property expenses		(6,239)	(9,588)
Provision for costs of wind down		(1,037)	-
Other		(2,020)	(4,372)
Total expenses of discontinued operations		(40,151)	(62,297)
Profit/(loss) from discontinued operations before income tax expense		14,321	465
Income tax expense	4(a)	(1,320)	-
Profit/(loss) from discontinued operations after income tax expense		13,001	465
Other comprehensive income		(2)	2
Total comprehensive income from discontinued operations for the year		12,999	467
		Cents	Cents
Earnings per share – basic			
Profit/(loss) per share from discontinued operations – basic	5	1.47	0.05
Earnings per share – diluted			
Profit/(loss) per share from discontinued operations – diluted	5	1.45	0.05

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 2017

	Note	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents	6	3,662	5,200
Trade and other receivables	7	10,472	1,621
Inventories	8	-	642
Held for sale assets	17(c)	-	2,826
Other assets	9	79	369
Total current assets		14,213	10,658
Non-current assets			
Property, plant and equipment	10	-	9,990
Intangibles	11	-	4,642
Total non-current assets		-	14,632
Total assets		14,213	25,290
Current liabilities			
Payables	12	6,885	13,891
Liabilities directly associated with assets classified as held for sale	17(c)	-	5,093
Dividends payable	16	2,049	-
Income tax payable		1,320	-
Provisions	13	1,037	88
Total current liabilities		11,291	19,072
Non-current liabilities			
Payables	12	-	1,931
Borrowings	14	-	12,271
Provisions	13	-	44
Total non-current liabilities		-	14,246
Total liabilities		11,291	33,318
Net assets		2,922	(8,028)
Equity			
Issued shares	15(a)	2,745	2,745
Reserves		-	2
Retained earnings/(accumulated losses)		177	(10,775)
Total equity		2,922	(8,028)

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 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Cash receipts from customers (inclusive of GST)		31,926	64,362
Proceeds from insurance claim		329	191
Cash paid to suppliers and employees (inclusive of GST)		(46,572)	(62,615)
Interest received		64	34
Net cash provided by/ (used in) operating activities	26	**(14,253)**	**1,972**
Cash flows from investing activities			
Purchase of plant, equipment and goodwill relating to held for sale assets		(4,127)	(2,726)
Proceeds from sale of held for sale assets		43,532	8,138
Payments made on disposal of held for sale assets		(1,122)	(139)
Net cash provided by /(used in) investing activities		**38,283**	**5,273**
Cash flows from financing activities			
Proceeds from borrowings (Lantern Real Estate Trust)		-	4,431
Repayment of finance leases		-	(57)
Repayment of borrowings (Lantern Real Estate Trust)		(16,909)	(9,536)
Advance to related parties (Lantern Real Estate Trust)		(9,119)	-
Net cash provided by/ (used in) financing activities		**(26,028)**	**(5,162)**
Net increase in cash or cash equivalents		(1,998)	2,083
Cash or cash equivalents at the beginning of the year		5,660	3,577
Cash and cash equivalents at the end of the year		**3,662**	**5,660**
Cash and cash equivalents at the end of the year made up as follows:			
Cash and cash equivalents at the end of the year	6	3,662	5,200
Cash and cash equivalents at the end of the year (associated with held for sale assets)	17(c)	-	460
Cash and cash equivalents at the end of the year		**3,662**	**5,660**

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 2017

	Note	Issued Capital $'000	Reserves $'000	Accumulated Losses $'000	Total $'000
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
		-	2	465	467
Carrying amounts at 30 June 2016		2,745	2	(10,775)	(8,028)
Carrying amount at 1 July 2016		2,745	2	(10,775)	(8,028)
Net profit/(loss) for the year		-	-	13,001	13,001
Other comprehensive income		-	(2)	-	(2)
Transactions with owners in their capacity as owners:					
Dividends declared	16	-	-	(2,049)	(2,049)
		-	(2)	10,952	10,950
Carrying amounts at 30 June 2017		**2,745**	**-**	**177**	**2,922**

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 (continued)
FOR THE YEAR ENDED 30 JUNE 2017

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").

Basis of preparation

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 Group is a for-profit entity for the purpose of preparing the financial statements.

At the 25 October 2016 Annual General Meeting, the Group's share holders passed a resolution approving the orderly sell down of the Group's hotels. The sale of the Group's hotels was completed at the end of March 2017 and the Group is proceeding further with the winding down of its operations.

The financial report can only be prepared on a going concern basis where there is neither the intention nor the need to liquidate the Group or cease trading. If such an intention or need exists, the financial report cannot be prepared on a going concern basis.

Accordingly, the directors have determined the going concern basis of preparation (as applied in previous years) is no longer appropriate and the financial report has not been prepared on a going concern basis, rather this financial report has been prepared on a liquidation basis of accounting.

Liquidation basis of accounting

Under the liquidation basis of accounting, assets are written down to their estimated net realisable value (where relevant), and liabilities are stated at their estimated settlement amounts, and the relevant estimates are periodically reviewed and adjusted as appropriate. All assets and liabilities are presented as current assets or current liabilities.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the changes specified above which relate to the adoption of the liquidation basis of accounting.

Authorisation of Financial Statements

The financial statements were authorised for issue by the Board of Directors of Lantern Hotel Group Limited on 30 August 2017. The directors have the power to amend and reissue the financial statements.

Compliance with International Financial Reporting Standards

The consolidated financial statements of the Group 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.

Some comparative information has been reclassified to enhance comparison with current period classifications, being, the consolidated income statement (and relevant comparative information contained in the notes to the financial statements) which have been restated to be comparable with the current period which is presented on a discontinued operations basis. Comparative information otherwise has not been restated and is presented and measured on a going concern basis.

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 and 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.

Functional currency

The financial statements are presented in Australian dollars.

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.

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.

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.

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 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.

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:

	2017	2016
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 2017

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 expect 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.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

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 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.

1. Significant accounting policies (continued)

Revenue (continued)

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.

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.

1. Significant accounting policies (continued)

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.

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 a 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.

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 that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial statements of the Group.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been adopted. These are not expected to have any material effect on the Group's financial report in 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.

Critical accounting estimates and assumptions pertaining to the year ended 30 June 2017

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.

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

Critical accounting estimates and assumptions pertaining to the year ended 30 June 2016

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.

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.

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

	2017 $'000	2016 $'000
Revenue from operations – discontinued operations		
Gaming	15,478	24,057
Beverage	9,165	22,818
Food	2,536	8,740
Other	775	1,835
Responsible entity fee income – Lantern Real Estate Trust	523	1,011
Property management fee income – Lantern Real Estate Trust	-	214
	28,477	58,675

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2017

4. Income tax	**2017 $'000**	**2016 $'000**
(a) Income tax expense		
Reconciliation of profit/(loss) from operations before income tax to income tax expense:		
Profit/(loss) from discontinued operations before income tax	14,321	465
Tax at the Australian tax rate of 30%	4,296	140
Add/(deduct):		
Non-deductible expenses/other assessable income	(136)	(122)
Other deductible amounts	(1,587)	(145)
Over/(under) provided in prior year	-	(120)
Deferred tax assets in relation to losses not recognised	-	247
Deferred tax asset utilised not previously recognised	(1,253)	-
Income tax expense	1,320	-
(b) Unused tax losses		
Unused tax losses for which no deferred tax asset has been recognised – Lantern	-	4,177
Potential tax benefit at 30%	-	1,253

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	**2017 $'000**	**2016 $'000**
Profit/(loss) attributable to ordinary shareholders:		
From discontinued operations	13,001	465
	'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	897,623	885,230
	Cents	**Cents**
Basic earnings per share attributable to the shareholders		
From discontinued operations	1.47	0.05
Diluted earnings per share attributable to the shareholders		
From discontinued operations	1.45	0.05

6. Cash and cash equivalents	**2017 $'000**	**2016 $'000**
Cash at bank and cash on hand	3,662	5,200
Total cash and cash equivalents	3,662	5,200

7. Trade and other receivables	**2017 $'000**	**2016 $'000**
Current		
Receivables	-	611
Interest receivables – Lantern Real Estate Trust	778	-
Receivables – Lantern Real Estate Trust	9,694	1,010
Total trade and other receivables	10,472	1,621

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

8. Inventories	2017 $'000	2016 $'000
Finished goods at cost	-	642
Total inventory	-	642

9. Other assets	2017 $'000	2016 $'000
Current		
Prepayments	79	369
Total other assets	79	369

10. Plant and equipment	2017 $'000	2016 $'000
Plant and equipment – at fair value or at cost at acquisition date	-	13,318
Less: accumulated depreciation	-	(3,351)
	-	9,967
Motor vehicles – at cost	-	51
Less: accumulated depreciation	-	(28)
	-	23
Total plant and equipment	-	9,990

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 2015	13,394	51	13,445
Additions	4,155	-	4,155
Disposals	(765)	(23)	(788)
Transfers to disposal group	(4,348)	-	(4,348)
Depreciation expense - discontinued operations	(2,469)	(5)	(2,474)
Balance at 30 June 2016	9,967	23	9,990
Balance at 1 July 2016	9,967	23	9,990
Transfers to disposal group	(9,097)	-	(9,097)
Disposals	-	(21)	(21)
Depreciation expense	(870)	(2)	(872)
Balance at 30 June 2017	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

11. **Intangibles**	2017 $'000	2016 $'000
Goodwill – at cost	-	7,060
Less: impairment	-	(2,418)
Total intangibles	-	4,642

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

	Goodwill $'000
Balance at 30 June 2015	6,894
Impairment recognised in profit or loss	(1,116)
Additional costs of acquisition recognised in profit or loss	(136)
Transfer to disposal group	(1,000)
Balance at 30 June 2016	4,642
Transfer to disposal group	(4,642)
Balance at 30 June 2017	-

Goodwill held related to the acquisition of operating hotels businesses.

12. **Payables**	2017 $'000	2016 $'000
Current liabilities		
Trade payables	2,526	5,827
Trade payables – Lantern Real Estate Trust	-	6,846
Interest payables – Lantern Real Estate Trust	4,359	-
Other payables	-	1,218
Total current liabilities	6,885	13,891
Non-current liabilities		
Other payables	-	1,472
Lease incentive	-	459
Total non-current liabilities	-	1,931

13. **Provisions**	2017 $'000	2016 $'000
Current provisions		
Employee benefits	-	88
Wind down costs	1,037	-
Total current provisions	1,037	88
Non-current provisions		
Employee benefits	-	44
Total non-current provisions	-	44

The provision for costs to wind down relates to future expenditures expected to be directly incurred in the wind down of the Group.

The provision does not include amounts relating to future expenditures which will be incurred in the ongoing operations and activities of the Group that are not directly associated with the wind down of the Group.

13. Provisions (continued)	2017 $'000	2016 $'000
The provision for costs to wind down is made up of the following costs:		
Legal costs	100	-
Supplier costs	50	-
Taxation costs	50	-
Insurance costs	404	-
Wind down and other costs	433	-
	1,037	-

14. Borrowings	2017 $'000	2016 $'000
Non-current liabilities		
Loan from Lantern Real Estate Trust	-	12,271
Total non-current borrowings	-	12,271

The loan from Lantern Real Estate Trust was repaid during the year.

15. Issued securities	2017 $'000	2016 $'000
(a) Carrying amounts		
At the beginning of the year	2,745	2,745
At the end of the year	2,745	2,745

	2017 '000	2016 '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. Dividends	Cents per Security	Total $'000	Payment Date
The following dividend was declared and unpaid by the Group at year end:			
Dividend	0.23	2,049	17 July 2017
Total dividend declared but unpaid	0.23	2,049	

(a) Franked dividend

The dividend declared but unpaid at year end is fully franked based on a tax rate of 30%. The balance of franking credits available for dividends declared in subsequent financial years is $0.44m. This amount represents the balance of the franking account at year end, adjusted for:

(i) franking credits that will arise from the payment of the current tax liability; and

(ii) franking debits that will arise from the payment of the dividend recognised as a liability at year end.

17. Discontinued operations

(a) Details of discontinued operations

At the 25 October 2016 Annual General Meeting, the Group's security holders passed a resolution approving the orderly sell down of the Group's hotels. Since this time, the Group has sold all remaining hotels and commenced the process of winding down its operations.

As of 25 October 2016, all operations of the Group were considered to be a discontinued operation. The consolidated income statement and consolidated statement of cash flows reflect the financial performance and cash flows of the discontinued Group during the year.

17. Discontinued operations (continued)	2017 $'000	2016 $'000

(b) Details of held for sale assets and liabilities
Assets of discontinued operations are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through their continuing use and a sale is considered highly probable. Other assets and liabilities directly attributable to assets which are held for sale and will be disposed though the sales transaction are classified as part of the held for sale asset disposal group and presented separately from other assets and liabilities in the consolidated statement of financial position.

At 30 June 2017, the Group held no held for sale non-current assets. All saleable non-current assets held by the Group including other related disposal group assets and liabilities were disposed of (or discharged) through sales transactions during the year.

At 30 June 2016, the held for sale disposal group comprised of assets and liabilities directly attributable to the following hotels:

- Exchange Hotel
- Lawson park Hotel
- Courthouse Hotel

(c) Assets and liabilities
The assets and liabilities of the discontinued operations as at reporting date were:

	2017	2016
Assets		
Property, plant and equipment	-	2,113
Inventory	-	187
Cash	-	460
Receivables	-	41
Other assets	-	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)

(d) Leasing arrangements
Commitments for operating leases for hotels as at 30 June 2017, payable to Lantern Real Estate Trust, attributable to held for sale assets were payable as follows:

	2017	2016
Within one year	-	1,576
Later than one year but not later than five years	-	4,622
Later than five years	-	135
	-	6,333

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.

	2017 $'000	2016 $'000
Total consolidated assets	14,213	25,290
Total consolidated liabilities	11,291	33,318
Leverage ratio	79.4%	131.7%

19. Financial risk management	2017 $'000	2016 $'000
Introduction		
The Group has the following financial instruments:		
(i) Financial Assets:		
Cash and cash equivalents	3,662	5,660
Receivables	10,472	1,661
	14,134	7,321
(ii) Financial liabilities:		
Payables	6,885	15,818
Dividends	2,049	-
Income tax	1,320	-
Other borrowings	-	16,909
	10,254	32,727

The main risks arising from the Group's financial instruments are market risk (interest rate risk) and credit risk on its cash and cash equivalents. 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 cash at call accounts with Australian domestic banks.

The consolidated entity's cash at bank totalling $3,662m (2016: $5,660m) are held in cash at call accounts. An official increase/(decrease) in interest rates of 50 basis points at 30 June 2017 (2016: 50 basis points) would have a favourable/(adverse) effect on profit after tax of $18,310 (2016: $28,300) per annum in respect of the Group's cash held at bank. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Credit risk

Credit risk relating to financial assets arises from the potential non-performance by counterparties on its contractual obligations that could lead to a financial loss to the Group.

The Group's exposure to the credit risk arises from it use of cash at call accounts with Australian domestic banks.

The Group manages this risk by only depositing surplus funds with the major four Australian domestic banks.

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 $522,621 (2016: $1,011,216).

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

(b) Property management income

In prior years, Lantern Hotel Group Limited charged a property management fee in respect of the properties the Group managed that were owned by Lantern Real Estate Trust and its controlled entities. During the year the agreement was cancelled and Lantern Hotel Group Limited received during the year fees totalling $nil (2016: $214,243).

20. Related parties (continued)

(c) Rent payable

The Group rents hotel venues under long term operating leases from Lantern Real Estate Trust and its controlled entities. During the year the amount paid or payable (excluding GST) by Lantern Hotel Group Limited was $5,612,115 (2016: $8,557,754).

(d) Intergroup interest

Controlled entities of Lantern Hotel Group Limited and Lantern Real Estate Trust earn interest income on intergroup loans and hotel rent receivables. At 30 June 2017 the net amount payable by the Lantern Hotel Group and its controlled entities was $4,359,059 (2016: $nil) and the net amount receivable by Lantern Hotel Group and its controlled entities was $777,871 (2016: $nil).

21. Auditor's remuneration	2017 $'000	2016 $'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	126	205
Other assurance services	-	3
	126	208

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	2017 $'000	2016 $'000
(a) Compensation		
Short term benefits	3,857	1,376
Post-employment benefits	64	50
Long term benefits	(2)	2
	3,919	1,428

(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
2017						
John Murphy	-	-	-	-	-	-
Graeme Campbell	-	-	-	-	-	-
Shirley Liew	-	-	-	-	-	-
Matthew Stubbs	172,400,000	-	-	-	-	172,400,000
John Osborne (resigned 26 May 2017)	-	-	-	-	-	-
Michael Thaler	-	-	-	-	-	-
Mark Ronfeldt (terminated 19 May 2017)	-	-	-	-	-	-
	172,400,000	-	-	-	-	172,400,000
2016						
John Murphy	-	-	-	-	-	-
Graeme Campbell	-	-	-	-	-	-
Shirley Liew	-	-	-	-	-	-
Matthew Stubbs (commenced 7 March 2016)	-	149,400,000	-	23,000,000	-	172,400,000
John Osbourne (commenced 19 August 2015)	-	-	-	-	-	-
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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

23. Parent financial information	2017 $'000	2016 $'000
Summary financial information about the parent:		
Current assets	13,776	2,109
Non-current assets	-	8,212
Total assets	13,776	10,321
Current liabilities	10,960	875
Non-current liabilities	-	12,479
Total liabilities	10,960	13,354
Net Assets	2,816	(3,033)
Shareholders equity:		
Issued shares	2,745	2,745
Reserves	-	2
Accumulated earnings (losses)	71	(5,780)
Total shareholders' equity	2,816	(3,033)
Net profit/(loss) loss attributable to shareholders of the parent	7,900	(1,465)
Total comprehensive income/(loss) attributable to shareholders of the parent	7,898	(1,463)

24. Subsidiaries

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	Ownership Interest 2017 %	Ownership Interest 2016 %
Lantern RE Limited	Australia	100	100
Lantern Management Services Pty Limited	Australia	100	100
Lantern Operations Pty Limited	Australia	100	100
Lantern Operations 2 Pty Limited	Australia	100	100
Lantern HR Pty Limited	Australia	100	100
Lantern Management No. 2 Pty Limited	Australia	100	100
IEF NZ Company Limited	New Zealand	100	100
IEF NZ Pty Limited	Australia	100	100
IEF Custodian Pty Limited (deregistered 3 August 2016)	Australia	nil	100

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

25. Events subsequent to the reporting date

There were no significant events after the end of the reporting period.

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

	2017 $'000	2016 $'000
Profit/(loss) after income tax for the year	13,001	465
Adjustments for:		
Profit on sale of plant and equipment and intangibles	(25,100)	(4,045)
Depreciation and amortisation expense	872	2,474
Impairment of goodwill	-	1,116
Additional costs of goodwill recognised in profit or loss	-	136
Share based payment expense	(2)	2
Provision for wind down	1,037	-
Change in operating assets and liabilities		
Decrease/(increase) in trade and other receivables	309	(85)
Decrease/(increase) in other assets	315	75
Decrease/(increase) in inventories	829	-
Decrease/(increase) in provisions	(132)	504
Increase/(decrease) in income tax payable	1,320	(101)
Increase/(decrease) in trade and other payables	(6,702)	1,431
Net cash from operating activities	(14,253)	1,972

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: - 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. 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.
Number of securities vested during 2017	Nil.

Stapled security options

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

30 June 2017	Opening balance	Granted during the period	Exercised	Forfeited	Expired	Closing balance	Vested and exercisable	Unvested
Current executives								
John Osborne	9,000,000	-	-	(9,000,000)	-	-	-	-
Mark Ronfeldt	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.

During the year 13,050,000 options were forfeited as service vesting conditions were not satisfied. No options were issued, exercised, expired or vested during the year.

27. Share based payments (continued)

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 a 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 2017, 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.

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.

At 30 June 2017, the non-market vesting probability was re-assessed and it was determined that this probability was nil. Given the Group is in the process of winding down operations, it is the Board's view that it is unlikely that the options issued under the ESIP will vest.

The effect of this change in the non-market vesting probability reverses the amount recorded in the share based payment reserve in prior periods.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

28. Commitments	2017 $'000	2016 $'000
Operating lease commitments – Suppliers		
Commitments for operating lease payments, payable:		
Within one year	-	413
Later than one year but not later than five years	-	1,109
Minimum lease payment	-	1,522
Operating lease commitments – Hotels		
Commitments for operating lease payments, payable:		
Within one year	-	10,295
Later than one year but not later than five years	-	30,248
Later than five years	-	8,435
Minimum lease payment	-	48,978

Commitments for operating leases – Hotels, which were in place at 30 June 2016, were 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 commitments for capital expenditure at the end of the reporting period (2016: $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 53 to 74, 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 2017 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 Executive Chairman and Financial Controller required by Section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors.

Graeme Campbell
Executive Chairman
Dated in Sydney this 30th day of August 2017

Shirley Liew
Non- Executive Director
Dated in Sydney this 30th day of August 2017

HLB Mann Judd

Accountants | Business and Financial Advisers

LANTERN HOTEL GROUP LIMITED
INDEPENDENT AUDITOR'S REPORT

To the Members of Lantern Hotel Group Limited:

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Lantern Hotel Group Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, 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, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2017 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 Group 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 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 states the directors of the Company have concluded the Group is no longer a going concern and the financial report has been prepared on a liquidation basis of accounting. 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. In addition to the matter described in the *Emphasis of Matter* section, we have determined the matter described below to be the key audit matter to be communicated in our report**.**

HLB Mann Judd (NSW Partnership) ABN 34 482 821 289
Level 19 207 Kent Street Sydney NSW 2000 Australia | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190
Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au

HLB Mann Judd

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

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the key audit matter
Disposal of hotel assets	
At the 25 October 2016 Annual General Meeting, the Group's security holders passed a resolution approving the orderly sell down of all hotels owned by the Group. During the year, all hotel assets held by the Group were sold resulting in the recognition of a profit on disposal of plant, equipment and intangibles of $25.1 million. We have identified the disposal of hotel assets as a key audit matter because of its significance to the consolidated financial statements.	To assess whether hotel disposals had been appropriately accounted we performed the following procedures: • Obtained and reviewed the relevant hotel sale agreements to ensure that ownership had passed and that hotel disposals had occurred. • Recalculated profit or loss on disposal for each hotel sold by comparing sale proceeds net of selling costs to the carrying value of the relevant hotel assets on date of disposal. • Ensured profit or loss on disposal of hotel assets were correctly classified and presented in the financial report.

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 Group's annual report for the year ended 30 June 2017, 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 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 ability of the Group 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 Group 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

Auditor's Responsibilities for the Audit of the Financial Report (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 48 to 50 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Lantern Hotel Group Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

HLB Mann Judd

A G Smith

HLB Mann Judd
Chartered Accountants

A G Smith
Partner

Sydney, NSW
30 August 2017

SECURITY HOLDER INFORMATION

The information set out below was prepared at 1 August 2017 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 total securities issued
100,001 and over	208	860,352,954	97.41
10,001 to 100,000	591	20,453,069	2.32
5,001 to 10,000	204	1,664,555	0.19
1,001 to 5,000	201	707,474	0.08
1 to 1,000	95	24,078	0.00
Total	1,299	883,202,130	100.00
Holding less than a marketable parcel	1,115	25,544,154	2.89

Security holders

Twenty largest quoted equity security holders

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

	Ordinary securities	
Name	Number of securities held	% of total securities issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	357,160,809	40.44
TOTEM HOLDINGS PTY LTD	134,000,000	15.17
CVC LIMITED	109,515,453	12.40
CVC LIMITED	62,541,447	7.08
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	32,526,699	3.68
EASTERN PORPHRY PTY LTD	21,000,000	2.38
J P MORGAN NOMINEES AUSTRALIA LIMITED	13,293,634	1.51
AUST EXECUTOR TRUSTEES LTD <MILLINIUMS ALTERNATIVES FND>	9,003,890	1.02
MR MATTHEW ROBERT STUBBS <MATTHEW STUBBS FAMILY A/C>	9,000,000	1.02
MR SIMON ROBERT EVANS & MRS KATHRYN MARGARET EVANS <KAMIYACHO SUPER FUND A/C>	7,000,000	0.79
BNP PARIBAS NOMS PTY LTD <DRP>	6,802,978	0.77
EXTRA EDGE PTY LTD	5,500,000	0.62
MR MATTHEW ROBERT STUBBS & MS ANNA GOULSTON <MATTHEW STUBBS S/F A/C>	5,200,000	0.59
MOAT INVESTMENTS PTY LTD <MOAT INVESTMENT A/C>	3,219,178	0.36
MABIMA PTY LTD	3,200,000	0.36
MR SIMON ROBERT EVANS	2,843,896	0.32
ROLYAN PTY LTD <JASARASH INVESTMENT A/C>	2,589,224	0.29
CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	2,274,866	0.26
MR JAYASIMHA MUKKAMALLA & MRS SRIVALLI DONTHIREDDY	2,000,000	0.23
JAWTON PTY LTD <NICHOLAS BROWN FAMILY A/C>	1,700,000	0.19
	790,372,074	89.49

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.